



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30 AND MARCH 31, 2016  
AND FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015**

*The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended June 30, 2016 and 2015, March 31, 2016 (the "Interim Condensed Consolidated Financial Statements"). Such terms as "Rosneft", "Company" and "Group" in their different forms in this report mean Rosneft Oil Company and its consolidated subsidiaries, its equity share in associates and joint ventures. This report contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may materially differ from those discussed in such forward-looking statements as a result of various factors.*

*Except as otherwise indicated, oil and gas reserves and production are presented pro-rata for associates and joint ventures and 100% for fully consolidated subsidiaries.*

*Except as otherwise indicated, all amounts are provided in billions of RUB. All figures are rounded; however, figures per unit of production are provided based on the actual data.*

*To convert tonnes to barrels a 7.404 ratio is used. To convert a thousand of cubic meters of gas to barrels of oil equivalent a 6.09 ratio is used. To convert Rospan gas condensate to barrels of oil equivalent a 8.3 ratio is used.*

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## Overview

Rosneft is a vertically integrated oil and gas company with core activities and assets located principally in Russia. The Company is primarily engaged in exploration and production of hydrocarbons, oil refining and product marketing.

Rosneft is one of the world's largest publicly traded companies in terms of proved hydrocarbon reserves and in terms of hydrocarbon production.

According to oil and marketable gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers, proved hydrocarbon reserves amounted to 34 billion boe per SEC classification and 43 billion per PRMS classification as of December 31, 2015.

In the second quarter of 2016 average hydrocarbon production of the Company amounts to 5.2 million boe per day. The production of natural and associated gas was 16.51 billion cubic meters in the second quarter of 2016.

Domestic crude oil processing amounted to 0.20 million tonnes per day (average for the second quarter of 2016) at Company's own refineries with current process utilisation rate. The remaining volumes of crude oil are mostly exported to Europe, Asia and CIS countries. Rosneft also holds a 50% stake in refineries in Germany whereon the Company processes both own and procured crude oil. Rosneft also processes crude oil, gas and petroleum products at external refineries (which are outside the Group).

## Financial and operating highlights

	For 3 months ended		% change	For 6 months ended		% change
	June 30, 2016	March 31, 2016		June 30, 2016	June 30, 2015	
<b>Financial results, RUB billion</b>						
Revenues and equity share in profits of associates and joint ventures	1,232	1,048	17.6%	2,280	2,658	(14.2)%
EBITDA	348	273	27.5%	621	670	(7.3)%
Net income attributable to Rosneft	89	14	>100%	103	190	(45.8)%
Capital expenditures	154	154	-	308	269	14.5%
Free cash flow*	61	80	(23.8)%	141	340	(58.5)%
Net Debt	1,507	1,611	(6.5)%	1,507	2,215	(32.0)%
<b>Operational results</b>						
Hydrocarbon production (th. boe per day)	5,216	5,208	0.2%	5,212	5,175	0.7%
Crude oil and NGL production (th. barrels per day)	4,111	4,089	0.5%	4,100	4,129	(0.7)%
Gas production (th. boe per day)	1,105	1,119	(1.3)%	1,112	1,046	6.3%
Production of petroleum products and petrochemical products in Russia (mln tonnes)	18.97	19.01	(0.2)%	37.98	41.39	(8.2)%
Production of petroleum products and petrochemical products outside Russia (mln tonnes)	3.26	3.33	(2.1)%	6.59	6.06	8.7%

\*Excluding the effect of operations with trading securities, effect of offsetting of prepayments and financing against future deliveries.

## For reference only: Financial highlights in USD terms\*

	For 3 months ended		% change	For 6 months ended		% change
	June 30, 2016	March 31, 2016		June 30, 2016	June 30, 2015	
<b>Financial results, USD billion</b>						
Revenues and equity share in profits of associates and joint ventures	19.2	14.5	32.4%	33.7	47.2	(28.6)%
EBITDA	5.3	3.7	43.2%	9.0	11.8	(23.7)%
Net income attributable to Rosneft	1.4	0.2	>100%	1.6	3.5	(54.3)%
Capital expenditures	2.3	2.1	9.5%	4.4	4.7	(6.4)%
Free cash flow	1.3	1.5	(13.3)%	2.8	6.7	(58.2)%
Net Debt	23.4	23.9	(2.1)%	23.4	39.9	(41.4)%

\*Calculated using average monthly exchange rates of Bank of Russia for the reporting periods (Appendix), except for "Net debt".

## **Significant events in the second quarter of 2016**

### ***Rosneft and a Consortium of Indian Investors signed Agreements to join the Vankor Project***

Rosneft and Consortium of Indian Companies led by Oil India Limited along with Indian Oil Corporation Ltd. and Bharat PetroResources have signed the agreement of sale and purchase of 23.9% in Vankorneft and the shareholders agreement at the XX St. Petersburg International Economic Forum.

### ***Rosneft and PV OIL signed a Long Term Crude Oil Supply Contract***

In June 2016 Rosneft and Petrovietnam Oil Corporation (PV Oil) signed at the XX St. Petersburg International Economic Forum a long term oil supply contract. The contract provides for the supply of up to 1.5 mln tons of crude oil in the period of 2017-2020 and up to 4.5 mln tons of crude oil in the period 2021-2040 (total volume of 96 mln tons).

### ***Rosneft Extends the Contract for Crude Supplies to the Czech Republic with PKN Orlen***

Rosneft and Polski Koncern Naftowy ORLEN S.A. (PKN Orlen) have signed an extension of the contract for crude oil supplies to the Czech Republic. The contract is extended for a period of three years (from 01.07.2016 to 30.06.2019) and provides for the potential increase of supply by Rosneft of up to 15.8 mln tons of crude oil to PKN Orlen.

### ***Rosneft has successfully closed the transaction of selling 15% shares in Vankorneft JSC to ONGC Videsh Limited***

May 31, 2016 Rosneft Oil Company closed the transaction of selling 15% shares in Vankorneft JSC to ONGC Videsh Limited. Base price of the transaction is USD 1.27 billion.

### ***Acquisition of 23.33% share capital in Petromonagas Joint Venture acquisition***

In May 2016 Group company acquired from company of PDVSA group 23.33% of the share capital in Petromonagas Joint Venture and increased its stake to 40%.

## **Macroeconomic factors affecting results of operations**

Main factors, affecting Rosneft's results of operations are:

- Changes in crude oil, petroleum product and gas prices;
- RUB/USD exchange rate and inflation;
- Taxation including changes in mineral extraction tax, export customs duty and excises;
- Changes in tariffs of natural monopolies (for pipeline and railway transport);
- Changes in electricity prices.

Changes in prices, export customs duty and transport tariffs may have a significant impact on the mix of products and distribution channels the Company selects seeking to maximise netback prices of the produced crude oil.

## **Changes in Crude Oil, Petroleum Product and Gas Prices**

World crude oil prices are highly volatile and fluctuate depending on the global balance of supply and demand on the world crude oil market, political situation mainly in the oil producing regions of the world and other factors. Crude oil exported by Rosneft via the Transneft's pipeline system is blended with crude oil of other producers that is of a different quality. The resulting Urals blend is traded at a discount to Brent. Crude oil exported via Eastern Siberia – Pacific Ocean ("ESPO") pipeline is sold at a price which is linked to the price of "Dubai" blend.

Petroleum product prices on international and domestic markets are primarily determined by the level of world prices for crude oil, supply and demand for petroleum products and competition on different markets. Price dynamics depends on the type of petroleum products.

The table below sets forth the average crude oil and petroleum product prices worldwide and in Russia in USD and RUB. The prices nominated in USD are translated into RUB at average USD/RUB exchange rate for the respective period.

	For 3 months ended			For 6 months ended		
	June 30, 2016	March 31, 2016	% change	June 30, 2016	June 30, 2015	% change
<b>World market</b>	<b>(USD per barrel)</b>			<b>(USD per barrel)</b>		
Brent (dated)	45.6	33.9	34.4%	39.7	57.9	(31.4)%
Urals (average Med and NWE)	43.8	32.2	36.2%	38.0	57.3	(33.7)%
Urals (FOB Primorsk)	41.8	29.9	40.1%	35.9	54.7	(34.4)%
Urals (FOB Novorossiysk)	42.8	30.8	39.1%	36.8	55.8	(34.0)%
Dubai	43.2	30.4	41.9%	36.8	56.6	(34.9)%
	<b>(USD per tonne)</b>			<b>(USD per tonne)</b>		
Naphtha (av. FOB/CIF Med)	385	306	25.8%	346	480	(27.9)%
Naphtha (av. FOB Rotterdam/CIF NWE)	398	319	24.7%	358	501	(28.4)%
Naphtha (CFR Japan)	411	345	19.1%	378	528	(28.5)%
Fuel oil (av. FOB/CIF Med)	203	139	46.2%	171	305	(44.1)%
Fuel oil (av. FOB Rotterdam/CIF NWE)	196	132	48.5%	164	296	(44.6)%
High sulphur fuel oil 180 cst (FOB Singapore)	219	160	36.3%	190	342	(44.6)%
Gasoil (av. FOB/CIF Med)	406	307	32.1%	356	540	(34.0)%
Gasoil (av. FOB/Rotterdam/CIF NWE)	407	306	33.1%	357	545	(34.5)%
Gasoil (FOB Singapore)	395	295	34.0%	345	526	(34.4)%
	<b>(th. RUB per barrel)</b>			<b>(th. RUB per barrel)</b>		
Brent (dated)	3.00	2.53	18.6%	2.79	3.32	(16.0)%
Urals (average Med and NWE)	2.89	2.40	20.2%	2.67	3.29	(18.9)%
Urals (FOB Primorsk)	2.76	2.23	23.7%	2.52	3.14	(19.7)%
Urals (FOB Novorossiysk)	2.82	2.30	22.8%	2.59	3.20	(19.3)%
Dubai	2.85	2.27	25.3%	2.59	3.25	(20.3)%
	<b>(th. RUB per tonne)</b>			<b>(th. RUB per tonne)</b>		
Naphtha (av. FOB/CIF Med)	25.4	22.8	11.1%	24.3	27.5	(11.8)%
Naphtha (av. FOB Rotterdam/CIF NWE)	26.2	23.8	10.1%	25.2	28.7	(12.4)%
Naphtha (CFR Japan)	27.0	25.7	5.2%	26.5	30.3	(12.5)%
Fuel oil (av. FOB/CIF Med)	13.4	10.3	29.0%	12.0	17.5	(31.5)%
Fuel oil (av. FOB Rotterdam/CIF NWE)	12.9	9.9	31.1%	11.5	17.0	(32.2)%
High sulphur fuel oil 180 cst (FOB Singapore)	14.4	12.0	20.4%	13.3	19.6	(32.2)%
Gasoil (av. FOB/CIF Med)	26.7	22.9	16.6%	25.0	31.0	(19.2)%
Gasoil (av. FOB Rotterdam/CIF NWE)	26.8	22.8	17.5%	25.1	31.3	(19.8)%
Gasoil (FOB Singapore)	26.1	22.0	18.3%	24.3	30.2	(19.7)%
<b>Russian market</b>	<b>(th. RUB per tonne)</b>			<b>(th. RUB per tonne)</b>		
(net of VAT, including excise tax)						
Crude oil	13.0	9.3	39.1%	11.2	13.3	(15.9)%
Fuel oil	5.7	3.7	55.4%	4.7	7.9	(40.8)%
Summer diesel	27.7	25.6	8.3%	26.7	27.7	(3.6)%
Winter diesel	28.0	26.8	4.6%	27.4	29.1	(5.9)%
Jet fuel	23.1	24.0	(3.9)%	23.5	25.5	(7.8)%
High octane gasoline	33.8	30.2	11.9%	32.0	29.4	9.0%
Low octane gasoline	31.2	26.6	17.2%	28.9	26.8	8.1%

Sources: average prices were calculated from unrounded data of analytical agencies.

The difference between price movements denominated in USD and those denominated in RUB is explained by nominal RUB appreciation against USD by 13.3% in the second quarter of 2016 compared with the first quarter of 2016 and nominal RUB depreciation against USD by 18.3% for the first half of 2016 compared with the first half of 2015.

The Russian Government regulates the price of the gas sold in Russia by Gazprom and its affiliates which is considered as the benchmark for domestic gas market. Starting from July 1, 2015 regulated gas price which is set by the FAS increased by 7.5%. The regulated price has affected, and is likely to continue to affect, the pricing of Rosneft gas sales. Rosneft's average domestic gas sales price (net of VAT) was RUB 3.15 thousand per thousand cubic meters, RUB 3.34 thousand, RUB 3.25 thousand per thousand cubic meters per thousand cubic meters and RUB 3.09 thousand per thousand cubic meters in the second and in the first quarters of 2016 and for the first half of 2016 and 2015 respectively.

## USD/RUB and EUR/RUB Exchange Rates and Inflation

The USD/RUB and EUR/RUB exchange rates and inflation in Russia affect Rosneft's results as most of the Company's revenues from sales of crude oil and petroleum products are denominated in USD, while most of the Company's expenses are denominated in RUB.



The table below provides information on the exchange rates movements and inflation during the periods analysed:

	<i>For 3 months ended</i>		<i>For 6 months ended</i>	
	<b>June 30, 2016</b>	<b>March 31, 2016</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Consumer price index (CPI) for the period*	1.2%	2.1%	3.3%	8.5%
Average RUB/USD exchange rate for the period**	65.89	74.63	70.26	57.40
RUB/USD exchange rate at the end of the period	64.26	67.61	64.26	55.52
Average RUB/EUR exchange rate for the period	74.40	82.34	78.37	64.31
RUB/EUR exchange rate at the end of the period	71.21	76.54	71.21	61.52

Source: Central Bank of Russian Federation.

\* Producer price index amounted to 3.6% y-o-y at the end of June 2016.

\*\* See Average monthly RUB/USD exchange rates in the Appendix.

## Taxation

The table below provides information on the average enacted tax rates specific to the Russian oil and gas industry:

	<i>For 3 months ended</i>		<i>% change*</i>	<i>For 6 months ended</i>		<i>% change*</i>
	<b>June 30, 2016</b>	<b>March 31, 2016</b>		<b>June 30, 2016</b>	<b>June 30, 2015</b>	
<b>Mineral extraction tax</b>						
Crude oil (RUB per tonne)	6,139	4,080	50.5%	5,109	6,954	(26.5)%
<b>Export customs duty for crude oil</b>						
Crude oil (USD per tonne)	67.2	55.0	22.1%	61.1	130.3	(53.1)%
Crude oil (RUB per tonne)	4,425	4,104	7.8%	4,291	7,479	(42.6)%
Crude oil (RUB per barrel)	598	554	7.8%	580	1,010	(42.6)%
<b>Export customs duty for petroleum products</b>						
Gasoline (RUB per tonne)	2,694	2,500	7.8%	2,614	5,831	(55.2)%
Naphtha (RUB per tonne)	3,138	2,911	7.8%	3,043	6,354	(52.1)%
Light and middle distillates (RUB per tonne)	1,768	1,641	7.7%	1,715	3,586	(52.2)%
Liquid fuels (fuel oil) (RUB per tonne)	3,625	3,362	7.8%	3,516	5,682	(38.1)%

\*Calculated based on unrounded data.

Federal law 366-FZ of November 24, 2014 “On amendments to Part Two of the Tax Code and Other Legislative Acts of the Russian Federation” enables reduction of crude oil export duties and petroleum products export duties depending on type of the petroleum products and simultaneous increase in oil and gas condensate mineral extraction tax.

In accordance with the Tax legislation the excise tax rates on the petroleum products are differentiated in line with quality requirements to petroleum products:

<b>Excise on petroleum products</b>	<b>2015</b>	<b>Since January 1 through March 31, 2016</b>	<b>Since April 1, through December 31, 2016</b>	<b>2017</b>
<b>High octane gasoline (RUB per tonne)</b>				
High octane gasoline non-compliant with euro-3,4,5 (RUB per tonne)	7,300	10,500	13,100	12,300
High octane gasoline euro-3 (RUB per tonne)	7,300	10,500	13,100	12,300
High octane gasoline euro-4 (RUB per tonne)	7,300	10,500	13,100	12,300
High octane gasoline euro-5 (RUB per tonne)	5,530	7,530	10,130	7,430
<b>Naphtha (RUB per tonne)</b>	11,300	10,500	13,100	12,300
<b>Diesel (RUB per tonne)</b>	3,450	4,150	5,293	5,093
<b>Lubricants (RUB per tonne)</b>	6,500	6,000	6,000	5,400
<b>Benzol, paraxylene, ortoxylene (RUB per tonne)</b>	2,300	3,000	3,000	2,800
<b>Middle distillates</b>	-	4,150	5,293	5,093

In accordance with Federal law 366-FZ the producer is able to apply an increased coefficient to excise duty deduction (from 1.37 to 3.4 depending on certain type of the oil product subject to excise duty and deduction period).

Effective tax burden of the Company was 40.7% and 34.9% in the second and in the first quarters of 2016 respectively.

The mineral extraction tax and the export customs duty accounted for approximately 32.6% and 29.0% of Rosneft’s total revenues in the second and in the first quarters of 2016 respectively. Tax withdrawing share in the financial results excluding forex and one off effects was up to 80% in the second quarter of 2016.

## Mineral Extraction Tax (MET)

The rate of mineral extraction tax (MET) for crude oil is linked to the Urals price in the international market and changes every month. It is calculated in USD per barrel of crude oil produced using average exchange rate established by the Central Bank of Russia for the respective month.

Starting **from January 1, 2016** the mineral extraction tax rate will be calculated by multiplying the tax rate of **RUB 857** (in 2015 – RUB 766, **in 2017 – RUB 919**) by the adjustment ratio of  $((P - 15) \times \text{Exchange rate} / 261)$ , where “P” is the average Urals price per barrel and “Exchange rate” is the average RUB/USD exchange rate established by the Central Bank of Russia in the respective month and minus the factor which characterizes crude oil production at a particular oil field, “Dm”. The coefficient “Dm” is calculated using base rate (**starting 2016 – RUB 559**, in 2015 – RUB 530) and factors which characterize the degree of depletion of a particular field, reserves of a particular field, the degree of difficulty of extraction and region of production and oil properties.

In 2016 the Company applied reduced and zero MET tax rates at certain fields:

<b>Tax relieves in 2016</b>	<b>Applicable in the Company</b>
Reduced rates	Crude oil from deposits with permeability of less than $2 \times 10^{-3}$ square micrometres and tyumen formation
Zero rates	Oil fields with hard to recover reserves, including bazhenov, abalak, khadum, domanic formations
Reduced MET by coefficient “Dm”, which characterizes crude oil production at a particular oil field	Oil fields located: <ul style="list-style-type: none"> <li>• In Irkutsk region, the republic of Sakha (Yakutia) and Krasnoyarsk territory which is applicable for the first 25 million tonnes of production</li> <li>• On the territory of the Nenets Autonomous district, Yamalo-nenets Autonomous district – for the first 15 million tonnes of production</li> <li>• Okhotsk sea fields subject to zero mineral extraction tax rate which is applicable for the first 30 million tonnes of production</li> </ul> Oil fields with reserve depletion rate of over 80%. Oil fields with the volume of initial recoverable reserves being less than 5 million tonnes. Oil fields with high-viscosity crude oil (in-situ viscosity more than 200 mPas and less than 10 000 mPas)
Special tax regime for offshore projects in the Russian Federation	The offshore projects are categorised into one of four groups depending on its complexity and specifies MET rates for each project group ranging from 5% to 30% of hydrocarbon prices (natural gas projects of 3 and 4 groups of difficulty – 1.3% and 1.0% respectively).
Special tax regime exempting the Company from paying mineral extraction tax.	Exploration projects in the Sakhalin-1 psa.

### *MET rate calculation for natural gas and gas condensate*

In accordance with Tax Code of Russian Federation, base rate of MET for gas condensate is RUB 42 per 1 tonne and for natural gas – RUB 35 per 1 thousand cubic metres. Base rates are multiplied by basic rate of standard fuel unit and reduced coefficient, that characterized the complexity level of natural gas and (or) gas condensate production.

<b>Reduced coefficient in 2016</b>	<b>Applicable in the Company</b>
0.5	License areas: Rospan and Russko-Rechenskoe licensed fields and also at fields of Krasnodar and Stavropol regions
0.64	License areas: Kynsko-Chaselskoye fields and at a number of fields of Sibneftegaz, and also at Nenets Autonomous District, the Chechen republic and Krasnodar region
0.1	License areas: Irkutsk region, in Krasnoyarsk region and in region of Far East or the sea of Okhotsk
0.21	License areas: Turon deposits reserves of the Kharampurskoye field
0.5-1	Fields with reserve depletion rate of over 70%.

In the second and in the first quarters of 2015, for the first half of 2016 and 2015 average extraction tax for natural gas was RUB 544, RUB 530, RUB 537 and RUB 504 per th. cubic meters respectively.

### *Mineral extraction gas condensate tax rate*

The production of gas condensate is mainly subject to MET rate for crude oil because the purification of gas condensate is compounded in the crude oil production. Mineral extraction gas condensate tax rate is applied in separate purification of gas condensate.

Significant volume of gas condensate produced at Rospan fields is subject to mineral extraction gas condensate\* tax rate, which was RUB 3,157 and RUB 2,861 per tonne in the second and first quarters of 2016 respectively, and RUB 3,007 per tonne and RUB 2,341 per tonne in the first half of 2016 and 2015, respectively.

\* In accordance with amendments to Tax legislation starting from January 1 until December 31, 2016 mineral extraction gas condensate tax rate is adjusted by the multiplying coefficient 5.5; starting from January 1 until December 31, 2015 – 4.4; starting from January 1, 2017 - 6.5.

## Export Customs Duty on Crude Oil

The rate of export customs duty on crude oil is linked to the Urals price in the international market and is denominated in USD per tonne.

The table below sets forth the calculation of the ordinary export customs duty for crude oil:

<i>Urals price (USD per tonne)</i>	<i>Export customs duty (USD per tonne)</i>
Below and including 109.5 (15 USD per barrel)	Export customs duty is not levied
Above 109.5 to 146 including ..... (15 to 20 USD per barrel)	35% of the difference between the average Urals price in USD per tonne and USD 109.5
Above 146 to 182.5 including ..... (20 to 25 USD per barrel)	USD 12.78 <i>plus</i> 45% of the difference between the average Urals price in USD per tonne and USD 146
Above 182.5 (25 USD per barrel) .....	USD 29.2 <i>plus</i> 42% of the difference between the average Urals price in USD per tonne and USD 182.5 ( <b>since January 1 through December 31, 2016</b> ) USD 29.2 <i>plus</i> 30% of the difference between the average Urals price in USD per tonne and USD 182.5 ( <b>since January 1, 2017</b> )

The export customs duty is changed every month and the duty for the next month is based on the average Urals price denominated in USD for crude oil for the period from the 15th day of the previous month to the 14th day (inclusive) of the current month.

The law on the introduction of a special tax regime in respect of projects on the continental shelf of the Russian Federation provides a full exemption of hydrocarbons produced at offshore fields from the export customs duties, which commercial production will start from January 1, 2016. Such an exemption is set for various terms depending on complexity of a field development project.

## Export customs duty on crude oil export to CIS

In accordance with the Eurasian Economic Agreement dated May 29, 2014 and effective from January 1, 2015 export duties are not payable on crude oil export to countries-participants of Eurasian Economic Agreement. Meanwhile, the Eurasian Economic Agreement enables some export limits on oil and oil products.

Export duties are not payable on crude oil exports to CIS countries that are members of the Customs Union. At the same time quotes for tax-free sale of crude oil and petroleum products are set. In accordance with agreement with Armenia all supplies above the quotes are subject for the duties.

In accordance with agreement between Russian Federation government and Kazakhstan Republic government about trade and economic cooperation in crude oil and petroleum products supplies dated December 9, 2010 the export ban for the specified dark petroleum products list is set from Russian Federation to Kazakhstan Republic.

## Export Customs Duty on Petroleum Products

Export customs duty on petroleum products (except liquefied petroleum gas (“LPG”)) is set every month as the marginal export customs duty rate on crude oil multiplied by the estimated ratio depending on the type of petroleum product.

Export customs duty on LPG is based on the average price of LPG at Poland board (DAF Brest) denominated in USD per tonne for the period from the 15th day of the previous month to the 14th day (inclusive) of the current month.

Starting from January 1, 2015 marginal export customs duty for petroleum products is set as a percentage of the marginal export customs duty for crude oil as listed in table below:

Type of petroleum product	Marginal export customs duty (% of the marginal export customs duty for crude oil) for the period		
	Since January 1 through December 31, 2015	Since January 1 through December 31, 2016	Since January 1, 2017
	Light and middle distillates (excluding: naphtha and gasoline), benzene, toluene, xylenes, lubricants, diesel	48	40
Naphtha	85	71	55
Gasoline	78	61	30
Fuel oil, bitumen oil, other dark oil products	76	82	100

In 2016 and 2015 calculation of the export duty rate for petroleum products is based on the above marginal rates for each type of petroleum product.

## Changes in Transport Tariffs of Pipeline and Railway Monopolies

Rosneft transports most of its crude oil and petroleum products via pipeline network owned and operated by JSC “AK “Transneft” (“Transneft”), which is a natural state-owned pipeline monopoly. Rosneft also transports crude oil and petroleum products via railway network mainly owned and operated by Russian railways (“RZD”), another natural state-owned monopoly.

The FAS<sup>1</sup> has the authority to set Transneft’s base tariffs for transportation of crude oil and petroleum products in Russia, which include a dispatch tariff, a pumping tariff, loading, charge-discharge, transshipment and other tariffs. Tariffs for railroad transportation are also regulated by the FAS. The tariffs are set in roubles and are not linked to the exchange rate.

The FAS sets tariffs for each separate route of the pipeline networks depending on the length of relevant routes, transportation direction and other factors, alternatively tariffs may be set for the entire route of the pipeline network. Tariffs for railroad transportation often depend on the type of cargo and the transportation route.

The FAS sets tariffs for gas pipeline transportation. The tariff includes two parts. First part of tariff is fixed for “input and output” facilities and mostly depends on the remoteness of facilities. The second part of the tariff depends on gas transportation by Gazprom in gas supply system and actual distance of gas transmission in a gas pipeline. Tariffs are set in roubles.

### *Recent changes of Transneft transportation tariffs*

#### *Crude oil*

Starting from January 1, 2016 Transnet tariffs for oil pipeline transportation increased up to 5.76%. Some changes to special export tariffs were also applied. In particular, special export tariff for crude oil transportation from fields of Western Siberia to the ports of Primorsk and Ust-Luga was cancelled. Alternately, special export tariff was applied to crude oil transportation from stations “Aprelskaya”, “Vatiegan”, “Pur-Pe” to the ports of Primorsk and Ust-Luga.

#### *Petroleum products*

Starting from January 1, 2016 Transneft increased export transportation tariffs for petroleum products by 12% in most directions. Particularly, export transportation tariff increased up to 16% in the direction of “Ryazan NPK – Primorsk Port”. Dispatching tariffs have not changed.

### *Recent changes in railroad transportation tariffs*

Starting from January 1, 2016 indexation of railroad tariffs, fees and charges was 9% compared to 2015. Multiplying factor 1.074, which has been applied to domestic railroad tariffs for transportation of diesel from September 16, 2015, was cancelled from January 1, 2016.

<sup>1</sup> The FAS - the Federal Anti-Monopoly Service.

The table sets forth the Rosneft's average transportation tariffs applied to major transportation routes in the second and in the first quarters of 2016 excluding transshipment:

	<i>For 3 months ended</i>		<i>Changes%</i>
	<b>June 30, 2016</b>	<b>March 31, 2016</b>	
	<b>th. RUB/tonne</b>		
<b>CRUDE OIL</b>			
<b>Domestic</b>			
<i>Pipeline</i>			
Samotlorneftegaz – Omsk refinery	0.52	0.52	–
Orenburgneft (Pokrovka) – Novokuybyshevsk refinery	0.14	0.14	–
RN-Uvatneftegas (Demyanskoe) – Ryzan NPK	1.19	1.19	–
RN-Nyaganneftegaz (Krasnoleninsk) – Tuapse refinery	1.60	1.60	–
<b>Export</b>			
<i>Pipeline</i>			
Vankorneft (Purpe) – China	2.47	2.47	–
Yuganskneftegaz (Karkatevy) - Primorsk Port	1.81	1.81	–
Verkhnechonskneftegaz (Talakan) – Kozmino	2.37	2.37	–
Uvatneftegaz (Demyanskoe) – China via Kazakhstan	2.08	2.08	–
Yuganskneftegaz (Karkatevy) - Poland	1.85	1.85	–
Yuganskneftegaz (Yuzhny Balyk) – Mozyr refinery	1.62	1.62	–
Samaraneftegaz (Kuleshovka) – Novorossiysk Port	0.95	0.95	–
<b>PETROLEUM PRODUCTS (EXPORT)</b>			
<i>Railroad</i>			
Angarsk refinery – Nakhodka Port	5.95	5.95	–
Komsomolsk refinery – Nakhodka Port	2.32	2.32	–
Saratov refinery – Tuapse Port	2.32	2.32	–
Samara refineries – Novorossiysk Port	2.65	2.65	–
Achinsk refinery – Taman Port	6.34	6.34	–
Ryazan refinery – Ust-Luga Port	2.24	2.24	–
YANOS – Ust-Luga Port	1.82	1.82	–
Nizhnevartovsk refinery – Tuapse Port	3.48	3.48	–

Source: Transneft, RZD, Rosneft. % of change was calculated based on unrounded data

Rosneft operates proprietary transportation and transshipment facilities. This allows the optimization of Company's logistics (netbacks). These facilities include: the Arkhangelsk, De-Kastri, Tuapse and Nakhodka export terminals, the Okha – Komsomolsk-on-Amur pipeline, Vankor-Purpe pipeline and the Caspian Pipeline Consortium ("CPC").

## **Business Segments and Intersegment sales**

Most of all of Rosneft's operations and assets are located in the Russian Federation. As geographical regions of the Russian Federation have similar economic and legal characteristics, Rosneft does not present geographical segments separately. Rosneft also carries out projects outside Russia, including exploration and production projects in Algeria, the Gudautsky area in the Black Sea territorial waters of Abkhazia, United Arab Emirates, Canada, Brazil, Vietnam, Venezuela and the USA and also stakes in refineries in Germany and Belarus.

### **Operating Segments**

As at the reporting date the activities of Rosneft are divided into two main operating segments, based on the nature of their operations:

- *Exploration and production (Upstream)*. Geological exploration and development of fields and crude oil and gas production both on the onshore and offshore in the territory of Russia and abroad and internal oilfield service companies;
- *Refining and distribution (Downstream)*. Refining of crude oil, as well as the purchase, transportation, sale of crude oil and petroleum products to the third parties in Russia and abroad;
- Other activities form the “*Corporate*” segment and include banking, financial services and other corporate services.

### **Intersegment Sales**

Rosneft's two main business segments are interconnected: the majority of the revenues of one main segment is included in the expenses of the other main segment. In particular, Upstream Group companies provide operator services for Downstream Group companies, which sell part of crude oil on the domestic market or outside of Russia, and processes the remaining part at own refineries or at the refineries of affiliates and third parties. Refined petroleum products are then either sold by the Company through wholesale in international or domestic markets or sold to the Company's sale subsidiaries for subsequent distribution in Russia.

Intercompany sales present operational activity of segments as if the segments operate separately from each other within the vertically integrated company using transfer prices for settlements between segments. For the estimation of upstream revenues within vertically integrated company the price of Upstream (and the purchase price of Downstream) was recalculated using the export market price minus transportation cost, minus export duty, dispatches and other expenses relating to current sales. The price is established at oil gathering facility (point of sales) where Upstream dispatches the oil to Downstream. All intercompany operations, including transactions from internal oilfield service companies and corporate service companies, are eliminated on the consolidation level.

**Financial performance for the three months ended June 30, 2016 and March 31, 2016, for the six months ended June 30, 2016 and 2015 (Consolidated statement of profit or loss)**

in RUB billions

	<i>For 3 months ended</i>			<i>For 6 months ended</i>		
	<b>June 30, 2016</b>	<b>March 31, 2016</b>	<b>% change</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>% change</b>
<b>Revenues and equity share in profits of associates and joint ventures</b>						
Oil, gas, petroleum products and petrochemicals sales	1,201	1,026	17.1%	2,227	2,614	(14.8)%
Support services and other revenues	19	19	–	38	37	2.7%
Equity share in profits of associates and joint ventures	12	3	>100%	15	7	100%
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>1,232</b>	<b>1,048</b>	<b>17.6%</b>	<b>2,280</b>	<b>2,658</b>	<b>(14.2)%</b>
<b>Costs and expenses</b>						
Production and operating expenses	123	137	(10.2)%	260	255	2.0%
Cost of purchased oil, gas, petroleum products and refining costs	149	130	14.6%	279	261	6.9%
General and administrative expenses	30	30	–	60	59	1.7%
Pipeline tariffs and transportation costs	135	147	(8.2)%	282	274	2.9%
Exploration expenses	4	3	33.3%	7	7	–
Depreciation, depletion and amortization	113	116	(2.6)%	229	244	(6.1)%
Taxes other than income tax	329	231	42.4%	560	687	(18.5)%
Export customs duty	142	132	7.6%	274	481	(43.0)%
<b>Total costs and expenses</b>	<b>1,025</b>	<b>926</b>	<b>10.7%</b>	<b>1,951</b>	<b>2,268</b>	<b>(14.0)%</b>
<b>Operating income</b>	<b>207</b>	<b>122</b>	<b>69.7%</b>	<b>329</b>	<b>390</b>	<b>(15.6)%</b>
Finance income	23	18	27.8%	41	27	51.9%
Finance expenses	(44)	(52)	(15.4)%	(96)	(141)	(31.9)%
Other income	2	–	–	2	37	(94.6)%
Other expenses	(13)	(9)	44.4%	(22)	(28)	(21.4)%
Foreign exchange differences	(16)	(25)	(36.0)%	(41)	12	–
Cash flow hedges reclassified to profit or loss	(37)	(37)	–	(74)	(58)	27.6%
<b>Income before income tax</b>	<b>122</b>	<b>17</b>	<b>&gt;100%</b>	<b>139</b>	<b>239</b>	<b>41.8%</b>
Income tax expense	(31)	(3)	>100%	(34)	(49)	(30.6)%
<b>Net income</b>	<b>91</b>	<b>14</b>	<b>&gt;100%</b>	<b>105</b>	<b>190</b>	<b>(44.7)%</b>
<b>Net income attributable to Rosneft shareholders</b>	<b>89</b>	<b>14</b>	<b>&gt;100%</b>	<b>103</b>	<b>190</b>	<b>(45.8)%</b>

## Upstream Operating Results

The segment includes Rosneft Group companies that provide operating services, the independent enterprises that produce oil, gas and gas condensate in Russia and abroad, the joint ventures and exploration units in Russia and abroad, oil service companies. The segment includes revenues generated by the transfer of oil, gas and NGL to downstream segment for subsequent sales to third parties and all operating costs associated with production and exploration, and also revenues and costs of oil service companies that provide services to the Group companies.

	For 3 months ended			For 6 months ended		
	June 30, 2016	March 31, 2016	% change	June 30, 2016	June 30, 2015	% change
<b>Operational results</b>						
Hydrocarbon production (th. boe per day)	5,216	5,208	0.2%	5,212	5,175	0.7%
Crude oil and NGL production (th. barrels per day)	4,111	4,089	0.5%	4,100	4,129	(0.7)%
Gas production (th. boe per day)	1,105	1,119	(1.3)%	1,112	1,046	6.3%
Hydrocarbon production (mln boe) <sup>1</sup>	439.8	440.1	(0.1)%	879.9	867.2	1.5%
<b>Financial results, RUB billion</b>						
EBITDA	331	256	29.3%	587	573	2.4%
Capital expenditures <sup>2</sup>	139	135	3.0%	274	206	33.0%
Upstream operating expenses <sup>3</sup>	72.3	68.3	5.9%	140.6	136.5	3.0%
<b>Indicators per boe</b>						
EBITDA, RUB/boe	753	582	29.4%	667	661	0.9%
Capital expenditures, RUB/boe	316	307	2.9%	311	238	30.7%
Upstream operating expenses, RUB/boe	164	155	5.8%	160	157	1.9%
Upstream operating expenses, USD/boe <sup>4</sup>	2.5	2.1	19.0%	2.3	2.8	(17.9)%

<sup>1</sup>Excluding associates and joint ventures.

<sup>2</sup>Ref. to "Capital expenditures".

<sup>3</sup>Excluding the effect of ecological reserve estimation in the amount of RUB 0.4 billion in the second quarter of 2016, RUB 0.2 billion in the first quarter of 2016.

<sup>4</sup>Calculated using monthly RUB/USD exchange rates for the reporting periods.

## Upstream EBITDA

	For 3 months ended			For 6 months ended		
	June 30, 2016	March 31, 2016	% change	June 30, 2016	June 30, 2015	% change
<b>Revenues and equity share in profits of associates and joint ventures</b>	<b>678</b>	<b>515</b>	<b>31.7%</b>	<b>1,193</b>	<b>1,345</b>	<b>(11.3)%</b>
<i>Including equity share in profits of associates and joint ventures</i>	<i>9</i>	<i>1</i>	<i>&gt;100%</i>	<i>10</i>	<i>3</i>	<i>&gt;100%</i>
<b>Costs net of DDA</b>	<b>375</b>	<b>294</b>	<b>27.6%</b>	<b>669</b>	<b>808</b>	<b>(17.2)%</b>
<i>including</i>						
Upstream operating expenses <sup>1</sup>	72	68	5.9%	141	137	3.0%
General and administrative expenses	11	14	(21.4)%	25	24	4.2%
Hydrocarbon procurement costs <sup>2</sup>	5	12	(58.3)%	17	8	>100%
Pipeline tariffs and transportation costs and other costs	8	11	(27.3)%	18	16	12.5%
Exploration expenses	4	3	33.3%	7	7	—
Taxes other than income tax	275	186	47.8%	461	616	(25.2)%
Effect of prepayments offsetting	28	35	(20.0)%	63	36	75.0%
<b>EBITDA</b>	<b>331</b>	<b>256</b>	<b>29.3%</b>	<b>587</b>	<b>573</b>	<b>2.4%</b>

<sup>1</sup>Percentage is calculated from unrounded data.

<sup>2</sup>See section "Cost of Purchased Oil, Gas and Petroleum Products and Refining Costs and others".



## Operating indicators

### Production of Crude Oil and NGL

Rosneft has main fully consolidated production and development enterprises, which produce crude oil in Western Siberia, Eastern Siberia, Timan Pechora, Central Russia, southern part of European Russia and the Russian Far East. The Company also has a 20% stake in the Sakhalin-1 project and a 50% stake in JSC “Tomskneft” VNK, both accounted for using proportionate consolidation method. In addition, Rosneft participates in major production joint ventures accounted for using the equity method: Udmurtneft – 49.54% and Slavneft – 49.94%. The Company also participates in international projects in Vietnam, Venezuela and Canada. The following table sets forth Rosneft’s crude oil and NGL production:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
	<i>millions of barrels</i>			<i>millions of barrels</i>		
Yuganskneftegaz (Western Siberia)	116.7	115.0	1.5%	231.7	230.1	0.7%
Vankorneft (Eastern Siberia)	39.5	39.7	(0.5)%	79.2	80.9	(2.1)%
Samotlorneftegaz (Western Siberia)	37.3	37.4	(0.3)%	74.7	77.7	(3.9)%
Orenburgneft (Central Russia)	30.4	30.9	(1.6)%	61.3	67.6	(9.3)%
Samaraneftegaz (Central Russia)	22.8	22.8	–	45.6	43.7	4.3%
RN-Uvatneftegaz (Western Siberia)	21.4	21.4	–	42.8	39.7	7.8%
Verkhnechonskneftegaz (Eastern Siberia)	16.0	16.1	(0.6)%	32.1	31.8	0.9%
Varyeganneftegaz (Western Siberia)	11.4	11.4	–	22.8	23.3	(2.1)%
RN-Nyaganneftegaz (Western Siberia)	10.8	10.8	–	21.6	22.5	(4.0)%
Purneftegaz (Western Siberia)	9.7	9.8	(1.0)%	19.5	20.5	(4.9)%
Tomskneft (Western Siberia)	8.7	8.8	(1.1)%	17.5	18.3	(4.4)%
Severnaya Neft (Timan Pechora)	6.2	6.0	3.3%	12.2	10.1	20.8%
RN-Shelf Far East (Far East)	4.6	4.6	–	9.2	7.0	31.4%
Sakhalin-1 (Far East) (net of royalty and government share)	3.3	3.2	3.1%	6.5	5.4	20.4%
Taas-Yuryakh (Eastern Siberia)	2.0	2.0	–	4.0	3.2	25.0%
Other	8.8	9.0	(2.2)%	17.8	17.7	0.6%
<b>Crude oil and NGL production by fully and proportionately consolidated enterprises</b>	<b>349.6</b>	<b>348.9</b>	<b>0.2%</b>	<b>698.5</b>	<b>699.5</b>	<b>(0.1)%</b>
Slavneft	13.8	14.0	(1.4)%	27.8	28.6	(2.8)%
Udmurtneft (Central Russia)	5.8	5.8	–	11.6	11.7	(0.9)%
Polar Lights (Timan Pechora) <sup>1</sup>	–	–	–	–	0.7	(100.0)%
Other	4.9	3.4	44.1%	8.3	6.8	22.1%
<b>Total share in production of associates and JV</b>	<b>24.5</b>	<b>23.2</b>	<b>5.6%</b>	<b>47.7</b>	<b>47.8</b>	<b>(0.2)%</b>
<b>Total crude oil and NGL production</b>	<b>374.1</b>	<b>372.1</b>	<b>0.5%</b>	<b>746.2</b>	<b>747.3</b>	<b>(0.1)%</b>
<b>Daily crude oil and NGL production (th. barrels per day)</b>	<b>4,111</b>	<b>4,089</b>	<b>0.5%</b>	<b>4,100</b>	<b>4,129</b>	<b>(0.7)%</b>

<sup>1</sup>The share was sold in December 2015.

In the second quarter of 2016 crude oil and NGL production was 374.1 mln barrels compared to 372.1 mln barrels in the first quarter of 2016. Positive production dynamics was attributable to the production at Yuganskneftegaz, RN-Severnaya Neft, Sakhalin-1. The Company also increased its share at JV Petromonagas (Venezuela) up to 40% in May 2016.

In the first half of 2016 the Company increased its production drilling by 48% compared with the first half of 2015. The share of in-house services in the total drilling footage consistently exceeds 50%. The growth of new wells put into operation exceeded 50% up to 1.2 thousand of units with app. 30% share of horizontal wells in comparison with the first half of 2015.

The Company achieved significant success in production drilling thanks to the implementation of new drilling technologies and effective work of internal services.

## Production of Gas

The table below sets forth Rosneft's used gas<sup>1</sup> production:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
	<i>bcm</i>			<i>bcm</i>		
NGK ITERA (Western Siberia)	3.05	3.06	(0.3)%	6.11	5.87	4.1%
Vankorneft (Eastern Siberia) <sup>2</sup>	2.21	2.14	3.3%	4.35	4.35	–
Purneftegaz (Western Siberia)	1.54	1.56	(1.3)%	3.10	2.65	17.0%
Samotlorneftegaz (Western Siberia)	1.43	1.53	(6.5)%	2.96	2.88	2.8%
Rospan International (Western Siberia)	1.46	1.44	1.4%	2.90	2.01	44.3%
Yuganskneftegaz (Western Siberia)	1.14	1.15	(0.9)%	2.29	2.24	2.2%
Varyeganneftegaz (Western Siberia)	0.78	0.82	(4.9)%	1.60	1.57	1.9%
Krasnodarneftegaz (Southern Russia)	0.69	0.79	(12.7)%	1.48	1.45	2.1%
Orenburgneft (Central Russia)	0.60	0.64	(6.3)%	1.24	1.43	(13.3)%
RN Shelf Far East (Far East)	0.55	0.44	25.0%	0.99	0.26	>100.0%
RN-Nyaganneftegaz (Western Siberia)	0.38	0.38	–	0.76	0.77	(1.3)%
Tomskneft (Western Siberia)	0.21	0.21	–	0.42	0.43	(2.3)%
Samaraneftegaz (Central Russia)	0.12	0.12	–	0.24	0.21	14.3%
Sakhalin-1 (Far East) (net of royalty and government share)	0.06	0.14	(57.1)%	0.20	0.23	(13.0)%
Severnaya Neft (Timan Pechora)	0.06	0.06	–	0.12	0.12	–
Other	0.53	0.49	8.2%	1.02	1.06	(3.8)%
<b>Total gas production by fully and proportionately consolidated enterprises</b>	<b>14.81</b>	<b>14.97</b>	<b>(1.1)%</b>	<b>29.78</b>	<b>27.53</b>	<b>8.2%</b>
Purgaz (NGK ITERA)	1.50	1.56	(3.8)%	3.06	3.20	(4.4)%
Slavneft	0.12	0.12	–	0.24	0.22	9.1%
Other	0.08	0.07	14.3%	0.15	0.14	7.1%
<b>Total share in production of associates and JV</b>	<b>1.70</b>	<b>1.75</b>	<b>(2.9)%</b>	<b>3.45</b>	<b>3.56</b>	<b>(3.1)%</b>
<b>Total gas production</b>	<b>16.51</b>	<b>16.72</b>	<b>(1.3)%</b>	<b>33.23</b>	<b>31.09</b>	<b>6.9%</b>
Natural gas	7.73	7.87	(1.8)%	15.60	15.07	3.5%
Associated gas	8.78	8.85	(0.8)%	17.63	16.02	10.0%
<b>Daily gas production (mcm per day)</b>	<b>181.4</b>	<b>183.7</b>	<b>(1.3)%</b>	<b>182.6</b>	<b>171.8</b>	<b>6.3%</b>

<sup>1</sup> Production volume equals extracted volume minus flared volume and gas used for NGL production.

<sup>2</sup> Including gas injection to maintain reservoir pressure.

In the first half of 2016 gas production was 33.23 bcm, which is an increase by 6.9% compared to the first half of 2015. Gas production growth was mainly driven by the startup of the second stage of Rospan's Novo-Urengoi gas processing plant, by commissioning of the gas processing plant at Purneftegaz's Barsukovsky field in December 2015 and by the pilot development of the Northern tip of the Chayvo field on Sakhalin island.

In the second quarter of 2016 gas production decreased by 1.3% compared to the first quarter of 2016 and amounted to 16.51 bcm. Production decrease was caused by the seasonal factor and scheduled maintenance at Krasnodarneftegaz, Samotlorneftegaz and Sakhalin-1. This was partially compensated by the production growth at the Northern tip of the Chayvo field due to the launch of the fifth well and gas production growth at Rospan.

The level of utilization of associated petroleum gas ("APG") increased up to 90% in the first half of 2016 compared to 87% in the same period of 2015.

## Financial indicators

### Equity share in profits of upstream associates and joint ventures

The equity share in financial results of upstream associates and joint ventures was RUB 9 billion profit in the second quarter of 2016. Significant increase in profits of upstream associates and joint ventures was caused by positive effect of exchange rate differences recognition in JV of Venezuela as a result of application of floating exchange rate to USD translation from local currency. The effect mentioned above arises under condition when low operating expenses are mostly denominated in local currency and export revenue is denominated in USD.

In the first quarter of 2016 equity share in financial results of upstream associates and joint ventures was RUB 2 billion of profit. The equity share in financial results of upstream associates and joint ventures was RUB 10 billion and RUB 3 billion profit for the first half of 2016 and 2015 respectively.

## Upstream production and operating expenses

Upstream production and operating expenses include materials and supplies, equipment maintenance and repairs, wages and salaries, activities to enhance oil and gas recovery, procurement of fuel and lubricants, electricity and other costs of Rosneft consolidated exploration and production units.

Upstream production and operating expenses amounted to RUB 72.3 billion (or 164 RUB/boe) and increased by 5.9% (or 5.8% per boe) in the second quarter of 2016 compared with the first quarter of 2016. The increase was mainly due to planned growth of wellworks and increased expenses of maintenance of the infrastructure.

In the first half of 2016 upstream production and operating expenses increased by 3.0% (or 1.9% per boe) compared to RUB 136.5 billion (157 RUB/boe) in the first half of 2015, that is mainly due to increased electricity expenses, partially compensated by the decrease in expenses of maintenance of wells and power-generation facilities.

## Exploration Expenses

Exploration expenses mainly relate to exploratory drilling, seismic and other geological and geophysical works. Exploratory drilling costs are generally capitalised if commercial reserves of crude oil and gas are discovered or expensed in the current period in the event of unsuccessful exploration results.

In the second quarter of 2016 exploration expenses amounted to RUB 4 billion and increased by RUB 1 billion in comparison with in the first quarter of 2016.

## Mineral extraction tax

The amount of mineral extraction tax was RUB 260 billion in the second quarter of 2016 compared to RUB 172 billion in the first quarter of 2016. The increase in mineral extraction tax was mainly due to increased monthly tax rate caused by growth in “Urals” price partially offset by rouble appreciation.

The following table sets actual mineral extraction tax rates for the periods analysed:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
	<b>thousand RUB, except %</b>					
Average enacted oil mineral extraction tax rate (per tonne)	6.14	4.08	50.5%	5.11	6.95	(26.5)%
Actual mineral extraction tax expense per tonne of oil equivalent produced (per tonne oil equivalent)*	4.42	2.98	48.3%	3.70	5.07	(27.0)%
	<b>RUB per thousand cubic metres, except %</b>					
Average actual gas extraction tax rate	544	530	2.6%	537	504	6.5%

\*Including consolidated oil and gas volumes.

The actual mineral extraction tax rate is lower than generally established tax rates for the analysed periods primarily due to tax exemptions which are active in the form of reduced rates at particular fields, zero rates and reduced extraction tax rate by “Dm” coefficient which characterizes complexity of crude oil production at a particular oil field according to the Russian tax legislation (See section: “Mineral extraction tax”).

## Downstream Operating Results

The segment includes Group companies that provide services for oil and gas processing, petrochemical production in Russia and abroad, joint ventures, sales units of oil, gas and petroleum products to counterparties in Russia and abroad. The segment includes revenue generated from the sale of oil, gas, petrochemical products and petroleum products to third parties, and all operating costs associated with processing, trading and logistics.

	For 3 months ended			For 6 months ended		
	June 30, 2016	March 31, 2016	% change	June 30, 2016	June 30, 2015	% change
<b>Operational results, mln tonne</b>						
Crude oil processing at refineries	22.45	22.61	(0.7)%	45.06	48.09	(6.3)%
<i>Processing at Company's own refineries in Russia</i>	17.76	17.57	1.1%	35.33	38.57	(8.4)%
<i>Processing at Company's own refineries outside Russia</i>	3.06	3.13	(2.2)%	6.19	5.32	16.4%
<i>Processing at Associates' refineries</i>	1.63	1.91	(14.7)%	3.54	4.20	(15.7)%
<b>Financial results, RUB billion</b>						
EBITDA	29	27	7.4%	56	125	(55.2)%
Capital expenditures*	10	11	(9.1)%	21	54	(61.1)%
Operating expenses of processing in Russia	19.90	19.49	2.1%	39.39	36.40	8.2%
Operating expenses of processing outside Russia	7.98	9.19	(13.2)%	17.17	11.41	50.5%
<b>Indicators per tonne of the output**</b>						
EBITDA, RUB per tonne	1,393	1,304	6.8%	1,349	2,848	(52.6)%
Capital expenditure, RUB per tonne	491	520	(5.6)%	506	1,230	(58.9)%
Operating expenses for processing in Russia, RUB per tonne	1,121	1,109	1.1%	1,115	944	18.1%
Operating expenses for processing outside Russia, RUB per tonne	2,608	2,932	(11.1)%	2,772	2,142	29.4%

\*Refer to "Capital expenditures".

\*\*Calculated from unrounded data.

## Downstream EBITDA

	For 3 months ended			For 6 months ended		
	June 30, 2016	March 31, 2016	% change	June 30, 2016	June 30, 2015	% change
	RUB billion			RUB billion		
<b>Revenues and equity share in profits/(losses) of associates and joint ventures</b>	<b>1,230</b>	<b>1,053</b>	<b>16.8%</b>	<b>2,283</b>	<b>2,645</b>	<b>(13.7)%</b>
<i>Including equity share in profits/(losses) of associates and joint ventures</i>	2	2	-	4	2	>100%
<b>Expenses net of depreciation</b>	<b>1,201</b>	<b>1,026</b>	<b>17.1%</b>	<b>2,227</b>	<b>2,520</b>	<b>(11.6)%</b>
<i>including</i>						
Operating expenses at refineries, cost of additives and materials procured for processing	39	41	(4.9)%	80	72	11.1%
Operating expenses of retail companies	11	10	3.9%	21	20	5.6%
Cost of purchased oil, gas, petroleum products and refining costs including intersegment turnover	822	641	28.2%	1,463	1,590	(8.0)%
Administrative expenses including doubtful debts reserves	8	8	-	16	18	(11.1)%
Pipeline tariffs and transportation costs and other costs	132	140	(5.7)%	272	265	2.6%
Taxes other than income tax	53	43	23.3%	96	62	54.8%
Export customs duty	142	132	7.6%	274	481	(43.0)%
Effect from intragroup balance change and others	(6)	11	-	5	12	(58.3)%
<b>EBITDA*</b>	<b>29</b>	<b>27</b>	<b>7.4%</b>	<b>56</b>	<b>125</b>	<b>(55.2)%</b>

\*Calculated from unrounded data.

## Operating indicators

### Petroleum Product Output

Rosneft processes produced and procured crude oil at its refineries: the Tuapse refinery on the Black Sea coast in the South of Russia, the Komsomolsk refinery in the Russian Far East, the Achinsk and Angarsk refineries in Eastern Siberia, the Kuibyshev, Novokuibyshevsk and Syzran refineries in the Samara region, the Saratov refinery and the Ryazan refinery (the European part of Russia) and others. Rosneft also owns production capacity at four Ruhr Oel GmbH (ROG) refineries in Germany and processes crude oil in Belarus. Starting from March 2015 the Novokuibyshevsk petrochemical refinery results include in petroleum product output volumes as well as acquired additional share in PCK Raffinerie GmbH starting from December 2015.

The following table sets forth Rosneft's crude oil processing and petroleum product output volumes:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
	<b>mln of tonnes</b>			<b>mln of tonnes</b>		
Crude oil processing at refineries in Russia*	19.39	19.48	(0.5)%	38.87	42.22	(7.9)%
Crude oil processing at refineries outside Russia <i>including crude oil processing at Ruhr Oel GmbH (ROG)**</i>	3.06	3.13	(2.2)%	6.19	5.87	5.5%
<i>including crude oil processing in Belarus</i>	3.06	3.13	(2.2)%	6.19	5.32	16.4%
	-	-	-	-	0.55	(100.0)%
<b>Total Group crude oil processing</b>	<b>22.45</b>	<b>22.61</b>	<b>(0.7)%</b>	<b>45.06</b>	<b>48.09</b>	<b>(6.3)%</b>
<b>Petroleum product output:</b>						
High octane gasoline	2.72	2.87	(5.2)%	5.59	5.51	1.5%
Low octane gasoline	0.03	0.03	-	0.06	0.06	-
Naphtha	1.45	1.25	16.0%	2.7	2.69	0.4%
Diesel	6.03	6.04	(0.2)%	12.07	13.13	(8.1)%
Fuel oil	5.18	5.59	(7.3)%	10.77	13.6	(20.8)%
Jet fuel	0.76	0.63	20.6%	1.39	1.46	(4.8)%
Petrochemicals	0.11	0.16	(31.3)%	0.27	0.49	(44.9)%
Other***	2.69	2.44	10.2%	5.13	4.45	15.3%
<b>Product output at Rosneft's own refineries in Russia</b>	<b>18.97</b>	<b>19.01</b>	<b>(0.2)%</b>	<b>37.98</b>	<b>41.39</b>	<b>(8.2)%</b>
Product output at refineries outside Russia <i>including crude oil output at Ruhr Oel GmbH (ROG)</i>	<b>3.26</b>	<b>3.33</b>	<b>(2.1)%</b>	<b>6.59</b>	<b>6.06</b>	<b>8.7%</b>
<i>including product output in Belarus</i>	3.26	3.33	(2.1)%	6.59	5.56	18.5%
	-	-	-	-	0.5	(100.0)%
<b>Total Group product output</b>	<b>22.23</b>	<b>22.34</b>	<b>(0.5)%</b>	<b>44.57</b>	<b>47.45</b>	<b>(6.1)%</b>

\*Including processing at YaNOS refinery

\*\*Excluding additives obtained for processing, including share in PCK Raffinerie GmbH.

\*\*\*Including production of petroleum products at gas refineries and 0.26 mln tonnes of liquefied gas produced at Novokuibyshevsk petrochemical refinery in the first half of 2016 and 0.15 mln tonnes in the first half of 2015.

In the first half of 2016 crude oil processing volume was lower by (6.3)% compared with the first half of 2015 due to negative macro environment resulted in the decrease in the Company's refinery throughput in Russia.

The processing volume at German refineries for the first half of 2016 increased by 16,4% compared with the same period of 2015 due to the acquisition of additional share in PCK Raffinerie GmbH in November 2015.

## Financial indicators

### Revenues and equity share in profits of associates and joint ventures\*

In the second quarter of 2016 revenues and equity share in profits of associates and joint ventures amounted to RUB 1,232 billion in comparison with RUB 1,048 billion in the first quarter of 2016. The revenue increase was mostly caused by growth of crude oil prices.

The table below presents revenues from sales of crude oil, gas, petroleum and petrochemical products and other revenues in billions of RUB\*\*:

	<i>For 3 months ended</i>					<i>For 6 months ended</i>				
	<b>June 30, 2016</b>		<b>March 31, 2016</b>		<b>% change</b>	<b>June 30, 2016</b>		<b>June 30, 2015</b>		<b>% change</b>
	<b>% of revenue</b>	<b>% of revenue</b>	<b>% of revenue</b>	<b>% of revenue</b>		<b>% of revenue</b>	<b>% of revenue</b>	<b>% of revenue</b>	<b>% of revenue</b>	
	<b>billion RUB except %</b>									
<b>Crude oil</b>										
International Sales to non-CIS	518	42.1%	401	38.2%	29.2%	919	40.3%	1,096	41.3%	(16.1)%
Europe and other directions	298	24.2%	215	20.5%	38.6%	513	22.5%	648	24.4%	(20.8)%
Asia	220	17.9%	186	17.7%	18.3%	406	17.8%	448	16.9%	(9.4)%
International sales to CIS	41	3.3%	32	3.1%	28.1%	73	3.2%	73	2.7%	0.0%
Domestic sales	22	1.8%	18	1.7%	22.2%	40	1.8%	48	1.8%	(16.7)%
<b>Total crude oil</b>	<b>581</b>	<b>47.2%</b>	<b>451</b>	<b>43.0%</b>	<b>28.8%</b>	<b>1,032</b>	<b>45.3%</b>	<b>1,217</b>	<b>45.8%</b>	<b>(15.2)%</b>
<b>Gas</b>	<b>47</b>	<b>3.8%</b>	<b>61</b>	<b>5.8%</b>	<b>(23.0)%</b>	<b>108</b>	<b>4.7%</b>	<b>91</b>	<b>3.4%</b>	<b>18.7%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	311	25.3%	276	26.3%	12.7%	587	25.7%	797	29.9%	(26.3)%
Europe and other directions	235	19.1%	206	19.6%	14.1%	441	19.3%	614	23.0%	(28.2)%
Asia	76	6.2%	70	6.7%	8.6%	146	6.4%	183	6.9%	(20.2)%
International Sales to CIS	11	0.9%	7	0.7%	57.1%	18	0.8%	27	1.0%	(33.3)%
Domestic sales	217	17.6%	198	18.9%	9.6%	415	18.2%	406	15.3%	2.2%
Wholesale	118	9.6%	108	10.3%	9.3%	226	9.9%	221	8.3%	2.3%
Retail	99	8.0%	90	8.6%	10.0%	189	8.3%	185	7.0%	2.2%
Sales of bunker fuel to end-users	8	0.6%	5	0.5%	60.0%	13	0.6%	20	0.8%	(35.0)%
<b>Total petroleum products</b>	<b>547</b>	<b>44.4%</b>	<b>486</b>	<b>46.4%</b>	<b>12.6%</b>	<b>1,033</b>	<b>45.3%</b>	<b>1,250</b>	<b>47.0%</b>	<b>(17.4)%</b>
<b>Sales of LNG</b>	<b>1</b>	<b>0.1%</b>	<b>–</b>	<b>0.0%</b>	<b>–</b>	<b>1</b>	<b>0.0%</b>	<b>–</b>	<b>0.0%</b>	<b>–</b>
<b>Petrochemical products</b>	<b>25</b>	<b>2.0%</b>	<b>28</b>	<b>2.7%</b>	<b>(10.7)%</b>	<b>53</b>	<b>2.3%</b>	<b>56</b>	<b>2.1%</b>	<b>(5.4)%</b>
International sales	23	1.8%	24	2.3%	(4.2)%	47	2.0%	46	1.7%	2.2%
Domestic sales	2	0.2%	4	0.4%	(50.0)%	6	0.3%	10	0.4%	(40.0)%
<b>Sales of petroleum products, petrochemicals and LNG</b>	<b>573</b>	<b>46.5%</b>	<b>514</b>	<b>49.1%</b>	<b>11.5%</b>	<b>1,087</b>	<b>47.6%</b>	<b>1,306</b>	<b>49.1%</b>	<b>(16.8)%</b>
<b>Support services and other revenues</b>	<b>19</b>	<b>1.5%</b>	<b>19</b>	<b>1.8%</b>	<b>0.0%</b>	<b>38</b>	<b>1.7%</b>	<b>37</b>	<b>1.4%</b>	<b>2.7%</b>
<b>Equity share in profits of associates and joint ventures</b>	<b>12</b>	<b>1.0%</b>	<b>3</b>	<b>0.3%</b>	<b>&gt;100%</b>	<b>15</b>	<b>0.7%</b>	<b>7</b>	<b>0.3%</b>	<b>&gt;100%</b>
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>1,232</b>	<b>100.0%</b>	<b>1,048</b>	<b>100.0%</b>	<b>17.6%</b>	<b>2,280</b>	<b>100.0%</b>	<b>2,658</b>	<b>100.0%</b>	<b>(14.2)%</b>

\* Under IFRS consolidated financial statements.

\*\*The difference between percentages presented in the above table and other section is a result of rounding.

## Sales Volumes

The table below analyses crude oil, gas, petroleum and petrochemical product sales volumes:

	<i>For 3 months ended</i>					<i>For 6 months ended</i>				
	<b>June 30, 2016</b>		<b>March 31, 2016</b>		<b>% change</b>	<b>June 30, 2016</b>		<b>June 30, 2015</b>		<b>% change</b>
	<b>% of total volume</b>	<b>% of total volume</b>	<b>% of total volume</b>	<b>% of total volume</b>		<b>% of total volume</b>	<b>% of total volume</b>			
<b>Crude oil</b>	<b>mln bbl</b>		<b>mln bbl</b>			<b>mln bbl</b>		<b>mln bbl</b>		
International Sales to non-CIS	202.1	50.0%	193.2	48.6%	4.6%	395.3	49.4%	363.5	46.3%	8.7%
Europe and other directions	122.9	30.4%	112.5	28.3%	9.2%	235.4	29.4%	222.1	28.3%	6.0%
Asia	79.2	19.6%	80.7	20.3%	(1.9)%	159.9	20.0%	141.4	18.0%	13.1%
International Sales to CIS	18.5	4.6%	18.5	4.7%	0.0%	37.0	4.6%	34.1	4.3%	8.5%
Domestic	9.6	2.4%	11.1	2.8%	(13.5)%	20.7	2.6%	23.0	2.9%	(10.0)%
<b>Total crude oil</b>	<b>230.2</b>	<b>57.0%</b>	<b>222.8</b>	<b>56.1%</b>	<b>3.3%</b>	<b>453.0</b>	<b>56.6%</b>	<b>420.6</b>	<b>53.5%</b>	<b>7.7%</b>
<b>Crude oil</b>	<b>mln tonnes</b>		<b>mln tonnes</b>			<b>mln tonnes</b>		<b>mln tonnes</b>		
International Sales to non-CIS	27.3	50.0%	26.1	48.6%	4.6%	53.4	49.4%	49.1	46.3%	8.7%
Europe and other directions	16.6	30.4%	15.2	28.3%	9.2%	31.8	29.4%	30.0	28.3%	6.0%
Asia	10.7	19.6%	10.9	20.3%	(1.9)%	21.6	20.0%	19.1	18.0%	13.1%
International Sales to CIS	2.5	4.6%	2.5	4.7%	0.0%	5.0	4.6%	4.6	4.3%	8.5%
Domestic sales	1.3	2.4%	1.5	2.8%	(13.5)%	2.8	2.6%	3.1	2.9%	(10.0)%
<b>Total crude oil</b>	<b>31.1</b>	<b>57.0%</b>	<b>30.1</b>	<b>56.1%</b>	<b>3.3%</b>	<b>61.2</b>	<b>56.6%</b>	<b>56.8</b>	<b>53.5%</b>	<b>7.7%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	14.4	26.5%	14.9	27.8%	(3.4)%	29.3	27.2%	31.5	29.6%	(7.0)%
Europe and other directions	11.0	20.3%	11.4	21.3%	(3.5)%	22.4	20.8%	24.5	23.0%	(8.6)%
Asia	3.4	6.2%	3.5	6.5%	(2.9)%	6.9	6.4%	7.0	6.6%	(1.4)%
International Sales to CIS	0.4	0.7%	0.3	0.6%	33.3%	0.7	0.6%	0.8	0.8%	(12.5)%
Domestic sales	7.3	13.4%	7.2	13.4%	1.4%	14.5	13.4%	14.3	13.5%	1.4%
Wholesale	4.7	8.6%	4.8	8.9%	(2.1)%	9.5	8.8%	9.1	8.6%	4.4%
Retail	2.6	4.8%	2.4	4.5%	8.3%	5.0	4.6%	5.2	4.9%	(3.8)%
Sales of bunker fuel to end-users	0.4	0.7%	0.3	0.6%	33.3%	0.7	0.6%	1.1	1.0%	(36.4)%
<b>Total petroleum products</b>	<b>22.5</b>	<b>41.3%</b>	<b>22.7</b>	<b>42.4%</b>	<b>(0.9)%</b>	<b>45.2</b>	<b>41.8%</b>	<b>47.7</b>	<b>44.9%</b>	<b>(5.2)%</b>
<b>Sales of LNG</b>	<b>0.1</b>	<b>0.2%</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>0.1</b>	<b>0.1%</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Petrochemical products</b>	<b>0.8</b>	<b>1.5%</b>	<b>0.8</b>	<b>1.5%</b>	<b>0.0%</b>	<b>1.6</b>	<b>1.5%</b>	<b>1.7</b>	<b>1.6%</b>	<b>(5.9)%</b>
International sales	0.6	1.1%	0.6	1.1%	0.0%	1.2	1.1%	1.1	1.0%	9.1%
Domestic sales	0.2	0.4%	0.2	0.4%	0.0%	0.4	0.4%	0.6	0.6%	(33.3)%
<b>Total crude oil and products, LNG</b>	<b>54.5</b>	<b>100.0%</b>	<b>53.6</b>	<b>100.0%</b>	<b>1.7%</b>	<b>108.1</b>	<b>100.0%</b>	<b>106.2</b>	<b>100.0%</b>	<b>1.8%</b>
<b>Gas</b>	<b>bcm</b>		<b>bcm</b>			<b>bcm</b>		<b>bcm</b>		
<b>Sales Volumes</b>	<b>14.60</b>		<b>17.80</b>		<b>(18.0)%</b>	<b>32.40</b>		<b>29.20</b>		<b>11.0%</b>

## Average Sales Prices

The following table sets forth Rosneft's average export and domestic prices of crude oil, gas, petroleum products and petrochemical products (the average sales prices may differ from official market prices provided by specialized agencies due to different quality of products and sales terms)\*:

	<i>For 3 months ended</i>				<i>% change</i>	<i>For 6 months ended</i>				<i>% change</i>
	<i>June 30, 2016</i>		<i>March 31, 2016</i>			<i>June 30, 2016</i>		<i>June 30, 2015</i>		
	<i>(th.RUB/ barrel)</i>	<i>(th.RUB/ tonne)</i>	<i>(th.RUB/ barrel)</i>	<i>(th.RUB/ tonne)</i>		<i>(th.RUB/ barrel)</i>	<i>(th.RUB/ tonne)</i>	<i>(th.RUB/ barrel)</i>	<i>(th.RUB/ tonne)</i>	
<b>Average prices on foreign markets</b>										
Crude oil, non-CIS	2.74	20.3	2.28	16.9	20.1%	2.52	18.6	3.17	23.4	(20.5)%
Europe and other directions**	2.66	19.7	2.20	16.3	20.9%	2.44	18.0	3.09	22.7	(20.7)%
Asia**	2.88	21.3	2.42	17.9	19.0%	2.65	19.6	3.31	24.5	(20.0)%
Crude oil, CIS	2.17	16.1	1.72	12.7	26.8%	1.94	14.4	2.14	15.9	(9.4)%
Petroleum products, non- CIS		21.7		18.4	17.9%		20.0		25.2	(20.6)%
Europe and other directions		21.5		18.0	19.4%		19.7		25.0	(21.2)%
Asia		22.2		20.0	11.0%		21.1		26.0	(18.8)%
Petroleum products, CIS		23.8		25.0	(4.8)%		24.3		34.6	(29.8)%
<b>Average domestic prices</b>										
Crude oil	2.13	15.7	1.67	12.3	27.6%	1.89	14.0	2.09	15.5	(9.7)%
Petroleum products		29.6		27.7	6.9%		28.7		28.4	1.1%
Wholesale		25.0		22.6	10.6%		23.8		24.3	(2.1)%
Retail		37.9		37.9	0.0%		37.9		35.8	5.9%
Gas (th.RUB./th. cubic meter)***		3.15		3.34	(5.7)%		3.25		3.09	5.2%
Sales of LNG		18.2		–	–		18.2		–	–
Sales of bunker fuel to end-users		18.2		16.2	12.3%		17.4		18.6	(6.5)%
Petrochemical products		34.0		33.8	0.6%		33.9		33.4	1.5%
International sales		39.4		40.3	(2.2)%		39.9		41.1	(2.9)%
Domestic sales		14.3		17.0	(15.9)%		15.9		18.2	(12.6)%

\*Average price is calculated from unrounded figures.

\*\*Price excludes revenues under prepaid long-term crude oil supply contracts and revenues from crude oil sales to Transneft (RUB 27 billion and RUB 22 billion and RUB 51 billion in the second, in the first quarters of 2016 and in the first half of 2015 respectively).

\*\*\*Including gas sales outside Russian Federation average gas prices were 3.22 th.RUB./th. cubic meter in the second quarter of 2016 and 3.40 th.RUB./th. cubic meter in the first quarter of 2016 and 3.32 th.RUB./th. cubic meter for the first half of 2016 and 3.12 th.RUB./th. cubic meter for the first half of 2015.

## International Crude Oil Sales to non-CIS

Revenues from international crude oil sales to non-CIS countries in the second quarter of 2016 amounted to RUB 518 billion compared to RUB 401 billion in the first quarter of 2016. Revenue increase by RUB 98 billion was due to growth of average sales price by 20.1% in rouble terms and was accompanied by increase in sales volumes by 4.6% (positive impact on revenue of RUB 12 billion).

For the first half of 2016 revenues from international crude oil sales to non-CIS countries decreased by 16.1% or RUB 177 billion compared with the same period of 2015. Sales volume increase by 8.7% (favourable impact on revenue of RUB 88 billion) was offset by average sales price downturn by 20.5% (negative impact on revenue of RUB 238 billion).

## International Crude Oil Sales to CIS

Revenue from sales of crude oil to CIS in the second quarter of 2016 increased by 28.1% compared with the first quarter of 2016 and amounted to RUB 41 billion. The increase was mainly caused by growth of average sales price of 26.8% (favourable impact on revenues of RUB 9 billion).

For the first half of 2016 revenues from international crude oil sales to CIS countries amounted to RUB 73 billion.

## Domestic Sales of Crude Oil

Revenues from domestic sales of crude oil in the second quarter of 2016 amounted RUB 22 billion, which is 22.2% higher than in the first quarter of 2016, mainly due to average sales price upturn of 27.6% (favorable impact on revenue of RUB 6 billion) that was partially compensated by sales volumes decrease by 13.5% (unfavourable impact on revenues of RUB 2 billion).



For the first half of 2016 revenues from domestic crude oil sales dropped by RUB 8 billion or by 16.7% in comparison with the same period of 2015, which was mainly attributable to downturn of crude oil sales volumes due to reallocation of resources to more efficient distribution channels (unfavorable effect on revenues RUB 5 billion) and was accompanied by average sales price downturn by 9.7% (negative impact on revenue RUB 3 billion).

### **International Petroleum Product Sales to Non-CIS**

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold to non-CIS countries in the second and in the first quarters of 2016\*:

	<i>For 3 months ended</i>						<i>% change</i>		
	June 30, 2016			March 31, 2016			RUB billion	mln of tonnes	Average price th. RUB/tonne
	RUB billion	mln of tonnes	Average price th. RUB/tonne	RUB billion	mln of tonnes	Average price th. RUB/tonne			
High octane gasoline	3	0.1	33.6	3	0.1	32.2	0.0%	0.0%	4.3%
Naphtha	35	1.3	26.3	33	1.4	23.6	6.1%	(7.1)%	11.4%
Diesel (Gasoil)	82	3.2	25.0	71	3.3	21.6	15.5%	(3.0)%	15.7%
Fuel oil	83	5.5	15.1	79	6.7	11.8	5.1%	(17.9)%	28.0%
Other	4	0.3	19.2	6	0.2	22.3	(33.3)%	50.0%	(13.9)%
<b>Petroleum products exported to non-CIS</b>	<b>207</b>	<b>10.4</b>	<b>19.9</b>	<b>192</b>	<b>11.7</b>	<b>16.4</b>	<b>7.8%</b>	<b>(11.1)%</b>	<b>21.3%</b>
Petroleum products sold from ROG refineries	79	2.6	30.4	72	2.7	26.6	9.7%	(3.7)%	14.3%
Petroleum products bought and sold outside Russia	25	1.4	18.9	12	0.5	21.7	>100%	>100%	(12.9)%
<b>Trading of petroleum products outside Russia</b>	<b>104</b>	<b>4.0</b>	<b>26.5</b>	<b>84</b>	<b>3.2</b>	<b>25.8</b>	<b>23.8%</b>	<b>25.0%</b>	<b>2.7%</b>
<b>Total</b>	<b>311</b>	<b>14.4</b>	<b>21.7</b>	<b>276</b>	<b>14.9</b>	<b>18.4</b>	<b>12.7%</b>	<b>(3.4)%</b>	<b>17.9%</b>

\*Average price is calculated from unrounded figures.

Revenues from the international sales of petroleum products to non-CIS countries were RUB 311 billion in the second quarter of 2016, which is 12.7% higher in comparison with the first quarter of 2016. Upturn of average price by 17.9% (positive impact on revenues of RUB 44 billion) was partially offset by decrease in sales volumes by 3.4% (unfavourable impact on revenues of RUB 9 billion).

The table below sets forth Rosneft's revenues, volume and average price per tonne of petroleum products sold to non-CIS countries for the first half of 2016 and 2015\*:

	<i>For 6 months ended</i>						<i>% change</i>		
	June 30, 2016			June 30, 2015			RUB billion	mln of tonnes	Average price th. RUB/tonne
	RUB billion	mln of tonnes	Average price th. RUB/tonne	RUB billion	mln of tonnes	Average price th. RUB/tonne			
High octane gasoline	6	0.2	32.8	9	0.3	35.4	(33.3)%	(33.3)%	(7.3)%
Naphtha	68	2.7	24.9	75	2.7	28.1	(9.3)%	0.0%	(11.4)%
Diesel (Gasoil)	153	6.5	23.3	259	8.4	30.6	(40.9)%	(22.6)%	(23.9)%
Fuel oil	162	12.2	13.3	270	14.1	19.1	(40.0)%	(13.5)%	(30.4)%
Other	10	0.5	20.9	12	0.5	23.3	(16.7)%	0.0%	(10.3)%
<b>Petroleum products exported to non-CIS</b>	<b>399</b>	<b>22.1</b>	<b>18.0</b>	<b>625</b>	<b>26.0</b>	<b>24.0</b>	<b>(36.2)%</b>	<b>(15.0)%</b>	<b>(25.0)%</b>
Petroleum products sold from ROG refineries	151	5.3	28.5	144	4.5	32.0	4.9%	17.8%	(10.9)%
Petroleum products bought and sold outside Russia	37	1.9	19.7	28	1.0	27.9	32.1%	90.0%	(29.4)%
<b>Trading of petroleum products outside Russia</b>	<b>188</b>	<b>7.2</b>	<b>26.2</b>	<b>172</b>	<b>5.5</b>	<b>31.2</b>	<b>9.3%</b>	<b>30.9%</b>	<b>(16.0)%</b>
<b>Total</b>	<b>587</b>	<b>29.3</b>	<b>20.0</b>	<b>797</b>	<b>31.5</b>	<b>25.2</b>	<b>(26.3)%</b>	<b>(7.0)%</b>	<b>(20.6)%</b>

\*Average price is calculated from unrounded figures.

For the first half of 2016 revenues from sales of petroleum products to non-CIS countries were 26.3% lower compared with the same period of 2015. Decrease in average price by 20.6% (negative impact on revenues of RUB 154 billion) was accompanied by decrease in sales volumes by 7.0% (unfavourable impact on revenues of RUB 56 billion).

### **International Petroleum Product Sales to CIS**

Revenues from sales of petroleum products to CIS countries were RUB 11 billion in the second quarter of 2016, which is 57.1% higher compared with the first quarter of 2016. Sales volumes increased by 33.3% (favourable impact on revenues of RUB 4 billion) in the second quarter of 2016.

Revenues from sales of petroleum products to CIS countries in the first half of 2016 were 33.3% or RUB 9 billion lower than in the same period of 2015 due to average price downturn by 29.8% (negative impact on revenues of RUB 6 billion) that was accompanied by decrease in petroleum products sales volumes by 12.5% (unfavourable impact on revenues of RUB 3 billion).

### **Domestic Sales of Petroleum Products**

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold in Russia in the second and in the first quarters of 2016\*:

	<i>For 3 months ended</i>						<i>% change</i>		
	June 30, 2016			March 31, 2016					
	RUB billion	mln of tonnes	Average price th. RUB/tonne	RUB billion	mln of tonnes	Average price th. RUB/tonne	RUB billion	mln of tonnes	Average price th. RUB/tonne
High octane gasoline	113	2.8	38.0	99	2.9	35.9	14.1%	(3.4)%	5.8%
Diesel (Gasoil)	72	2.4	30.1	70	2.4	29.2	2.9%	0.0%	3.1%
Fuel oil	1	0.3	6.3	3	0.6	4.5	(66.7)%	(50.0)%	40.0%
Jet fuel	20	0.8	26.9	18	0.6	27.2	11.1%	33.3%	(1.1)%
Other	11	1.0	11.1	8	0.7	11.8	37.5%	42.9%	(5.9)%
<b>Total</b>	<b>217</b>	<b>7.3</b>	<b>29.6</b>	<b>198</b>	<b>7.2</b>	<b>27.7</b>	<b>9.6%</b>	<b>1.4%</b>	<b>6.9%</b>

\*Average price is calculated from unrounded figures.

Revenues from sales of petroleum products on the domestic market were RUB 217 billion in the second quarter of 2016, which is 9.6% higher compared with the first quarter of 2016.

In the second quarter of 2016 increase in petroleum products sales volume on the domestic market was 1.4% (favourable effect on revenue of RUB 3 billion) and was accompanied by 6.9% upturn of average sales price (positive effect on revenue of RUB 16 billion).

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold in Russia in the first half of 2016 and 2015\*:

	<i>For 6 months ended</i>						<i>% change</i>		
	June 30, 2016			June 30, 2015					
	RUB billion	mln of tonnes	Average price th. RUB/tonne	RUB billion	mln of tonnes	Average price th. RUB/tonne	RUB billion	mln of tonnes	Average price th. RUB/tonne
High octane gasoline	212	5.7	37.0	195	5.6	34.6	8.7%	1.8%	6.9%
Diesel (Gasoil)	142	4.8	29.7	140	4.6	30.3	1.4%	4.3%	(2.0)%
Fuel oil	4	0.9	5.0	7	0.8	8.4	(42.9)%	12.5%	(40.5)%
Jet fuel	38	1.4	27.0	41	1.5	28.3	(7.3)%	(6.7)%	(4.6)%
Other	19	1.7	11.4	23	1.8	13.0	(17.4)%	(5.6)%	(12.3)%
<b>Total</b>	<b>415</b>	<b>14.5</b>	<b>28.7</b>	<b>406</b>	<b>14.3</b>	<b>28.4</b>	<b>2.2%</b>	<b>1.4%</b>	<b>1.1%</b>

\*Average price is calculated from unrounded figures.

Revenues from sales of petroleum products on the domestic market for the first half of 2016 were RUB 415 billion, which is 2.2% higher compared to the same period of 2015. The increase was due to sales volume growth by 1.4% (favourable effect on revenue of RUB 6 billion) and average sales price growth by 1.1% (favourable effect on revenue of RUB 3 billion).

### **Sales of LNG**

In May 2016, the Company delivered the first shipment of LNG under a contract with the Egyptian Natural Gas Holding Company, concluded in August of 2015. Sales volumes amounted to 0.06 mln of tonnes (USD 1 billion).

## Sales of bunker fuel

The Company sells bunker fuel (fuel oil, low-viscosity marine fuel and diesel fuel) in the seaports (the Far East, the North, the North West and South of the European part of Russia) and river ports (the Volga-Don basin and in the rivers of Western Siberia) of the Russian Federation and in the ports outside the Russian Federation.

Revenues from sales of bunker fuel in the second quarter of 2016 were RUB 8 billion, and increase by 60.0% in comparison with the first quarter of 2016, which is mainly attributable to growth of sales volumes by 33.3% (positive impact on revenue of RUB 2) which was caused by opening of the navigating period and was accompanied by 12.3% upturn of average sales price (positive effect on revenue of RUB 1 billion).

Revenues from sales of bunker fuel for the first half of 2016 decreased by 35.0% or RUB 7 billion in comparison with the same period of 2015 due to decrease of sales volumes by 36.4%.

## Petrochemical Product Sales

Revenues from sales of petrochemical products in the second quarter of 2016 amounted to RUB 25 billion (0.8 mln tonnes). Petrochemical product sales volumes from Ruhr Oel GmbH (ROG) amounted to 0.5 mln tonnes in the second quarter of 2016 that is lower by 7.0%<sup>1</sup> in comparison with the first quarter of 2016.

Petrochemical product sales volumes for the first half of 2016 from Ruhr Oel GmbH (ROG) slightly increased by 0.6% (calculated from unrounded figures) and amounted to 1.0 mln tonnes compared with the same period of 2015 which was caused by acquisition of additional share in the PCK Raffinerie GmbH.

## Gas Sales

The Company strategy envisages gas business expansion on the Russian gas domestic market. In order to increase its share on the gas domestic market Rosneft implements gas program aimed at diversification of trading channels and building of long-term contracts portfolio.

The table below sets forth revenues, volumes and average price of gas sales by Rosneft\*:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
	<i>(RUB billion)</i>			<i>(RUB billion)</i>		
<b>Revenue</b>						
In the Russian Federation	45.2	58.7	(23.0)%	103.9	89.1	16.6%
Outside the Russian Federation	1.8	1.9	(5.3)%	3.7	2.1	76.2%
<b>Total</b>	<b>47.0</b>	<b>60.6</b>	<b>(22.4)%</b>	<b>107.6</b>	<b>91.2</b>	<b>18.0%</b>
<b>Sales volumes</b>	<i>(bcm)</i>			<i>(bcm)</i>		
In the Russian Federation	14.36	17.57	(18.3)%	31.93	28.82	10.8%
Outside the Russian Federation	0.24	0.23	4.3%	0.47	0.38	23.7%
<b>Total</b>	<b>14.60</b>	<b>17.80</b>	<b>(18.0)%</b>	<b>32.40</b>	<b>29.20</b>	<b>11.0%</b>
<b>Average price</b>	<i>(th. RUB/th. of cubic metres)</i>			<i>(th. RUB/th. of cubic metres)</i>		
In the Russian Federation	3.15	3.34	(5.7)%	3.25	3.09	5.2%
Outside the Russian Federation	7.39	8.44	(12.4)%	7.90	5.57	41.8%
<b>Total</b>	<b>3.22</b>	<b>3.40</b>	<b>(5.3)%</b>	<b>3.32</b>	<b>3.12</b>	<b>6.4%</b>

\*Average price is calculated from unrounded figures.

In the second quarter of 2016 revenues from gas sales decreased in comparison with the first quarter of 2016 and amounted to RUB 47 billion due to seasonal reduction in demand.

Volumes of gas sales outside the Russian Federation increased by 23.7 % in the first half of 2016 compared with the same period of 2015 which is caused by the expansion of contract portfolio of trading division of company's subsidiary (RTSA).

Gas volumes growth by 11.0% (positive effect on revenue of RUB 9,9 billion) in the first half of 2016 compared with the same period 2015 and average price upturn by 6.4% (positive impact on revenues of RUB 6.5 billion) followed by gas price indexation by 7.5% from July 1, 2015 and contributed to gas sales growth by 18.0% compared with the same period of 2015.

Starting from January 1, 2016 the major part of gas consumption of the Company is attributed to electricity generating plants of Inter RAO Group which is fulfilled by the Company under long-term supply contract.

In the first half of 2016 the volume of gas sales on the gas exchange amounted to 1.541 bcm or 24% share in the total volume of gas sales on the gas exchange for this period.

<sup>1</sup> Calculated based on unrounded data.

## **Support Services and Other Revenues**

Rosneft owns service companies which render drilling, construction, repairs and other services mainly to the companies within the Group. Revenues from services rendered to third parties are reported in the consolidated statements of profit or loss.

The following table sets forth Rosneft's other revenues for the periods analysed:

	<i>For 3 months ended</i>					<i>For 6 months ended</i>				
	<b>June 30, 2016</b>		<b>March 31, 2016</b>		<b>% change</b>	<b>June 30, 2016</b>		<b>June 30, 2015</b>		<b>% change</b>
	<b>1.1</b>	<b>5.6%</b>	<b>0.6</b>	<b>3.2%</b>		<b>1.7</b>	<b>4.5%</b>	<b>3.3</b>	<b>9.0%</b>	
	<b>% of total revenue</b>	<b>% of total revenue</b>	<b>billions RUB, except %</b>	<b>% of total revenue</b>	<b>% of total revenue</b>	<b>% of total revenue</b>	<b>% of total revenue</b>	<b>% of total revenue</b>		
Drilling services	1.1	5.6%	0.6	3.2%	83.3%	1.7	4.5%	3.3	9.0%	(48.5)%
Sales of materials	6.2	31.8%	5.5	29.6%	12.7%	11.7	30.7%	11.4	31.1%	2.6%
Repairs and maintenance services	1.0	5.1%	0.7	3.8%	42.9%	1.7	4.5%	1.5	4.1%	13.3%
Rent services	1.5	7.7%	0.9	4.8%	66.7%	2.4	6.3%	1.9	5.2%	26.3%
Construction services	0.1	0.5%	0.0	0.0%	–	0.1	0.3%	0.1	0.3%	0.0%
Transport services	4.0	20.5%	4.5	24.2%	(11.1)%	8.5	22.3%	7.4	20.2%	14.9%
Electric power sales and transmission	1.5	7.7%	2.3	12.4%	(34.8)%	3.8	10.0%	4.2	11.5%	(9.5)%
Other revenues	4.1	21.1%	4.1	22.0%	0.0%	8.2	21.4%	6.8	18.6%	20.6%
<b>Total</b>	<b>19.5</b>	<b>100.0%</b>	<b>18.6</b>	<b>100.0%</b>	<b>4.8%</b>	<b>38.1</b>	<b>100.0%</b>	<b>36.6</b>	<b>100.0%</b>	<b>4.1%</b>

Support services and other revenues were 4.8% higher in the second quarter of 2016 compared with the first quarter of 2016.

Support services and other revenues for the first half of 2016 increased by 4.1% compared with the same period of 2015.

## **Equity share in profits/(losses) of downstream associates and joint ventures**

The equity share in net financial results (profits) of downstream associates and joint ventures did not change and amounted to RUB 2 billion in the second quarter and in the first quarters of 2016<sup>1</sup>. The equity share in net financial results of downstream associates and joint ventures was RUB 4 billion and RUB 2 billion of profit in the first half of 2016 and 2015 respectively.

<sup>1</sup> See the equity share in net financial results of upstream associates and joint ventures in the section "Upstream operating results".

## Downstream production and operating cost

Downstream operating expenses include\*:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
	<b>billion RUB, except %</b>					
Operating expenses at refineries in Russia	19.9	19.5	2.1%	39.4	36.4	8.2%
Operating expenses at refineries and cost of additives and materials procured for processing outside Russia	19.5	21.2	(8.0)%	40.7	35.4	15.0%
Operating expenses of retail companies	10.6	10.2	3.9%	20.8	19.7	5.6%
<b>Downstream operating expenses</b>	<b>50.0</b>	<b>50.9</b>	<b>(1.8)%</b>	<b>100.9</b>	<b>91.5</b>	<b>10.3%</b>
<i>Intragroup inventory effect and others</i>	<i>(6.0)</i>	<i>11.1</i>	–	<i>5.1</i>	<i>12.5</i>	<i>(59.2)%</i>
<b>Total Downstream Operating expenses**</b>	<b>44</b>	<b>62</b>	<b>(29.0)%</b>	<b>106</b>	<b>104</b>	<b>(1.9)%</b>

\* The difference between percentages presented in the above table and other sections is a result of rounding.

\*\* Cost of materials for blending at the retail companies was presented in the “Cost of Purchased Oil, Gas and Petroleum Products and Refining Costs”. The comparative periods were adjusted respectively.

Downstream operating expenses decreased by 29.0% in the second quarter of 2016 compared with the first quarter of 2016 and amounted to RUB 44 billion due to effect of intragroup balance change. Operating expenses of refineries and retail companies decreased slightly by 1.8% compared with the first quarter of 2016 and amounted to RUB 50.0 billion.

For the first half of 2016 Operating expenses of refineries and retail companies were RUB 100.9 billion and increase by 10.3% compared with the first half of 2015.

### Operating expenses at Company’s refineries

The table below shows operating expenses at Rosneft’s refineries:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
<b>Operating expenses at refineries in Russia (RUB billion)</b>	<b>19.90</b>	<b>19.49</b>	<b>2.1%</b>	<b>39.39</b>	<b>36.40</b>	<b>8.2%</b>
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,141	1,132	0.8%	1,137	959	18.6%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,121	1,109	1.1%	1,115	944	18.1%
<b>Operating expenses at refineries outside Russia (RUB billion)*</b>	<b>7.97</b>	<b>9.19</b>	<b>(13.3)%</b>	<b>17.16</b>	<b>11.41</b>	<b>50.4%</b>
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	2,449	2,809	(12.8)%	2,603	2,050	27.0%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	2,608	2,932	(11.1)%	2,772	2,142	29.4%
<b>Total operating expenses at Rosneft’s refineries (RUB billion)</b>	<b>27.87</b>	<b>28.68</b>	<b>(2.8)%</b>	<b>56.55</b>	<b>47.81</b>	<b>18.3%</b>

\*Refineries outside Russia also procured the additives and materials for processing: in the second quarter of 2016 – RUB 11.5 billion, in the first quarter of 2016 – RUB 12.0 billion, in the first half of 2016 and 2015 – RUB 23.5 billion and RUB 24.0 billion, respectively.

Operating expenses of Rosneft’s refineries in Russia were RUB 19.9 billion in the second quarter of 2016, and increased by 2.1% compared with the first quarter of 2016. The increase resulted from seasonal growth in material costs and turnaround expenses. In the first half of 2016 operating expenses of Rosneft’s refineries in Russia increased by 8.2% compared with the same period of 2015 mainly due to increased volumes of turnarounds, increased electricity tariffs and indexation of wages.

Operating expenses of Rosneft’s refineries outside of Russia decreased in the second quarter of 2016 by 13.3% in comparison with the first quarter of 2016 due to RUB/EUR appreciation in the current period by 11%. In the first half of 2016 operating expenses of Rosneft’s refineries outside of Russia increased by 50.4% compared with the same period of 2015 mainly due to RUB depreciation and due to expenses growth caused by acquisition of additional share in refineries in Germany.

In the second quarter of 2016 operating costs per tonne of crude oil throughput of Rosneft’s refineries in Russia increased insignificantly by 1.1% compared with the first quarter of 2016 and amounted to RUB 1,121 per tonne. The increase was mostly due to seasonal growth in turnaround expenses. The increase of 18.1% in operating costs per tonne for the first half of 2016 compared with the same period of 2015 was due decrease in throughput volumes accompanied by increased turnarounds volumes, indexation of wages and increased electricity tariffs.

Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia were RUB 2,608 per tonne in the second quarter of 2016 which is a decrease of 11.1% compared with the first quarter of 2016. The decrease in operating expenses per tonne of crude oil throughput was mainly due to RUB appreciation.

Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia increased by 29.4% up to RUB 2,772 per tonne in the first half of 2016 compared with the same period of 2015.

## Cost of Purchased Oil, Gas and Petroleum Products and Refining Costs and others

The following table shows Rosneft's crude oil, gas and petroleum products procurement costs and volumes and third-party refining costs\*:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
<b>Crude oil and gas procurement</b>						
Cost of crude oil and gas procured (RUB billion)**	107	103	3.9%	210	208	1.0%
<i>including Domestic market</i>	47	49	(4.1)%	96	99	(3.0)%
<i>International market</i>	60	54	11.1%	114	109	4.6%
Volume of crude oil procured (millions of barrels)	44.7	48.0	(6.9)%	92.7	83.5	11.0%
<i>including Domestic market</i>	22.4	25.7	(12.8)%	48.1	49.0	(1.8)%
<i>International market</i>	22.3	22.3	–	44.6	34.5	29.3%
Volume of gas procured (bcm)	2.79	5.53	(49.5)%	8.32	5.96	39.6%
<b>LNG procurement</b>						
Cost of LNG (RUB billion)	1	–	–	1	–	–
Volume of LNG procured (millions of tonnes)	0.06	–	–	0.06	–	–
<b>Petroleum products procurement</b>						
Cost of petroleum products procured (RUB billion)***	34	20	70.0%	54	37	45.9%
Volume of petroleum products procured (millions of tonnes)	1.60	0.83	92.8%	2.43	1.29	88.4%
<b>Crude oil, gas and petroleum products refining services</b>						
Cost of refining of crude oil under processing agreements (RUB billion)	6.8	6.9	(1.4)%	13.7	15.4	(11.0)%
Volumes of crude oil and petroleum products, refined under processing agreements (millions of tonnes)	2.1	2.3	(11.2)%	4.4	4.6	(4.3)%
Volumes of refining of gas under processing agreements (bcm)	2.4	2.6	(7.7)%	5.0	5.4	(7.4)%
<b>Petroleum products for blending procurement****</b>						
Cost of petroleum products procured for blending (RUB billion)	6.4	6.1	4.9%	12.5	13.0	(3.8)%
<i>Including intercompany purchases</i>	6.2	6.0	3.3%	12.2	12.9	(5.4)%
<b>Total cost of procured oil, gas and petroleum products and refining costs (RUB billion)</b>	<b>149</b>	<b>130</b>	<b>14,6%</b>	<b>279</b>	<b>261</b>	<b>6,9%</b>

\*Cost of purchases under IFRS consolidated financial statements (net of intercompany turnover).

\*\*Including cost of Upstream segment in the amount of RUB 5 billion, RUB 12 billion in the second and in the first quarters of 2016, also RUB 17 billion and RUB 9 billion in the first half of 2016 and 2015 respectively.

\*\*\*Average procurement price of petroleum products from third parties may be higher than the average selling price of petroleum products due to differences in the mix of procured and sold petroleum products.

\*\*\*\*Cost of materials for blending at the retail companies was reclassified from "Operating expenses of retail companies". The comparative periods were adjusted respectively.

### Crude oil and Gas procurement

Rosneft purchases crude oil primarily from its associates to process it at own refineries or export. Rosneft procures crude oil on the international market to supply it to Ruhr Oel GmbH refineries.

The structure of crude oil purchases is provided in the table below:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
	<i>mln barrels</i>			<i>mln barrels</i>		
International market	22.3	22.3	–	44.6	34.5	29.3%
Udmurtneft	5.9	6.2	(4.8)%	12.1	13.4	(9.7)%
Slavneft	11.9	13.3	(10.5)%	25.2	28.4	(11.3)%
Others	4.6	6.2	(25.8)%	10.8	7.2	50.0%
<b>Total</b>	<b>44.7</b>	<b>48.0</b>	<b>(6.9)%</b>	<b>92.7</b>	<b>83.5</b>	<b>11.0%</b>

Rosneft performs oil swap operations in order to optimize transportation costs of deliveries to refineries. Revenues and costs related to these operations are shown on a net basis in the “Pipeline tariffs and Transportation costs” line of the consolidated statement of profit and loss.

The volume of swap was 6.4 mln barrels, 9.1 mln barrels and 16.5 mln barrels, 3.7 mln barrels in the second and in the first quarters of 2016 and in the first half of 2016 and 2015, respectively.

Gas procurement decreased to 2.79 bcm (by 2.74 bcm compared with the first quarter of 2016). Decrease in gas procurement is mainly due to seasonal factor and satisfaction of market demand by the Company’s own resources.

### ***Petroleum products procurement***

Petroleum products from third parties are procured primarily to cover current needs of Rosneft’s retail subsidiaries. Procurement of petroleum products is exposed to seasonal fluctuations of volumes and mix. Procurement prices may significantly vary depending on regional markets.

Petroleum products outside Russia were purchased primarily for sale on the international markets.

The table below sets forth Rosneft’s costs, volumes and average prices per tonne of petroleum products procured from third parties in the second and in the first quarters of 2016:

	<i>For 3 months ended</i>						<i>% change</i>		
	June 30, 2016			March 31, 2016			RUB billion	mln tonnes	th. RUB/ tonne
	RUB billion	mln tonnes	th. RUB/ tonne*	RUB billion	mln tonnes	th. RUB/ tonne*			
<b><i>Petroleum products procurement in Russia</i></b>	<b>6</b>	<b>0.20</b>	–	<b>6</b>	<b>0.21</b>	–	–	<b>(4.8)%</b>	–
High octane gasoline	2	0.05	35.3	2	0.05	33.7	–	–	4.7%
Diesel	2	0.08	31.9	2	0.07	34.2	–	14.3%	(6.7)%
Jet fuel	0	0.00	27.5	0	0.00	28.0	–	–	(1.8)%
Other	2	0.07	23.4	2	0.09	20.4	–	(22.2)%	14.7%
<b><i>Petroleum products and petrochemicals procured outside Russia</i></b>	<b>28</b>	<b>1.40</b>	<b>19.8**</b>	<b>14</b>	<b>0.62</b>	<b>22.2</b>	<b>100%</b>	<b>&gt;100%</b>	<b>(10.8)%</b>
<i>Including petroleum products procurement</i>	25	1.36	18.6	12	0.56	20.8	>100%	>100%	(10.6)%
<b>Total</b>	<b>34</b>	<b>1.60</b>	<b>21.2</b>	<b>20</b>	<b>0.83</b>	<b>23.7</b>	<b>70.0%</b>	<b>92.8%</b>	<b>(10.5)%</b>

\*Calculated based on unrounded numbers.

\*\*Decrease in oil price is mainly caused by change in structure of oil products purchases.

The volume of petroleum product procured in the second quarter of 2016 remained practically unchanged in comparison the first quarter of 2016. Procurement of petroleum products outside Russia meets the contractual obligation under long-term agreements for sales of petroleum products.

The table below sets forth Rosneft’s costs, volumes and average prices per tonne of petroleum products procured from third parties in the first half of 2016 and 2015:

	<i>For 6 months ended</i>						<i>% change</i>		
	June 30, 2016			June 30, 2015			RUB billion	mln tonnes	th. RUB/ tonne
	RUB billion	mln tonnes	th. RUB/ tonne*	RUB billion	mln tonnes	th. RUB/ tonne*			
<b><i>Petroleum products procurement in Russia</i></b>	<b>12</b>	<b>0.41</b>	–	<b>10</b>	<b>0.30</b>	–	<b>20.0%</b>	<b>36.7%</b>	–
High octane gasoline	4	0.10	35.3	3	0.11	34.6	33.3%	(9.1)%	2.0%
Diesel	4	0.15	31.9	4	0.12	30.8	–	25.0%	3.6%
Jet fuel	0	0	27.5	0	0.01	26.3	–	–	4.6%
Other	4	0.16	23.4	3	0.06	26.6	33.3%	>100%	(12.0)%
<b><i>Petroleum products and petrochemicals procured outside Russia</i></b>	<b>42</b>	<b>2.02</b>	<b>19.8</b>	<b>27</b>	<b>0.99</b>	<b>27.7</b>	<b>55.6%</b>	<b>&gt;100%</b>	<b>(28.5)%</b>
<i>Including petroleum products procurement</i>	37	1.92	19.3	27	0.99	27.7	37.0%	93.9%	(30.3)%
<b>Total</b>	<b>54</b>	<b>2.43</b>	<b>21.2</b>	<b>37</b>	<b>1.29</b>	<b>29.1</b>	<b>45.9%</b>	<b>88.4%</b>	<b>(27.1)%</b>

\*Calculated based on unrounded numbers.

Average purchase prices may be different from average sale prices depending on different regional structure of purchases and mix structure of the petroleum products.

Volume of petroleum products procured in Russia increased in first half of 2016 compared with the same period of 2015 due to increased supply volume under new contracts.

## Petroleum products and petrochemicals procurement outside Russia

Petroleum products and petrochemicals procured outside Russia amounted to RUB 28 billion in the second quarter of 2016. Procurement of petroleum products outside Russia meets the contractual obligation under long-term agreements for sales of petroleum products. Decrease in oil price of petroleum products and petrochemicals procured outside Russia is mainly caused by the change in structure of oil products purchases.

Petroleum products procured outside Russia in the first half of 2016 was RUB 42 billion (2.02 mln tonnes) in comparison with RUB 27 billion (0.99 mln tonnes) in the first half of 2015 which was caused by increase in sales under long-term contracts.

### Crude oil and gas processing, petroleum products processing

Starting from April 2014, associated petroleum gas sales to Sibur Holding and purchases of dry stripped gas from “Sibur” are presented on a net basis in the Company’s financial statements in processing costs in the amount of RUB 3.67 billion, RUB 3.41 billion, RUB 7.21 billion in the second and in the first quarters of 2016, in the first half of 2015 respectively.

Crude oil and gas processing expenses decreased in the second quarter of 2016 in comparison with the first quarter of 2016 due to decrease in processing volume at YaNOS refinery caused by planned turnarounds at one of the refinery’s units in April 2016.

### Pipeline Tariffs and Transportation Costs

Transportation costs are costs incurred by Rosneft to transport crude oil for refining and to end customers, and to deliver petroleum products from refineries to end customers (these may include pipeline tariffs and railroad tariffs, handling costs, port fees, sea freight and other costs) and also costs to transport gas via gas pipeline system.

In the second quarter of 2016 Rosneft’s transportation costs decreased by 8.2% and amounted to RUB 135 billion compared with the first quarter of 2016. Decrease in transportation costs is mainly caused by opening of river navigation which led to increased share of low cost transportation (water transportation) in comparison with railroad transportation (relative high cost transportation).

The table below sets forth the comparison (quarter-on-quarter basis) of costs per tonne of crude oil and petroleum products transported by pipeline, railroad and mixed transportation and gas transportation costs via gas pipeline system in the second and in the first quarters of 2016:

	For 3 months ended								% change		
	June 30, 2016				March 31, 2016				Volume	Cost	Cost per tonne
Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*				
<b>CRUDE OIL</b>											
<b>International sales</b>											
Pipeline	29.2	98.0%	56.4	1.93	27.5	96.2%	53.1	1.93	6.2%	6.2%	–
Railroad and mixed	0.6	2.0%	2.1	3.37	1.1	3.8%	4.1	3.64	(45.5)%	(48.8)%	(7.4)%
<b>Transportation to refineries</b>											
Pipeline**	20.6		15.1	0.73	20.9		15.8	0.76	(1.4)%	(4.4)%	(3.9)%
Railroad and mixed	1.8		5.9	3.37	1.7		6.2	3.76	5.9%	(4.8)%	(10.4)%
<b>PETROLEUM PRODUCTS</b>											
<b>International sales</b>											
Pipeline	1.0	6.3%	3.1	3.02	1.0	6.2%	3.4	3.27	–	(8.8)%	(7.6)%
Railroad and mixed	12.2	77.2%	28.8	2.37	13.4	83.8%	41.2	3.08	(9.0)%	(30.1)%	(23.1)%
Pipeline and FCA***	2.6	16.5%			1.6	10.0%			62.5%		
<b>GAS</b>											
Pipeline****	bcm		RUB/cm		bcm		RUB/cm				
Pipeline****	10.1		10.3	1.02	11.8		13.0	1.10	(14.4)%	(20.8)%	(7.3)%
<b>Other transportation expenses*****</b>											
			13				10			30.0%	
<b>Total</b>	<b>68.0</b>		<b>135</b>		<b>67.2</b>		<b>147</b>		<b>1.2%</b>	<b>(8.2)%</b>	

\* Calculated based on unrounded data.

\*\* Including crude oil purchased on international market, which was directed to Ruhr Oel GmbH.

\*\*\* Rosneft exported part of petroleum products in the second quarter of 2016 and in the first quarter of 2016 through its own export terminal in Tuapse, on FCA terms, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

\*\*\*\* Part of gas volumes was dispatched on terms under which Rosneft does not bear transportation expenses. In the second and first quarters of 2016 these volumes amounted to 4.5 bcm and 6.0 bcm respectively.

\*\*\*\*\* Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to fuel filling station.



Crude oil pipeline transportation cost per tonne of international sales in the second quarter of 2016 remained unchanged and amounted to RUB 1.93 thousand.

The decrease in crude oil railroad and mixed transportation cost per tonne of international sales was 7.4% due to change in logistic structure in 2016.

Crude oil pipeline transportation cost per tonne of supplies to refineries decreased by 3.9% in the second quarter of 2016 compared to the first quarter of 2016 which was caused by change in structure of transportation routes.

Crude oil railroad and mixed transportation cost per tonne of supplies to refineries in the second quarter of 2016 decreased by 10.4% compared with the first quarter of 2016 due to change in transportation structure.

The decrease in pipeline cost per tonne of petroleum product international sales by 7.6% in the second quarter of 2016 compared with the previous quarter was mainly due to reduction of dollar denominated component of the transportation tariff.

Railroad and mixed transportation cost per tonne of petroleum product international sales decreased by 23.1% in the second quarter of 2016 compared to the first quarter of 2016 due to reduction of volumes delivered by railroad and simultaneous increase in share of waterborne transportation following the start of navigation period.

Gas transportation costs decrease of 7.3% in the second quarter of 2016 compared to the first quarter of 2016 was caused by reduction of average distance to final consumers including increased gas sales at exchange market with supply to the Yamal-Nenets District. In the second quarter of 2016 indexation of gas transportation tariffs was not carried out.

The table below sets forth comparison for costs per tonne of crude oil and petroleum products transported by pipeline, railway and mixed transportation and gas transportation costs via gas pipeline system in the first half of 2016 and 2015:

	<i>For 3 months ended</i>								<i>% change</i>		
	June 30, 2016				June 30, 2015						
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume	Cost	Cost per tonne
<b>CRUDE OIL</b>											
<b><u>International sales</u></b>											
Pipeline	56.7	97.1%	109.5	1.93	51.0	95.0%	90.2	1.77	11.2%	21.4%	9.0%
Railroad and mixed	1.7	2.9%	6.2	3.54	2.7	5.0%	9.3	3.31	(37.0)%	(33.3)%	6.9%
<b><u>Transportation to refineries</u></b>											
Pipeline**	41.5		30.9	0.74	44.7		36.9	0.83	(7.2)%	(16.3)%	(10.8)%
Railroad and mixed	3.5		12.1	3.56	3.1		13.1	4.18	12.9%	(7.6)%	(14.8)%
<b>PETROLEUM PRODUCTS</b>											
<b><u>International sales</u></b>											
Pipeline	2.0	6.3%	6.5	3.15	2.6	7.6%	6.7	2.67	(23.1)%	(3.0)%	18.0%
Railroad and mixed	25.6	80.5%	70.0	2.74	26.8	78.6%	75.4	2.81	(4.5)%	(7.2)%	(2.5)%
Pipeline and FCA***	4.2	13.2%			4.7	13.8%			(10.6)%		
<b>GAS</b>											
Pipeline****	bcm			RUB/cm	bcm			RUB/cm			
	21.9		23.3	1.06	20.6		20.7	1.00	6.3%	12.6%	6.0%
<b>Other transportation expenses*****</b>											
			23				22			4.5%	
<b>Total</b>	<b>135.2</b>		<b>282</b>		<b>135.6</b>		<b>274</b>		<b>(0.3)%</b>	<b>2.9%</b>	

\* Calculated based on unrounded data.

\*\* Including crude oil purchased on international market, which was directed to Ruhr Oel GmbH (ROG).

\*\*\* Rosneft exported part of petroleum products in the first half of 2016 and 2015 through its own export terminal in Tuaps on FCA terms, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

\*\*\*\* Part of gas volumes was dispatched on terms where Rosneft does not bear transportation expenses. In the first half of 2016 and 2015 these volumes amounted to 10.5 bcm, 8.6 bcm respectively.

\*\*\*\*\* Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to fuel filling stations.

The change in transportation costs per tonne of products sold (for crude oil and petroleum products) for the first half of 2016 compared with the same period of 2015 mainly resulted from tariffs indexation and change in transportation routes.

## Excise tax

In the second quarter of 2016 excise tax was RUB 47 billion, including additional costs related to processing outside Russian Federation in the amount of RUB 6 billion, in comparison with RUB 37 billion in the first quarter of 2016. The increase in excise tax is mainly due to the increased tax rate for petroleum products.

Excises amount for the first half of 2016 (RUB 84 billion) increased in comparison with RUB 51 billion the same period of 2015 mainly due to increased excise tax rate for petroleum products.

## Export Customs Duty

Export customs duties include crude oil and petroleum products export customs duties. The export customs duties are also discussed above under “Macroeconomic Factors Affecting the Results of Operations – Taxation”.

The following table sets forth Rosneft’s export customs duties for the periods analysed:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
	<b>RUB billion, except %</b>					
Export customs duty for crude oil	110	99	11.1%	209	346	(39.6)%
Export customs duty for petroleum products	32	33	(3.0)%	65	135	(51.9)%
<b>Total export customs duty</b>	<b>142</b>	<b>132</b>	<b>7.6%</b>	<b>274</b>	<b>481</b>	<b>(43.0)%</b>

Export customs duty increase of 7.6% in the second quarter of 2016 in comparison with the first quarter of 2016 was mostly due to increased export duty rate in RUB terms (the increase in average export customs duty rate on crude oil of 8% in RUB terms).

Decrease in export customs duty for the first half of 2016 compared with the same period of 2015 mainly resulted from lower export duty rates due to the decrease in oil prices.

The following table sets forth certain information about the export customs duty on crude oil:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
Urals (average Med and NWE) (USD/bbl)	43.8	32.2	36.0%	38.0	57.3	(33.7)%
Average enacted export customs duty on crude oil (th. RUB/tonne)	4.42	4.10	7.8%	4.29	7.48	(42.6)%
Hypothetical export customs duty on crude oil* (th. RUB/tonne)	5.72	3.79	50.9%	4.75	7.30	(34.9)%
Average customs duty on crude oil exports subject to regular rate (th. RUB/tonne)	4.37	4.10	6.6%	4.24	7.53	(43.7)%

\*Hypothetical customs duty is calculated using the average Urals price for the period (i.e. without time lag).

The actual average customs duty on exports is subject to regular duty deviates from the enacted export customs duty due to different monthly export volumes.

## Operating results of segment “Corporate and others”

Segment includes the Group companies that provide corporate services and holdings’ expenses.

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
<b>Financial results, RUB billion</b>						
EBITDA	(12)	(10)	(20.0)%	(22)	(28)	21.4%
Capital expenditures*	1	6	(83.3)%	7	4	75.0%

\*Refer to “Capital expenditures”.

## Separate indicators of the consolidated financial statements

### Costs and Expenses

#### General and Administrative Expenses

General and administrative expenses include wages, salaries and social benefits (except for wages of technical staff of production and refining entities), banking commissions, third-party fees for professional services, insurance expenses (except for insurance of oil and gas production and refining entities), maintenance of social infrastructure, lease expenses, allowances for doubtful accounts and other general expenses.

General and administrative expenses were retained at level of RUB 30 billion in the second quarter of 2016 and remained unchanged compared to the first quarter of 2016. Company keeps constant monitoring of administrative expenses.

General and administrative expenses of RUB 60 billion in the first half of 2016 remained approximately at the same level as in the first half of 2015.

### Depreciation, Depletion and Amortization

Depreciation, depletion and amortization include depreciation of crude oil and gas producing assets, and other production and corporate assets.

Decrease in DDA in the second quarter of 2016 compared with the first quarter of 2016 by 2.6% was caused by the application of reduced coefficient of depletion of oil infrastructure facilities on some Greenfields.

### Taxes Other than Income Tax

Taxes other than income tax include the mineral extraction tax, the excise tax, the property tax and other taxes. The basis for calculation of mineral extraction tax is described under “Macroeconomic Factors Affecting Results of Operations – Mineral Extraction Tax” above.

The following table sets forth Rosneft’s taxes other than income tax (excluding export duties) for the periods analysed (in RUB billion):

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
Mineral extraction tax	260	172	51.2%	432	591	(26.9)%
Excise tax	47	37	27.0%	84	51	64.7%
Social security tax	12	13	(7.7)%	25	24	4.2%
Property tax	9	8	12.5%	17	16	6.3%
Other taxes, interest, penalties and other payments to budget	1	1	–	2	5	(60.0)%
<b>Total taxes other than income tax</b>	<b>329</b>	<b>231</b>	<b>42.4%</b>	<b>560</b>	<b>687</b>	<b>(18.5)%</b>

Taxes other than income tax were RUB 329 billion and increased by 42.4% in the second quarter of 2016, compared to RUB 231 billion in the first quarter of 2016. The increase was mainly due to growth in mineral extraction tax rate (by 50% in RUB term) and due to growth in the excise tax rates. In the first half of 2016 excise tax of RUB 84 billion included additional costs related to processing outside Russian Federation in the amount of RUB 13 billion. The increase in the excise tax was mainly due to excise tax rate growth for petroleum products.

For the first half of 2016 taxes other than income tax decreased by 18.5% in comparison with the same period of 2015 mainly due to decrease in extraction tax base rate (by 27% in RUB terms).

### Finance Income and Expenses

Finance income and expenses include interest received on deposits, deposit certificates and loans issued, interest paid on loans and borrowings received, results from changes in fair value of financial assets measured at fair value, results from operations with derivative financial instruments, increase in provision due to the unwinding of discount, results from disposal of financial assets and other finance income and expenses.

In the second quarter of 2016 net finance expenses decreased to RUB 21 billion compared to RUB 34 billion in the first quarter of 2016 due to the recognition of gains related to fair value measurement of derivative financial instruments. Furthermore interest expenses on prepayment on long-term oil and petroleum products supply agreements decreased in the period.

For the first half of 2016 net finance expenses decreased by 52% compared to RUB 114 billion in the same period of 2015 which was mainly due to the settlement of derivative financial instruments in the first half of 2015 that were opened during 2012-2014.

### Other income and other expenses

In the second quarter of 2016 other income was RUB 2.0 billion compared to RUB 0.1 billion in the first quarter of 2016. For the first half of 2015 other income was RUB 37 billion.

In the second quarter of 2016 other expenses amounted to RUB 13 billion compared to RUB 9 billion in the previous quarter. Other expenses include effect of fixed assets disposal in the course of operating activities and other expenses. For the first half of 2015 other expense was RUB 28 billion.

## Foreign Exchange Differences

Foreign exchange effects are mostly attributed to monthly revaluation of assets and liabilities denominated in foreign currency at the exchange rate at the end of the period.

In the second and in the first quarters of 2016 foreign exchange loss recognized in profit and loss statement was RUB 16 billion and RUB 25 billion respectively.

The effect from capitalization of the foreign exchange differences on capital loans to fund capital expenditures amounted to RUB 16.4 billion for the first half of 2015.

## Cash flow hedges reclassified to profit or loss

Cash flow hedges reclassified to profit or loss recognized in the consolidated statement of profit or loss in the second quarter of 2016 did not change compared with the first quarter of 2016 and amounted to RUB 37 billion.

## Income Tax

The following table sets forth the Company's effective income tax rate under IFRS for the periods analysed:

	<i>For 3 months ended</i>		<i>For 6 months ended</i>	
	<b>June 30, 2016</b>	<b>March 31, 2016</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Effective rate of income tax	19.7 <sup>1</sup> %	17.6%	19.4%	20.7%

<sup>1</sup> Excluding one-off recognition of income tax of RUB 7 billion accrued on sale of share in the the subsidiary.

The Company applies the provisions of IAS 12 "Income taxes" to determine effective tax rate.

In accordance with Statement of comprehensive income, income tax expense was RUB 31 billion, and RUB 3 billion in the second and in the first quarters of 2016, respectively. Income tax was RUB 34 billion and RUB 49 billion in the first half of 2016 and 2015, respectively.

## Net Income

Net income amounted to RUB 91 billion (RUB 89 billion attributable to Rosneft's shareholders) in the second quarter of 2016 compared with the net income of RUB 14 billion in the first quarter of 2016. Net profit growth is mostly driven by high operating profit.

Net income amounted to RUB 105 billion (RUB 103 billion attributable to Rosneft's shareholders) for the first half of 2016 and RUB 190 billion in the first half of 2015.

## Liquidity and Capital Resources

### Cash Flows

The principal items of the statement of cash flows for the periods analysed are as follows:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<b>June 30, 2016</b>	<b>March 31, 2016</b>		<b>June 30, 2016</b>	<b>June 30, 2015</b>	
	<b>RUB billion</b>			<b>RUB billion</b>		
Net cash provided by operating activities	148	210	(29.5)	358	569	(37.1)
Net cash (used in)/provided by investing activities	(119)	129	–	10	(100)	–
Net cash (used in)/provided by financing activities	(84)	55	–	(29)	(478)	93.9

### Net cash provided by operating activities

Net cash provided by operating activities amounted to RUB 148 billion in the second quarter of 2016 compared to RUB 210 billion in the second quarter of 2016.

Operating cash flow includes operations with trading securities as part of the Company's efforts to manage cash resources (net inflow was RUB 2 billion in the second quarter of 2016, RUB 1 billion in the first quarter of 2016).

Net cash provided by operating activity adjusted for the above mentioned operations amounted to RUB 146 billion in the second quarter of 2016 (adjusted for operations with trading securities in the amount of RUB 2 billion), RUB 209 billion in the first quarter of 2016 (adjusted for operations with trading securities in the amount of RUB 1 billion).

Net cash provided by operating activity for the periods analysed is given in the table below:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 6 months ended</i>		<i>% change</i>
	<i>June 30, 2016</i>	<i>March 31, 2016</i>		<i>June 30, 2016</i>	<i>June 30, 2015</i>	
	<b>RUB billion</b>			<b>RUB billion</b>		
<b>Net cash provided by operating activity</b>	<b>148</b>	<b>210</b>	<b>(29.5)</b>	<b>358</b>	<b>569</b>	<b>(37.1)</b>
<i>Effect from operations with trading securities</i>	(2)	(1)	–	(3)	(2)	(50.0)
<b>Adjusted net cash provided by operating activity</b>	<b>146</b>	<b>209</b>	<b>(30.1)</b>	<b>355</b>	<b>567</b>	<b>(37.4)</b>
<i>Offsetting of prepayments received under long term supply contracts</i>	37	25	–	62	42	19.0
<i>Financing under future suppliers</i>	32	–	–	32	–	–
<b>Adjusted net cash provided by operating activity</b>	<b>215</b>	<b>234</b>	<b>(8.1)</b>	<b>449</b>	<b>609</b>	<b>(26.3)</b>

In the second quarter of 2016 operating cash flow was RUB 215 billion compared to RUB 234 billion in the first quarter of 2016. The decrease in operating cash flow was mainly caused by temporary increase in working capital caused by oil price upturn in RUB terms (trade receivables). In the first half of 2016 and 2015 operating cash flow was RUB 449 billion and RUB 609 billion, respectively.

#### **Net cash (used in)/provided by investing activities**

Net cash used in the investing activities was RUB 119 billion in the second quarter of 2016 compared to RUB 129 billion provided by the investing activities in the first quarter of 2016. The increase in cash used in investing activities was mostly due to lower repayments of financial assets which had been previously placed on deposits.

Net cash provided by investing activities in the first half of 2016 was RUB 10 billion and net cash used in investing activities in the first half of 2015 was RUB 100 billion.

#### **Net cash (used in)/provided by financing activities**

Net cash used in financing activities was RUB 84 billion in the second quarter of 2016 compared to RUB 55 billion provided by financing activities in the first quarter of 2016. The scheduled debt repayments were made in the second quarter of 2016. The outflow was partially compensated by proceeds from sale of non-controlling share in subsidiary in the amount of RUB 72 billion.

Net cash used in financing activities for the first half of 2016 and 2015 was RUB 29 billion and RUB 478 billion, respectively. The significant decrease in cash outflow in the financial activities in the first half of 2015 was driven by final repayments of loan drawn down for the acquisition of TNK assets.



The license acquisition costs in the second quarter of 2016 amounted to RUB 9 billion and referred to acquisition of new licenses for research, exploration and production at sites in the Samara region, the Khanty-Mansiysky and the Yamal-Nenets Autonomous districts, the Barentsevo and the Okhotsk Seas and the Sea of Japan. In the second quarter of 2016 the Company returned also the advance in the amount of RUB 1 billion issued in the previous quarter for the participation in the auction.

The license acquisition costs in the first quarter of 2016 amounted to RUB 6 billion and referred to acquisition of new licenses for research, exploration and production at sites in the Sakha Republic (Yakutia), Krasnoyarsk region, Samara region and the Yamal-Nenets Autonomous district, also in the first quarter of 2016 the Company returned the advance in the amount of RUB 4 billion issued in the previous quarter for the participation in the auction.

In the first half of 2015 the license acquisition costs were RUB 6 billion refer to advances issued for the participation in the auction aimed to acquiring licenses for research, exploration and production at Ai-Yaunsky block located in Western-Siberian region. In the same period the Company received cash from the repayment of advances issued in previous periods in the amount of RUB 12 billion for the participation in the auction aimed to acquiring new licenses for research, exploration and production at blocks located in Western-Siberian region.<sup>1</sup>

## Debt Obligations

Rosneft net debt amounts to RUB 1,507 billion as of June 30, 2016 compared to RUB 1,611 billion as of March 31, 2016.

Rosneft's total loans and borrowings and other financial liabilities was RUB 2,939 billion as of June 30, 2016 compared to RUB 3,208 billion as of March 31, 2016. The decrease was mainly attributable to the scheduled repayment of loans and effect of foreign currency debt revaluation.

Portion of Rosneft's long-term loans is secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts normally provide the lender with an express right of claim for contractual revenue in the amount of failing loan repayments.

As of June 30, 2016, March 31, 2016 and June 30, 2015: 33.7%, 33.1% and 29.8% respectively of Rosneft's loans and borrowings were secured by crude oil export contracts (excluding exports to the CIS).

As of June 30, 2016, March 31, 2016 and June 30, 2015 pledged oil exports constituted 4.4%, 4.5% and 4.9% respectively of the total crude oil export sales for the analyzed period (excluding exports to the CIS).

The net debt calculation is disclosed in the following table:

As of the date	June 30, 2016	March 31, 2016	June 30, 2015
	RUB billion		
Short-term loans and borrowings and other financial liabilities	844	986	1,031
Long-term loans and borrowings and other financial liabilities	2,095	2,222	1,982
<b>Total debt</b>	<b>2,939</b>	<b>3,208</b>	<b>3,013</b>
Cash and cash equivalents	795	882	213
Other short-term financial assets and part of long-term deposits	637	715	585
<b>Net debt</b>	<b>1,507</b>	<b>1,611</b>	<b>2,215</b>

<sup>1</sup> Starting from 2015 all cash receipts from the repayment of advances issued for the participation in the auctions which were called off or were won by other participants are recorded in line "Acquisition of licenses and auction advances" of Consolidated statement of cash flows.

## Key consolidated financial highlights (in RUB terms)

Rosneft monitors and evaluates its activities on an ongoing basis. Key financial ratios for the periods indicated are set forth below:

	For 3 months ended		For 6 months ended	
	June 30, 2016	March 31, 2016	June 30, 2016	June 30, 2015
EBITDA margin	27.6%	25.2%	26.5%	24.9%
Net income attributable to Rosneft shareholders margin	7.1%	1.3%	4.4%	7.1%
Net debt to annualised EBITDA	1.26	1.34	1.26	1.95
Current ratio	1.24	1.30	1.24	0.97
	<b>RUB / bbl</b>			
EBITDA/bbl	995	782	889	958
Upstream capital expenditures/bbl	398	387	392	294
Upstream operating expenses/bbl	207	196	201	195
Free cash flow before interest/bbl	174	229	202	486
	<b>RUB / boe</b>			
EBITDA/boe	791	620	706	773
Upstream capital expenditures/boe	316	307	311	238
Upstream operating expenses/boe	164	155	160	157
Free cash flow before interest/boe	139	182	160	392

The Company considers EBITDA/bbl, upstream operating expenses/bbl, upstream operating expenses/boe and the related indicators as important measures of its operating performance. In addition, these measures are frequently used by financial analysts, investors and other interested parties in the evaluation of oil and gas companies. These measures have limitations as analytical tools and should not be considered in isolation, or as a substitute for analysis of the Company's operating results as reported under IFRS.

All the 'per unit of production' indicators are calculated by dividing the total amount in RUB by the total production volume in bbl or boe (in mln bbl or mln boe) and are not adjusted for the effect of changes in inventories.

The following tables set forth relevant numbers relating to these measures for and as of the periods indicated:

### *Upstream Measures* \*

	For 3 months ended		For 6 months ended	
	June 30, 2016	March 31, 2016	June 30, 2016	June 30, 2015
Crude oil and NGL production (mln bbl)	349.6	348.9	698.5	699.5
Crude oil, NGL and gas production (mln boe)	439.8	440.1	879.9	867.2

\*Excluding share in production of associates and joint ventures.

### Calculation of Free Cash Flow

	For 3 months ended		For 6 months ended	
	June 30, 2016	March 31, 2016	June 30, 2016	June 30, 2015
	<b>RUB billion</b>			
Net cash provided by operating activities	148	210	358	569
Capital expenditures	(154)	(154)	(308)	(269)
Trading securities operations*	(2)	(1)	(3)	(2)
Offsetting of prepayments under long term supply contracts	37	25	62	42
Financing under future supplies	32	—	32	—
<b>Adjusted free cash flow</b>	<b>61</b>	<b>80</b>	<b>141</b>	<b>340</b>

\*In accordance with IFRS Consolidated statement of cash flows "Acquisition and proceeds from sale of trading security".



## Calculation of EBITDA

	For 3 months ended		For 6 months ended	
	June 30, 2016	March 31, 2016	June 30, 2016	June 30, 2015
	RUB billion			
Revenue and equity share in profits/(losses) of associates and joint ventures	1,232	1,048	2,280	2,658
Effect of prepayments offsetting	28	35	63	36
Expenses	(1,025)	(926)	1,951	(2,268)
Depreciation, depletion and amortization	113	116	229	244
<b>EBITDA</b>	<b>348</b>	<b>273</b>	<b>621</b>	<b>670</b>

## Calculation of EBITDA Margin

	For 3 months ended		For 6 months ended	
	June 30, 2016	March 31, 2016	June 30, 2016	June 30, 2015
	RUB billion (except %)			
<b>EBITDA</b>	<b>348</b>	<b>273</b>	<b>621</b>	<b>670</b>
Revenue and equity share in profits/(losses) of associates and joint ventures	1,232	1,048	2,280	2,658
Effect of prepayment offsetting	28	35	63	36
Adjusted revenues	1,260	1,083	2,343	2,694
<b>EBITDA margin</b>	<b>27.6%</b>	<b>25.2%</b>	<b>26.5%</b>	<b>24.9%</b>

## Calculation of Net Income Margin attributable to Rosneft shareholders

	For 3 months ended		For 6 months ended	
	June 30, 2016	March 31, 2016	June 30, 2016	June 30, 2015
	RUB billion (except %)			
<b>Net income attributable to Rosneft shareholders</b>	<b>89</b>	<b>14</b>	<b>103</b>	<b>190</b>
Revenues and equity share in profits/(losses) of associates and joint ventures	1,232	1,048	2,280	2,658
Effect of prepayment offsetting	28	35	63	36
Adjusted revenues	1,260	1,083	2,343	2,694
<b>Net income margin attributable to Rosneft shareholders</b>	<b>7.1%</b>	<b>1.3%</b>	<b>4.4%</b>	<b>7.1%</b>

## Calculation of Current ratio

As of the date	June 30, 2016	March 31, 2016	June 30, 2015
		RUB billion (except coefficients)	
Current assets	2,229	2,298	1,828
Current liabilities	1,796	1,763	1,893
<b>Current ratio</b>	<b>1.24</b>	<b>1.30</b>	<b>0.97</b>

## Consolidated financial highlights (in USD terms)

### Consolidated statement of profit or loss\*

	For 3 months ended		For 6 months ended	
	June 30, 2016	March 31, 2016	June 30, 2016	June 30, 2015
	USD billion			
<b>Total revenues and equity share in profits/(losses) of associates and joint ventures</b>	<b>19.2</b>	<b>14.5</b>	<b>33.7</b>	<b>47.2</b>
<b>Costs and expenses</b>				
Production and operating expenses	1.9	1.8	3.7	4.5
Cost of purchased oil, gas and petroleum products and refining costs	2.3	1.7	4.0	4.6
General and administrative expenses	0.5	0.4	0.9	1.0
Pipeline tariffs and transportation costs	2.0	2.0	4.0	4.7
Exploration expenses	0.1	–	0.1	0.1
Depreciation, depletion and amortization	1.7	1.6	3.3	4.3
Taxes other than income tax	5.0	3.1	8.1	12.1
Export customs duty	2.1	1.8	3.9	8.4
<b>Total costs and expenses</b>	<b>15.6</b>	<b>12.4</b>	<b>28.0</b>	<b>39.7</b>
<b>Operating income</b>	<b>3.6</b>	<b>2.1</b>	<b>5.7</b>	<b>7.5</b>
Finance income	0.4	0.2	0.6	0.5
Finance expenses	(0.6)	(0.7)	(1.3)	(2.4)
Other income	–	–	–	0.7
Other expenses	(0.2)	(0.1)	(0.3)	(0.5)
Foreign exchange differences	(0.7)	(0.8)	(1.5)	(0.4)
Cash flow hedges reclassified to profit or loss	(0.6)	(0.5)	(1.1)	(1.0)
<b>Income before income tax</b>	<b>1.9</b>	<b>0.2</b>	<b>2.1</b>	<b>4.4</b>
Income tax	(0.5)	–	(0.5)	(0.9)
<b>Net income</b>	<b>1.4</b>	<b>0.2</b>	<b>1.6</b>	<b>3.5</b>
<b>Net income attributable to Rosneft shareholders</b>	<b>1.4</b>	<b>0.2</b>	<b>1.6</b>	<b>3.5</b>

\*Calculated using average monthly exchange rates on the basis of Bank of Russia data for the reporting period (Appendix).

### Key consolidated financial highlights (in USD terms)

Key financial ratios in USD equivalent for the periods indicated are set forth below:

	For 3 months ended		For 6 months ended	
	June 30, 2016	March 31, 2016	June 30, 2016	June 30, 2015
EBITDA margin	27.6%	25.5%	26.7%	25.0%
Net income margin	7.3%	1.4%	4.7%	7.4%
Net debt to annualised EBITDA	1.30	1.23	1.30	1.69
Current ratio	1.24	1.30	1.24	0.96
	USD/bbl*			
EBITDA/bbl	15.2	10.6	12.9	16.9
Upstream capital expenditures/bbl	6.0	5.2	5.6	5.2
Upstream operating expenses/bbl	3.1	2.6	2.9	3.4
Free cash flow/bbl	3.9	4.2	4.0	9.6
	USD/boe*			
EBITDA/boe	12.1	8.4	10.2	13.6
Upstream capital expenditures/boe	4.8	4.1	4.5	4.2
Upstream operating expenses/boe	2.5	2.1	2.3	2.8
Free cash flow/boe	3.1	3.3	3.2	7.8

\*Calculated from unrounded data.

## Calculation of Free Cash Flow

	For 3 months ended		For 6 months ended	
	June 30, 2016	March 31, 2016	June 30, 2016	June 30, 2015
	USD billion			
Net cash provided by operating activities	2.1	2.8	4.9	10.1
Capital expenditures	(2.3)	(2.1)	(4.4)	(4.7)
Trading securities operations*	0.0	(0.0)	0.0	(0.0)
Offsetting under prepayments under long term supply contracts	1.0	0.8	1.8	1.3
Financing under future supplies	0.5	–	0.5	–
<b>Adjusted free cash flow</b>	<b>1.3</b>	<b>1.5</b>	<b>2.8</b>	<b>6.7</b>

\*In accordance with IFRS Consolidated statement of cash flows "Acquisition and proceeds from sale of trading security".

## Calculation of EBITDA Margin

	For 3 months ended		For 6 months ended	
	June 30, 2016	March 31, 2016	June 30, 2016	June 30, 2015
	USD billion (except %)			
Revenues and equity share in profits/(losses) of associates and joint ventures*	19.2	14.5	33.7	47.2
Operating income	(15.6)	(12.4)	(28.0)	(39.7)
Depreciation, depletion and amortization	1.7	1.6	3.3	4.3
<b>EBITDA</b>	<b>5.3</b>	<b>3.7</b>	<b>9.0</b>	<b>11.8</b>
Revenues and equity share in profits/(losses) of associates and joint ventures	19.2	14.5	33.7	47.2
<b>EBITDA margin</b>	<b>27.6%</b>	<b>25.5%</b>	<b>26.7%</b>	<b>25.0%</b>

## Calculation of Net Income Margin

	For 3 months ended		For 6 months ended	
	June 30, 2016	March 31, 2016	June 30, 2016	June 30, 2015
	USD billion (except %)			
<b>Net income</b>	<b>1.4</b>	<b>0.2</b>	<b>1.6</b>	<b>3.5</b>
Revenues and equity share in profits/(losses) of associates and joint ventures	19.2	14.5	33.7	47.2
<b>Net income margin</b>	<b>7.3%</b>	<b>1.4%</b>	<b>4.7%</b>	<b>7.4%</b>

## Calculation of Current ratio

As of the date	June 30, 2016	March 31, 2016	June 30, 2015
	USD billion (except coefficients)		
Current assets	34.7	34.0	32.9
Current liabilities	28.0	26.1	34.1
<b>Current ratio</b>	<b>1.24</b>	<b>1.30</b>	<b>0.96</b>

**Appendix: Average monthly RUB/USD exchange rates, calculated using the Bank of Russia data**

	<b>2016</b>	<b>2015</b>
	<b>RUB/USD</b>	
January	76.31	61.88
February	77.23	64.68
March	70.51	60.26
April	66.69	52.93
May	65.67	50.59
June	65.31	54.51