



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30 AND JUNE 30, 2017
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016**

*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 September 30, 2017 and 2016 and June 30, 2017 (the "**Interim Condensed Consolidated Financial Statements**"). Such terms as "**Rosneft**", "**Company**" and "**Group**" in their different forms in this report mean PJSC 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 of liquid hydrocarbon (except gas condensate of JSC "Rospan International") to barrels a 7.404 ratio is used. To convert Rospan gas condensate to barrels a 8.3 ratio is used. To convert a thousand of cubic meters of gas to barrels of oil equivalent a 6.09 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 mainly in the Russian Federation.

According to oil and marketable gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers, proved hydrocarbon reserves reached 38 billion boe per SEC classification and 46 billion boe per PRMS classification as of December 31, 2016¹ and amounted to 34 billion boe per SEC classification and 43 billion boe per PRMS classification as of December 31, 2015.

In the third quarter of 2017 crude oil and NGL production of the Company amounted to 56.74 mln tonnes, the production of natural and associated gas was 16.66 bcm.

In the third quarter of 2017, the Company's total crude oil processing amounted to 28.31 mln tonnes at the refineries in Russia and abroad. The remaining volumes of crude oil are mostly exported to Europe, Asia and the CIS.

¹ Including Bashneft proved hydrocarbon reserves of 2 billion boe per SEC classification and 2 billion boe per PRMS classification as of December 31, 2016.

Financial and operating highlights

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
Financial results, RUB billion						
Revenues and equity share in profits of associates and joint ventures	1,496	1,399	6.9%	4,305	3,503	22.9%
EBITDA	371	306	21.2%	1,010	913	10.6%
Net income attributable to Rosneft shareholders	47	64 [*]	(26.6)%	122	127	(3.9)%
Capital expenditures	223	215	3.7%	630	475	32.6%
Free cash flow **	8	59	(86.4)%	185	344	(46.2)%
Operational results						
Hydrocarbon production (th. boe per day)	5,674	5,703	(0.5)%	5,720	5,213	9.7%
Crude oil and NGL production (th. barrels per day)	4,571	4,566	0.1%	4,585	4,117	11.4%
Gas production (th. boe per day)	1,103	1,137	(3.0)%	1,135	1,096	3.6%
Production of petroleum products and petrochemical products in Russia (mln tonnes)	24.08	23.87	0.9%	72.54	58.92	23.1%
Production of petroleum products and petrochemical products outside Russia (mln tonnes)	3.24	3.10	4.5%	9.10	10.03	(9.3)%

^{*}See p.6 for disclosure of adjustment

^{**}Free cash flow estimation for comparative periods includes interest expenses on the prepayment on long-term oil and petroleum products supply agreements. Interest expenses on the prepayment on long-term oil and petroleum products supply agreements are composed of interests accrued for the reporting period and offset against crude oil supply under the contracts in the amount of RUB 53 billion and interests paid of RUB 8 billion in the nine months of 2017; and offsetting of RUB 55 billion and interests paid of RUB 12 billion - in nine months of 2016.

For reference only: Financial highlights in USD terms*

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
Financial results, USD billion						
Revenues and equity share in profits of associates and joint ventures	26.2	25.3	3.6%	76.3	53.1	43.7%
EBITDA	6.3	5.3	18.9%	17.3	13.5	28.1%
Net income attributable to Rosneft shareholders	0.7	1.1	(36.4)%	2.0	2.0	—
Capital expenditures	3.8	3.7	2.7%	10.8	7.0	54.3%
Free cash flow	0.1	1.0	(90.0)%	3.1	5.1	(39.2)%

*Calculated using average monthly exchange rates of Bank of Russia for the reporting periods (Appendix 1).

Financial results for 9 months 2017 including the assessment of the fair price of Bashneft Group

Rosneft obtained assessment of the fair price of all assets and commitments of the Bashneft Group. The effect of the assessment was disclosed in the financial results of the Company operations in the nine months of 2017 on a quarterly basis:

- Depreciation, depletion and amortization (RUB 16 billion accumulated for 9 months of 2017)
- Income tax (RUB 3 billion accumulated for 9 months of 2017)

The table below demonstrates the reconciliation between results of operations presented in the consolidated statement of comprehensive income for the second quarter of 2017 and financial results adjusted for one-off effect of revaluation in the second quarter of 2017 which are analyzed further in this MD&A report:

	Interim consolidated statement of profit and loss for the Q2 2017	Effect of revaluation	Adjusted Interim consolidated statement of profit and loss for Q2 2017
Revenue	1,399	-	1,399
Depreciation, depletion and amortisation	142	6	148
Total cost and expenses	1,281	6	1,287
Operating income	118	(6)	112
Income before income tax	95	(6)	89
Income tax expense	(15)	1	(14)
Net income	80	(5)	75
Net income attributable to Rosneft shareholders	68	(4)	64

Significant events in the third quarter of 2017

Rosneft successfully closed strategic deal for the acquisition of 49% of Essar Oil Limited

In August 2017, Rosneft successfully closed a strategic deal to acquire a 49% stake in Essar Oil Limited. Acquisition of the stake in the first-class asset with significant development potential allowed the Company to enter the Indian oil refining market – one of the most fastest growing in the world. Rosneft has already started highly efficient oil supplies to the refinery in Vadinar from its portfolio of contracts

Rosneft wins the auction for Erginskoye license area

Rosneft won the auction for the right to develop Erginskoye license area of federal importance. Acquisition value amounted to RUB 20.07 billion.

Rosneft and CEFC China Energy Company Limited signed a Strategic Cooperation Agreement and a contract for the supply of Russian crude oil

The Strategic Cooperation Agreement suggests developing joint exploration and production projects in Western and Eastern Siberia and represents an evidence of an integrated approach of the Chinese corporation to its cooperation with Rosneft. The Agreement also provides for a joint activity in such areas as refining, petrochemicals and crude and product trading.

Post-balance sheet events

Rosneft closed the deal to acquire a 30% stake in Zohr gas field

In early October 2017, the Company closed a deal with Eni to acquire 30% in a concessional agreement to develop Zohr field, one of the largest gas fields in the Mediterranean . The project is being undertaken in partnership with Eni (60% stake) and BP (10% stake). Participation in the development of this unique producing asset will allow Rosneft to significantly increase gas production abroad in a short time and enter the gas market of Egypt with the prospect of further activities development in the country and the region as a whole.

Production sharing agreement between Rosneft and Kurdistan government

In October 2017, the Company and the Government of the Kurdish Autonomous Region of Iraq signed the documents required for the enactment of Production Sharing Agreements (PSA) for five production blocks with a conservative estimate of recoverable oil reserves of 670 mln bbl which are located in the Kurdish Autonomous Region. The key terms of the agreements and the basic principles of production distribution are similar to the PSA in Iraqi Kurdistan that were signed by other international oil and gas companies.

Macroeconomic factors affecting results of operations

Main factors affecting Rosneft's results of operations are:

- Changes in crude oil and petroleum product 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 products 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		Change	For 9 months ended September 30,		Change		
	September 30, 2017	June 30, 2017		(USD per barrel)	2017			
World market				(USD per barrel)				
Brent (dated)	52.0	49.8	4.4%	51.9	41.8	24.1%		
Urals (average Med and NWE)	50.8	48.8	4.1%	50.6	40.0	26.5%		
Urals (FOB Primorsk)	50.2	47.4	6.0%	49.4	38.1	29.5%		
Urals (FOB Novorossiysk)	50.5	47.8	5.8%	49.8	39.0	27.6%		
Dubai	50.5	49.8	1.4%	51.2	38.9	31.4%		
Naphtha (av. FOB/CIF Med)	451	422	6.9%	448	354	26.7%		
Naphtha (av. FOB Rotterdam/CIF NWE)	460	432	6.4%	459	365	25.5%		
Naphtha (CFR Japan)	461	446	3.3%	468	381	22.8%		
Fuel oil (av. FOB/CIF Med)	296	281	5.3%	290	191	51.9%		
Fuel oil (av. FOB Rotterdam/CIF NWE)	292	275	6.4%	284	185	54.0%		
High sulphur fuel oil 180 cst (FOB Singapore)	312	304	2.4%	311	209	49.0%		
Gasoil (av. FOB/CIF Med)	472	444	6.4%	464	372	24.8%		
Gasoil (av. FOB Rotterdam/CIF NWE)	474	445	6.3%	465	373	24.7%		
Gasoil(FOB Singapore)	466	449	4.0%	464	363	27.8%		
Brent (dated)	3.07	2.85	7.9%	3.03	2.86	5.9%		
Urals (average Med and NWE)	3.00	2.79	7.5%	2.95	2.74	8.0%		
Urals (FOB Primorsk)	2.97	2.71	9.5%	2.88	2.61	10.5%		
Urals (FOB Novorossiysk)	2.98	2.73	9.3%	2.90	2.67	8.8%		
Dubai	2.98	2.84	4.7%	2.98	2.66	12.1%		
Naphtha (av. FOB/CIF Med)	26.6	24.1	10.4%	26.2	24.2	8.1%		
Naphtha (av. FOB Rotterdam/CIF NWE)	27.2	24.7	9.9%	26.7	25.0	7.1%		
Naphtha (CFR Japan)	27.2	25.5	6.7%	27.3	26.1	4.7%		
Fuel oil (av. FOB/CIF Med)	17.5	16.1	8.7%	16.9	13.1	29.6%		
Fuel oil (av. FOB Rotterdam/CIF NWE)	17.2	15.7	9.9%	16.6	12.6	31.4%		
High sulphur fuel oil 180 cst (FOB Singapore)	18.4	17.4	5.8%	18.2	14.3	27.1%		
Gasoil (av. FOB/CIF Med)	27.9	25.4	9.8%	27.1	25.4	6.5%		
Gasoil (av. FOB Rotterdam/CIF NWE)	28.0	25.5	9.8%	27.1	25.5	6.4%		
Gasoil(FOB Singapore)	27.5	25.6	7.4%	27.1	24.8	9.0%		
Russian market (net of VAT, including excise tax)				(th. RUB per tonne)				
Crude oil	14.5	12.5	15.9%	13.7	11.9	15.7%		
Fuel oil	9.7	8.1	20.0%	9.1	5.5	66.3%		
Summer diesel	31.3	31.3	0.2%	30.9	27.2	13.8%		
Winter diesel	33.9	31.7	6.8%	32.7	28.2	16.2%		
Jet fuel	29.9	26.9	11.3%	28.5	24.1	18.1%		
High octane gasoline	36.5	35.7	2.2%	35.4	33.0	7.6%		
Low octane gasoline	33.7	30.8	9.4%	31.6	29.7	6.4%		

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 depreciation against USD by 3.2% in the third quarter of 2017 compared with the second quarter of 2017 and nominal RUB appreciation against USD by 17.2% in the nine months of 2017 compared with the same period of 2016.

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. Rosneft's average domestic gas sales price (net of VAT) was RUB 3.29 thousand and RUB 3.25 thousand per th. cubic meters in the third quarter of 2017 and second quarter of 2017, respectively. In the nine months of 2017 Rosneft's average domestic gas sales price (net of VAT) was RUB 3.29 thousand per th. cubic meters compared to RUB 3.21 thousand per th. cubic meters in the nine months of 2016.

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:

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2017	June 30, 2017	2017	2016
Consumer price index (CPI) for the period*	(0.5)%	1.3%	1.7%	4.1%
Average RUB/USD exchange rate for the period**	59.02	57.15	58.33	68.37
RUB/USD exchange rate at the end of the period	58.02	59.09	58.02	63.16
Average RUB/EUR exchange rate for the period	69.29	62.79	64.93	76.28
RUB/EUR exchange rate at the end of the period	68.45	67.50	68.45	70.88

Source: the Central Bank of the Russian Federation.

*Producer price index amounted to 4.3% y-o-y at the end of September 2017.

**See Average monthly RUB/USD exchange rates in the Appendix 1.

Taxation

The table below provides information on actual tax rates of mineral extraction tax and export customs duty of crude oil and petroleum products :

	For 3 months ended		% change*	For 9 months ended September 30,		% change*
	September 30, 2017	June 30, 2017		2017	2016	
Mineral extraction tax						
Crude oil (RUB per tonne)	7,812	7,029	11.1%	7,600	5,441	39.7%
Export customs duty for crude oil						
Crude oil (US\$ per tonne)	79.8	84.3	(5.4)%	83.5	70.4	18.6%
Crude oil (RUB per tonne)	4,707	4,817	(2.3)%	4,869	4,811	1.2%
Crude oil (RUB per barrel)	636	651	(2.3)%	658	650	1.2%
Export customs duty for petroleum products						
Gasoline (RUB per tonne)	1,410	1,444	(2.4)%	1,459	2,931	(50.2)%
Naphtha (RUB per tonne)	2,586	2,648	(2.3)%	2,676	3,413	(21.6)%
Light and middle distillates (RUB per tonne)	1,410	1,471	(4.2)%	1,468	1,923	(23.6)%
Liquid fuels (fuel oil) (RUB per tonne)	4,707	4,913	(4.2)%	4,902	3,942	24.3%

*Calculated based on unrounded data.

According to Federal law 401-FZ of November 30, 2016 "On amendments to Part Two of the Tax Code and Other Legislative Acts of the Russian Federation" new amendments were introduced from January 1, 2017, in respect of excise duties, mineral extraction tax and other taxes.

From January 1, 2017, the excise tax rates on the petroleum products were changed:

Excise duties (RUB per tonne)	Since January 1 through March 31, 2016	Since April 1, through December 31, 2016	2017	2018 ¹
High octane gasoline				
High octane gasoline non-compliant with euro-5	10,500	13,100	13,100	13,100
High octane gasoline euro-5	7,530	10,130	10,130	10,535
Naphtha	10,500	13,100	13,100	13,100
Diesel	4,150	5,293	6,800	7,072
Lubricants	6,000	6,000	5,400	5,400
Benzol, paraxylene, ortoxylene	3,000	3,000	2,800	2,800
Middle distillates	4,150	5,293	7,800	8,112

In accordance with new amendments of the Federal law 401-FZ, the producer is able to apply an increased coefficient to excise duty deduction of 1.7 in 2017 depending on certain type of the oil product subject to excise duty.

Effective tax burden of the Company was 41.4% and 43.9% in the third and second quarters of 2017, respectively, and also 42.9% and 38.7% in the nine months of 2017 and 2016, respectively.

The mineral extraction tax and the export customs duty accounted for approximately 33.9% and 36.2% of Rosneft's total revenues in the third and second quarters of 2017, respectively, and also 35.4% and 32.9% in the nine months of 2017 and 2016, respectively. Tax withdrawing share in the financial results excluding forex and one off effects was up to 88% in the nine months of 2017.

Mineral Extraction Tax (MET)

The rate of mineral extraction tax (MET) for crude oil is linked to the Urals price in the international market. 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, 2017** the mineral extraction tax rate will be calculated by multiplying the tax rate of **RUB 919 per tonne** (in 2016 – RUB 857 per tonne) by the adjustment ratio of $((P - 15) \times \text{Exchange rate} / 261)$, where “P” is the average Urals price per barrel in USD 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”².

In accordance with the legislation tax relieves are applicable to certain fields. In 2017 the Company applied different tax reliefs and special tax treatment of crude oil MET:

Tax relieves in 2017	Applicable in the Company
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"> • In Irkutsk region, the republic of Sakha (Yakutia) and Krasnoyarsk territory which is applicable for the first 25 million tonnes of production • On the territory of the Nenets Autonomous district, Yamalo-nenets Autonomous district – for the first 15 million tonnes of production • Okhotsk sea fields subject to zero mineral extraction tax rate which is applicable for the first 30 million tonnes of production Oil fields with reserve depletion rate of over 80%.
Special tax regime for offshore projects in the Russian Federation	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) The offshore projects are categorized into one of four groups depending on its complexity and specify 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.

¹ The bill # 274631-7 stipulates the following excise tax rate for gasoline euro-5 and diesel: from January 1, 2018 till June, 30 2018 – RUB 11,213 per tonne and RUB 7,665 per tonne, from July 30, 2018 till December 31, 2018 - RUB 11,892 per tonne and RUB 8,258 per tonne respectively.

² The coefficient “Dm” is calculated using base rate (starting 2016 – RUB 559) 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. Starting from January 2017, additional MET withdrawals are introduced: + RUB/tonne 306 in 2017 (RUB/tonne- 357 in 2018, RUB/tonne - 428 in 2019-2020).

MET rate calculation for natural gas and gas condensate

MET rate for natural gas

In the third quarter of 2017 and in the second quarter of 2017 average extraction tax for natural gas was RUB 524 and RUB 505 per th. cubic meters, respectively. In the nine months of 2017 and 2016 average extraction tax for natural gas was RUB 519 per th. cubic meters and RUB 535 per th. cubic meters, respectively.

MET rate for gas condensate

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 amounted to RUB 3,834 and RUB 3,460 per tonne in the third quarter of 2017 and in the second quarter of 2017, respectively. In the nine months of 2017 and 2016 tax rate of mineral extraction gas condensate was RUB 3,644 per tonne and RUB 2,995 per tonne, respectively.

In accordance with Tax Code of Russian Federation since July 1, 2014, a calculation formula is determined for MET rate for natural gas and gas condensate. In line with this formula base rate for gas condensate is RUB 42 per 1 tonne and for natural gas – RUB 35 per 1 th. cubic metres. Base rates are multiplied by basic rate of standard fuel unit and reduced coefficient which estimates the difficulty level of natural gas and (or) gas condensate production. Starting from January 1, 2017 mineral extraction gas condensate tax rate is adjusted by the multiplying coefficient 6.5 (starting from January 1 until December 31, 2016 – 5.5).

Reduced coefficient in 2017	Applicable in the Company
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%.

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:

Urals price(USD per tonne)	Export customs duty(USD per tonne)
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 plus 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 plus 30% of the difference between the average Urals price in USD per tonne and USD 182.5 (since January 1, 2017) <i>(For information: plus 42% of the difference between the average Urals price in USD per tonne was applicable since January 1 through December 31, 2016)</i>

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 starting from January 1, 2016. Such an exemption is set for various terms depending on complexity of a field development project.

In 2016, the exemption was set for the East- Messoyakh fields (zero customs duty rate could be applied to the export of 28.9 mln tonnes) and Srednebotuobinskoe field (zero customs duty rate could be applied to the export of 10.8 mln tonnes). Starting from 2017 the exemption was set for Kuyumbinskoe field (zero customs duty rate could be applied to the export of 29.0 mln tonnes)¹.

Export customs duty on crude oil export to countries that are members of Eurasian Economic Agreement

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 countries that are members of Eurasian Economic Agreement. At the same time quotes for tax-free sale of crude oil and petroleum products are set. In accordance with agreement with Armenia and the Kirghiz republic all supplies above the quotes are subject for the duties.

In accordance with agreement between the Governments of Russian Federation and the Kazakhstan Republic on trade and economic cooperation in crude oil and petroleum products supplies dated December 9, 2010 the export ban was set for a specified list of petroleum products exported from Russian Federation to the 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	
	January 1-December 31, 2016	Since January 1, 2017
Light and middle distillates (excluding: naphtha and gasoline), benzene, toluene, xylenes, lubricants, diesel	40	30
Naphtha	71	55
Gasoline	61	30
Fuel oil, bitumen oil, other dark oil products	82	100

In 2017 and 2016 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 FAS² 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.

¹ East- Messoyakh and Kuyumbinskoe fields are developed by the Company within the framework of JV projects.

²The FAS - the Federal Antimonopoly Service.

The FAS sets tariffs for gas pipeline transportation. The tariff includes two parts. The 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 the 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 February 1, 2017 transit tariffs via Belarus territory increased by 7.7%.

Starting from January 1, 2017 Transnet tariffs for oil pipeline transportation increased up to 3.5%, and 4.0% indexation was applied to export tariffs for the pipeline VSTO to China and Kozmino.

Recent changes in railroad transportation tariffs

Starting from February 1, 2017 there was a standardization of transportation of petroleum products tariff with decreasing coefficient setting under price limits.

Starting January 1, 2017 railroad transportation tariffs increased by 4.0%. Multiplying factor of 1.134 on tariffs was no longer applied to the export transportation of petroleum products. In January 2017 there was additional indexation to the tariff of December 2016 by 2%.

The Rosneft's average transportation tariffs in rouble terms applied to major transportation routes in the third and the second quarters of 2017 excluding transshipment are presented in the Appendix 2.

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 Norway, United Arab Emirates, 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 produce hydrocarbons and gas, Downstream Group companies acquire hydrocarbons and gas from Upstream Group companies and 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 September 30, 2017 and June 30, 2017 and for the nine months ended September 30, 2017 and 2016 (Consolidated statement of profit or loss)

in RUB billions

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
Revenues and equity share in profits of associates and joint ventures						
Oil, gas, petroleum products and petrochemicals sales	1,461	1,368	6.8%	4,212	3,431	22.8%
Support services and other revenues	20	18	11.1%	56	56	-
Equity share in profits of associates and joint ventures	15	13	15.4%	37	16	>100%
Total revenues and equity share in profits of associates and joint ventures	1,496	1,399	6.9%	4,305	3,503	22.9%
Costs and expenses						
Production and operating expenses	150	155	(3.2)%	447	392	14.0%
Cost of purchased oil, gas, petroleum products and refining costs	213	199	7.0%	580	418	38.8%
General and administrative expenses	41	38	7.9%	115	91	26.4%
Pipeline tariffs and transportation costs	146	145	0.7%	444	420	5.7%
Exploration expenses	4	3	33.3%	9	10	(10.0)%
Depreciation, depletion and amortization	144	148	(2.7)%	440	349	26.1%
Taxes other than income tax	470	439	7.1%	1,369	896	52.8%
Export customs duty	150	160	(6.3)%	476	458	3.9%
Total costs and expenses	1,318	1,287	2.4%	3,880	3,034	27.9%
Operating income	178	112	58.9%	425	469	(9.4)%
Finance income	24	22	9.1%	80	58	37.9%
Finance expenses	(56)	(53)	5.7%	(168)	(141)	19.1%
Other income	3	-	-	4	7	(42.9)
Other expenses	(25)	(10)	>100%	(45)	(41)	9.8%
Foreign exchange differences	(1)	55	-	9	(55)	>100%
Cash flow hedges reclassified to profit or loss	(36)	(37)	(2.7)%	(109)	(111)	(1.8)%
Income before income tax	87	89	(2.2)%	196	186	5.4%
Income tax expense	(27)	(14)	92.9%	(44)	(53)	(17.0)%
Net income	60	75	(20.0)%	152	133	14.3%
Net income attributable to						
- Rosneft shareholders	47	64	26.6%	122	127	(3.9)%
- non-controlling interests	13	11	18.2%	30	6	>100%

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 the 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. The results are set in the table below:

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
Operational results						
Hydrocarbon production (th. boe per day)	5,674	5,703	(0.5)%	5,720	5,213	9.7%
Crude oil and NGL production (th. barrels per day)	4,571	4,566	0.1%	4,585	4,117	11.4%
Gas production (th. boe per day)	1,103	1,137	(3.0)%	1,135	1,096	3.6%
Hydrocarbon production (mln boe) ¹	483.8	482.2	0.3%	1,448.7	1,324.6	9.4%
Financial results, RUB billions						
EBITDA	330	258	27.9%	913	848	7.7%
Capital expenditures ²	193	189	2.1%	549	423	29.8%
Upstream operating expenses	91.5	89.2	2.6%	261.8	213.5	22.6%
Indicators per boe						
EBITDA, RUB/boe	682	535	27.5%	630	640	(1.6)%
Capital expenditures, RUB/boe	399	392	1.8%	379	319	18.8%
Upstream operating expenses, RUB/boe ⁴	189	185	2.2%	181	161	12.4%
Upstream operating expenses, USD/boe ^{3,4}	3.2	3.2	—	3.1	2.4	29.2%

¹ Excluding share in production of associates and joint ventures.

² Ref. to "Capital expenditures".

³ Calculated using monthly RUB/USD exchange rates for the reporting periods.

⁴ Excluding the acquisition of Bashneft assets, upstream operating expenses were 173 RUB/boe (and 3.0 USD/boe) in the nine months of 2017.

Upstream EBITDA

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
Revenues and equity share in profits of associates and joint ventures						
785	682	15.1%		2,242	1,795	24.9%
<i>Including equity share in profits of associates and joint ventures</i>						
10	9	11.1%		27	10	>100%
Expenses net of depreciation						
504	470	7.2%		1,474	1,042	41.5%
<i>including</i>						
Upstream operating expenses ¹	92	89	3.4%	262	214	22.4%
General and administrative expenses	14	13	7.7%	41	39	5.1%
Hydrocarbon procurement costs ²	5	10	(50.0)%	26	20	30.0%
Pipeline tariffs and transportation costs and other costs ³	6	10	(40.0)%	26	22	18.2%
Exploration expenses	5	4	25.0%	11	10	10.0%
Taxes other than income tax	382	344	11.0%	1,108	737	50.3%
Effect of prepayments offsetting	49	46	6.5%	145	95	52.6%
EBITDA	330	258	27.9%	913	848	7.7%

¹ Percentage is calculated from unrounded data.

² See section "Cost of Purchased Oil, Gas and Petroleum Products and Refining Costs and others". Since September 2016 main procurement costs and related transportation expenses were transferred to the Downstream segment. Starting from January 2017 the procurement costs also include crude oil purchases for processing of Bashneft-Polyus.

³ Other costs include revision of ecological reserves of RUB 0.6 billion both in the third and in the second quarters of 2017; and RUB 1.7 billion and RUB 1.0 billion in the nine months of 2017 and 2016, respectively.

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: Slavneft – 49.94%, Udmurtneft – 49.57% and Messoyakhaneftegaz-50%. The Company also participates in international projects in Vietnam, Venezuela. In October 2016 the Company acquired production assets of Bashneft. In April 2017 the Company acquired 100% shares in LLC National Petroleum Company – Projects.

The following table sets forth Rosneft's crude oil and NGL production:

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
	(million of barrels)		(million of barrels)			
RN-Yuganskneftegaz (Western Siberia)	127.5	121.0	5.4%	363.1	351.8	3.2%
Projects of the Vankor group (Eastern Siberia)	40.6	40.9	(0.7)%	124.7	119.6	4.3%
Samotlorneftegaz (Western Siberia)	36.5	35.9	1.7%	107.6	111.9	(3.8)%
Bashneft-Dobycha (Central Russia)	30.7	30.4	1.0%	92.0	–	–
Orenburgneft (Central Russia)	28.7	29.1	(1.4)%	87.4	92.1	(5.1)%
Samaraneftegaz (Central Russia)	23.3	23.5	(0.9)%	70.1	69.0	1.6%
RN-Uvatneftegaz (Western Siberia)	16.7	17.8	(6.2)%	55.5	64.6	(14.1)%
Verkhnechonskneftegaz (Eastern Siberia)	15.2	14.7	3.4%	45.7	48.2	(5.2)%
Varyeganneftegaz (Western Siberia)	11.9	11.8	0.8%	35.1	34.3	2.3%
RN-Nyaganneftegaz (Western Siberia)	11.5	11.3	1.8%	33.7	32.7	3.1%
RN-Purneftegaz (Western Siberia)	10.0	9.6	4.2%	28.9	29.4	(1.7)%
Tomskneft (Western Siberia)	8.8	8.6	2.3%	26.3	26.9	(2.2)%
RN-Severnaya Neft (Timan Pechora)	6.2	6.3	(1.6)%	18.5	18.7	(1.1)%
Offshore projects (Far East) ¹	4.5	6.2	(27.4)%	17.1	21.6	(20.8)%
Bashneft-Polyus (Timan Pechora) ²	3.1	4.7	(34.0)%	12.7	–	–
Sorovskneft (Western Siberia)	3.7	4.2	(11.9)%	12.1	–	–
Taas-Yuryah (Far East)	2.2	2.1	4.8%	6.4	6.0	6.7%
Other	10.3	9.2	12.0%	29.6	27.1	9.2%
Crude oil and NGL production by fully and proportionately consolidated enterprises	391.4	387.3	1.1%	1,166.5	1,053.9	10.7%
Slavneft (Western and Eastern Siberia)	13.5	13.4	0.7%	40.3	41.7	(3.4)%
Udmurtneft (Central Russia)	5.7	5.6	1.8%	16.8	17.4	(3.4)%
Messoyakhaneftegaz (Western Siberia)	3.1	2.7	14.8%	8.3	0.3	>100%
Other	6.8	6.5	4.6%	19.9	14.8	34.5%
Total share in production of associates and JV	29.1	28.2	3.2%	85.3	74.2	15.0%
Total crude oil and NGL production	420.5	415.5	1.2%	1,251.8	1,128.1	11.0%
Daily crude oil and NGL production (th. barrels per day)	4,571	4,566	0.1%	4,585	4,117	11.4%

¹Net of royalty and government share.

²Refers to 100% consolidated share in production.

In the third quarter of 2017 oil and NGL production amounted to 420.5 mln barrels with stable level of daily crude oil and NGL production, increasing by 1.2% compared with the second quarter of 2017. The Company fulfills its obligations under the Agreement reached earlier on reduction of world crude oil production by OPEC+.

In September the Company commenced a complex technological testing of the facilities for the preparation and transportation of oil from the Yurubcheno-Tokhomsky field.

In the nine months of 2017 crude oil and NGL production increased by 11.0% compared with the nine months of 2016. Significant increase in production resulted from the acquisition of Bashneft assets in the fourth quarter of 2016 and from increased share in JV Petromonagas (Venezuela) since May 2016.

The main factors of organic growth were: the achievement of the maximum production level for 30 years at RN-Yuganskneftegaz as a result of increased rates of production drilling with implementation of modern technologies for research and completion of wells, development of the new key projects such as Suzun and Messoyakhaneftegaz, and the increase in production at a number of Brownfields such as RN-Nyaganneftegaz, Varyeganneftegaz, Samaraneftegaz due to drilling growth.

In nine months of 2017 the Company increased its development drilling by 26% up to 8.8 mln meters compared with the nine months of 2016. The share of in-house drilling services in the total meterage drilled is app. 60%. The number of the commissioned new wells increased by 19% compared with the nine months of 2016 to 2.3 th. wells with a 34% horizontal wells share.

Production of Gas

The table below sets forth Rosneft's used gas¹ production:

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
	bcm	bcm				
Sibneftegaz(Western Siberia)	3.16	3.17	(0.3)%	9.39	8.98	4.6%
Projects of the Vankor group (Eastern Siberia) ²	2.00	2.19	(8.7)%	6.29	6.47	(2.8)%
Rospan International (Western Siberia)	1.65	1.53	7.8%	4.80	4.55	5.5%
RN-Purneftegaz (Western Siberia)	1.53	1.51	1.3%	4.54	4.59	(1.1)%
Samotorneftegaz (Western Siberia)	1.34	1.47	(8.8)%	4.30	4.43	(2.9)%
RN-Yuganskneftegaz (Western Siberia)	1.24	1.02	21.6%	3.39	3.43	(1.2)%
Offshore projects (Far East) ³	0.79	1.11	(28.8)%	2.93	1.78	64.6%
Varyeganneftegaz (Western Siberia)	1.00	0.99	1.0%	2.92	2.48	17.7%
RN-Krasnodarneftegaz (Southern Russia)	0.56	0.63	(11.1)%	1.91	2.15	(11.2)%
RN-Nyaganneftegaz (Western Siberia)	0.48	0.45	6.7%	1.36	1.17	16.2%
Orenburgneft (Central Russia)	0.40	0.45	(11.1)%	1.32	1.77	(25.4)%
Tomskneft (Western Siberia)	0.24	0.20	20.0%	0.69	0.64	7.8%
Bashneft-Dobycha (Central Russia) ²	0.13	0.13	—	0.39	—	—
Samaraneftegaz (Central Russia)	0.11	0.11	—	0.33	0.36	(8.3)%
RN-Sakhalinmorneftegaz (Far East)	0.09	0.08	12.5%	0.25	0.25	—
RN-Uvatneftegaz (Western Siberia)	0.06	0.06	—	0.18	0.18	—
Verkhnechonskneftegaz (Eastern Siberia)	0.06	0.05	20.0%	0.17	0.14	21.4%
RN-Severnaya Neft (Timan Pechora)	0.05	0.06	(16.7)%	0.16	0.17	(5.9)%
Sorovskneft (Western Siberia)	0.02	0.03	(33.3)%	0.08	—	—
Bashneft-Polyus (Timan Pechora) ⁴	0.02	0.01	100.0%	0.05	—	—
Other	0.24	0.33	(27.3)%	0.89	0.91	(2.2)%
Total gas production by fully and proportionately consolidated enterprises	15.17	15.58	(2.6)%	46.34	44.45	4.3%
Purgaz (Western Siberia)	1.30	1.23	5.7%	3.96	4.26	(7.0)%
Slavneft (Western and Eastern Siberia)	0.11	0.11	—	0.34	0.36	(5.6)%
Other	0.08	0.07	14.3%	0.22	0.26	(15.4)%
Total share in production of associates and JV	1.49	1.41	5.7%	4.52	4.88	(7.4)%
Total gas production	16.66	16.99	(1.9)%	50.86	49.33	3.1%
Natural gas	7.86	7.77	1.2%	23.63	22.88	3.3%
Associated gas	8.80	9.22	(4.6)%	27.23	26.45	2.9%
Daily gas production (mcm per day)	181.1	186.7	(3.0)%	186.3	180.0	3.5%

¹ Production volume equals extracted volume minus flared volume and gas used for NGL production.

² Including gas injection to maintain reservoir pressure.

³ Net of royalty and government share.

⁴ Refers to 100% consolidated share in production.

Gas production in the second quarter of 2017 amounted to 16.66 bcm, decreasing by 1.9% compared with the second quarter of 2017. The decrease in production was mainly due to scheduled preventive maintenance.

Gas production in the nine months of 2017 amounted to 50.86 bcm, increasing by 3.1% compared with the nine months of 2016. The growth was mainly driven by the acquisition of Bashneft assets in the fourth quarter of 2016, the launch of new wells at Varyeganneftegaz in 2017 and increased gas delivery through the Tyumen compressor station after reconstruction, launch of new wells and optimisation of operating wells at Sibneftegaz.

Financial indicators

Equity share in financial results of upstream associates and joint ventures

The equity share in financial results of upstream associates and joint ventures was RUB 10 billion in the third quarter of 2017 due to positive dynamics of JV income. In the second quarter of 2017, the equity share in the financial results of upstream associates and joint ventures was RUB 9 billion of profit.

The equity share in the financial results of upstream associates and joint ventures was RUB 27 billion and RUB 10 billion of profit in the nine months of 2017 and 2016, respectively. Income growth is mainly due to increased income of Messoyakhneftegaz after the launch of the East-Messoyakh field in September 2016.

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 were RUB 91.5 billion (189 RUB/boe) and increased by 2.6% (an increase of 2.2% per boe) in the third quarter of 2017 compared with RUB 89.2 billion (185 RUB/boe) in the second quarter of 2017. In the third quarter of 2017 the increase was mainly due to planned repairs and maintenance of infrastructure, including pipelines, roads, crude storage and other equipment, mostly at the Brownfields, and increased material and electricity expenses.

Upstream production and operating expenses increased by 22.6% (an increase of 12.4% per boe) in the nine months of 2017 compared to RUB 213.5 billion (161 RUB/boe) in the same period of 2016 that is mainly due to Bashneft assets acquisition in October 2016 and increased electricity expenses. In the nine months of 2017 upstream production and operating costs per boe, excluding Bashneft upstream operational costs per boe, was 173 RUB/boe (3.0 USD/boe) compared to 161 RUB/boe (2.4 USD/boe) in the nine months of 2016. Organic growth of upstream operating expenses is mainly due to increased electricity expenses, maintenance of infrastructure and other scheduled workovers and oil field services.

Exploration Expenses¹

Exploration expenses mainly relate to exploratory drilling, seismic and other geological and geophysical works. Exploratory drilling costs are generally capitalized 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 third quarter of 2017, exploration expenses amounted to RUB 4 billion compared to RUB 3 billion in the second quarter of 2017. Increase is due to growth of seismic surveys volumes mainly offshore. In the nine months of 2017 and 2016 exploration expenses were RUB 9 billion and RUB 10 billion, respectively.

Mineral extraction tax

The amount of mineral extraction tax was RUB 357 billion in the third quarter of 2017 compared to RUB 332 billion in the second quarter of 2017. The increase of MET expense was mainly due to enacted MET rate increase of 11.1% in the period due to the higher Urals price (by 7.5% in rouble).

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

	For 3 months ended		change %	For 9 months ended September 30,		change %
	September 30, 2017	June 30, 2017		2017	2016	
(thousand RUB, except %)						
Average enacted oil mineral extraction tax rate (per tonne)	7.81	7.03	11.1%	7.60	5.44	39.7%
Actual mineral extraction tax expense per tonne of oil produced	6.83	6.05	12.9%	6.60	4.86	35.8%
Actual mineral extraction tax expense per tonne of oil equivalent produced*	5.59	4.92	13.6%	5.38	3.93	36.9%
(RUB per thousand cubic meters, except %)						
Average actual gas extraction tax rate	524	505	3.8%	519	535	(3.0)%

*Including consolidated oil and gas volumes.

The actual mineral extraction tax rate is lower than generally established tax rates for the analyzed 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”).

¹ Net of intercompany turnover of RUB 1 billion both in the third and second quarters of 2017 and RUB 2 billion in the nine months of 2017.

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.

The results set in the table below:

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September, 30, 2017	June 30, 2017		2017	2016	
Operational results, mln tonne						
Crude oil processing at refineries	28.31	27.72	2.1%	84.33	69.89	20.7%
<i>Processing at Company's own refineries in Russia</i>	22.96	22.61	1.5%	69.28	54.94	26.1%
<i>Processing at Company's own refineries outside Russia</i>	3.15	3.07	2.6%	8.98	9.47	(5.2)%
<i>Processing at Associates' refineries</i>	2.20	2.04	7.8%	6.07	5.48	10.8%
Financial results, RUB billion						
EBITDA	57	66	(13.6)%	143	99	44.4%
Capital expenditures of refineries*	15	15	—	41	34	20.6%
Operating expenses of processing in Russia	33.1	30.1	10.0%	92.5	56.4	64.0%
Operating expenses of processing outside Russia	5.0	4.7	6.4%	14.3	24.0	(40.4)%
Indicators per tonne of the output, RUB per tonne **						
EBITDA,	2,183	2,570	(15.1)%	1,827	1,537	18.9%
Capital expenditure of refineries	575	584	(1.5)%	524	528	(0.8)%
Operating expenses for processing in Russia	1,442	1,333	8.2%	1,335	1,027	30.0%
Operating expenses for processing outside Russia	1,587	1,533	3.5%	1,592	2,535	(37.2)%

*Refer to "Capital expenditures".

**Calculated from unrounded data.

Downstream EBITDA

	For 3 months ended		% change	For 9 months ended September 30,		% change		
	September 30, 2017	June 30, 2017		2017	2016			
RUB billion								
Revenues and equity share in profits of associates and joint ventures								
<i>Including equity share in profits of associates and joint ventures</i>	1,522	1,421	7.1%	4,377	3,520	24.3%		
Expenses net of depreciation including	5	2	>100%	9	5	80.0%		
Operating expenses at refineries, cost of additives and materials procured for processing	1,465	1,355	8.1%	4,234	3,421	23.8%		
Operating expenses of retail companies	46	40	15.0%	125	115	8.7%		
Cost of purchased oil, gas, petroleum products and refining costs including intersegment turnover	13	12	8.3%	37	32	15.6%		
Administrative expenses including doubtful debt allowances	1,021	894	14.2%	2,871	2,217	29.5%		
Pipeline tariffs and transportation costs and other costs	9	8	12.5%	27	24	12.5%		
Taxes other than income tax	145	142	2.1%	440	408	7.8%		
Export customs duty	96	88	9.1%	268	155	72.9%		
<i>Effect from intragroup balance change and others</i>	150	160	(6.3)%	476	458	3.9%		
EBITDA	(15)	11	—	(10)	12	—		
	57	66	(13.6)%	143	99	44.4%		

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 Kuibyshevsk, Novokuibyshevsk and Syzran refineries in the Samara region, the Saratov and Ryazan refineries (the European part of Russia) and others. Rosneft also processes crude oil in Belarus and in Germany. At the end of December 2016 the Company completed the restructuring of foreign refining assets of Ruhr Oel GmbH in Germany and increased its share in the Bayernoil refinery up to 25% (from 12.5%), in the Mineraloelraffinerie Oberrhein GmbH – up to 24% (from 12%), and the PCK Raffinerie GmbH up to 54.17% (from 35.42%), including additional share, which was acquired earlier in 2015. Starting from October 2016 crude oil processing at Bashneft refineries is incorporated in the oil processing of Rosneft group.

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
	mln of tonnes		mln of tonnes			
Crude oil processing at refineries in Russia*	25.03	24.62	1.7%	75.19	60.42	24.4%
Crude oil processing at refineries outside Russia	3.28	3.10	5.8%	9.14	9.47	(3.5)%
<i>including crude oil processing in Germany**</i>	<i>3.15</i>	<i>3.07</i>	<i>2.6%</i>	<i>8.98</i>	<i>9.47</i>	<i>(5.2)%</i>
<i>including crude oil processing in Belarus</i>	<i>0.13</i>	<i>0.03</i>	<i>>100%</i>	<i>0.16</i>	—	—
Total Group crude oil processing	28.31	27.72	2.1%	84.33	69.89	20.7%
Petroleum product output:						
High octane gasoline	3.86	3.62	6.6%	11.33	8.56	32.4%
Low octane gasoline	0.03	0.04	(25.0)%	0.09	0.10	(10.0)%
Naphtha	1.49	1.52	(2.0)%	4.58	4.21	8.8%
Diesel	8.19	7.99	2.5%	24.71	18.77	31.6%
Fuel oil	5.29	5.86	(9.7)%	17.28	16.03	7.8%
Jet fuel	0.90	0.87	3.4%	2.48	2.32	6.9%
Petrochemicals	0.34	0.40	(15.0)%	1.14	0.45	>100%
Other	3.98	3.57	11.5%	10.93	8.48	28.9%
Product output at Rosneft's refineries in Russia	24.08	23.87	0.9%	72.54	58.92	23.1%
Product output at refineries outside Russia	3.24	3.10	4.5%	9.10	10.03	(9.3)%
<i>including crude oil output in Germany</i>	<i>3.13</i>	<i>3.07</i>	<i>2.0%</i>	<i>8.96</i>	<i>10.03</i>	<i>(10.7)%</i>
<i>including product output in Belarus</i>	<i>0.11</i>	<i>0.03</i>	<i>>100%</i>	<i>0.14</i>	—	—
Total Group product output	27.32	26.97	1.3%	81.64	68.95	18.4%

*Including processing at YANOS refinery

**Excluding additives obtained for processing

In the third quarter of 2017 Rosneft's total refinery throughput in Russia increased by 1.7% and amounted to 25.03 mln tonnes. The increase in production at Russian refineries compared to the second quarter of 2017 was mainly due to the growth of utilization rate at refineries in terms of current demand.

In the nine months of 2017 crude oil processing volume at refineries in Russia was higher by 24.4% if compared with the same period of 2016 which is mainly attributable to the acquisition of Bashneft assets in the fourth quarter of 2016.

In the third quarter of 2017, processing at the refineries in Germany increased by 2.6% in comparison with the second quarter of 2017 in accordance with planned utilization rate at refineries and seasonal influence.

Financial indicators

Revenues and equity share in profits of associates and joint ventures^{*}

In the third quarter of 2017 revenues and equity share in profits of associates and joint ventures amounted to RUB 1,496 billion in comparison with RUB 1,399 billion in the second quarter of 2017. Increase in revenues in RUB terms is mainly due to raising of worldwide crude oil price (7.5% in RUB terms compared to the second quarter of 2017).

In the nine months of 2017 and 2016 revenues and equity share in profits of associates and joint ventures amounted to RUB 4,305 billion and RUB 3,503 billion, respectively.

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

	For 3 months ended			% change	For 9 months ended September 30,			% change		
	September 30, 2017		June 30, 2017		2017	2016				
	% of revenue	% of revenue	RUB billion, except %		% of revenue	% of revenue				
Crude oil										
International Sales to non-CIS	560	37.5%	533	38.1%	5.1%	1 611	37.3%	1 409	40.2%	14.3%
Europe and other directions	335	22.5%	316	22.6%	6.0%	941	21.7%	793	22.6%	18.7%
Asia	225	15.0%	217	15.5%	3.7%	670	15.6%	616	17.6%	8.8%
International sales to CIS	35	2.3%	35	2.5%	0.0%	103	2.4%	95	2.7%	8.4%
Domestic sales	31	2.1%	24	1.7%	29.2%	77	1.8%	58	1.7%	32.8%
Total crude oil	626	41.9%	592	42.3%	5.7%	1,791	41.5%	1,562	44.6%	14.7%
Gas	48	3.2%	47	3.4%	2.1%	154	3.6%	154	4.4%	0.0%
Petroleum products										
International Sales to non-CIS	380	25.4%	376	26.8%	1.1%	1 182	27.5%	905	25.8%	30.6%
Europe and other directions	276	18.4%	280	19.9%	(1.4)%	872	20.3%	677	19.3%	28.8%
Asia	104	7.0%	96	6.9%	8.3%	310	7.2%	228	6.5%	36.0%
International Sales to CIS	35	2.3%	26	1.9%	34.6%	78	1.8%	38	1.1%	>100%
Domestic sales	330	22.1%	288	20.6%	14.6%	896	20.8%	666	19.0%	34.5%
Wholesale	200	13.4%	172	12.3%	16.3%	543	12.6%	368	10.5%	47.6%
Retail	130	8.7%	116	8.3%	12.1%	353	8.2%	298	8.5%	18.5%
Sales of bunker fuel to end-users	15	1.0%	15	1.1%	0.0%	40	0.9%	25	0.7%	60.0%
Total petroleum products	760	50.8%	705	50.4%	7.8%	2,196	51.0%	1,634	46.6%	34.4%
Sales of LNG	8	0.5%	3	0.2%	>100%	11	0.3%	1	0.0%	>100%
Petrochemical products	19	1.3%	21	1.5%	(9.5)%	60	1.4%	80	2.3%	(25.0)%
International sales	7	0.5%	8	0.6%	(12.5)%	22	0.5%	68	2.0%	(67.6)%
Domestic sales	12	0.8%	13	0.9%	(7.7)%	38	0.9%	12	0.3%	>100%
Sales of petroleum products, petrochemicals and LNG	787	52.6%	729	52.1%	8.0%	2,267	52.7%	1,715	48.9%	32.2%
Support services and other revenues	20	1.3%	18	1.3%	11.1%	56	1.3%	56	1.6%	0.0%
Equity share in profits of associates and joint ventures	15	1.0%	13	0.9%	15.4%	37	0.9%	16	0.5%	>100%
Total revenues and equity share in profits of associates and joint ventures	1,496	100.0%	1,399	100.0%	6.9%	4,305	100.0%	3,503	100.0%	22.9%

^{*}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:

	For 3 months ended				For 9 months ended September 30,				% change	
	September 30, 2017		June 30, 2017		% change	2017		2016		
	mln bbl	% of total volume	mln bbl	% of total volume		mln bbl	% of total volume	mln bbl	% of total volume	
Crude oil										
International Sales to non-CIS	214.6	47.3%	219.9	48.1%	(2.4)%	625.6	46.9%	583.4	48.8%	7.2%
Europe and other directions	127.3	28.1%	130.3	28.5%	(2.3)%	365.0	27.4%	346.5	29.0%	5.3%
Asia	87.3	19.2%	89.6	19.6%	(2.6)%	260.6	19.5%	236.9	19.8%	10.0%
International Sales to CIS	14.8	3.3%	17.7	3.9%	(16.4)%	46.6	3.5%	48.9	4.1%	(4.7)%
Domestic	14.1	3.1%	11.8	2.6%	19.5%	36.3	2.7%	30.4	2.5%	19.4%
Total crude oil	243.5	53.7%	249.4	54.6%	(2.4)%	708.5	53.1%	662.7	55.4%	6.9%
Crude oil										
tonnes	mln tonnes	mln tonnes	mln tonnes	mln tonnes		mln tonnes	mln tonnes	mln tonnes	mln tonnes	
International Sales to non-CIS	29.0	47.3%	29.7	48.1%	(2.4)%	84.5	46.9%	78.8	48.8%	7.2%
Europe and other directions	17.2	28.1%	17.6	28.5%	(2.3)%	49.3	27.4%	46.8	29.0%	5.3%
Asia	11.8	19.2%	12.1	19.6%	(2.6)%	35.2	19.5%	32.0	19.8%	10.0%
International Sales to CIS	2.0	3.3%	2.4	3.9%	(16.4)%	6.3	3.5%	6.6	4.1%	(4.7)%
Domestic sales	1.9	3.1%	1.6	2.6%	19.5%	4.9	2.7%	4.1	2.5%	19.4%
Total crude oil	32.9	53.7%	33.7	54.6%	(2.4)%	95.7	53.1%	89.5	55.4%	6.9%
Petroleum products										
International Sales to non-CIS	14.8	24.2%	16.2	26.2%	(8.6)%	48.1	26.7%	43.8	27.0%	9.8%
Europe and other directions	10.2	16.7%	11.8	19.1%	(13.6)%	34.2	19.0%	33.2	20.4%	3.0%
Asia	4.6	7.5%	4.4	7.1%	4.5%	13.9	7.7%	10.6	6.6%	31.1%
International Sales to CIS	1.4	2.3%	1.0	1.6%	40.0%	3.1	1.7%	1.6	1.0%	93.8%
Domestic sales	10.2	16.6%	9.3	15.1%	9.7%	28.7	15.9%	22.7	14.1%	26.4%
Wholesale	7.1	11.5%	6.4	10.4%	10.9%	20.0	11.1%	14.9	9.3%	34.2%
Retail	3.1	5.1%	2.9	4.7%	6.9%	8.7	4.8%	7.8	4.8%	11.5%
Sales of bunker fuel to end-users	0.8	1.3%	0.8	1.3%	0.0%	2.1	1.2%	1.4	0.9%	50.0%
Total petroleum products	27.2	44.4%	27.3	44.2%	(0.4)%	82.0	45.5%	69.5	43.0%	18.0%
Sales of LNG	0.5	0.8%	0.1	0.2%	>100%	0.6	0.3%	0.1	0.1%	>100%
Petrochemical products	0.7	1.1%	0.6	1.0%	16.7%	2.0	1.1%	2.4	1.5%	(16.7)%
International sales	0.3	0.4%	0.2	0.4%	50.0%	0.8	0.4%	1.7	1.1%	(52.9)%
Domestic sales	0.4	0.7%	0.4	0.6%	0.0%	1.2	0.7%	0.7	0.4%	71.4%
Total crude oil and products, LNG	61.3	100.0%	61.7	100.0%	(0.6)%	180.3	100.0%	161.5	100.0%	11.6%
Gas	bcm		bcm		bcm		bcm			
Sales Volumes	14.42		14.29		0.9%		46.32		46.97	
	(1.4)%									

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)*:

	For 3 months ended				% change	For 9 months ended September 30,				% change		
	September 30, 2017		June 30, 2017			2017		2016				
	th.RUB/ barrel	th.RUB/ tonne	th.RUB/ barrel	th.RUB/ tonne		th.RUB/ barrel	th.RUB/ tonne	th.RUB/ barrel	th.RUB/ tonne			
Average prices on foreign markets												
Crude oil, non-CIS	2.85	21.1	2.64	19.6	7.7%	2.82	20.8	2.60	19.2	8.3%		
Europe and other directions **	2.81	20.8	2.57	19.0	9.5%	2.75	20.3	2.52	18.7	8.6%		
Asia**	2.91	21.6	2.77	20.5	5.4%	2.92	21.7	2.72	20.1	8.0%		
Crude oil, CIS	2.29	17.0	2.03	15.0	13.3%	2.19	16.2	1.95	14.4	12.5%		
Petroleum products, non- CIS	25.6		23.6	8.5%		24.8		20.6	20.4%			
Europe and other directions	26.8		24.3	10.3%		25.7		20.3	26.6%			
Asia	23.0		22.0	4.5%		22.5		21.5	4.7%			
Petroleum products, CIS	26.2		23.7	10.5%		25.4		24.2	5.0%			
Sales of LNG	18.8		19.4	(3.1)%		18.9		18.2	3.8%			
Petrochemical products	27.1		29.6	(8.4)%		28.3		39.6	(28.5)%			
Average domestic prices												
Crude oil	2.22	16.4	1.94	14.4	13.9%	2.11	15.7	1.89	14.0	12.1%		
Petroleum products	32.2		31.2	3.2%		31.2		29.4	6.1%			
Wholesale	28.1		26.9	4.5%		27.1		24.7	9.7%			
Retail	41.6		40.6	2.5%		40.7		38.3	6.3%			
Gas (RUB./the cubic meter) ***	3.29		3.25	1.2%		3.29		3.21	2.5%			
Petrochemical products	31.6		31.7	(0.3)%		31.7		17.7	79.1%			
Sales of bunker fuel to end-users	20.0		18.9	5.8%		19.5		17.9	8.9%			

*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 23 billion, in the third quarter of 2017 and in the second quarter of 2017; RUB 78 billion and RUB 71 billion in the nine months of 2017 and 2016, respectively).

***Including gas sales outside Russian Federation average gas prices were 3.32 th.RUB./th. cubic meter in the third quarter of 2017 and 3.28 th.RUB./th. cubic meter in the second quarter of 2017, 3.32 th.RUB./th. cubic meter and 3.27 th.RUB./th. cubic meter in the nine months of 2017 and 2016, respectively.

International Crude Oil Sales to non-CIS

Revenues from international crude oil sales to non-CIS countries in the third quarter of 2017 amounted to RUB 560 billion compared to RUB 533 billion in the second quarter of 2017. Revenue increase was due to the 7.7% upturn in average price or RUB 43 billion and was partially offset by decrease in sales volumes by 2.4% (unfavourable impact on revenue of RUB 12 billion).

In the nine months of 2017 revenues from international crude oil sales to non-CIS countries increased by 14.3% compared with the same period of 2016. Average sales price upturn by 8.3% (positive impact on revenue of RUB 138 billion) was accompanied by increase in sales volume by 7.2% (favorable impact on revenue of RUB 108 billion).

International Crude Oil Sales to CIS

Revenue from sales of crude oil to CIS in the third quarter of 2017 did not change compared to the second quarter of 2017 and amounted to RUB 35 billion. The upturn of average sales price by 13.3% (favorable impact on revenues of RUB 5 billion) was offset by decrease in sales volume of 16.4% (negative impact on revenue of RUB 5 billion).

In the nine months of 2017 and 2016 revenues from international crude oil sales to CIS countries amounted to RUB 103 billion and RUB 95 billion, respectively. Increase in average sales price of 12.5% (favorable impact on revenues of RUB 12 billion) was partially offset by decrease in sales volume by 4.7% (unfavorable impact on revenue of RUB 4 billion)

Domestic Sales of Crude Oil

In the third quarter of 2017 revenues from domestic sales of crude oil amounted to RUB 31 billion, which is 29.2% higher than in the second quarter of 2017, mainly due to volume increase of 19.5% (favorable impact on revenue of RUB 4 billion) and was accompanied by average sales price upturn up to 13.9% (favorable impact on revenue of RUB 3 billion).

In the nine months of 2017 revenues from domestic crude oil sales amounted RUB 77 billion that were 32.8% higher in comparison with the same period of 2016, which was mainly attributable to growth of crude oil sales volumes up to 19.4% (favorable effect on revenues of RUB 11 billion) and was accompanied by upturn of average sales price by 12.1% (positive impact on revenue of RUB 8 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 third quarter of 2017 and in the second quarter of 2017*:

	For 3 months ended				% change				
	September 30, 2017		June 30, 2017						
	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	5	0.2	34.6	4	0.1	34.2	25.0%	100.0%	1.2%
Naphtha	42	1.6	27.1	38	1.6	24.4	10.5%	0.0%	11.1%
Diesel (Gasoil)	88	3.2	26.5	101	4.2	24.5	(12.9)%	(23.8)%	8.2%
Fuel oil	105	5.7	18.6	100	6.2	16.9	5.0%	(8.1)%	10.1%
Other	7	0.4	21.0	6	0.2	28.3	16.7%	100.0%	(25.8)%
Petroleum products exported to non-CIS	247	11.1	22.4	249	12.3	20.8	(0.8)%	(9.8)%	7.7%
Petroleum products sold from German refineries	112	2.8	39.3	103	2.9	35.7	8.7%	(3.4)%	10.1%
Petroleum products bought and sold outside Russia	21	0.9	23.3	24	1.0	22.9	(12.5)%	(10.0)%	1.7%
Trading of petroleum products outside Russia	133	3.7	35.6	127	3.9	32.3	4.7%	(5.1)%	10.2%
Total	380	14.8	25.6	376	16.2	23.6	1.1%	(8.6)%	8.5%

*Average price is calculated from unrounded figures.

Revenues from the international sales of petroleum products to non-CIS countries in the third quarter of 2017 were RUB 380 billion in comparison with RUB 376 billion in the second quarter of 2017, which is 1.1% higher due to the upturn of average price up to 8.5% (positive impact on revenues of RUB 32 billion) which was partially offset by decrease in sales volumes of 8.6% (unfavourable impact on revenues of RUB 29 billion).

The table below sets forth Rosneft's revenues, volume and average price per tonne of petroleum products sold to non-CIS countries in the nine months of 2017 and 2016*:

	For 9 months ended September 30,				% change				
	2017		2016						
	RUB billion	million of tonnes	Average price th.RUB/tonne	RUB billion	million of tonnes	Average Price th.RUB/tonne	RUB billion	million of tonnes	Average price th.RUB/tonne
High octane gasoline	16	0.5	34.7	9	0.3	33.1	77.8%	66.7%	4.8%
Naphtha	124	4.7	26.5	107	4.3	24.8	15.9%	9.3%	6.9%
Diesel (Gasoil)	312	11.9	26.0	227	9.6	23.7	37.4%	24.0%	9.7%
Fuel oil	329	18.9	18.0	258	18.1	14.4	27.5%	4.4%	25.0%
Other	19	0.8	24.8	14	0.6	25.2	35.7%	33.3%	(1.6)%
Petroleum products exported to non-CIS	800	36.8	22.0	615	32.9	18.8	30.1%	11.9%	17.0%
Petroleum products sold from German refineries	300	7.8	38.4	235	8.1	28.9	27.7%	(3.7)%	32.9%
Petroleum product purchased and sold outside Russia	82	3.5	23.4	55	2.8	20.1	49.1%	25.0%	16.4%
Trading of petroleum products outside Russia	382	11.3	33.8	290	10.9	26.7	31.7%	3.7%	26.6%
Total	1,182	48.1	24.8	905	43.8	20.6	30.6%	9.8%	20.4%

*Average price is calculated from unrounded figures.

In the nine months of 2017 revenues from sales of petroleum products to non-CIS countries were 30.6% higher than in the nine months of 2016 and amounted to RUB 1,182 billion mainly due to average price upturn by 20.4% (favorable impact on revenues of RUB 193 billion), and sales volumes growth of 9.8% (favorable impact on revenues of RUB 90 billion) taking into account the acquisition of new assets.

Growth of sales of petroleum product purchased and sold outside Russia resulted from an increased trading activity of the foreign division of the Company.

International Petroleum Product Sales to CIS

Revenues from sales of petroleum products to the CIS countries were RUB 35 billion in the third quarter of 2017, 34.6% higher, if compared with the second quarter of 2017 mainly due to increase in sales volumes of 40.0% (favorable impact on revenues of RUB 7 billion) and was accompanied by average price upturn of 10.5% (favorable effect on revenues of RUB 2 billion).

Revenues from sales of petroleum products to the CIS countries in the nine months of 2017 were approximately twofold higher (or increase of RUB 40 billion) if compared to the same period of 2016 due to significant increase in petroleum products sales volumes (favourable effect on revenues of RUB 37 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 third quarter of 2017 and in the second quarter of 2017*:

	For 3 months ended						% change		
	September 30, 2017			June 30, 2017			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	162	3.9	41.1	150	3.8	39.6	8.0%	2.6%	3.8%
Diesel (Gasoil)	110	3.3	33.4	93	2.8	33.5	18.3%	17.9%	(0.3)%
Fuel oil	8	0.6	10.9	5	0.6	9.0	60.0%	0.0%	21.1%
Jet fuel	28	0.9	31.5	23	0.8	28.9	21.7%	12.5%	9.0%
Other	22	1.5	15.6	17	1.3	12.4	29.4%	15.4%	25.8%
Total	330	10.2	32.2	288	9.3	31.2	14.6%	9.7%	3.2%

*Average price is calculated from unrounded figures.

Revenues from sales of petroleum products on the domestic market were RUB 330 billion in the third quarter of 2017 or 14.6% higher compared with the second quarter of 2017, which was mainly due to increase in petroleum products sales volume of 9.7% (favorable effect on revenue of RUB 28 billion) and was accompanied by the 3.2% upturn of average sales price (positive effect on revenue of RUB 14 billion).

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold in Russia in the nine months of 2017 and 2016*:

	For 9 months ended September 30,						% change		
	2017			2016			RUB billion	million of tonnes	Average price th.RUB/ tonne
	RUB billion	million of tonnes	Average price th.RUB/ tonne	RUB billion	million of tonnes	Average price th.RUB/ tonne			
High octane gasoline	455	11.5	39.7	334	8.8	37.9	36.2%	30.7%	4.7%
Diesel (Gasoil)	294	8.8	33.4	229	7.6	30.2	28.4%	15.8%	10.6%
Fuel oil	23	2.1	10.5	6	1.1	5.6	>100%	90.9%	87.5%
Jet fuel	72	2.4	30.3	63	2.3	27.5	14.3%	4.3%	10.2%
Other	52	3.9	13.6	34	2.9	11.9	52.9%	34.5%	14.3%
Total	896	28.7	31.2	666	22.7	29.4	34.5%	26.4%	6.1%

*Average price is calculated from unrounded figures.

Revenues from sales of petroleum products on the domestic market in the nine months of 2017 were RUB 896 billion or 34.5% higher compared to the same period of 2016. The increase was due to sales volume growth of 26.4% (favorable effect on revenue of RUB 176 billion) and average sales price growth of 6.1% (favorable effect on revenue of RUB 54 billion).

Sales of LNG

The Company supplies LNG under a contract with the Egyptian Natural Gas Holding Company, concluded in August of 2015. Sales volumes in the nine months of 2017 amounted to 0.56 mln tonnes (RUB 11 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 the 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 third quarter of 2017 did not change in comparison with the second quarter of 2017 and amounted to RUB 15 billion.

Revenues from sales of bunker fuel in the nine months of 2017 increased of 60.0% or RUB 15 billion in comparison with the same period of 2016 due to sales volumes growth of 50.0% (positive effect on revenue of RUB 13 billion), accompanied by average sales price upturn of 8.9% or RUB 2 billion.

Petrochemical Product Sales

Revenues from sales of petrochemical products in the third quarter of 2017 and in the second quarter of 2017 amounted to RUB 19 billion (0.7 mln tonnes) and RUB 21 billion (0.6 mln tonnes), respectively.

Petrochemical product sales volumes from the German refineries amounted to 0.14 mln tonnes and 0.13 mln tonnes in the third quarter and the second quarter of 2017, respectively.

Revenues from sales of petrochemical products in the nine months of 2017 decreased by RUB 20 billion and amounted to RUB 60 billion compared to the same period of 2016. International sales decreased by RUB 46 billion due to decline in sales volumes of 52.9% (negative impact on revenues of RUB 36 billion) which was accompanied by downturn in sales price by 28.5% (negative impact on revenues of RUB 10 billion). Domestic sales of petrochemical products increased by RUB 26 billion mainly due to the 79.1% upturn in the average sales price (positive impact on revenues of RUB 17 billion) and increase in sales volumes of 71.4% (positive impact on revenues of RUB 9 billion).

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*:

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
	RUB billion	RUB billion				
Revenue						
In the Russian Federation	47.0	45.9	2.4%	150.6	148.6	1.3%
Outside the Russian Federation	0.9	1.1	(18.2)%	3.2	5.0	(36.0)%
Total	47.9	47.0	1.9%	153.8	153.6	0.1%
Sales volumes						
In the Russian Federation	14.28	14.11	1.2%	45.81	46.33	(1.1)%
Outside the Russian Federation	0.14	0.18	(22.2)%	0.51	0.64	(20.3)%
Total	14.42	14.29	0.9%	46.32	46.97	(1.4)%
Average price						
In the Russian Federation	3.29	3.25	1.2%	3.29	3.21	2.5%
Outside the Russian Federation	6.22	5.96	4.4%	6.14	7.76	(20.9)%
Average price of the Company	3.32	3.28	1.2%	3.32	3.27	1.5%

*Average price is calculated from unrounded figures.

In the third quarter of 2017 revenues from gas sales in the Russian Federation increased compared to the second quarter of 2017 and amounted to RUB 47.0 billion. Higher revenues were due to growth of average sales prices (+RUB 0.5 billion) and volumes of RUB 0.5 billion, respectively.

In the Russian Federation gas sales upturn of 1.3% in the nine months of 2017 compared with the same period of 2016 resulted from average price upturn of 2.5% (positive impact on revenues of RUB 3.7 billion), despite a decrease in gas sales volumes of 1.1% or RUB 1.7 billion.

Support Services and Other Revenues

Rosneft owns service companies that 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:

	For 3 months ended				% change	For 9 months ended September 30,				% change		
	September 30, 2017		June 30, 2017			2017		2016				
	% of total revenue	% of total revenue	% of total revenue	% of total revenue		% of total revenue	% of total revenue	% of total revenue	% of total revenue			
billion RUB, except %												
Drilling services	1.1	5.5%	1.2	6.5%	(8.3)%	3.4	6.0%	2.2	4.0%	54.5%		
Sales of materials	7.9	39.7%	6.2	33.7%	27.4%	19.5	34.7%	18.7	33.6%	4.3%		
Repairs and maintenance services	0.7	3.5%	0.6	3.3%	16.7%	1.9	3.4%	2.3	4.1%	(17.4)%		
Rent services	1.1	5.5%	1.4	7.6%	(21.4)%	4.0	7.1%	3.8	6.8%	5.3%		
Construction services	0.1	0.5%	0.2	1.1%	(50.0)%	0.3	0.5%	0.1	0.2%	>100%		
Transport services	3.6	18.1%	3.6	19.6%	0.0%	11.0	19.5%	11.8	21.2%	(6.8)%		
Electric power sales and transmission	2.3	11.6%	2.0	10.9%	15.0%	6.9	12.3%	5.2	9.4%	32.7%		
Other revenues	3.1	15.6%	3.2	17.3%	(3.1)%	9.3	16.5%	11.5	20.7%	(19.1)%		
Total	19.9	100.0%	18.4	100.0%	8.2%	56.3	100.0%	55.6	100.0%	1.3%		

Support services and other revenues in the third quarter of 2017 amounted to RUB 19.9 billion or 8.2% higher in comparison with the second quarter of 2017.

Support services and other revenues in the nine months of 2017 increased by 1.3% compared with the same period of 2016.

Equity share in profits of downstream associates and joint ventures

The equity share in net financial results (profits) of downstream associates and joint ventures amounted to RUB 5 billion and RUB 2 billion in the third and second quarters of 2017, respectively¹. The equity share in net financial results of downstream associates and joint ventures was RUB 9 billion and RUB 5 billion in the nine months of 2017 and 2016, respectively.

Downstream production and operating costs

Downstream operating expenses include^{*}:

	For 3 months ended		% change	For 9 months ended September 30,		% change	
	September 30, 2017			2017	2016		
				billion RUB, except %			
Operating expenses at refineries in Russia	33.1	30.1	10.0%	92.5	56.4	64.0%	
Operating expenses at refineries and cost of additives and materials procured for processing outside Russia	11.9	10.2	16.7%	31.8	58.9	(46.0)%	
Operating expenses of retail companies incl.:	12.9	12.3	4.9%	36.8	32.1	14.6%	
<i>operating expenses</i>	8.9	8.4	6.0%	25.8	21.9	17.8%	
<i>purchase cost of other inventories</i>	4.0	3.9	2.6%	11.0	10.2	7.8%	
Downstream operating expenses	57.9	52.6	10.1%	161.1	147.4	9.3%	
<i>Intragroup inventory effect and others</i>	(14.7)	10.8	–	(9.5)	11.6	–	
Total Downstream Operating expenses**	43.2	63.4	(31.9)%	151.6	159.0	(4.7)%	

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.*

Operating expenses of refineries and retail companies in the third quarter of 2017 increased by 10.1% compared with the second quarter of 2017 and amounted to RUB 57.9 billion.

In the nine months of 2017, operating expenses of refineries and retail companies increased by 9.3% compared with the same period of 2016.

¹See the equity share in net financial results of upstream associates and joint ventures in the section “Upstream operating results”.

Operating expenses at Company's refineries

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
Operating expenses at refineries in Russia (RUB billion)	33.1	30.1	10.0%	92.5	56.4	64.0%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,497	1,372	9.1%	1,381	1,049	31.6%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,442	1,332	8.3%	1,335	1,027	30.0%
Operating expenses at refineries outside Russia (RUB billion)*	5.0	4.7	6.4%	14.3	24.0	(40.4)%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,597	1,531	4.3%	1,596	2,395	(33.4)%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,587	1,531	3.7%	1,592	2,535	(37.2)%
Total operating expenses at Rosneft's refineries (RUB billion)	38.1	34.8	9.5%	106.8	80.4	32.8%

*Refineries outside Russia also procured the additives and materials for processing: in the third quarter of 2017 – RUB 6.9 billion, in the second quarter of 2017 – RUB 5.5 billion; in the nine months of 2017 and 2016 – RUB 17.5 billion and RUB 34.9 billion, respectively.

Operating expenses of Rosneft's refineries in Russia in the third quarter of 2017 amounted to RUB 33.1 billion and increased by 10.0% compared with the second quarter of 2017. High operating expenses are mainly due to increased volumes of scheduled turnarounds of major production capacities if compared with the second quarter of 2017 that lead to significant growth of maintenance expenses and other operating costs in terms of slight change in processing in the third quarter of 2017.

In the nine months of 2017 operating expenses of Rosneft's refineries in Russia increased by 64.0% compared with the same period of 2016 mainly due to the acquisition of Bashneft assets in the fourth quarter of 2016, increased tariffs of natural monopolies and indexation of wages.

Operating expenses of Rosneft's refineries outside Russia increased in the third quarter of 2017 by 6.4% in comparison with the second quarter of 2017 due to growth of production volumes after scheduled turnarounds in the first half of 2017. Reduction of operating expenses at the refineries outside Russia in the nine months of 2017 in comparison with the same period of 2016 resulted from completion of the restructuring of ROG (JV with BP Group in oil processing and sales in the Western Europe) and RUB appreciation against the euro.

In the third quarter of 2017 operating costs per tonne of crude oil throughput of Rosneft's refineries in Russia increased by 8.3% compared with the second quarter of 2017 and amounted to RUB 1,442 per tonne. The increase was mostly due to higher scheduled turnaround expenses. The increase of 30.0% in operating costs per tonne at refineries in Russia in the nine months of 2017 compared with the same period of 2016 was due to the acquisition of Bashneft assets with higher operating costs caused by more complex process of production (production of fuel oil and aromatics) and due to increased tariffs of natural monopolies, indexation of wages.

Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia were RUB 1,587 per tonne in the third quarter of 2017 (an increase of 3.7%) compared with the second quarter of 2017. Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia reduced to RUB 1,592 per tonne in the nine months of 2017 (a decrease of 37.2%), compared with the nine months of 2016 that was mainly due to reduction of maintenance and turnaround expenses and RUB appreciation of 17.5% in the nine months of 2017.

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*:

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
Crude oil and gas procurement						
Cost of crude oil and gas procured (RUB billion)**	170	159	6.9%	446	315	41.6%
<i>including Domestic market</i>	62	62	–	189	141	34.0%
<i>International market</i>	108	97	11.3%	257	174	47.7%
Volume of crude oil procured (millions of barrels)	67.3	68.4	(1.6)%	177.4	137.7	28.8%
<i>including Domestic market</i>	26.9	29.0	(7.2)%	80.6	71.7	12.4%
<i>International market</i>	40.4	39.4	2.5%	96.8	66.0	46.7%
Volume of gas procured (bcm)	2.41	2.48	(2.8)%	10.49	10.60	(1.0)%
LNG procurement						
Cost of LNG (RUB billion)	8	2	>100%	10	1	>100%
Volume of LNG procured (millions of tonnes)	0.43	0.13	>100%	0.56	0.06	>100%
Petroleum products procurement						
Cost of petroleum products procured (RUB billion)***	27	31	(12.9)%	102	80	27.5%
Volume of petroleum products procured (millions of tonnes)	1.11	1.35	(17.8)%	4.23	3.49	21.2%
Crude oil, gas and petroleum products refining services						
Cost of refining of crude oil under processing agreements (RUB billion)	7.8	7.2	8.3%	21.3	21.5	(0.9)%
Volumes of crude oil and petroleum products, refined under processing agreements (millions of tonnes)	2.5	2.7	(7.4)%	7.3	6.6	10.6%
Volumes of refining of gas under processing agreements (bcm)	2.6	2.6	–	7.6	7.7	(1.3)%
Cost of products procured for blending on retail companies (RUB billion)						
<i>Including intercompany purchases(RUB billion)</i>	6.6	6.1	8.2%	18.4	19.7	(6.6)%
Total cost of procured oil, gas and petroleum products and refining costs (RUB billion)	213	199	7.0%	580	418	38.8%

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

**Including cost of Upstream segment in the amount of RUB 5 billion in the third quarter of 2017; RUB 10 billion in the second quarter of 2017 and RUB 26 billion and RUB 20 billion in the nine months of 2017 and 2016, 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.

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 refineries in Germany.

Crude oil and gas procurement costs were RUB 170 billion and RUB 159 billion in the third and in the second quarters of 2017, respectively. The increase in crude oil and gas procurement by 6.9% in the third quarter of 2017 compared with the previous quarter is mainly attributable to increased trading activity of the Company's foreign subsidiary and processing volume growth by 2.6% on the Company's refineries in Germany.

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
	mln barrels			mln barrels		
International market	40.4	39.4	2.5%	96.8	66.0	46.7%
Udmurtneft	5.9	6.2	(4.8)%	17.7	19.1	(7.3)%
Slavneft	11.4	14.3	(20.3)%	38.3	39.4	(2.8)%
Messoyahaneftegaz	3.1	2.7	14.8%	8.3	—	—
Lukoil-Reservnefteproduct	0.4	0.5	(20.0)%	1.4	—	—
Others	6.1	5.3	15.1%	14.9	13.2	12.9%
Total	67.3	68.4	(1.6)%	177.4	137.7	28.8%

Rosneft performs oil swaps operations in order to optimize transportation costs of deliveries to refineries. Revenues and costs related to these operations are presented on a net basis in the "Pipeline tariffs and Transportation costs" line of the consolidated statement of Profit or Loss.

The volume of swaps was 9.9 mln barrels, 8.2 mln barrels in the third and in the second quarters of 2017, respectively. In the nine months of 2017 and 2016, the volume of swaps was 25.5 mln barrels and 24.0 mln barrels, respectively.

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 third and second quarters of 2017:

	For 3 months ended						% change		
	September 30, 2017			June 30, 2017					
	RUB billion	mln tonnes	th.RUB/ tonne*	RUB billion	mln tonnes	th.RUB/ tonne*	RUB billion	mln tonnes	th.RUB/ tonne
Petroleum products procurement in Russia	7	0.24		7	0.27		—	(11.1)%	
High octane gasoline	2	0.05	38.1	3	0.11	36.0	(33.3)%	(54.5)%	5.8%
Diesel	2	0.06	37.0	2	0.06	36.1	—	—	2.5%
Jet fuel	0	0.01	28.7	0	0.00	29.9	—	—	(4.0)%
Others	3	0.12	25.0	2	0.10	23.2	50.0%	20.0%	7.8%
Petroleum products procured outside Russia	20	0.87	22.8	24	1.08	22.3	(16.7)%	(19.4)%	2.2%
Total	27	1.11		31	1.35		(12.9)%	(17.8)%	

*Calculated based on unrounded numbers.

The volume of petroleum products procured in Russia in the third quarter of 2017 declined by 11.1% to 0.24 mln tonnes in comparison with the second quarter of 2017 due to demand satisfaction by own resources. Procurement of petroleum products outside Russia meets the contractual obligations 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 nine months of 2017 and 2016:

	For 9 months ended September 30,						% change	
	2017			2016			RUB billion	mln tonnes
	RUB billion	mln tonnes	th. RUB/tonne*	RUB billion	mln tonnes	th. RUB/tonne*		
Petroleum products procurement in Russia								
High octane gasoline	20	0.69		18	0.63		11.1%	9.5%
Diesel	6	0.18	32.3	5	0.14	35.3	20.0%	28.6% (8.5)%
Jet fuel	8	0.24	34.8	7	0.24	33.2	14.3%	— 4.8%
Others	0	0.01	28.5	0	0.01	26.3	—	— 8.4%
Petroleum products and petrochemicals procured outside Russia	82	3.54	23.1	62	2.86	21.5	32.3%	23.8% 7.4%
<i>Including petroleum products procurement</i>	81	3.52	23.1	55	2.76	19.1	47.3%	27.5% 20.9%
Total	102	4.23		80	3.49		27.5%	21.2%

*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 slightly increased (by 0.06 mln tonnes) in the nine months of 2017 compared with the same period of 2016.

Petroleum products and petrochemicals procurement outside Russia

Petroleum products and petrochemicals procured outside Russia amounted to RUB 20 billion (0.87 mln tonnes) in the third quarter of 2017. Procurement of petroleum products outside Russia meets the contractual obligation under long-term agreements for sales of petroleum products.

The volume of petroleum products and petrochemicals procured outside Russia in the nine months 2017 significantly increased (by 23.8%) in comparison with 2.86 mln tonnes in the nine months of 2016 and was driven by upturn of supply under new projects in terms of long-term sales agreements.

Crude oil and gas processing, petroleum products processing

Starting from April 2014, associated petroleum gas sales to PJSC "Sibur" and purchases of dry stripped gas from PJSC "Sibur" are presented on a net basis in the Company's financial statements in processing costs. Processing costs was RUB 10.19 billion and RUB 11.29 billion in the nine months of 2017 and 2016, respectively.

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 third quarter of 2017 Rosneft's transportation costs increased by 0.7% and amounted to RUB 146 billion compared to the second quarter of 2017.

The table below sets forth the comparison 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 third and second quarters of 2017, respectively:

	For 3 months ended								% change		
	September 30, 2017				June 30, 2017						
	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
CRUDE OIL											
<u>International sales</u>											
Pipeline	26.5	85.5%	54.3	2.05	27.5	85.9%	55.1	2.00	(3.6)%	(1.5)%	2.5%
Railroad and mixed	0.5	1.6%	1.8	3.32	0.6	1.9%	1.9	3.40	(16.7)%	(5.3)%	(2.4)%
Pipeline and FCA **	4.0	12.9%			3.9	12.2%			2.6%		
<u>Transportation to refineries</u>											
Pipeline ***	25.6		18.2	0.71	25.0		18.7	0.75	2.4%	(2.7)%	(5.3)%
Railroad and mixed	2.7		9.1	3.36	2.4		7.7	3.24	12.5%	18.2%	3.7%
PETROLEUM PRODUCTS											
<u>International sales</u>											
Pipeline	1.8	10.5%	4.5	2.58	2.1	11.7%	5.8	2.71	(14.3)%	(22.4)%	(4.8)%
Railroad and mixed	12.4	72.5%	29.2	2.35	13.1	72.8%	30.5	2.34	(5.3)%	(4.3)%	0.4%
Pipeline and FCA **	2.9	17.0%			2.8	15.5%			3.6%		
GAS											
bcm				RUB/cm	bcm				RUB/cm		
Pipeline ****	9.7		12.2	1.26	10.7		12.0	1.12	(9.3)%	1.7%	12.5%
Other transportation expenses *****			17				13				30.8%
Total	76.4		146		77.4		145		(1.3)%	0.7%	

*Calculated based on unrounded data.

**Rosneft exported part of crude oil and petroleum products in the third quarter and second quarters of 2017 through its own export terminal in Tuapse, on FCA terms, and through the foreign trading subsidiary of the Company, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

***Including crude oil purchased on international market, which was delivered to German refineries.

****Part of gas volumes was dispatched on terms under which Rosneft does not bear transportation expenses. In the third and second quarters of 2017 these volumes amounted to 4.7 bcm and 3.6 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 station.

Crude oil pipeline transportation cost per tonne of international sales in the third quarter of 2017 remained practically unchanged and amounted to RUB 2.05 thousand per tonne.

Crude oil railroad and mixed transportation cost per tonne of international sales was 2.4% lower due to change in structure of transportation routes.

Crude oil pipeline transportation cost per tonne of supplies to refineries decreased by 5.3% in the third quarter of 2017 compared to the second quarter of 2017 which was caused by change in structure of transportation structure and reduced of high cost routes.

Crude oil railroad and mixed transportation cost per tonne of supplies to refineries in the third quarter of 2017 increased by 3.7% compared with the second quarter of 2017 due to change in transportation routes.

The decrease in pipeline cost per tonne of petroleum product international sales of 4.8% in the third quarter of 2017 compared to the previous quarter was mainly due to change in transportation structure (decrease in share of transportation routes with tariff partially denominated in USD).

Railroad and mixed transportation cost per tonne of petroleum product international sales in the third quarter of 2017 compared to the second quarter of 2017 remain practically unchanged and amounted to 2.35 thousand per tonne.

Gas transportation costs increase of 12.5% in the third quarter of 2017 compared to the second quarter of 2017 was resulted from increase in average distance to final consumers. In the third and the second quarters of 2017 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 nine months of 2017 and 2016, respectively:

	For 9 months ended September 30,							% change			
	2017				2016						
	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
CRUDE OIL											
<u>International sales</u>											
Pipeline	79.5	87.5%	160.9	2.02	83.2	97.4%	161.3	1.94	(4.4)%	(0.2)%	4.1%
Railroad and mixed	1.6	1.8%	5.4	3.36	2.2	2.6%	7.9	3.47	(23.7)%	(31.6)%	(3.2)%
Pipeline and FCA **	9.7	10.7%			—	—			>100%		
<u>Transportation to refineries</u>											
Pipeline ***	76.6		56.7	0.74	63.9		49.4	0.77	19.9%	14.8%	(3.9)%
Railroad and mixed	7.6		24.9	3.26	6.0		21.0	3.56	26.7%	18.6%	(8.4)%
PETROLEUM PRODUCTS											
<u>International sales</u>											
Pipeline	6.2	11.5%	17.0	2.77	2.8	5.8%	8.4	2.92	>100%	>100%	(5.1)%
Railroad and mixed	39.0	72.8%	96.5	2.47	38.2	79.4%	99.6	2.61	2.1%	(3.1)%	(5.4)%
Pipeline and FCA **	8.4	15.7%			7.1	14.8%			18.3%		
GAS											
Pipeline ****	bcm		RUB/cm		bcm		RUB/cm				
	31.4		37.0	1.18	32.5		35.4	1.09	(3.4)%	4.5%	8.3%
Other transportation expenses *****											
Total			46				37				24.3%
Total	228.6		444		203.4		420		12.4%	5.7%	

*Calculated based on unrounded data.

**Rosneft exported part of crude oil and petroleum products in the nine months of 2017 and 2016 through its own export terminal in Tuapse on FCA terms, and through the foreign trading subsidiary of the Company, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

*** Including crude oil purchased on international market, which was delivered to German refineries.

**** Part of gas volumes was dispatched on terms where Rosneft does not bear transportation expenses. In the nine months of 2017 and 2016 these volumes amounted to 14.9 bcm and 14.5 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 nine months of 2017 compared with the same period of 2016 mainly resulted from tariffs indexation and supply chain optimization. The change in shipping cost of gas (per bcm) was mainly caused by growth of average transportation distance to final consumers.

Excise tax

In the third quarter of 2017 excise tax was RUB 88 billion, including additional costs related to processing outside Russian Federation in the amount of RUB 27 billion¹, in comparison with RUB 78 billion in the second quarter of 2017.

Excise tax, excluding additional costs related to processing outside Russian Federation, amounted to RUB 171 billion in the nine months of 2017 in comparison with RUB 136 billion in the same period of 2016 due to increased excise tax rate for petroleum products and the acquisition of Bashneft assets.

¹These costs are recharged to final buyers (consumers).

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 analyzed:

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
RUB billion, except %						
Export customs duty for crude oil	111	119	(6.7)%	347	349	(0.6)%
Export customs duty for petroleum products	39	41	(4.9)%	129	109	18.3%
Total export customs duty	150	160	(6.3)%	476	458	3.9%

Export customs duty amounted to RUB 150 billion in the third quarter of 2017 compared to RUB 160 billion in the second quarter of 2017 (decreased by 6.3%). The decline was mostly due to the positive duty lag effect in the third quarter of 2017.

The growth in export customs duty in the nine months of 2017 compared with the same period of 2016 mainly resulted from the increase in petroleum products export volumes due to the acquisition of Bashneft assets and higher customs duty rate resulting from the increase in Urals price (+8% in RUB terms).

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
Urals (average Med and NWE) (USD/bbl)	50.8	48.8	4.1%	50.6	40.0	26.5%
Hypothetical export customs duty on crude oil ¹ (th. RUB/tonne)	5.06	4.65	8.8%	4.98	5.06	(1.6)%
Enacted export customs duty on crude oil (th. RUB/tonne)	4.71	4.82	(2.3)%	4.87	4.81	1.2%
Average customs duty on crude oil exports subject to regular rate (th. RUB/tonne)	4.66	4.81	(3.1)%	4.83	4.74	1.9%

¹Hypothetical customs duty is calculated using the average Urals price for the period (i.e. without time lag).

The deviation of an actual average customs duty on exports is caused by irregular monthly export volumes, which are subject to different export customs duty.

Operating results of segment “Corporate and others”

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
Financial results, RUB billion						
EBITDA	(16)	(18)	11.1%	(46)	(34)	(35.3)%
Capital expenditures [*]	10	5	100.0%	25	8	>100%

^{*}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 and social benefits 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 RUB 34 billion (net of the allowance for doubtful debt of RUB 7 billion) in the third quarter of 2017 in comparison with RUB 35 billion (net of the allowance for doubtful debt of RUB 3 billion) in the second quarter of 2017.

The 16.1% growth of general and administrative expenses (excluding one-off recognition of allowance for doubtful debt) in the nine months of 2017 compared to the same period of 2016 was due to expanding activity resulted from the acquisition of new assets. The Company continues the monitoring of general and administrative expenses in term of current inflation level.

Depreciation, Depletion and Amortization

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

In the third and second quarters of 2017 DDA amounted to RUB 144 billion and RUB 148 billion, respectively. In the nine months of 2017 DDA was 26.1% higher if compared to the same period of 2016 due to the acquisition of Bashneft assets in October 2016 and new oilfield assets in 2017.

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 set in the section “Macroeconomic Factors Affecting Results of Operations – Taxation – 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):

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
Mineral extraction tax	357	332	7.5%	1 047	694	50.9%
Excise tax	88	78	12.8%	243	136	78.7%
Social security tax	14	16	(12.5)%	46	37	24.3%
Property tax	10	10	–	28	25	12.0%
Other taxes, interest, penalties and other payments to budget	1	3	(66.7)%	5	4	25.0%
Total taxes other than income tax	470	439	7.1%	1 369	896	52.8%

Taxes other than income tax were RUB 470 billion and increased by 7.1% in the third quarter of 2017, compared to RUB 439 billion in the second quarter of 2017, due to growth of the mineral extraction tax expense and growth of indirect taxes (excise tax) related to crude oil processing outside the Russian Federation (the costs are recharged to final consumers).

In the nine months of 2017, taxes other than income tax increased approximately by 1.5 times in comparison with the same period of 2016 due to excise rate and MET base rate growth and acquisition of Bashneft assets in the fourth quarter of 2016.

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 third quarter of 2017 net finance expenses increased to RUB 32 billion compared to RUB 31 billion in the second quarter of 2017 mainly due to RUB depreciation against USD compared to the second quarter.

In the nine months of 2017, net finance expenses increased to RUB 88 billion compared to RUB 83 billion in the same period of 2016. In the nine months of 2017, finance expenses increased mainly due to the interest accrued on other borrowings under repurchase agreement operations concluded at the end of 2016. The increase in finance expenses was compensated by the growth of interest income for the use of funds and positive results from fair value measurement of derivative financial instruments.

Other Income and Other Expenses

In the nine months of 2017 other income was RUB 4 billion (including RUB 3 billion in the third quarter of 2017) in comparison with RUB 7 billion the same period of 2016.

In the third and second quarters of 2017 other expenses amounted to RUB 25 billion and RUB 10 billion. Other expenses include assets impairment, effect of fixed assets disposal in the course of operating activities and other expenses. In the nine months of 2017 and 2016 other expenses were RUB 45 billion and RUB 41 billion, respectively.

Foreign Exchange Differences

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

In the third quarter of 2017 foreign exchange loss recognized in profit and loss statement was RUB 1 billion. In the nine months of 2017 foreign exchange gain recognized in profit and loss statement was RUB 9 billion. In the nine months of 2016 foreign exchange loss was RUB 55 billion.

The effects from capitalization of the foreign exchange differences on capital loans to fund capital expenditures was RUB 27 billion in the nine months of 2017.

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 third and in the second quarters of 2017 was RUB 36 billion and RUB 37 billion, respectively. In the nine months of 2017 and 2016 cash flow hedges reclassified to profit or loss recognized in the consolidated statement of profit or loss was RUB 109 billion and RUB 111 billion, respectively.

Income Tax

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

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2017	June 30, 2017	2017	2016
Effective rate of income tax (IFRS)	31.0%	15.6% ²	22.4%	18.1 ¹ %

¹Excluding one-off recognition of income tax of RUB 21 billion accrued on sale of share in the subsidiary.

²Revised tax rate due to effect of DDA recalculation related to the recognition of Bashneft fair value assessment.

The Company applies the provisions of IAS 12 "Income taxes" to determine effective tax rate. The estimation of IFRS effective tax rate was reviewed and specified in the nine months of 2017 for the purpose of converging actual and effective tax rate.

In accordance with the consolidated statement of comprehensive income, income tax was RUB 27 billion and RUB 14 billion in the third and second quarters of 2017 respectively. In the nine months of 2017 and 2016 income tax expense was RUB 44 billion and RUB 53 billion, respectively.

Net Income

Net income amounted to RUB 60 billion (RUB 47 billion attributable to Rosneft shareholders) in the third quarter of 2017 compared with the net income of RUB 75 billion (RUB 64 billion attributable to Rosneft shareholders) in the second quarter of 2017.

Net income amounted to RUB 152 billion (RUB 122 billion attributable to Rosneft shareholders) in the nine months of 2017 compared to RUB 133 billion (RUB 127 billion attributable to Rosneft shareholders) in the nine months of 2016.

Liquidity and Capital Resources

Cash Flows

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

	For 3 months ended		% change	For 9 months ended		% change
	September 30, 2017	June 30, 2017		September 30, 2017	2016	
	RUB billion		RUB billion			
Net cash (used in)/received from operating activities	(8)	41	–	196	530	(63.0)%
Net cash used in investing activities	(497)	(205)	>100%	(904)	(34)	>100%
Net cash received from/(used in) financing activities	294	(21)	–	168	(155)	–

Net cash (used in)/received from operating activities

Net cash used in the operating activities was RUB 8 billion in the third quarter of 2017 compared to RUB 41 billion received from operating activities in the second quarter of 2017.

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

	For 3 months ended		% change	For 9 months ended		% change
	September 30, 2017	June 30, 2017		September 30, 2017	2016	
	RUB billion		RUB billion			
Net cash (used in)/provided by operating activity	(8)	41	–	196	530	(63.0)%
<i>Effect from operations with trading securities</i>	–	–	–	–	(4)	(100)%
Adjusted net cash (used in)/provided by operating activity	(8)	41	–	196	526	(62.7)%
<i>Offsetting of prepayments received under long term supply contracts at average ex.rate</i>	144	140	2.9%	402	194	>100%
<i>Interest expense for prepayments under long term supply contracts¹</i>	20	20	–	61	67	(9.0)%
<i>Financing under future supplies</i>	75	73	2.7%	156	32	>100%
Adjusted net cash provided by operating activity	231	274²	(15.7)%	815	819²	(0.5)%

¹Interest expenses for prepayments under long term supply contracts were included into adjusted operating cash flows for comparative periods. Interest expenses on the prepayment on long-term oil and petroleum products supply agreements are composed of interests accrued for the reporting period and offset against crude oil supply under the contracts in the amount of RUB 53 billion and interests paid of RUB 8 billion in the nine months of 2017; and offsetting of RUB 55 billion and interests paid of RUB 12 billion on nine months of 2016.

²Comparative periods were revised due to adjustment.

In the third quarter of 2017, adjusted operating cash flow was RUB 231 billion compared with RUB 274 billion in the second quarter of 2017. In the nine months of 2017 and 2016 adjusted operating cash flow was RUB 815 billion and RUB 819 billion, respectively.

Net cash used in investing activities

Net cash used in the investing activities was 497 billion in the third quarter of 2017 compared to RUB 205 billion in the second quarter of 2017. In the third quarter of 2017 the Company's investing activity mainly referred to capital expenditures, acquisition of licenses and financing of new strategic assets.

In the nine months of 2017 planned growth of investing activity was mainly due to the acquisition of new assets, acquisition of interest in associates and joint ventures and planned capital expenditures. Net cash used in the investing activities was 904 billion in the nine months of 2017 compared to RUB 34 billion used in the investing activities in the nine months of 2016.

Net cash received from/(used in) financing activities

Net cash received from financing activities was RUB 294 billion in the third quarter of 2017 compared to RUB 21 billion used in financing activities in the second quarter of 2017. In the third quarter of 2017 the Company raised long-term and short-term ruble funds. Effect from raising ruble funds was partially compensated by dividend repayments of RUB 74 billion for 2016 (including dividends on the Company's common shares in the amount of RUB 63 billion).

In the nine months of 2017 net cash received from financing activities was RUB 168 billion compared to RUB 155 billion used in financing activities in the nine months of 2016.

Capital Expenditures

The table below sets forth Rosneft's capital expenditures by operating segments and license acquisition costs:

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2017	June 30, 2017		2017	2016	
	RUB billion			RUB billion		
RN-Yuganskneftegaz	49	51	(3.9)%	145	114	27.2%
Vankor projects	16	17	(5.9)%	44	54	(18.5)%
Orenburgneft	7	8	(12.5)%	21	20	5.0%
Samotlorneftegaz	13	12	8.3%	35	30	16.7%
Offshore projects	4	4	—	9	24	(62.5)%
RN-Uvatneftegaz	5	7	(28.6)%	19	19	—
Verkhnechonskneftegaz	4	5	(20.0)%	14	13	7.7%
RN-Purneftegaz	5	6	(16.7)%	16	13	23.1%
Rospan International	14	14	—	39	27	44.4%
Samaraneftegaz	8	6	33.3%	21	17	23.5%
Varyoganneftegaz	4	5	(20.0)%	13	12	8.3%
VSNGK	6	6	—	16	15	6.7%
Tomskneft VNK	1	3	(66.7)%	6	6	—
RN-Nyaganneftegaz	5	4	25.0%	13	7	85.7%
RN-Severnaya Neft	3	3	—	9	9	—
Tumenneftegaz	7	5	40.0%	16	7	>100%
Taas-Yuryah Neftegazodobycha	9	10	(10.0)%	29	15	93.3%
Sibneftegaz	1	1	—	3	4	(25.0)%
Bashneft-Dobycha	7	5	40.0%	16	—	—
Bashneft-Polyus	6	6	—	16	—	—
Sorovskneft	1	2	(50.0)%	5	—	—
Other	21	10	>100%	48	20	>100%
Government grants	(3)	(1)	>100%	(4)	(3)	33.3%
Total upstream segment	193	189	2.1%	549	423	29.8%
Tuapse refinery	—	4	(100.0)%	5	5	—
Kuibyshev refinery	2	2	—	5	5	—
Novokuibyshevsk refinery	2	1	100.0%	4	5	(20.0)%
Syzran refinery	1	—	—	2	4	(50.0)%
Angarsk refinery	1	1	0.0%	3	3	—
Achinsk refinery	1	—	—	2	2	—
Ryazan refinery	1	1	0.0%	3	2	50.0%
Komsomolsk refinery	1	1	0.0%	2	2	—
Saratov refinery	1	—	—	1	1	—
Basheft refinery brunch	2	1	100.0%	5	—	—
Other refineries	3	4	(25.0)%	9	5	80.0%
Marketing Business Units and others	5	6	(16.7)%	15	10	50.0%
Total downstream segment	20	21	(4.8)%	56	44	27.3%
Total other activities	10	5	100.0%	25	8	>100%
Total capital expenditures	223	215	3.7%	630	475	32.6%
Acquisition of licenses	13	9	44.4%	37	16	>100%
Return of auction advances	(8)	—	—	(8)	(13)	(38.5)%

In the third quarter of 2017 total capital expenditures amounted to 223 billion (increase by 3.7%) compared with RUB 215 billion in the second quarter of 2017. In the nine months of 2017 and 2016 total capital expenditures were RUB 630 billion and RUB 475 billion, respectively. The increase in capital expenditures in the nine months of 2017 compared with the same period of 2016 meets the strategic objectives of the Company and is mainly driven by the development of investment program in key business segments and the acquisition of new assets.

In the third quarter of 2017 upstream capital expenditures amounted to RUB 193 billion (increase by 2.1%) in comparison with RUB 189 billion in the second quarter of 2017. In the nine months of 2017 upstream capital expenditures were RUB 549 billion. The growth of upstream capital expenses by 29.8% compared to RUB 423 billion in the nine months of 2016 is mainly due to development of drilling program (+26% to the nine months of 2016), scheduled investments at the Greenfields and the acquisition of new assets.

In the third quarter of 2017 downstream capital expenditures were RUB 20 billion, including capital expenditures of investment tariffs lower by 4.8% in comparison with RUB 21 billion in the second quarter of 2017. Downstream capital expenditures in the nine months of 2017 and 2016 were RUB 56 billion and RUB 44 billion, respectively. The increase in downstream capital expenditures in the nine months of 2017 compared with the same period of 2016 was due to growth of high efficiency projects in refining.

In the third quarter of 2017 capital expenditures of refineries amounted to RUB 15 billion compared with RUB 15 billion in the second quarter of 2017. In the nine months of 2017 and 2016 capital expenditures of refineries amounted to RUB 41 billion and RUB 34 billion, respectively.

Capital expenditures of other activities are mainly related to scheduled purchases of IT, transport and other equipment assets and amounted to RUB 10 billion in the third quarter of 2017 and RUB 5 billion in the second quarter of 2017, respectively. In the nine months of 2017 and 2016 capital expenditures of other activities amounted to RUB 25 billion and RUB 8 billion, respectively.

The license acquisition costs in the third quarter of 2017 amounted to RUB 13 billion and RUB 9 billion in the second quarter of 2017, respectively. In the third quarter 2017 the return of advances issued in the previous period for the participation in the auction was RUB 8 billion. The license acquisition costs in the nine months of 2017 amounted to RUB 37 billion and referred to acquisition of new licenses for research, exploration and production at Samara, Orenburg and Saratov regions, Bashkortostan republic, Sakha Republic (Yakutia), Perm and Krasnodar regions, the Khanty-Mansiysky and the Yamal-Nenets Autonomous districts.

The license acquisition costs in the nine months of 2016 amounted to RUB 16 billion and the Company returned the advance in the amount of RUB 13 billion issued in the previous period for the participation in the auction.

Financial liabilities and liquid funds

Financial liabilities detailed by currencies and liquid funds are set in the table below:

As of the date	September 30, 2017				June 30, 2017				December 31, 2016				currency in bln	
				Other (RUB equi- valent)				Other (RUB equi- valent)				Other (RUB equi- valent)		
	USD	RUB	Euro		USD	RUB	Euro		USD	RUB	Euro			
Financial liabilities	(31.7)	(1,929)	(1.3)	(1)	(32.3)	(1,409)	(1.7)	(1)	(37.6)	(1,264)	(0.6)	(1)		
Liquid funds*	6.2	321	5.3	3	9.6	291	5.3	3	14.5	765	0.8	3		
Net financial liabilities	(25.5)	(1,608)	4.0	2	(22.7)	(1,118)	3.6	2	(23.1)	(499)	0.2	2		

*include cash and cash equivalents, short-term financial assets and part of bank deposits

In the reporting period Rosneft significantly reduced liabilities denominated in USD and replaced them by liabilities denominated in RUB. The level of financial liabilities and liquid funds, which generate additional yield to fulfil the Company's commitments, remained at the point which strongly secured the Company's high financial stability.

As of September 30, 2017, June 30, 2017 and September 30, 2016: pledged oil exports constituted 4.1%, 4.1% and 4.5%, respectively, of the total crude oil export sales for the analyzed period.

Key consolidated financial highlights (in RUB terms)

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

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2017	June 30, 2017	2017	2016
EBITDA margin	24.0%	21.2%	22.7%	25.4%
Net income margin	3.1%	4.6%	2.8%	3.6%
Current ratio	0.52	0.60	0.52	1.17
			RUB / bbl	
EBITDA/bbl	948	790	866	866
Upstream capital expenditures/bbl	493	488	471	401
Upstream operating expenses/bbl	234	230	224	203
Free cash flow /bbl	20	152	159	326
			RUB / boe	
EBITDA/boe	767	635	697	689
Upstream capital expenditures/boe	399	392	379	319
Upstream operating expenses/boe	189	185	181*	161
Free cash flow /boe	17	122	128	260

*Excluding the acquisition of Bashneft assets upstream operating expenses are 173 RUB/boe and 3.0 USD/boe in the nine months of 2017.

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 mln bbl or mln boe).

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

Upstream Measures*

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2017	June 30, 2017	2017	2016
Crude oil and NGL production (mln bbl)	391.4	387.3	1,166.5	1,053.9
Crude oil, NGL and gas production (mln boe)	483.8	482.2	1,448.7	1,324.6

*Excluding share in production of associates and joint ventures.

Calculation of Free Cash Flow

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2017	June 30, 2017	2017	2016
RUB billion				
Operating cash flow	(8)	41	196	530
Capital expenditures	(223)	(215)	(630)	(475)
Trading securities operations	–	–	–	(4)
Offsetting of prepayments under long term supply contracts *	144	140	402	194
Interest expense on prepayments under long term supply contracts **	20	20	61	67
Financing under future supplies	75	73	156	32
Free cash flow (RUB equivalent)	8	59	185	344

*Based on average exchange rates during the reporting periods (monthly basis).

**Free cash flow estimation for comparative periods includes interest expenses on the prepayments under long-term oil and petroleum products supply agreements. Interest expenses on the prepayments under long-term oil and petroleum products supply agreements are composed of interests accrued for the reporting period and offset against crude oil supply under the contracts in the amount of RUB 53 billion and interests paid of RUB 8 billion in the nine months of 2017; and offsetting of RUB 55 billion and interests paid of RUB 12 billion in the nine months of 2016.

Calculation of EBITDA

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2017	June 30, 2017	2017	2016
RUB billion				
Revenues and equity share in profits of associates and joint ventures	1,496	1,399	4,305	3,503
Effect of prepayments offsetting	49	46	145	95
Operating expenses	(1,318)	(1,287)	(3,880)	(3,034)
Depreciation, depletion and amortization	144	148	440	349
EBITDA	371	306	1,010	913

Calculation of EBITDA Margin

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2017	June 30, 2017	2017	2016
RUB billion (except %)				
EBITDA	371	306	1,010	913
Revenues and equity share in profits of associates and joint ventures	1,496	1,399	4,305	3,503
Effect of prepayments offsetting	49	46	145	95
Adjusted revenues	1,545	1,445	4,450	3,598
EBITDA margin	24.0%	21.2%	22.7%	25.4%

Calculation of Net Income Margin

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2017	June 30, 2017	2017	2016
RUB billion (except %)				
Net income attributable to Rosneft shareholders	47	64	122	127
Revenues and equity share in profits of associates and joint ventures	1,496	1,399	4,305	3,503
Net income margin	3.1%	4.6%	2.8%	3.6%

Calculation of Current ratio

As of the date	September 30, 2017	June 30, 2017	September 30, 2016
	RUB billion (except ratios)		
Current assets	1,833	1,882	2,076
Current liabilities	3,505	3,138	1,776
Current ratio	0.52	0.60	1.17

Consolidated financial highlights (in USD terms)

Consolidated statement of profit or loss*

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2017	June 30, 2017	2017	2016
USD billion				
Total revenues and equity share in profits of associates and joint ventures	26.2	25.3	76.3	53.1
Costs and expenses				
Production and operating expenses	2.6	2.7	7.7	5.7
Cost of purchased oil, gas, petroleum products and refining costs	3.6	3.4	9.9	6.2
General and administrative expenses	0.7	0.7	2.0	1.3
Pipeline tariffs and transportation costs	2.5	2.5	7.6	6.2
Exploration expenses	0.1	0.1	0.2	0.1
Depreciation, depletion and amortization	2.4	2.6	7.5	5.1
Taxes other than income tax	7.8	7.8	23.4	13.3
Export customs duty	2.6	2.8	8.2	6.8
Total costs and expenses	22.3	22.6	66.5	44.7
Operating income	3.9	2.7	9.8	8.4
Finance income	0.4	0.4	1.4	0.9
Finance expenses	(1.0)	(0.9)	(2.9)	(2.0)
Other income	0.1	—	0.1	0.1
Other expenses	(0.5)	(0.1)	(0.8)	(0.6)
Foreign exchange differences	(0.9)	0.2	(2.4)	(2.3)
Cash flow hedges reclassified to profit or loss	(0.6)	(0.7)	(1.9)	(1.6)
Income before income tax	1.4	1.6	3.3	2.9
Income tax expense	(0.5)	(0.3)	(0.8)	(0.8)
Net income	0.9	1.3	2.5	2.1
Net income attributable to Rosneft shareholders	0.7	1.1	2.0	2.0

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

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 9 months ended September 30,	
	September 30, 2017	June 30, 2017	2017	2016
EBITDA margin				
EBITDA margin	24.0%	20.9%	22.7%	25.4%
Net income margin	2.7%	4.3%	2.6%	3.8%
Current ratio	0.52	0.60	0.52	1.17
USD/bbl*				
EBITDA/bbl	16.1	13.7	14.8	12.8
Upstream capital expenditures/bbl	8.4	8.5	8.1	5.9
Upstream operating expenses/bbl	4.0	4.0	3.8	3.0
Free cash flow/bbl	0.4	2.7	2.6	4.8
USD/boe*				
EBITDA/boe	13.0	11.0	11.9	10.2
Upstream capital expenditures/boe	6.8	6.9	6.5	4.7
Upstream operating expenses/boe	3.2	3.2	3.1**	2.4
Free cash flow/boe	0.3	2.2	2.1	3.8

*Calculated from unrounded data.

**Excluding the acquisition of Bashneft assets upstream operating expenses are 173 RUB/boe and 3.0 USD/boe in the nine months of 2017.

Calculation of Free Cash Flow

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2017	June 30, 2017	2017	2016
	USD billion			
Operating cash flow	(0.2)	0.7	3.2	7.7
Capital expenditures	(3.8)	(3.7)	(10.8)	(7.0)
Trading securities operations	—	—	—	(0.1)
Offsetting of prepayments under long term supply contracts	2.5	2.4	6.9	3.0
Interest expense on prepayments under long term supply contracts	0.3	0.3	1.1	1.0
Financing future supplies	1.3	1.3	2.7	0.5
Free cash flow	0.1	1.0	3.1	5.1

Calculation of EBITDA Margin

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2017	June 30, 2017	2017	2016
	USD billion (except %)			
Revenues and equity share in profits of associates and joint ventures	26.2	25.3	76.3	53.1
Operating expenses	(22.3)	(22.6)	(66.5)	(44.7)
Depreciation, depletion and amortization	2.4	2.6	7.5	5.1
EBITDA	6.3	5.3	17.3	13.5
Revenues and equity share in profits of associates and joint ventures	26.2	25.3	76.3	53.1
EBITDA margin	24.0%	20.9%	22.7%	25.4%

Calculation of Net Income Margin

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2017	June 30, 2017	2017	2016
	USD billion (except %)			
Net income attributable to Rosneft shareholders	0.7	1.1	2.0	2.0
Revenues and equity share in profits of associates and joint ventures	26.2	25.3	76.3	53.1
Net income margin	2.7%	4.3%	2.6%	3.8%

Calculation of Current ratio

As of the date	September 30, 2017	June 30, 2017	September 30, 2016
	USD billion (except ratios)		
Current assets	31.6	31.9	32.9
Current liabilities	60.4	53.1	28.1
Current ratio	0.52	0.60	1.17

Appendix 1: Average monthly RUB/USD exchange rates, calculated using the Bank of Russia data

	2017	2016
	RUB/USD	
January	59.96	76.31
February	58.40	77.23
March	58.11	70.51
April	56.43	66.69
May	57.17	65.67
June	57.83	65.31
July	59.67	64.34
August	59.65	64.93
September	57.70	64.60

Appendix 2: Average transportation tariffs in the third and second quarters of 2017 in RUB

The table sets forth the Rosneft's average transportation tariffs applied to major transportation routes in the third and second quarters of 2017 excluding transshipment:

	For 3 months ended September 30, th. RUB/tonne	For 3 months ended June 30, 2017 th. RUB/tonne
CRUDE OIL		
Domestic		
<i>Pipeline</i>		
RN-Nyaganneftegaz (Krasnoleninsk) – Tuapse refinery	1.67	1.67
Samotlorneftegaz – Omsk refinery	0.55	0.55
RN-Yuganskneftegaz (Karkateevy) – Novoil	0.69	0.69
Orenburgneft (Pokrovka) – Novokuibyshevsk refinery	1.67	1.67
<i>Export</i>		
<i>Pipeline</i>		
Vankorneft (Purpe) – China	2.46	2.46
Verkhnechonskneftegaz (Talakan) – Kozmino	2.46	2.46
RN-Uvatneftegaz (Demyanskoe) – China (to Russian – Kazakhstan boarder)	1.39	1.39
RN-Yuganskneftegaz (Karkateevy) – Primorsk Port	1.87	1.87
RN-Yuganskneftegaz (Yuzhny Balyk) – Primorsk Port	1.85	1.85
PETROLEUM PRODUCTS (Export)		
Railroad		
Angarsk refinery – Nakhodka Port	5.40	5.40
Komsomolsk refinery – Nakhodka Port	2.13	2.13
Saratov refinery – Novorossiysk Port	2.12	2.12
Ryazan refinery – Ust-Luga Port	2.17	2.17
Achinsk refinery – Lugskaya Port	5.55	5.55
YaNOS – Avtovo Port	1.53	1.53
Samara refineries – Taman Port	2.68	2.68

Source: Transneft, RZD, Rosneft.