



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31 AND SEPTEMBER 30, 2017  
AND FOR THE TWELVE MONTHS ENDED DECEMBER 31, 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 December 31, 2017 and 2016 and September 30, 2017 (the "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 40 billion boe per SEC classification and 47 billion boe per PRMS classification as of December 31, 2017 and amounted to 38 billion boe per SEC classification and 46 billion boe per PRMS classification as of December 31, 2016<sup>1</sup>.

In the fourth quarter of 2017 crude oil and NGL production of the Company amounted to 56.51 mln tonnes, the production of natural and associated gas was 17.55 bcm. In 2017 crude oil and NGL production was 225.45 mln tonnes, the production of natural and associated gas was 68.41 bcm.

In the fourth quarter of 2017, the Company's total crude oil processing amounted to 28.47 mln tonnes at the refineries in Russia and abroad, and 112.80 mln tonnes in 2017. The remaining volumes of crude oil are exported to Europe, Asia and the CIS.

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

## Financial and operating highlights

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2017	September 30, 2017		2017	2016	
<b>Financial results, RUB billion</b>						
Revenues and equity share in profits of associates and joint ventures	1,709	1,496	14.2%	6,014	4,988	20.6%
EBITDA	393	371	5.9%	1,403	1,278	9.8%
Net income attributable to Rosneft shareholders*	100	47	>100%	222	174	27.6%
Capital expenditures	292	223	30.9%	922	709	30.0%
Free cash flow**	44	15	>100%	245	439	(44.2)%
<b>Operational results</b>						
Hydrocarbon production (th. boe per day)	5,713	5,674	0.7%	5,718	5,369	6.5%
Hydrocarbon production (th. boe per day)***	5,713	5,674	0.7%	5,718	5,701	0.3%
Crude oil and NGL production (th. barrels per day)	4,551	4,571	(0.4)%	4,577	4,252	7.6%
Gas production (th. boe per day)	1,162	1,103	5.3%	1,141	1,117	2.1%
Production of petroleum products and petrochemical products in Russia (mln tonnes)	24.36	24.08	1.2%	96.90	84.75	14.3%
Production of petroleum products and petrochemical products outside Russia (mln tonnes)	3.08	3.24	(4.9)%	12.18	13.46	(9.5)%

\* See disclosure on p.6

\*\*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 71 billion and interests paid of RUB 10 billion in the twelve months of 2017; and offsetting of RUB 75 billion and interests paid of RUB 15 billion - in twelve months of 2016.

\*\*\*Pro Forma (including Bashneft starting from January 1, 2016), only for purpose of presentation.

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

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2017	September 30, 2017		2017	2016	
<b>Financial results, USD billion</b>						
Revenues and equity share in profits of associates and joint ventures	30.1	26.2	14.9%	106.4	77.2	37.8%
EBITDA	6.7	6.3	6.3%	24.0	19.3	24.4%
Net income attributable to Rosneft shareholders	1.8	0.7	>100%	3.8	2.7	40.7%
Capital expenditures	5.0	3.8	31.6%	15.8	10.7	47.7%
Free cash flow	0.7	0.3	>100%	4.1	6.4	(35.9)%

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

**<sup>1</sup>Financial results for 12 months 2016 are adjusted for the assessment of the fair price of Bashneft Group and JSC Targin**

Net effect in the income attributable to the Company's shareholders from the recognition of the assessment of fair price of Bashneft Group and JSC Targin as of the acquisition date in 2016 was RUB 7 billion in the consolidated statement of profit or loss in 2016.

## **Significant events in the fourth quarter of 2017**

### **Bashneft Board of Directors approved the terms of out-of-court settlement with Sistema**

In December 2017 Rosneft and Bashneft announce that Bashneft Board of Directors approved the terms of the out-of-court settlement with JSFC Sistema and JSC Sistema-Invest. According to the settlement terms the defendants are obliged to compensate the agreed damages to Bashneft in the amount of RUB 100 bln. The finalization of the payments shall be made by March 30, 2018. The parties agreed to restrain from any further claims regarding the disputable issues upon the above mention payments finalization.

### **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.

### **Rosneft and Pertamina set up a Joint Venture for the development of Tuban Grass Root Refinery (TGRR) project**

Rosneft and Indonesian state-owned oil and gas company Pertamina completed the establishment of the joint venture for the development of Tuban grass root refinery and petrochemical complex (TGRR) in Tuban in the East Java province of Indonesia. The JV envisages the following participants' shares in the joint venture: Rosneft – 45%, Pertamina – 55% and sets out the JV's governance principles.

## 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 12 months ended December 31,		Change
	December 31, 2017	September 30, 2017		2017	2016	
	(USD per barrel)	(USD per barrel)	%	(USD per barrel)	%	
<b>World market</b>						
Brent (dated)	61.4	52.0	17.9%	54.3	43.7	24.1%
Urals (average Med and NWE)	60.5	50.8	19.0%	53.1	42.1	26.2%
Urals (FOB Primorsk)	59.6	50.2	18.6%	52.0	40.1	29.4%
Urals (FOB Novorossysk)	59.7	50.5	18.1%	52.3	41.0	27.6%
Dubai	59.3	50.5	17.5%	53.2	41.3	28.8%
	<b>(USD per tonne)</b>		<b>%</b>	<b>(USD per tonne)</b>		<b>%</b>
Naphtha (av. FOB/CIF Med)	543	451	20.2%	472	372	26.9%
Naphtha (av. FOB Rotterdam/CIF NWE)	554	460	20.3%	483	384	25.7%
Naphtha (CFR Japan)	570	461	23.7%	494	399	23.9%
Fuel oil (av. FOB/CIF Med)	337	296	13.9%	302	210	44.1%
Fuel oil (av. FOB Rotterdam/CIF NWE)	333	292	13.8%	297	204	45.2%
High sulphur fuel oil 180 cst (FOB Singapore)	357	312	14.5%	323	231	39.8%
Gasoil (av. FOB/CIF Med)	542	472	14.9%	484	391	23.7%
Gasoil (av. FOB Rotterdam/CIF NWE)	544	474	14.9%	485	393	23.5%
Gasoil(FOB Singapore)	528	466	13.3%	480	383	25.3%
	<b>(th. RUB per barrel)</b>		<b>%</b>	<b>(th. RUB per barrel)</b>		<b>%</b>
Brent (dated)	3.58	3.07	16.7%	3.17	2.93	8.0%
Urals (average Med and NWE)	3.53	3.00	17.8%	3.10	2.82	9.9%
Urals (FOB Primorsk)	3.48	2.97	17.3%	3.03	2.69	12.7%
Urals (FOB Novorossysk)	3.49	2.98	16.9%	3.05	2.75	11.1%
Dubai	3.46	2.98	16.3%	3.11	2.77	12.1%
	<b>(th. RUB per tonne)</b>		<b>%</b>	<b>(th. RUB per tonne)</b>		<b>%</b>
Naphtha (av. FOB/CIF Med)	31.7	26.6	19.0%	27.6	25.0	10.4%
Naphtha (av. FOB Rotterdam/CIF NWE)	32.3	27.2	19.1%	28.2	25.7	9.4%
Naphtha (CFR Japan)	33.3	27.2	22.4%	28.8	26.7	7.8%
Fuel oil (av. FOB/CIF Med)	19.7	17.5	12.8%	17.6	14.1	25.5%
Fuel oil (av. FOB Rotterdam/CIF NWE)	19.4	17.2	12.6%	17.3	13.7	26.4%
High sulphur fuel oil 180 cst (FOB Singapore)	20.9	18.4	13.4%	18.8	15.5	21.7%
Gasoil (av. FOB/CIF Med)	31.7	27.9	13.7%	28.2	26.2	7.7%
Gasoil (av. FOB Rotterdam/CIF NWE)	31.8	28.0	13.7%	28.3	26.3	7.5%
Gasoil(FOB Singapore)	30.8	27.5	12.1%	28.0	25.7	9.1%
<b>Russian market (net of VAT, including excise tax)</b>	<b>(th. RUB per tonne)</b>		<b>%</b>	<b>(th. RUB per tonne)</b>		<b>%</b>
Crude oil	17.3	14.5	19.1%	14.6	12.2	19.9%
Fuel oil	10.9	9.7	12.3%	9.6	6.3	51.1%
Summer diesel	34.4	31.3	9.9%	31.8	27.5	15.7%
Winter diesel	38.5	33.9	13.4%	34.2	29.1	17.4%
Jet fuel	35.4	29.9	18.2%	30.2	25.1	20.2%
High octane gasoline	36.6	36.5	0.4%	35.7	33.0	8.2%
Low octane gasoline	33.4	33.7	(0.9)%	32.1	30.0	7.0%

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



The difference between price movements denominated in USD and those denominated in RUB is explained by nominal RUB appreciation against USD by 1.0% in the fourth quarter of 2017 compared with the third quarter of 2017 and nominal RUB appreciation against USD by 14.9% in the twelve 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. Starting from July 1, 2016 regulated gas price for residential supply which is set by Federal Anti-Monopoly Service (FAS) grew up by 2% (indexation for other customer group was not carried out). Starting from July 2017, regulated gas price for all groups of end-users grew up by 3.9%. Rosneft's average domestic gas sales price (net of VAT) was RUB 3.44 thousand and RUB 3.29 thousand per th. cubic meters in the fourth quarter of 2017 and third quarter of 2017, respectively. In 2017 Rosneft's average domestic gas sales price (net of VAT) was RUB 3.33 thousand per th. cubic meters compared to RUB 3.24 thousand per th. cubic meters in the twelve 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 12 months ended December 31,	
	December 31, 2017	September 30, 2017	2017	2016
Consumer price index (CPI) for the period*	0.8%	(0.6)%	2.5%	5.4%
Average RUB/USD exchange rate for the period**	58.41	59.02	58.35	67.03
RUB/USD exchange rate at the end of the period	57.60	58.02	57.60	60.66
Average RUB/EUR exchange rate for the period	68.78	69.29	65.90	74.23
RUB/EUR exchange rate at the end of the period	68.87	68.45	68.87	63.81

Source: the Central Bank of the Russian Federation.

\*Producer price index amounted to 7.8% y-o-y at the end of December 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 12 months ended December 31,		% change*
	December 31, 2017	September 30, 2017		2017	2016	
<b>Mineral extraction tax</b>						
Crude oil (RUB per tonne)	9,719	7,812	24.4%	8,134	5,777	40.8%
<b>Export customs duty for crude oil</b>						
Crude oil (US\$ per tonne)	96.3	79.8	20.8%	86.7	75.7	14.5%
Crude oil (RUB per tonne)	5,629	4,704	19.7%	5,058	5,022	0.7%
Crude oil (RUB per barrel)	760	635	19.7%	683	678	0.7%
<b>Export customs duty for petroleum products</b>						
Gasoline (RUB per tonne)	1,687	1,409	19.7%	1,516	3,060	(50.5)%
Naphtha (RUB per tonne)	3,093	2,584	19.7%	2,779	3,562	(22.0)%
Light and middle distillates (RUB per tonne)	1,687	1,409	19.7%	1,516	2,006	(24.5)%
Liquid fuels (fuel oil) (RUB per tonne)	5,629	4,704	19.7%	5,058	4,115	22.9%

\*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" and 355 -FZ of November 27, 2017, new amendments were introduced from January 1, 2017 and from January 1, 2018 in respect of excise duties.

The excise tax rates on the petroleum products are as follows:

Excise duties (RUB per tonne)	Since January 1 through March 31, 2016	Since April 1, through December 31, 2016	2017	Since January 1, through June 30, 2018	Since July 1, through December 31, 2018
<b>High octane gasoline</b>					
High octane gasoline non-compliant with euro-5	10,500	13,100	13,100	13,100	13,100
High octane gasoline euro-5	7,530	10,130	10,130	11,213	11,892
<b>Naphtha</b>	10,500	13,100	13,100	13,100	13,100
<b>Diesel</b>	4,150	5,293	6,800	7,665	8,258
<b>Lubricants</b>	6,000	6,000	5,400	5,400	5,400
<b>Benzol, paraxylene, ortoxylyene</b>	3,000	3,000	2,800	2,800	2,800
<b>Middle distillates</b>	4,150	5,293	7,800	8,662	8,662

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 42.9% and 41.4% in the fourth and third quarters of 2017, respectively. In the twelve months 2017 and 2016 effective tax burden of the Company was 42.9% and 39.1%, respectively.

The mineral extraction tax and the export customs duty accounted for approximately 36.5% and 33.9% of Rosneft's total revenues in the fourth and third quarters of 2017, respectively, and also 35.7% and 33.4% in the twelve 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 twelve 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, and 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”<sup>1</sup>.

In accordance with the legislation tax relieves are applicable to certain fields. In 2017 the Company applied different tax relieves 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"> <li>In Irkutsk region, the republic of Sakha (Yakutia) and Krasnoyarsk territory which is applicable for the first 25 million tonnes of production</li> <li>On the territory of the Nenets Autonomous district, Yamalo-nenets Autonomous district – for the first 15 million tonnes of production</li> <li>Okhotsk sea fields subject to zero mineral extraction tax rate which is applicable for the first 30 million tonnes of production</li> </ul> Oil fields with reserve depletion rate of over 80%. Oil fields with the volume of initial recoverable reserves being less than 5 million tonnes. Oil fields with high-viscosity crude oil (in-situ viscosity more than 200 mPas and less than 10 000 mPas)
Special tax regime for offshore projects in the Russian Federation	The offshore projects are 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.

<sup>1</sup> 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 fourth quarter of 2017 and in the third quarter of 2017 average extraction tax for natural gas was RUB 527 and RUB 524 per th. cubic meters, respectively. In the twelve months of 2017 and 2016 average extraction tax for natural gas was RUB 521 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 4,051 and RUB 3,834 per tonne in the fourth quarter of 2017 and in the third quarter of 2017, respectively. In the twelve months of 2017 and 2016 tax rate of mineral extraction gas condensate was RUB 3,747 per tonne and RUB 3,026 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).

<b>Reduced coefficient in 2017</b>	<b>Applicable in the Company</b>
0.5	License areas: Rospan and Russko-Rechenskoe licensed fields and also at fields of Krasnodar and Stavropol regions
0.64	License areas: Kynsko-Chaselskoye fields and at a number of fields of Sibneftegaz, and also at Nenets Autonomous District, the Chechen republic and Krasnodar region
0.1	License areas: Irkutsk region, in Krasnoyarsk region and in region of Far East or the sea of Okhotsk
0.21	License areas: Turon deposits reserves of the Kharampurskoye field
0.5-1	Fields with reserve depletion rate of over 70%.

## **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:

<b><i>Urals price(USD per tonne)</i></b>	<b><i>Export customs duty(USD per tonne)</i></b>
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)<sup>1</sup>.

## 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 FAS<sup>2</sup> has the authority to set Transneft’s base tariffs for transportation of crude oil and petroleum products in Russia, which include a dispatch tariff, a pumping tariff, loading, charge-discharge, transshipment and other tariffs. Tariffs for railroad transportation are also regulated by the FAS. The tariffs are set in roubles and are not linked to the exchange rate.

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

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

<sup>2</sup>The 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 January 1, 2018 Transnet tariffs for oil pipeline transportation increased by 3.95%.

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*

In 2018 tariffs for petroleum products transportation are supposed to grow up by 5.4% to December 2017 level.

Starting from February 1, 2017 there was a standardization of transportation of petroleum products tariff with decreasing coefficient setting within 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 fourth and the third 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 the 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) or connection point to Gasprom transportation system where Upstream dispatches the oil and gas 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 December 31, 2017 and September 30, 2017 and for the twelve months ended December 31, 2017 and 2016 (Consolidated statement of profit or loss)**

in RUB billions

	For 3 months ended		%	For 12 months ended December 31,		%
	December 31, 2017	September 30, 2017		2017	2016	
<b>Revenues and equity share in profits of associates and joint ventures</b>						
Oil, gas, petroleum products and petrochemicals sales	1,665	1 461	14.0%	5,877	4,887	20.3%
Support services and other revenues	21	20	5.0%	77	75	2.7%
Equity share in profits of associates and joint ventures	23	15	53.3%	60	26	>100%
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>1,709</b>	<b>1,496</b>	<b>14.2%</b>	<b>6,014</b>	<b>4,988</b>	<b>20.6%</b>
<b>Costs and expenses</b>						
Production and operating expenses	160	150	6.7%	607	559	8.6%
Cost of purchased oil, gas, petroleum products and refining costs	257	213	20.7%	837	614	36.3%
General and administrative expenses	57	41	39.0%	172	129	33.3%
Pipeline tariffs and transportation costs	152	146	4.1%	596	575	3.7%
Exploration expenses	6	4	50.0%	15	14	7.1%
Depreciation, depletion and amortization	146	144	1.4%	586	489	19.8%
Taxes other than income tax	550	470	17.0%	1,919	1,296	48.1%
Export customs duty	182	150	21.3%	658	657	0.2%
<b>Total costs and expenses</b>	<b>1,510</b>	<b>1,318</b>	<b>14.6%</b>	<b>5,390</b>	<b>4,333</b>	<b>24.4%</b>
<b>Operating income</b>	<b>199</b>	<b>178</b>	<b>11.8%</b>	<b>624</b>	<b>655</b>	<b>(4.7)%</b>
Finance income	27	24	12.5%	107	91	17.6%
Finance expenses	(57)	(56)	1.8%	(225)	(193)	16.6%
Other income	105	3	>100%	109	49	>100%
Other expenses	(32)	(25)	28.0%	(77)	(79)	(2.5)%
Foreign exchange differences	(6)	(1)	>100%	3	(70)	>100%
Cash flow hedges reclassified to profit or loss	(37)	(36)	2.8%	(146)	(147)	(0.7)%
<b>Income before income tax</b>	<b>199</b>	<b>87</b>	<b>&gt;100%</b>	<b>395</b>	<b>306</b>	<b>29.1%</b>
Income tax expense	(54)	(27)	>100%	(98)	(114)	(14.0)%
<b>Net income</b>	<b>145</b>	<b>60</b>	<b>&gt;100%</b>	<b>297</b>	<b>192</b>	<b>54.7%</b>
<b>Net income attributable to</b>						
- Rosneft shareholders	100	47	>100%	222	174	27.6%
- non-controlling interests	45	13	>100%	75	18	>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 12 months ended December 31,		% change
	December 31, 2017	September 30, 2017		2017	2016	
<b>Operational results</b>						
Hydrocarbon production (th. boe per day)	5,713	5,674	0.7%	5,718	5,369	6.5%
Crude oil and NGL production (th. barrels per day)	4,551	4,571	(0.4)%	4,577	4,252	7.6%
Gas production (th. boe per day)	1,162	1,103	5.3%	1,141	1,117	2.1%
Hydrocarbon production (mln boe) <sup>1</sup>	489.3	483.8	1.1%	1,938.0	1,822.3	6.3%
<b>Financial results, RUB billions</b>						
EBITDA	384	330	16.4%	1,297	1,172	10.7%
Capital expenditures <sup>2</sup>	249	193	29.0%	798	608	31.3%
Upstream operating expenses	97.2	91.5	6.2%	359.0	302.9	18.5%
<b>Indicators per boe</b>						
EBITDA, RUB/boe	785	682	15.1%	669	643	4.0%
Capital expenditures, RUB/boe	509	399	27.6%	412	334	23.4%
Upstream operating expenses, RUB/boe <sup>4</sup>	199	189	5.3%	185	166	11.4%
Upstream operating expenses, USD/boe <sup>3,4</sup>	3.4	3.2	6.3%	3.2	2.5	28.0%

<sup>1</sup> Excluding share in production of associates and joint ventures.

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

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

<sup>4</sup> Excluding the acquisition of Bashneft assets, upstream operating expenses were 177 RUB/boe (3.0 USD/boe) in the twelve months of 2017 and 163 RUB/boe (2.5 USD/boe) in the twelve months of 2016.

## Upstream EBITDA

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2017	September 30, 2017		2017	2016 <sup>1</sup>	
<b>Revenues and equity share in profits of associates and joint ventures</b>	<b>938</b>	<b>785</b>	<b>19.5%</b>	<b>3,180</b>	<b>2,542</b>	<b>25.1%</b>
<i>Including equity share in profits of associates and joint ventures</i>	<i>15</i>	<i>10</i>	<i>50.0%</i>	<i>42</i>	<i>17</i>	<i>&gt;100%</i>
<b>Expenses net of depreciation including</b>	<b>602</b>	<b>504</b>	<b>19.4%</b>	<b>2,076</b>	<b>1,504</b>	<b>38.0%</b>
Upstream operating expenses <sup>2</sup>	97	92	6.2%	359	303	18.5%
General and administrative expenses	16	14	14.3%	57	54	5.6%
Hydrocarbon procurement costs <sup>3</sup>	9	5	80.0%	35	25	40.0%
Pipeline tariffs and transportation costs and other costs <sup>4</sup>	6	6	—	32	35	(8.6)%
Exploration expenses	8	5	60.0%	19	14	35.7%
Taxes other than income tax	466	382	22.0%	1,574	1,073	46.7%
<i>Effect of prepayments offsetting</i>	<i>48</i>	<i>49</i>	<i>(2.0)%</i>	<i>193</i>	<i>134</i>	<i>44.0%</i>
<b>EBITDA</b>	<b>384</b>	<b>330</b>	<b>16.4%</b>	<b>1,297</b>	<b>1,172</b>	<b>10.7%</b>

<sup>1</sup> Effect of acquisition of Bashneft of RUB 26 billion is included in items of revenues and expenses in 2016.

<sup>2</sup> Percentage is calculated from unrounded data.

<sup>3</sup> 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.

<sup>4</sup> Other costs include revision of ecological reserves of RUB 0.1 billion and RUB 0.6 billion in the fourth and in the third quarters of 2017; and RUB 1.8 billion and RUB 5.4 billion in the twelve 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 – 50.0%. The Company also participates in international projects in Vietnam, Venezuela and Egypt. 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 12 months ended December 31,		% change
	December 31, 2017	September 30, 2017		2017	2016	
	(million of barrels)			(million of barrels)		
RN-Yuganskneftegaz (Western Siberia)	129.5	127.5	1.6%	492.6	471.4	4.5%
Projects of the Vankor group (Eastern Siberia)	39.0	40.6	(3.9)%	163.7	164.0	(0.2)%
Samotlorneftegaz (Western Siberia)	36.9	36.5	1.1%	144.5	148.4	(2.6)%
Bashneft-Dobycha (Central Russia)	30.7	30.7	–	122.7	31.4 <sup>1</sup>	>100%
Orenburgneft (Central Russia)	28.9	28.7	0.7%	116.3	122.9	(5.4)%
Samaraneftegaz (Central Russia)	23.6	23.3	1.3%	93.7	92.7	1.1%
RN-Uvatneftegaz (Western Siberia)	15.8	16.7	(5.4)%	71.3	86.0	(17.1)%
Verkhnechonskneftegaz (Eastern Siberia)	15.6	15.2	2.6%	61.3	64.4	(4.8)%
Varyeganneftegaz (Western Siberia)	11.0	11.9	(7.6)%	46.1	45.9	0.4%
RN-Nyaganneftegaz (Western Siberia)	10.7	11.5	(7.0)%	44.4	43.8	1.4%
RN-Purneftegaz (Western Siberia)	9.9	10.0	(1.0)%	38.8	39.3	(1.3)%
Tomskneft (Western Siberia)	8.3	8.8	(5.7)%	34.6	36.1	(4.2)%
RN-Severnaya Neft (Timan Pechora)	5.5	6.2	(11.3)%	24.0	24.9	(3.6)%
Offshore projects (Far East) <sup>2</sup>	4.9	4.5	8.9%	22.0	28.7	(23.3)%
Sorovskneft (Western Siberia)	3.1	3.7	(16.2)%	15.2	4.4 <sup>1</sup>	>100%
Bashneft-Polyus (Timan Pechora) <sup>3</sup>	2.0	3.1	(35.5)%	14.7	4.5 <sup>1</sup>	>100%
Taas-Yuryah (Far East)	2.8	2.2	27.3%	9.2	8.1	13.6%
Vostsibneftegaz (Eastern Siberia)	3.4	0.9	>100%	5.5	0.8	>100%
Kondanef (Western Siberia)	1.6	0.1	>100%	1.7	–	–
Other	8.5	9.3	(8.6)%	35.9	36.3	(1.1)%
<b>Crude oil and NGL production by fully and proportionately consolidated enterprises</b>	<b>391.7</b>	<b>391.4</b>	<b>0.1%</b>	<b>1,558.2</b>	<b>1,454.0</b>	<b>7.2%</b>
Slavneft (Western and Eastern Siberia)	12.6	13.5	(6.7)%	52.9	55.5	(4.7)%
Udmurtneft (Central Russia)	5.6	5.7	(1.8)%	22.4	23.2	(3.4)%
Messoyakhaneftegaz (Western Siberia)	3.4	3.1	9.7%	11.7	2.6	>100%
Other	5.4	6.8	(20.6)%	25.3	21.1	19.9%
<b>Total share in production of associates and JV</b>	<b>27.0</b>	<b>29.1</b>	<b>(7.2)%</b>	<b>112.3</b>	<b>102.4</b>	<b>9.7%</b>
<b>Total crude oil and NGL production</b>	<b>418.7</b>	<b>420.5</b>	<b>(0.4)%</b>	<b>1,670.5</b>	<b>1,556.4</b>	<b>7.3%</b>
<b>Daily crude oil and NGL production (th. barrels per day)</b>	<b>4,551</b>	<b>4,571</b>	<b>(0.4)%</b>	<b>4,577</b>	<b>4,252</b>	<b>7.6%</b>

<sup>1</sup>Production from the acquisition date

<sup>2</sup>Net of royalty and government share.

<sup>3</sup>Refers to 100% consolidated share in production.

In the fourth quarter of 2017 oil and NGL production amounted to 418.7 mln barrels (0.4% decrease in comparison with the third quarter of 2017). The Company fulfills its obligations under the Agreement reached earlier on reduction of world crude oil production by OPEC+.

In the twelve months of 2017 crude oil and NGL production increased by 7.3% compared with the twelve months of 2016. Significant increase in production resulted from the acquisition of Bashneft assets in the fourth quarter of 2016, the intensification of production at Brownfields and the active development of new projects, and from increased share in JV Petromonagas (Venezuela) since May 2016.

The main factors of organic growth of oil and NGL production include: the growth of production at RN-Yuganskneftegaz driven by high rates of production drilling with implementation of modern technologies for research and completion of wells, development of the new key projects such as Suzun, Yurubcheno-Tokhomscoe and East Messoyakh fields, and the increase in production at a number of Brownfields including RN-Nyaganneftegaz, Varyeganneftegaz, Samaraneftegaz due to increased drilling activity and geological and technical measures.

In twelve months of 2017 the Company increased its development drilling by 29.5% up to 12 mln meters compared with the twelve months of 2016. Horizontal wells share increased up to 36%, the number of new horizontal wells with multi-stage hydraulic fracturing increased by 67%. The share of in-house drilling services in the total meterage drilled is app. 60%.

## Production of Gas

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

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2017	September 30, 2017		2017	2016	
	bcm			bcm		
Sibneftegas (Western Siberia)	3.19	3.16	0.9%	12.58	12.14	3.6%
Projects of the Vankor group (Eastern Siberia) <sup>2</sup>	2.08	2.00	4.0%	8.37	8.70	(3.8)%
Rospan International (Western Siberia)	1.65	1.65	–	6.45	6.22	3.7%
RN-Purneftegaz (Western Siberia) <sup>2</sup>	1.53	1.53	–	6.07	6.11	(0.7)%
Samotlorneftegaz (Western Siberia)	1.52	1.34	13.4%	5.82	5.94	(2.0)%
RN-Yuganskneftegaz (Western Siberia)	1.25	1.24	0.8%	4.64	4.60	0.9%
Offshore projects (Far East) <sup>2,3</sup>	1.20	0.79	51.9%	4.13	2.82	46.5%
Varyeganneftegaz (Western Siberia)	1.05	1.00	5.0%	3.97	3.40	16.8%
RN-Krasnodarneftegaz (Southern Russia)	0.56	0.56	–	2.47	2.91	(15.1)%
RN-Nyaganneftegaz (Western Siberia)	0.43	0.48	(10.4)%	1.79	1.59	12.6%
Orenburgneft (Central Russia)	0.42	0.40	5.0%	1.74	2.32	(25.0)%
Tomskneft (Western Siberia)	0.25	0.24	4.2%	0.94	0.90	4.4%
Bashneft-Dobycha (Central Russia) <sup>2</sup>	0.14	0.13	7.7%	0.53	0.13 <sup>4</sup>	>100%
Samaraneftegaz (Central Russia)	0.14	0.11	27.3%	0.47	0.48	(2.1)%
RN-Sakhalinmorneftegaz (Far East)	0.10	0.09	11.1%	0.35	0.33	6.1%
RN-Uvatneftegaz (Western Siberia)	0.06	0.06	–	0.24	0.25	(4.0)%
Verkhnechonskneftegaz (Eastern Siberia)	0.06	0.06	–	0.23	0.19	21.1%
RN-Severnaya Neft (Timan Pechora)	0.05	0.05	–	0.21	0.23	(8.7)%
Sorovskneft (Western Siberia)	0.03	0.02	50.0%	0.11	0.03 <sup>4</sup>	>100%
Bashneft-Polyus (Timan Pechora) <sup>5</sup>	0.01	0.02	(50.0)%	0.06	0.02 <sup>4</sup>	>100%
Other	0.31	0.24	29.2%	1.20	1.17	2.6%
<b>Total gas production by fully and proportionately consolidated enterprises</b>	<b>16.03</b>	<b>15.17</b>	<b>5.7%</b>	<b>62.37</b>	<b>60.48</b>	<b>3.1%</b>
Purgaz (Western Siberia)	1.34	1.30	3.1%	5.30	5.75	(7.8)%
Slavneft (Western and Eastern Siberia)	0.11	0.11	–	0.45	0.47	(4.3)%
Other	0.07	0.08	(12.5)%	0.29	0.40	(27.5)%
<b>Total share in production of associates and JV</b>	<b>1.52</b>	<b>1.49</b>	<b>2.0%</b>	<b>6.04</b>	<b>6.62</b>	<b>(8.8)%</b>
<b>Total gas production</b>	<b>17.55</b>	<b>16.66</b>	<b>5.3%</b>	<b>68.41</b>	<b>67.10</b>	<b>2.0%</b>
Natural gas	7.95	7.86	1.1%	31.58	30.99	1.9%
Associated gas	9.60	8.80	9.1%	36.83	36.11	2.0%
<b>Daily gas production (mcm per day)</b>	<b>190.8</b>	<b>181.1</b>	<b>5.4%</b>	<b>187.4</b>	<b>183.3</b>	<b>2.2%</b>

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

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

<sup>3</sup> Net of royalty and government share.

<sup>4</sup> Production from the acquisition date in 2016.

<sup>5</sup> Refers to 100% consolidated share in production.

Gas production in the fourth quarter of 2017 amounted to 17.55 bcm, higher by 5.3% compared with the third quarter of 2017. The production growth was mainly due to scheduled preventive maintenance at onshore oil treatment facility of Chaivo, maintenance of gas-compression station at Tyumen and Sibur gas processing facility in the third quarter of 2017.

Gas production in the twelve months of 2017 amounted to 68.41 bcm, increasing by 2.0% compared with the twelve 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.

The level of utilization of associated petroleum gas in the twelve months of 2017 was 89.2%.

## 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 15 billion in the fourth quarter of 2017 due to positive dynamics of profits of JV projects. In the third quarter of 2017, the equity share in the financial results of upstream associates and joint ventures was RUB 10 billion of profit.

The equity share in the financial results of upstream associates and joint ventures was RUB 42 billion and RUB 17 billion of profit in the twelve 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, also income from the international projects.

### 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 97.2 billion (199 RUB/boe) and increased by 6.2% (an increase of 5.3% per boe) in the fourth quarter of 2017 compared with RUB 91.5 billion (189 RUB/boe) in the third quarter of 2017. In the fourth quarter of 2017, the increase was mainly due to higher seasonal electricity supply and support transportation costs and increased maintenance costs of oil-field equipment.

Upstream production and operating expenses increased by 18.5% (an increase of 11.4% per boe) in the twelve months of 2017 compared to RUB 302.9 billion (166 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 twelve months of 2017 upstream production and operating costs per boe, excluding Bashneft upstream operational costs per boe, was 177 RUB/boe (3.0 USD/boe) compared to 163 RUB/boe (2.5 USD/boe) in the twelve 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 Expenses<sup>1</sup>

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 fourth quarter of 2017, exploration expenses amounted to RUB 6 billion compared to RUB 4 billion in the third quarter of 2017. Increase is due to growth of seismic surveys volumes in terms of international projects. In the twelve months of 2017 and 2016 exploration expenses were RUB 15 billion and RUB 14 billion, respectively.

### Mineral extraction tax

The amount of mineral extraction tax was RUB 441 billion in the fourth quarter of 2017 compared to RUB 357 billion in the third quarter of 2017. The increase in MET expense was mainly due to enacted MET rate increase of 24.4% in the period due to the higher Urals price (by 17.8% in rouble).

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

	For 3 months ended		change %	For 12 months ended December 31,		change %
	December 31, 2017	September 30, 2017		2017	2016	
	(thousand RUB, except %)					
Average enacted oil mineral extraction tax rate (per tonne)	9.72	7.81	24.4%	8.13	5.78	40.8%
Actual mineral extraction tax expense per tonne of oil produced	8.41	6.83	23.1%	7.06	5.06	39.5%
Actual mineral extraction tax expense per tonne of oil equivalent produced*	6.79	5.59	21.5%	5.74	4.15	38.3%
	(RUB per thousand cubic meters, except %)					
Average actual gas extraction tax rate	527	524	0.6%	521	535	(2.6)%

\*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”).

<sup>1</sup> Net of intercompany turnover of RUB 2 billion and RUB 1 billion in the fourth and third quarters of 2017 and RUB 4 billion in the twelve 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 12 months ended December 31,		% change
	December, 31 2017	September 30, 2017		2017	2016	
<b>Operational results, mln tonne</b>						
Crude oil processing at refineries	28.47	28.31	0.6%	112.80	100.26	12.5%
<i>Processing at Company's own refineries in Russia</i>	23.33	22.96	1.6%	92.61	79.95	15.8%
<i>Processing at Company's own refineries outside Russia</i>	3.02	3.15	(4.1)%	12.00	12.72	(5.7)%
<i>Processing at Associates' refineries</i>	2.12	2.20	(3.6)%	8.19	7.59	7.9%
<b>Financial results, RUB billion</b>						
EBITDA	37	57	(35.1)%	180	150	20.0%
Capital expenditures of refineries <sup>1</sup>	21	18	16.7%	65	65	–
Operating expenses of processing in Russia	36.6	33.1	10.6%	129.1	88.3	46.2%
Operating expenses of processing outside Russia	8.3	5.0	66.0%	22.6	31.4	(28.0)%
<b>Indicators per tonne of the output, RUB per tonne<sup>2</sup></b>						
EBITDA,	1,404	2,183	(35.7)%	1,721	1,619	6.3%
Capital expenditure of refineries	911	575	58.4%	621	701	(11.4)%
Operating expenses for processing in Russia	1,569	1,442	8.8%	1,394	1,105	26.2%
Operating expenses for processing outside Russia <sup>3</sup>	1,689 <sup>3</sup>	1,587	6.4%	1,883	2,469	(23.7)%

<sup>1</sup>Refer to "Capital expenditures".

<sup>2</sup>Calculated from unrounded data.

<sup>3</sup>Excluding the expenses of the previous quarters of 2017 recognized in the fourth quarter of 2017 and the pre-turnaround costs related to the turnarounds scheduled for February 2018 at a number of refineries outside Russia.

## Downstream EBITDA

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2017	September 30, 2017		2017	2016 <sup>1</sup>	
<b>RUB billion</b>						
<b>Revenues and equity share in profits of associates and joint ventures</b>	<b>1,722</b>	<b>1,522</b>	<b>13.1%</b>	<b>6,099</b>	<b>5,012</b>	<b>21.7%</b>
<i>Including equity share in profits of associates and joint ventures</i>	7	5	40.0%	16	8	100.0%
<b>Expenses net of depreciation including</b>	<b>1,685</b>	<b>1,465</b>	<b>15.0%</b>	<b>5,919</b>	<b>4,862</b>	<b>21.7%</b>
Operating expenses at refineries, cost of additives and materials procured for processing	51	46	10.9%	176	163	8.0%
Operating expenses of retail companies	13	13	–	50	45	11.1%
Cost of purchased oil, gas, petroleum products and refining costs including intersegment turnover	1,209	1,021	18.4%	4,080	3,173	28.6%
Administrative expenses including doubtful debt allowances	12	9	33.3%	39	36	8.3%
Pipeline tariffs and transportation costs and other costs	147	145	1.4%	587	560	4.8%
Taxes other than income tax	92	96	(4.2)%	360	222	62.2%
Export customs duty	182	150	21.3%	658	657	0.2%
<i>Effect of intragroup oil products inventory and others</i>	(12)	1	–	(11)	12	–
<b>EBITDA</b>	<b>28</b>	<b>41</b>	<b>(31.7)%</b>	<b>160</b>	<b>144</b>	<b>11.1%</b>
<i>Effect of intragroup crude oil inventory (income)/expense</i>	(9)	(16)	(43.8)%	(20)	(6)	>100%
<b>EBITDA adjusted<sup>2</sup></b>	<b>37</b>	<b>57</b>	<b>(35.1)%</b>	<b>180</b>	<b>150</b>	<b>20.0%</b>

<sup>1</sup>Effect of the acquisition of Bashneft of RUB 2 billion is included in revenues and expenses in 2016.

<sup>2</sup>Adjusted for the effect from intragroup crude oil inventory

## 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		%	For 12 months ended December 31,		%
	December 31, 2017	September 30, 2017		2017	2016	
	mln of tonnes			mln of tonnes		
Crude oil processing at refineries in Russia*	25.36	25.03	1.3%	100.55	87.47**	15.0%
Crude oil processing at refineries outside Russia	3.11	3.28	(5.2)%	12.25	12.79	(4.2)%
including crude oil processing in German***	3.02	3.15	(4.1)%	12.00	12.72	(5.7)%
including crude oil processing in Belarus	0.09	0.13	(30.8)%	0.25	0.07	>100%
<b>Total Group crude oil processing</b>	<b>28.47</b>	<b>28.31</b>	<b>0.6%</b>	<b>112.80</b>	<b>100.26</b>	<b>12.5%</b>
<b>Petroleum product output:</b>						
High octane gasoline	3.85	3.86	(0.3)%	15.18	12.49	21.5%
Low octane gasoline	0.02	0.03	(33.3)%	0.11	0.14	(21.4)%
Naphtha	1.64	1.49	10.1%	6.22	5.97	4.2%
Diesel	8.30	8.19	1.3%	33.01	27.51	20.0%
Fuel oil	5.76	5.29	8.9%	23.04	22.65	1.7%
Jet fuel	0.83	0.90	(7.8)%	3.31	3.06	8.2%
Petrochemicals	0.38	0.34	11.8%	1.52	0.90	68.9%
Other	3.58	3.98	(10.1)%	14.51	12.03	20.6%
<b>Product output at Rosneft's refineries in Russia</b>	<b>24.36</b>	<b>24.08</b>	<b>1.2%</b>	<b>96.90</b>	<b>84.75</b>	<b>14.3%</b>
<b>Product output at refineries outside Russia</b>	<b>3.08</b>	<b>3.24</b>	<b>(4.9)%</b>	<b>12.18</b>	<b>13.46</b>	<b>(9.5)%</b>
including crude oil output in Germany	2.99	3.13	(4.5)%	11.95	13.40	(10.8)%
including product output in Belarus	0.09	0.11	(18.2)%	0.23	0.06	>100%
<b>Total Group product output</b>	<b>27.44</b>	<b>27.32</b>	<b>0.4%</b>	<b>109.08</b>	<b>98.21</b>	<b>11.1%</b>

\*Including processing at YANOS refinery.

\*\*Including the Bashneft assets acquisition effect of 4.82 mln tonnes in 2016.

\*\*\*Excluding additives obtained for processing

In the fourth quarter of 2017 Rosneft's total refinery throughput in Russia increased by 1.3% and amounted to 25.36 mln tonnes. The increase in production at Russian refineries compared to the third quarter of 2017 was mainly due to the growth of utilization rate at refineries in terms of current demand.

In the twelve months of 2017 crude oil processing volume at refineries in Russia was higher by 15.0% 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 fourth quarter of 2017, processing at the refineries in Germany decreased by 4.1% in comparison with the third quarter of 2017 that is mainly driven by processing growth in the third quarter of 2017 in terms of positive macroeconomic environment and due to scheduled seasonal turnarounds.

## Financial indicators

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

In the fourth quarter of 2018 revenues and equity share in profits of associates and joint ventures amounted to RUB 1,709 billion in comparison with RUB 1,496 billion in the third quarter of 2017. Increase in revenues in RUB terms is mainly due to raising of worldwide crude oil price (17.8% in RUB terms compared to the third quarter of 2017).

In the twelve months of 2017 and 2016 revenues and equity share in profits of associates and joint ventures amounted to RUB 6,014 billion and RUB 4,988 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					For 12 months ended December 31,				
	December 31, 2017		September 30, 2017		% change	2017		2016		% change
	% of revenue		% of revenue			% of revenue		% of revenue		
RUB billion, except %										
<b>Crude oil</b>										
International Sales to non-CIS	668	39.0%	560	37.5%	19.3%	2,279	37.9%	1,977	39.6%	15.3%
Europe and other directions	383	22.3%	335	22.5%	14.3%	1,324	22.0%	1,128	22.6%	17.4%
Asia	285	16.7%	225	15.0%	26.7%	955	15.9%	849	17.0%	12.5%
International sales to CIS	42	2.5%	35	2.3%	20.0%	145	2.4%	118	2.4%	22.9%
Domestic sales	39	2.3%	31	2.1%	25.8%	116	1.9%	82	1.6%	41.5%
<b>Total crude oil</b>	<b>749</b>	<b>43.8%</b>	<b>626</b>	<b>41.9%</b>	<b>19.6%</b>	<b>2,540</b>	<b>42.2%</b>	<b>2,177</b>	<b>43.6%</b>	<b>16.7%</b>
<b>Gas</b>	<b>61</b>	<b>3.6%</b>	<b>48</b>	<b>3.2%</b>	<b>27.1%</b>	<b>215</b>	<b>3.6%</b>	<b>214</b>	<b>4.3%</b>	<b>0.5%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	444	26.0%	380	25.4%	16.8%	1,626	27.1%	1,309	26.3%	24.2%
Europe and other directions	338	19.8%	276	18.4%	22.5%	1,210	20.2%	984	19.8%	23.0%
Asia	106	6.2%	104	7.0%	1.9%	416	6.9%	325	6.5%	28.0%
International Sales to CIS	39	2.3%	35	2.3%	11.4%	117	1.9%	65	1.3%	80.0%
Domestic sales	330	19.3%	330	22.1%	0.0%	1,226	20.4%	963	19.3%	27.3%
Wholesale	204	11.9%	204	13.7%	0.0%	751	12.5%	545	10.9%	37.8%
Retail	126	7.4%	126	8.4%	0.0%	475	7.9%	418	8.4%	13.6%
Sales of bunker fuel to end-users	17	1.0%	15	1.0%	13.3%	57	0.9%	36	0.7%	58.3%
<b>Total petroleum products</b>	<b>830</b>	<b>48.6%</b>	<b>760</b>	<b>50.8%</b>	<b>9.2%</b>	<b>3,026</b>	<b>50.3%</b>	<b>2,373</b>	<b>47.6%</b>	<b>27.5%</b>
<b>Sales of LNG</b>	<b>1</b>	<b>0.1%</b>	<b>8</b>	<b>0.5%</b>	<b>(87.5)%</b>	<b>12</b>	<b>0.2%</b>	<b>3</b>	<b>0.1%</b>	<b>&gt;100%</b>
<b>Petrochemical products</b>	<b>24</b>	<b>1.4%</b>	<b>19</b>	<b>1.3%</b>	<b>26.3%</b>	<b>84</b>	<b>1.4%</b>	<b>120</b>	<b>2.4%</b>	<b>(30.0)%</b>
International sales	9	0.5%	7	0.5%	28.6%	31	0.5%	96	1.9%	(67.7)%
Domestic sales	15	0.9%	12	0.8%	25.0%	53	0.9%	24	0.5%	>100%
<b>Sales of petroleum products, petrochemicals and LNG</b>	<b>855</b>	<b>50.1%</b>	<b>787</b>	<b>52.6%</b>	<b>8.6%</b>	<b>3,122</b>	<b>51.9%</b>	<b>2,496</b>	<b>50.1%</b>	<b>25.1%</b>
<b>Support services and other revenues</b>	<b>21</b>	<b>1.2%</b>	<b>20</b>	<b>1.3%</b>	<b>5.0%</b>	<b>77</b>	<b>1.3%</b>	<b>75</b>	<b>1.5%</b>	<b>2.7%</b>
<b>Equity share in profits of associates and joint ventures</b>	<b>23</b>	<b>1.3%</b>	<b>15</b>	<b>1.0%</b>	<b>53.3%</b>	<b>60</b>	<b>1.0%</b>	<b>26</b>	<b>0.5%</b>	<b>&gt;100%</b>
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>1,709</b>	<b>100.0%</b>	<b>1,496</b>	<b>100.0%</b>	<b>14.2%</b>	<b>6,014</b>	<b>100.0%</b>	<b>4,988</b>	<b>100.0%</b>	<b>20.6%</b>

\* Under IFRS consolidated financial statements.

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

## Sales Volumes

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

	For 3 months ended					For 12 months ended December 31,				
	December 31, 2017		September 30, 2017		% change	2017		2016		% change
	mln bbl	% of total volume	mln bbl	% of total volume		mln bbl	% of total volume	mln bbl	% of total volume	
<b>Crude oil</b>										
International Sales to non-CIS	214.0	47.0%	214.6	47.3%	(0.3)%	839.6	46.9%	791.5	47.9%	6.1%
Europe and other directions	121.4	26.6%	127.3	28.1%	(4.6)%	486.4	27.2%	472.4	28.5%	3.0%
Asia	92.6	20.4%	87.3	19.2%	6.1%	353.2	19.7%	319.1	19.4%	10.7%
International Sales to CIS	15.6	3.4%	14.8	3.3%	5.4%	62.2	3.5%	59.2	3.6%	5.1%
Domestic	14.8	3.3%	14.1	3.1%	5.0%	51.1	2.9%	42.2	2.6%	21.1%
<b>Total crude oil</b>	<b>244.4</b>	<b>53.7%</b>	<b>243.5</b>	<b>53.7%</b>	<b>0.4%</b>	<b>952.9</b>	<b>53.3%</b>	<b>892.9</b>	<b>54.1%</b>	<b>6.7%</b>
<b>Crude oil</b>	<b>mln tonnes</b>		<b>mln tonnes</b>			<b>mln tonnes</b>		<b>mln tonnes</b>		
International Sales to non-CIS	28.9	47.0%	29.0	47.3%	(0.3)%	113.4	46.9%	106.9	47.9%	6.1%
Europe and other directions	16.4	26.6%	17.2	28.1%	(4.6)%	65.7	27.2%	63.8	28.5%	3.0%
Asia	12.5	20.4%	11.8	19.2%	6.1%	47.7	19.7%	43.1	19.4%	10.7%
International Sales to CIS	2.1	3.4%	2.0	3.3%	5.4%	8.4	3.5%	8.0	3.6%	5.1%
Domestic sales	2.0	3.3%	1.9	3.1%	5.0%	6.9	2.9%	5.7	2.6%	21.1%
<b>Total crude oil</b>	<b>33.0</b>	<b>53.7%</b>	<b>32.9</b>	<b>53.7%</b>	<b>0.4%</b>	<b>128.7</b>	<b>53.3%</b>	<b>120.6</b>	<b>54.1%</b>	<b>6.7%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	15.6	25.5%	14.8	24.2%	5.4%	63.7	26.3%	61.1	27.4%	4.3%
Europe and other directions	11.8	19.3%	10.2	16.7%	15.7%	46.0	19.0%	45.9	20.6%	0.2%
Asia	3.8	6.2%	4.6	7.5%	(17.4)%	17.7	7.3%	15.2	6.8%	16.4%
International Sales to CIS	1.3	2.1%	1.4	2.3%	(7.1)%	4.4	1.8%	2.6	1.2%	69.2%
Domestic sales	10.0	16.3%	10.2	16.6%	(2.0)%	38.7	16.0%	32.8	14.7%	18.0%
Wholesale	6.9	11.3%	7.2	11.7%	(4.2)%	27.0	11.2%	21.9	9.8%	23.3%
Retail	3.1	5.0%	3.0	4.9%	3.3%	11.7	4.8%	10.9	4.9%	7.3%
Sales of bunker fuel to end-users	0.7	1.1%	0.8	1.3%	(12.5)%	2.8	1.2%	1.9	0.9%	47.4%
<b>Total petroleum products</b>	<b>27.6</b>	<b>45.0%</b>	<b>27.2</b>	<b>44.4%</b>	<b>1.5%</b>	<b>109.6</b>	<b>45.3%</b>	<b>98.4</b>	<b>44.2%</b>	<b>11.4%</b>
<b>Sales of LNG</b>	<b>0.0</b>	<b>0.0%</b>	<b>0.5</b>	<b>0.8%</b>	<b>(100.0)%</b>	<b>0.6</b>	<b>0.2%</b>	<b>0.2</b>	<b>0.1%</b>	<b>&gt;100%</b>
<b>Petrochemical products</b>	<b>0.8</b>	<b>1.3%</b>	<b>0.7</b>	<b>1.1%</b>	<b>14.3%</b>	<b>2.8</b>	<b>1.2%</b>	<b>3.5</b>	<b>1.6%</b>	<b>(20.0)%</b>
International sales	0.3	0.5%	0.3	0.4%	0.0%	1.1	0.5%	2.4	1.1%	(54.2)%
Domestic sales	0.5	0.8%	0.4	0.7%	25.0%	1.7	0.7%	1.1	0.5%	54.5%
<b>Total crude oil and products, LNG</b>	<b>61.4</b>	<b>100.0%</b>	<b>61.3</b>	<b>100.0%</b>	<b>0.2%</b>	<b>241.7</b>	<b>100.0%</b>	<b>222.7</b>	<b>100.0%</b>	<b>8.5%</b>
<b>Gas</b>	<b>bcm</b>		<b>bcm</b>			<b>bcm</b>		<b>bcm</b>		
<b>Sales Volumes</b>	<b>17.59</b>		<b>14.42</b>		<b>22.0%</b>	<b>63.91</b>		<b>65.00</b>		<b>(1.7)%</b>

## Average Sales Prices

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

	For 3 months ended				% change	For 12 months ended				% change
	December 31, 2017		September 30, 2017			December 31,				
	th.RUB/ barrel	th.RUB/ tonne	th.RUB/ barrel	th.RUB/ tonne		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		
<b>Average prices on foreign markets</b>										
Crude oil, non-CIS	3.36	24.9	2.85	21.1	18.0%	2.95	21.9	2.68	19.9	10.1%
Europe and other directions**	3.31	24.5	2.81	20.8	17.8%	2.89	21.4	2.61	19.3	10.9%
Asia**	3.43	25.4	2.91	21.6	17.6%	3.06	22.6	2.81	20.8	8.7%
Crude oil, CIS	2.69	19.9	2.29	17.0	17.1%	2.32	17.1	1.98	14.7	16.3%
Petroleum products, non- CIS		28.9		25.6	12.9%		25.8		21.6	19.4%
Europe and other directions		29.3		26.8	9.3%		26.6		21.6	23.1%
Asia		27.7		23.0	20.4%		23.6		21.7	8.8%
Petroleum products, CIS		29.7		26.2	13.4%		26.7		24.8	7.7%
Sales of LNG		18.9		18.8	0.5%		18.9		20.0	(5.5)%
Petrochemical products		31.5		27.1	16.2%		29.1		39.3	(26.0)%
<b>Average domestic prices</b>										
Crude oil	2.61	19.3	2.22	16.4	17.7%	2.26	16.7	1.94	14.4	16.0%
Petroleum products		33.0		32.2	2.5%		31.7		29.4	7.8%
Wholesale		29.5		28.3	4.2%		27.8		24.9	11.6%
Retail		41.2		41.4	(0.5)%		40.7		38.3	6.3%
Gas (RUB./the cubic meter) ***		3.44		3.29	4.6%		3.33		3.24	2.8%
Petrochemical products		32.8		31.6	3.8%		32.0		22.3	43.5%
<b>Sales of bunker fuel to end-users</b>		21.4		20.0	7.0%		20.0		18.5	8.1%

\*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 32 billion and RUB 27 billion, in the fourth quarter of 2017 and in the third quarter of 2017; RUB 111 billion and RUB 97 billion in the twelve months of 2017 and 2016, respectively).

\*\*\* Including gas sales outside Russian Federation average gas prices were 3.47 th.RUB./th. cubic meter in the fourth quarter of 2017 and 3.32 th.RUB./th. cubic meter in the third quarter of 2017, 3.36 th.RUB./th. cubic meter and 3.30 th.RUB./th. cubic meter in the twelve 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 fourth quarter of 2017 amounted to RUB 668 billion compared to RUB 560 billion in the third quarter of 2017. Revenue increase was due to the 18.0% upturn in average price or RUB 108 billion and was partially offset by decrease in sales volumes by 0.3% (unfavorable impact on revenue of RUB 1 billion).

In the twelve months of 2017 revenues from international crude oil sales to non-CIS countries increased by 15.3% compared with the same period of 2016. Average sales price upturn by 10.1% (positive impact on revenue of RUB 228 billion) was accompanied by increase in sales volume by 6.1% (favorable impact on revenue of RUB 128 billion).

## International Crude Oil Sales to CIS

Revenue from sales of crude oil to CIS in the fourth quarter of 2017 amounted to RUB 42 billion in comparison with RUB 35 billion in the third quarter of 2017. The upturn of average sales price by 17.1% (favorable impact on revenues of RUB 6 billion) was accompanied by increase in sales volume of 5.4% (positive impact on revenue of RUB 1 billion).

In the twelve months of 2017 and 2016 revenues from international crude oil sales to CIS countries amounted to RUB 145 billion and RUB 118 billion, respectively. Increase in average sales price of 16.3% (favorable impact on revenues of RUB 21 billion) was accompanied by increase in sales volume by 5.1% (favorable impact on revenue of RUB 6 billion)



## Domestic Sales of Crude Oil

In the fourth quarter of 2017 revenues from domestic sales of crude oil amounted to RUB 39 billion, which is 25.8% higher than in the third quarter of 2017, due to volume increase of 5.0% (favorable impact on revenue of RUB 2 billion) and was accompanied by average sales price upturn up to 17.7% (favorable impact on revenue of RUB 6 billion).

In the twelve months of 2017 revenues from domestic crude oil sales amounted RUB 116 billion that were 41.5% higher in comparison with the same period of 2016, which was mainly attributable to growth of crude oil sales volumes up to 21.1% (favorable effect on revenues of RUB 17 billion) and was accompanied by upturn of average sales price by 16.0% (positive impact on revenue of RUB 17 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 fourth quarter of 2017 and in the third quarter of 2017\*:

	For 3 months ended						% change		
	December 31, 2017			September 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	0.1	37.3	5	0.2	34.6	0.0%	(50.0)%	7.8%
Naphtha	47	1.4	32.1	42	1.6	27.1	11.9%	(12.5)%	18.5%
Diesel (Gasoil)	114	3.9	29.8	88	3.2	26.5	29.5%	21.9%	12.5%
Fuel oil	120	6.1	20.8	105	5.7	18.6	14.3%	7.0%	11.8%
Other	7	0.2	32.7	7	0.4	21.0	0.0%	(50.0)%	55.7%**
<b>Petroleum products exported to non-CIS</b>	<b>293</b>	<b>11.7</b>	<b>25.6</b>	<b>247</b>	<b>11.1</b>	<b>22.4</b>	<b>18.6%</b>	<b>5.4%</b>	<b>14.3%</b>
Petroleum products sold from German refineries	116	2.8	41.6	112	2.8	39.3	3.6%	0.0%	5.9%
Petroleum products bought and sold outside Russia	35	1.1	31.8	21	0.9	23.3	66.7%	22.2%	36.5%
<b>Trading of petroleum products outside Russia</b>	<b>151</b>	<b>3.9</b>	<b>38.8</b>	<b>133</b>	<b>3.7</b>	<b>35.6</b>	<b>13.5%</b>	<b>5.4%</b>	<b>9.0%</b>
<b>Total</b>	<b>444</b>	<b>15.6</b>	<b>28.9</b>	<b>380</b>	<b>14.8</b>	<b>25.6</b>	<b>16.8%</b>	<b>5.4%</b>	<b>12.9%</b>

\*Average price is calculated from unrounded figures.

\*\* Average price change was due to mix product

Revenues from the international sales of petroleum products to non-CIS countries in the fourth quarter of 2017 were RUB 444 billion in comparison with RUB 380 billion in the third quarter of 2017, which is 16.8% higher due to the upturn of average price up to 12.9% (positive impact on revenues of RUB 46 billion) which was accompanied by increase in sales volumes of 5.4% (favorable impact on revenues of RUB 18 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 twelve months of 2017 and 2016\*:

	For 12 months ended December 31,						% 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	21	0.6	35.2	15	0.5	32.4	40.0%	20.0%	8.6%
Naphtha	171	6.1	27.9	148	5.8	25.4	15.5%	5.2%	9.8%
Diesel (Gasoil)	426	15.8	26.9	338	13.7	24.6	26.0%	15.3%	9.3%
Fuel oil	449	25.0	18.6	375	25.0	15.3	19.7%	0.0%	21.6%
Other	26	1.0	26.6	18	0.8	23.8	44.4%	25.0%	11.8%
<b>Petroleum products exported to non-CIS</b>	<b>1,093</b>	<b>48.5</b>	<b>22.9</b>	<b>894</b>	<b>45.8</b>	<b>19.7</b>	<b>22.3%</b>	<b>5.9%</b>	<b>16.2%</b>
Petroleum products sold from German refineries	416	10.6	39.3	328	11.1	29.6	26.8%	(4.5)%	32.8%
Petroleum product purchased and sold outside Russia	117	4.6	25.4	87	4.2	20.9	34.5%	9.5%	21.5%
<b>Trading of petroleum products outside Russia</b>	<b>533</b>	<b>15.2</b>	<b>35.1</b>	<b>415</b>	<b>15.3</b>	<b>27.2</b>	<b>28.4%</b>	<b>(0.7)%</b>	<b>29.0%</b>
<b>Total</b>	<b>1,626</b>	<b>63.7</b>	<b>25.8</b>	<b>1,309</b>	<b>61.1</b>	<b>21.6</b>	<b>24.2%</b>	<b>4.3%</b>	<b>19.4%</b>

\*Average price is calculated from unrounded figures.

In the twelve months of 2017 revenues from sales of petroleum products to non-CIS countries were 24.2% higher than in the twelve months of 2016 and amounted to RUB 1,626 billion mainly due to average price upturn by 19.4% (favourable impact on revenues of RUB 265 billion), and sales volumes growth of 4.3% (favorable impact on revenues of RUB 57 billion) taking into account the acquisition of new assets in 2016.

Growth of sales of petroleum products 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 39 billion in the fourth quarter of 2017, 11.4% higher, in comparison with the third quarter of 2017 mainly due to upturn of average sales price by 13.4% (favorable effect on revenues of RUB 5 billion), and was partially offset by the decrease in sales volumes by 7.1% (negative impact on revenues of RUB 1 billion).

Revenues from sales of petroleum products to the CIS countries in the twelve months of 2017 were approximately twofold higher (or increase of RUB 52 billion) compared to the same period of 2016, that were due to significant increase in petroleum products sales volumes by 69.2% (favorable effect on revenues of RUB 45 billion) and upturn of average sales price by 7.7% or RUB 7 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 fourth quarter of 2017 and in the third quarter of 2017\*:

	For 3 months ended						% change		
	December 31, 2017			September 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	154	3.8	40.9	162	3.9	41.1	(4.9)%	(2.6)%	(0.5)%
Diesel (Gasoil)	114	3.0	38.3	110	3.3	33.4	3.6%	(9.1)%	14.7%
Fuel oil	13	1.1	12.6	8	0.6	10.9	62.5%	83.3%	15.6%
Jet fuel	31	0.9	34.6	28	0.9	31.5	10.7%	0.0%	9.8%
Other	18	1.2	14.1	22	1.5	15.6	(18.2)%	(20.0)%	(9.6)%
<b>Total</b>	<b>330</b>	<b>10.0</b>	<b>33.0</b>	<b>330</b>	<b>10.2</b>	<b>32.2</b>	<b>0.0%</b>	<b>(2.0)%</b>	<b>2.5%</b>

\*Average price is calculated from unrounded figures.

Revenues from sales of petroleum products on the domestic market were RUB 330 billion in the fourth quarter of 2017. A 2.5% upturn of average sales price (positive effect on revenue of RUB 8 billion), was offset by decrease in petroleum products sales volume of 2.0% (unfavorable effect on revenue of RUB 8 billion).

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

	For 12 months ended December 31,						% 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	609	15.3	39.8	483	12.8	37.7	26.1%	19.5%	5.6%
Diesel (Gasoil)	408	11.8	34.6	328	10.7	30.7	24.4%	10.3%	12.7%
Fuel oil	36	3.2	11.2	15	2.0	7.4	>100.0%	60.0%	51.4%
Jet fuel	103	3.3	31.5	85	3.0	27.9	21.2%	10.0%	12.9%
Other	70	5.1	13.7	52	4.3	12.3	34.6%	18.6%	11.4%
<b>Total</b>	<b>1,226</b>	<b>38.7</b>	<b>31.7</b>	<b>963</b>	<b>32.8</b>	<b>29.4</b>	<b>27.3%</b>	<b>18.0%</b>	<b>7.8%</b>

\*Average price is calculated from unrounded figures.

Revenues from sales of petroleum products on the domestic market in the twelve months of 2017 amounted to RUB 1,226 billion and were 27.3% higher compared to the same period of 2016. The increase was due to sales volume growth of 18.0% (favorable effect on revenue of RUB 173 billion) and average sales price growth of 7.8% (favorable effect on revenue of RUB 90 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 twelve months of 2017 amounted to 0.6 mln tonnes (RUB 12 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 Siberia) of the Russian Federation and in the ports outside the Russian Federation.

Revenues from sales of bunker fuel in the fourth quarter of 2017 increase in comparison with the third quarter of 2017 and amounted to RUB 17 billion, mainly due to increase in average sales price.

Revenues from sales of bunker fuel in the twelve months of 2017 increased by 58.3% or RUB 21 billion in comparison with the same period of 2016 due to sales volumes growth of 47.4% (positive effect on revenue of RUB 17 billion), accompanied by average sales price upturn of 8.1% (favorable effect on revenue of RUB 4 billion).

## Petrochemical Products Sales

Revenues from sales of petrochemical products in the fourth quarter of 2017 and in the third quarter of 2017 amounted to RUB 24 billion (0.8 mln tonnes) and RUB 19 billion (0.7 mln tonnes), respectively.

Petrochemical products sales volumes from the German refineries amounted to 0.13 mln tonnes and 0.14 mln tonnes in the fourth and third quarters of 2017, respectively.

Revenues from sales of petrochemical products in the twelve months of 2017 decreased by RUB 36 billion and amounted to RUB 84 billion compared to the same period of 2016. International revenues decreased by RUB 65 billion due to decline in sales volumes of 54.2% (negative impact on revenues of RUB 51 billion) which was accompanied by downturn in average sales price by 26.0% (negative impact on revenues of RUB 14 billion). Domestic sales of petrochemical products increased by RUB 29 billion mainly due to the 43.5% upturn in the average sales price (positive impact on revenues of RUB 16 billion) and increase in sales volumes of 54.5% (positive impact on revenues of RUB 13 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 12 months ended		% change
	December 31, 2017	September 30, 2017		December 31, 2017	2016	
	RUB billion			RUB billion		
<b>Revenue</b>						
In the Russian Federation	59.8	47.0	27.2%	210.4	208.0	1.2%
Outside the Russian Federation	1.2	0.9	33.3%	4.4	6.4	(31.3)%
<b>Total</b>	<b>61.0</b>	<b>47.9</b>	<b>27.3%</b>	<b>214.8</b>	<b>214.4</b>	<b>0.2%</b>
<b>Sales volumes</b>	bcm			bcm		
In the Russian Federation	17.41	14.28	21.9%	63.22	64.19	(1.5)%
Outside the Russian Federation	0.18	0.14	28.6%	0.69	0.81	(14.8)%
<b>Total</b>	<b>17.59</b>	<b>14.42</b>	<b>22.0%</b>	<b>63.91</b>	<b>65.00</b>	<b>(1.7)%</b>
<b>Average price</b>	th. RUB/th. of cubic metres			th. RUB/th. of cubic metres		
In the Russian Federation	3.44	3.29	4.6%	3.33	3.24	2.8%
Outside the Russian Federation	6.93	6.22	11.4%	6.34	7.82	(18.9)%
<b>Average price of the Company</b>	<b>3.47</b>	<b>3.32</b>	<b>4.5%</b>	<b>3.36</b>	<b>3.30</b>	<b>1.8%</b>

\*Average price is calculated from unrounded figures.

In the fourth quarter of 2017 revenues from gas sales in the Russian Federation increased compared to the third quarter of 2017 and amounted to RUB 59.8 billion. Higher revenues were due to increased sales volumes by 21.9% (positive impact on revenues of RUB 10.2 billion) that was driven by seasonal demand and growth of average sales prices by 4.6% (+RUB 2.6 billion).

In the Russian Federation gas sales upturn of 1.2% in the twelve months of 2017 compared with the same period of 2016 resulted from average sales price upturn of 2.8% (positive impact on revenues of RUB 5.6 billion), despite the decrease in gas sales volumes of 1.5% or RUB 3.2 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					For 12 months ended December 31,				
	December 31, 2017		September 30, 2017		% change	2017		2016		% change
	% of total revenue		% of total revenue			% of total revenue		% of total revenue		
	billion RUB, except %									
Drilling services	0.9	4.3%	1.1	5.5%	(18.2)%	4.3	5.6%	2.9	3.9%	48.3%
Sales of materials	7.9	37.8%	7.9	39.7%	0.0%	27.4	35.6%	25.4	33.8%	7.9%
Repairs and maintenance services	0.6	2.9%	0.7	3.5%	(14.3)%	2.5	3.2%	3.0	4.0%	(16.7)%
Rent services	1.3	6.2%	1.1	5.5%	18.2%	5.3	6.9%	5.3	7.0%	0.0%
Construction services	0.2	1.0%	0.1	0.5%	100.0%	0.5	0.6%	0.2	0.3%	>100.0%
Transport services	3.7	17.7%	3.6	18.1%	2.8%	14.7	19.0%	14.8	19.7%	(0.7)%
Electric power sales and transmission	3.0	14.4%	2.3	11.6%	30.4%	9.9	12.8%	7.8	10.4%	26.9%
Other revenues	3.3	15.7%	3.1	15.6%	6.5%	12.6	16.3%	15.8	20.9%	(20.3)%
<b>Total</b>	<b>20.9</b>	<b>100.0%</b>	<b>19.9</b>	<b>100.0%</b>	<b>5.0%</b>	<b>77.2</b>	<b>100.0%</b>	<b>75.2</b>	<b>100.0%</b>	<b>2.7%</b>

Support services and other revenues in the fourth quarter of 2017 amounted to RUB 21 billion and were 5.0% higher in comparison with the third quarter of 2017.

Support services and other revenues in the twelve months of 2017 increased by 2.7% 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 7 billion and RUB 5 billion in the fourth and third quarters of 2017, respectively<sup>1</sup>. The equity share in net financial results (profits) growth was driven by the income from the Essar project (RUB 4.6 billion) in the fourth quarter of 2017. The equity share in net financial results of downstream associates and joint ventures was RUB 16 billion and RUB 8 billion in the twelve months of 2017 and 2016, respectively.

## Downstream production and operating costs

Downstream operating expenses include\*:

	For 3 months ended			% change	For 12 months ended December 31,		% change
	December 31, 2017	September 30, 2017	2017		2016**		
		billion RUB, except %					
Operating expenses at refineries in Russia	36.6	33.1	10.6%	129.1	88.3	46.2%	
Operating expenses at refineries and cost of additives and materials procured for processing outside Russia	14.7	11.9	23.5%	46.5	75.1	(38.1)%	
Operating expenses of retail companies including:	13.0	12.9	0.8%	49.8	44.6	11.7%	
<i>operating expenses</i>	9.4	8.9	5.6%	35.2	30.9	13.9%	
<i>purchase cost of other inventories</i>	3.6	4.0	(10.0)%	14.6	13.7	6.6%	
<b>Downstream operating expenses</b>	<b>64.3</b>	<b>57.9</b>	<b>11.1%</b>	<b>225.4</b>	<b>208.0</b>	<b>8.4%</b>	
<i>Intragroup inventory effect and others</i>	(21.3)	(14.7)	44.9%	(30.8)	6.0	—	
<b>Total Downstream Operating expenses***</b>	<b>43.0</b>	<b>43.2</b>	<b>(0.5)%</b>	<b>194.6</b>	<b>214.0</b>	<b>(9.1)%</b>	

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

\*\*Effect of the acquisition of Bashneft assets of RUB 11.9 billion is included in the expenses in 2016.

\*\*\*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 fourth quarter of 2017 increased by 11.1% compared with the third quarter of 2017 and amounted to RUB 64.3 billion.

In the twelve months of 2017, operating expenses of refineries and retail companies increased by 8.4% compared with the same period of 2016, that was mainly driven by the acquisition of Bashneft assets.

<sup>1</sup> See 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 12 months ended		% change
	December 31, 2017	September 30, 2017		December 31,		
				2017	2016	
<b>Operating expenses at refineries in Russia (RUB billion)</b>	<b>36.6</b>	<b>33.1</b>	<b>10.6%</b>	<b>129.1</b>	<b>88.3*</b>	<b>46.2%</b>
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,634	1,497	9.2%	1,444	1,137	27.0%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,569	1,442	8.8%	1,394	1,105	26.2%
<b>Operating expenses at refineries outside Russia (RUB billion)**</b>	<b>8.3</b>	<b>5.0</b>	<b>66.0%</b>	<b>22.6</b>	<b>31.4</b>	<b>(28.0)%</b>
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,706***	1,597	6.8%	1,891	2,345	(19.4)%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,689***	1,587	6.4%	1,883	2,469	(23.7)%
<b>Total operating expenses at Rosneft's refineries (RUB billion)</b>	<b>44.9</b>	<b>38.1</b>	<b>17.8%</b>	<b>151.7</b>	<b>119.7</b>	<b>26.7%</b>

\*Operating expenses include the effect of acquisition of Bashneft assets of RUB 10.84 billion in 2016.

\*\*Refineries outside Russia also procured the additives and materials for processing: in the fourth quarter of 2017 – RUB 6.4 billion, in the third quarter of 2017 – RUB 6.9 billion; in the twelve months of 2017 and 2016 – RUB 23.9 billion and RUB 43.7 billion, respectively.

\*\*\*The effect of costs related to carrying out the turnarounds at refineries scheduled for February 2018 and expenses of the previous periods of 2017 recognized in the fourth quarter of 2017, amounted to RUB 3.2 billion, and this amount is excluded for the estimation of operating expenses per tonne for the relevant period of 2017.

Operating expenses of Rosneft's refineries in Russia in the fourth quarter of 2017 amounted to RUB 36.6 billion and increased by 10.6% compared with the third quarter of 2017. Increase in operating expenses is mainly driven by scheduled increase in volumes of turnarounds, maintenance services and seasonal growth of energy consumption caused by the production upturn in the fourth quarter of 2017.

In the twelve months of 2017 operating expenses of Rosneft's refineries in Russia increased by 46.2% 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 fourth quarter of 2017 in comparison with the third quarter of 2017 due to recognized expenses of the previous periods of 2017 and incurred costs of carrying out the turnarounds at some of the refineries scheduled for February 2018, in the total amount of RUB 3.2 billion. Excluding this effect the operating expenses amounted to RUB 5.1 billion and increased by 2.0% compared with the third quarter of 2017 due to higher volumes of turnarounds. Reduction of operating expenses at the refineries outside Russia in the twelve 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 Western Europe) and RUB appreciation against the euro.

In the fourth quarter of 2017 operating costs per tonne of crude oil throughput of Rosneft's refineries in Russia increased by 8.8% compared with the third quarter of 2017 and amounted to RUB 1,569 per tonne. The increase was mostly due to higher scheduled turnaround expenses. The increase of 26.2% in operating costs per tonne at refineries in Russia in the twelve 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 production (production of fuel oil and aromatics) and by increased tariffs of natural monopolies, indexation of wages.

Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia were RUB 1,689 per tonne in the fourth quarter of 2017 (an increase of 6.4%) compared with the third quarter of 2017. Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia decreased to RUB 1,883 per tonne in the twelve months of 2017 (a decrease of 23.7%), compared with the twelve months of 2016 that was mainly due to reduction in maintenance and turnaround expenses and RUB appreciation of 12.6% in the twelve 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 12 months ended		% change
	December 31, 2017	September 30, 2017		December 31, 2017	2016	
<b>Crude oil and gas procurement</b>						
Cost of crude oil and gas procured (RUB billion)**	<b>205</b>	<b>170</b>	<b>20.6%</b>	<b>651</b>	<b>454</b>	<b>43.4%</b>
<i>including Domestic market</i>	84	62	35.5%	273	206	32.5%
<i>International market</i>	121	108	12.0%	378	248	52.4%
Volume of crude oil procured (millions of barrels)	66.5	67.3	(1.2)%	243.9	191.9	27.1%
<i>including Domestic market</i>	28.1	26.9	4.5%	108.7	99.7	9.0%
<i>International market</i>	38.4	40.4	(5.0)%	135.2	92.2	46.6%
Volume of gas procured (bcm)	4.76	2.41	97.5%	15.25	15.77	(3.3)%
<b>LNG procurement</b>						
Cost of LNG (RUB billion)	<b>1</b>	<b>8</b>	<b>(87.5)%</b>	<b>11</b>	<b>3</b>	<b>&gt;100%</b>
Volume of LNG procured (millions of tonnes)	0.06	0.43	(86.0)%	0.62	0.17	>100%
<b>Petroleum products procurement</b>						
Cost of petroleum products procured (RUB billion)***	<b>44</b>	<b>27</b>	<b>63.0%</b>	<b>146</b>	<b>121</b>	<b>20.7%</b>
Volume of petroleum products procured (millions of tonnes)	1.44	1.11	29.7%	5.67	5.13	10.5%
<b>Crude oil, gas and petroleum products refining services</b>						
Cost of refining of crude oil under processing agreements (RUB billion)	<b>7.7</b>	<b>7.8</b>	<b>(1.3)%</b>	<b>29.0</b>	<b>28.7</b>	<b>1.0%</b>
Volumes of crude oil and petroleum products, refined under processing agreements (millions of tonnes)	2.3	2.6	(11.5)%	9.6	8.8	9.1%
Volumes of gas refined under processing agreements (bcm)	2.8	2.6	7.7%	10.4	10.3	1.0%
<b>Cost of products procured for blending on retail companies (RUB billion)</b>	<b>6.3</b>	<b>6.6</b>	<b>(4.5)%</b>	<b>24.7</b>	<b>25.8</b>	<b>(4.3)%</b>
<i>Including intercompany purchases (RUB billion)</i>	6.3	6.3	–	24.1	25.2	(4.4)%
<b>Inventory revaluation written off</b>	–	–	–	–	<b>7</b>	<b>(100)%</b>
<b>Total cost of procured oil, gas and petroleum products and refining costs (RUB billion)</b>	<b>257</b>	<b>213</b>	<b>20.7%</b>	<b>837</b>	<b>614</b>	<b>36.3%</b>

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

\*\*Including costs of Upstream segment in the amount of RUB 9 billion in the fourth quarter of 2017, RUB 5 billion in the third quarter of 2017 and RUB 35 billion and RUB 25 billion in the twelve months of 2017 and 2016, respectively.

\*\*\*Average procurement price of petroleum products purchased 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 the refineries in Germany.

Crude oil and gas procurement costs were RUB 205 billion and RUB 170 billion in the fourth and in the third quarters of 2017, respectively. The increase in crude oil and gas procurement of 20.6% in the fourth quarter of 2017 compared with the previous quarter is mainly attributable to increased purchase price by 18.1% and seasonal growth in gas procurement.

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

	For 3 months ended			% change	For 12 months ended		% change	
	December 31, 2017		September 30, 2017		December 31, 2017			2016
	mln barrels		mln barrels		mln barrels			mln barrels
International market	38.4	40.4	(5.0)%	135.2	92.2	46.6%		
Udmurteft	5.9	5.9	–	23.6	25.2	(6.3)%		
Slavneft	13.1	11.4	14.9%	51.4	51.8	(0.8)%		
Lukoil-Reservnefteproduct	0.1	0.4	(75.0)%	1.5	4.7	(68.1)%		
Messoyahaneftgaz	3.4	3.1	9.7%	11.7	2.4	>100%		
Others	5.6	6.1	(8.2)%	20.5	15.6	31.4%		
<b>Total</b>	<b>66.5</b>	<b>67.3</b>	<b>(1.2)%</b>	<b>243.9</b>	<b>191.9</b>	<b>27.1%</b>		

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 9.1 mln barrels, 9.9 mln barrels in the fourth and third quarters of 2017, respectively. In the twelve months of 2017 and 2016, the volume of swaps was 34.6 mln barrels and 30.6 mln barrels, respectively.

### Petroleum products procurement

Petroleum products from third parties are primarily procured to cover current needs of Rosneft’s retail subsidiaries. Procurement of petroleum products is exposed to seasonal fluctuations in 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 fourth and third quarters of 2017:

	For 3 months ended						% change		
	December 31, 2017			September 30, 2017			RUB billion	mln tonnes	th. RUB/ tonne
	RUB billion	mln tonnes	th. RUB/ tonne*	RUB billion	mln tonnes	th. RUB/ tonne*			
<b>Petroleum products procurement in Russia</b>	<b>10</b>	<b>0.32</b>		<b>7</b>	<b>0.24</b>		<b>42.9%</b>	<b>33.3%</b>	
High octane gasoline	3	0.09	39.2	2	0.05	38.1	50.0%	80.0%	2.9%
Diesel	4	0.10	38.8	2	0.06	37.0	100.0%	66.7%	4.9%
Jet fuel	0	0.01	35.2	0	0.01	28.7	–	–	22.6%
Others	3	0.12	25.0	3	0.12	25.0	–	–	–
<b>Petroleum products procured outside Russia</b>	<b>34</b>	<b>1.12</b>	<b>30.7</b>	<b>20</b>	<b>0.87</b>	<b>22.8</b>	<b>70.0%</b>	<b>28.7%</b>	<b>34.6%</b>
<b>Total</b>	<b>44</b>	<b>1.44</b>		<b>27</b>	<b>1.11</b>		<b>63.0%</b>	<b>29.7%</b>	

\*Calculated based on unrounded numbers.

The volume of petroleum products procured in Russia in the fourth quarter of 2017 increased by 33.3% to 0.32 mln tonnes in comparison with the third quarter of 2017. Procurement of petroleum products outside Russia meets the contractual obligations under long-term agreements on petroleum products sales.

The table below sets forth Rosneft's costs, volumes and average prices per tonne of petroleum products procured from third parties in the twelve months of 2017 and 2016:

	For 12 months ended December 31,						% change		
	2017			2016					
	RUB billion	mln tonnes	th. RUB/tonne*	RUB billion	mln tonnes	th. RUB/tonne*	RUB billion	mln tonnes	th. RUB/tonne
<b>Petroleum products procurement in Russia</b>	<b>30</b>	<b>1.01</b>		<b>24</b>	<b>0.79</b>		<b>25.0%</b>	<b>27.8%</b>	
High octane gasoline	9	0.27	32.8	7	0.17	35.3	28.6%	58.8%	(7.1)%
Diesel	12	0.34	35.7	10	0.31	33.5	20.0%	9.7%	6.6%
Jet fuel	0	0.02	30.4	0	0.02	26.2	–	–	16.0%
Others	9	0.38	20.4	7	0.29	24.8	28.6%	31.0%	(17.7)%
<b>Petroleum products and petrochemicals procured outside Russia</b>	<b>116</b>	<b>4.66</b>	<b>23.1</b>	<b>97</b>	<b>4.34</b>	<b>23.7</b>	<b>19.6%</b>	<b>7.4%</b>	<b>(2.5)%</b>
<i>Including petroleum products procurement</i>	115	4.64	23.1	87	4.18	19.1	32.2%	11.0%	20.9%
<b>Total</b>	<b>146</b>	<b>5.67</b>	<b>30.3</b>	<b>121</b>	<b>5.13</b>	<b>23.1</b>	<b>20.7%</b>	<b>10.5%</b>	<b>31.2%</b>

\*Calculated based on unrounded numbers.

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

Volume of petroleum products procured in Russia increased (by 0.22 mln tonnes) in the twelve months of 2017 compared with 2016.

#### **Petroleum products and petrochemicals procurement outside Russia**

Petroleum products and petrochemicals procured outside Russia amounted to RUB 34 billion (1.12 mln tonnes) in the fourth quarter of 2017. Procurement of petroleum products outside Russia meets the contractual obligations under long-term agreements on sales petroleum products.

The volume of petroleum products and petrochemicals procured outside Russia in the twelve months of 2017 significantly increased (by 7.4%) in comparison with 4.34 mln tonnes in the twelve months of 2016 and was driven by an upturn in supply under new projects 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 were RUB 14.00 billion and RUB 15.01 billion in the twelve 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 fourth quarter of 2017 Rosneft's transportation costs increased by 4.1% and amounted to RUB 152 billion compared to RUB 146 billion the third quarter of 2017. The growth in transportation costs was mainly caused by increased volumes of petroleum products export and increase in share of high cost routes (higher share of railroad transportation due to the termination of the navigation period).

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 fourth and third quarters of 2017, respectively:

	For 3 months ended								% change		
	December 31, 2017				September 30, 2017				Volume	Cost	Cost per tonne
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB <sup>1</sup>	Cost per tonne, th.RUB/t <sup>1</sup>	Volume, mln tonnes	Share in export volumes	Cost, bln RUB <sup>1</sup>	Cost per tonne, th.RUB/t <sup>1</sup>			
<b>CRUDE OIL</b>											
<b>International sales</b>											
Pipeline	26.80	86.5%	54.6	2.03	26.5	85.5%	54.3	2.05	1.1%	0.6%	(1.0)%
Railroad and mixed	0.6	1.9%	2.0	3.27	0.5	1.6%	1.8	3.32	20.0%	11.1%	(1.5)%
Pipeline and FCA <sup>2</sup>	3.6	11.6%			4.0	12.9%			(10.0)%		
<b>Transportation to refineries</b>											
Pipeline <sup>3</sup>	25.9		19.1	0.74	25.6		18.2	0.71	1.2%	4.9%	4.2%
Railroad and mixed	2.6		9.4	3.66	2.7		9.1	3.36	(3.7)%	3.3%	8.9%
<b>PETROLEUM PRODUCTS</b>											
<b>International sales</b>											
Pipeline	1.9	10.7%	5.1	2.72	1.8	10.5%	4.5	2.58	5.6%	13.3%	5.4%
Railroad and mixed	13.0	73.0%	31.4	2.42	12.4	72.5%	29.2	2.35	4.8%	7.5%	3.0%
Pipeline and FCA <sup>4</sup>	2.9	16.3%			2.9	17.0%			–		
<b>GAS</b>	bcm		RUB/bcm		bcm		RUB/bcm				
Pipeline <sup>5</sup>	11.6		13.7	1.19	9.7		12.2	1.26	19.6%	12.3%	(5.6)%
<b>Other transportation expenses<sup>6</sup></b>			17				17				-
<b>Total</b>	<b>77.3</b>		<b>152</b>		<b>76.4</b>		<b>146</b>		<b>1.2%</b>	<b>4.1%</b>	

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

<sup>2</sup>Rosneft exported part of crude oil, 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.

<sup>3</sup>Including crude oil purchased on international market, which was delivered to the German refineries.

<sup>4</sup>Rosneft exported part of petroleum products through its own export terminal in Tuapse.

<sup>5</sup>Part of gas volumes was dispatched on terms under which Rosneft does not bear transportation expenses. In the fourth and third quarters of 2017 the volumes were 6.0 bcm and 4.7 bcm, respectively.

<sup>6</sup>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 fourth quarter of 2017 remained practically unchanged and amounted to RUB 2.03 thousand per tonne.

Crude oil railroad and mixed transportation cost per tonne of international sales was 1.5% lower due to change in structure of transportation routes.

Crude oil pipeline transportation cost per tonne of supplies to refineries increased by 4.2% in the fourth quarter of 2017 compared to the third quarter of 2017 that was caused by change in structure of transportation structure and increased share of higher cost routes.

Crude oil railroad and mixed transportation cost per tonne of supplies to refineries in the fourth quarter of 2017 increased by 8.9% compared with the third quarter of 2017 due to change in transportation routes.

The increase in pipeline cost per tonne of petroleum product international sales of 5.4% in the fourth quarter of 2017 compared to the previous quarter was mainly due to change in transportation structure.

Gas transportation costs downturn of 5.6% in the fourth quarter of 2017 compared to the third quarter of 2017 resulted from decrease in average distance to final consumers. In the fourth and third 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 twelve months of 2017 and 2016, respectively:

	For 12 months ended December 31,								% change		
	2017				2016						
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB <sup>1</sup>	Cost per tonne, th.RUB/t	Volume, mln tonnes	Share in export volumes	Cost, bln RUB <sup>1</sup>	Cost per tonne, th.RUB/t	Volume	Cost	Cost per tonne
<b>CRUDE OIL</b>											
<b>International sales</b>											
Pipeline	106.3	87.3%	215.5	2.03	111.6	97.6%	216.8	1.94	(4.7)%	(0.6)%	4.6%
Railroad and mixed	2.2	1.8%	7.3	3.33	2.8	2.4%	9.8	3.41	(21.4)%	(25.5)%	(2.3)%
Pipeline and FCA <sup>2</sup>	13.3	10.9%									
<b>Transportation to refineries</b>											
Pipeline <sup>3</sup>	102.5		75.8	0.74	91.4		68.1	0.77	12.1%	11.3%	(3.9)%
Railroad and mixed	10.2		34.3	3.36	8.7		29.1	3.56	17.2%	17.9%	(5.6)%
<b>PETROLEUM PRODUCTS</b>											
<b>International sales</b>											
Pipeline	8.0	11.2%	22.1	2.76	4.8	7.1%	13.9	2.84	66.7%	59.0%	(2.8)%
Railroad and mixed	52.1	73.0%	127.9	2.46	52.6	78.2%	136.2	2.59	(1.0)%	(6.1)%	(5.0)%
Pipeline and FCA <sup>4</sup>	11.3	15.8%			9.9	14.7%			14.1%		
<b>GAS</b>											
Pipeline <sup>5</sup>	bcm		RUB/bcm		bcm		RUB/bcm				
	43.1		50.8	1.18	43.8		48.2	1.10	(1.6)%	5.4%	7.3%
<b>Other transportation expenses<sup>6</sup></b>											
			63				53			18.9%	
<b>Total</b>	<b>305.9</b>		<b>596</b>		<b>281.8</b>		<b>575</b>		<b>8.6%</b>	<b>3.7%</b>	

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

<sup>2</sup>Rosneft exported part of crude oil, 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.

<sup>3</sup>Including crude oil purchased on international market, which was delivered to German refineries.

<sup>4</sup>Rosneft exported part of petroleum products through its own export terminal in Tuapse.

<sup>5</sup>Part of gas volumes was dispatched on terms where Rosneft does not bear transportation expenses. In the twelve months of 2017 and 2016 these volumes amounted to 20.9 bcm and 21.2 bcm, respectively.

<sup>6</sup>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 twelve 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 fourth quarter of 2017 excise tax was RUB 83 billion, including additional costs related to processing outside Russian Federation in the amount of RUB 25 billion<sup>1</sup>, in comparison with RUB 88 billion in the third quarter of 2017.

Excise tax, excluding additional costs related to processing outside Russian Federation, amounted to RUB 229 billion in the twelve months of 2017 in comparison with RUB 171 billion in the same period of 2016 due to increased excise tax rate for petroleum products and the acquisition of Bashneft assets.

<sup>1</sup>These 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 12 months ended December 31,		% change
	December 31, 2017	September 30, 2017		2017	2016	
	RUB billion, except %					
Export customs duty for crude oil	133	111	19.8%	480	497	(3.4)%
Export customs duty for petroleum products	49	39	25.6%	178	160	11.3%
<b>Total export customs duty</b>	<b>182</b>	<b>150</b>	<b>21.3%</b>	<b>658</b>	<b>657</b>	<b>0.2%</b>

Export customs duty amounted to RUB 182 billion in the fourth quarter of 2017 compared to RUB 150 billion in the third quarter of 2017 (a 21.3% increase). This increase was mainly caused by the growth in export duty rates (+19.7% in RUB terms) due to higher Urals price with relatively small positive export duty time lag effect in the fourth quarter of 2017.

In the twelve months of 2017 export customs duty expenses did not change significantly that is mainly due to relatively stable customs duty rates (an increase of 0.7% in the average customs duty rate on crude oil in RUB terms in 2017) with higher volumes of crude oil exports subject to customs duty exemptions (from oilfields with low customs duty rate), and a significant growth of petroleum products exports due to the acquisition of new assets.

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

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2017	September 30, 2017		2017	2016	
Urals (average Med and NWE) (USD/bbl)	60.5	50.8	19.0%	53.1	42.1	26.2%
Hypothetical export customs duty on crude oil <sup>1</sup> (th. RUB/tonne)	6.25	5.06	23.5%	5.30	5.38	(1.5)%
Enacted export customs duty on crude oil (th. RUB/tonne)	5.63	4.70	19.7%	5.06	5.02	0.7%
Average customs duty on crude oil exports subject to regular rate (th. RUB/tonne)	5.54	4.66	18.9%	5.01	4.98	0.6%

<sup>1</sup>Hypothetical 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 12 months ended December 31,		% change
	December 31, 2017	September 30, 2017		2017	2016	
<b>Financial results, RUB billion</b>						
EBITDA	(28)	(16)	(75.0)%	(74)	(44)	(68.2)%
Capital expenditures*	15	7	>100%	37	16	>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 54 billion (net of the allowance for doubtful debt of RUB 3 billion) in the fourth quarter of 2017 in comparison with RUB 34 billion (net of the allowance for doubtful debt of RUB 7 billion) in the third quarter of 2017.

The 24.6% growth of general and administrative expenses (excluding one-off recognition of allowance for doubtful debt) in the twelve months of 2017 compared to the same period of 2016 was due to incurred expenses in terms of the development of strategic projects and acquisition of new assets. The Company continues the monitoring of general and administrative expenses in view of current inflation level and growth of operating activity.

### 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 fourth and third quarters of 2017 DDA amounted to RUB 146 billion and RUB 144 billion, respectively. The growth relates to crude oil production increase, growth of fixed assets put into operation and one-off recognition of DDA of refineries in Germany in terms of recognition of final assessment of assets.

In the twelve months of 2017 DDA was 19.8% 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 12 months ended December 31,		% change
	December 31, 2017	September 30, 2017		2017	2016	
Mineral extraction tax	441	357	23.5%	1,488	1,007	47.8%
Excise tax	83	88	(5.7)%	326	197	65.5%
Social security tax	15	14	7.1%	61	50	22.0%
Property tax	10	10	–	38	36	5.6%
Other taxes, interest, penalties and other payments to budget	1	1	–	6	6	–
<b>Total taxes other than income tax</b>	<b>550</b>	<b>470</b>	<b>17.0%</b>	<b>1,919</b>	<b>1,296</b>	<b>48.1%</b>

Taxes other than income tax were RUB 550 billion and increased by 17.0% in the fourth quarter of 2017, compared to RUB 470 billion in the third quarter of 2017 due to growth of the mineral extraction tax expense because of average tax rate growth of crude oil by 24.4%.

In the twelve 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 fourth quarter of 2017, net finance expenses decreased to RUB 30 billion from RUB 32 billion in the third quarter of 2017 mainly due to the increase in capitalized borrowing costs and RUB appreciation against USD.

In the twelve months of 2017, net finance expenses increased to RUB 118 billion compared to RUB 102 billion in the same period of 2016. In 2017, finance expenses increased mainly due to the interest accrued on other borrowings under repurchase agreement operations concluded at the end of 2016 and recognition of losses from disposal of financial assets. The increase in finance expenses was compensated by the growth of interest income on long-term advances issued.

### Other Income and Other Expenses

In the twelve months of 2017 other income was RUB 109 billion (including RUB 105 billion in the fourth quarter of 2017) in comparison with RUB 49 billion the same period of 2016. One-off income of RUB 100 billion was recognized in the Profit or loss statement in the fourth quarter of 2017 as a result of the achieved out-of-court settlement with AFK “Sistema”.

In the fourth and third quarters of 2017 other expenses amounted to RUB 32 billion and RUB 25 billion. Other expenses include assets impairment, effect of fixed assets disposal in the course of operating activities and other expenses. In the twelve months of 2017 and 2016 other expenses were RUB 77 billion and RUB 79 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 fourth quarter of 2017 foreign exchange loss recognized in profit or loss statement was RUB 6 billion. In the twelve months of 2017 foreign exchange gain recognized in profit or loss statement was RUB 3 billion. In the twelve months of 2016 foreign exchange loss was RUB 70 billion.

Exchange differences from foreign currency borrowings used for capital construction projects and the acquisition of property, plants and equipment were RUB 27 billion and RUB 0 billion in the twelve months of 2017 and 2016, respectively.

### 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 fourth and in the third quarters of 2017 were RUB 37 billion and RUB 36 billion, respectively. In the twelve months of 2017 and 2016 cash flow hedges reclassified to profit or loss recognized in the consolidated statement of profit or loss were RUB 146 billion and RUB 147 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 12 months ended December 31,	
	December 31, 2017	September 30, 2017	2017	2016
Effective rate of income tax (IFRS)	26.1%	31.0%	24.3%	24.8 <sup>1</sup> %

<sup>1</sup> Excluding one-off recognition of income tax of RUB 38 billion accrued on sale of share in the subsidiary.

The Company applies the provisions of IAS 12 "Income taxes" to determine income tax in the Consolidated profit or loss statement. The effective income tax rate for the fourth quarter of 2017 and for the twelve months of 2017 differs from the statutory rate of 20% because of differences in recognition of expenses and income for IFRS and tax purposes and due to application of tax relief.

In accordance with the consolidated statement of comprehensive income, income tax was RUB 54 billion and RUB 27 billion in the fourth and third quarters of 2017, respectively. In the fourth quarter of 2017, the Company recognized tax of RUB 20 billion from the non-operating income of achieved the out-of-court settlement with JSFC "Sistema". In the twelve months of 2017 and 2016 income tax expense was RUB 98 billion and RUB 114 billion, respectively.

### Net Income

Net income amounted to RUB 145 billion (RUB 100 billion attributable to Rosneft shareholders) in the fourth quarter of 2017 compared with the net income of RUB 60 billion (RUB 47 billion attributable to Rosneft shareholders) in the third quarter of 2017. One-off income of RUB 100 billion was recognized in the Profit or loss statement in the fourth quarter of 2017 as a result of the achieved out-of-court settlement with JSFC "Sistema". According to the settlement terms the defendants (JSFC "Sistema") are obliged to compensate the agreed damages to Bashneft in the amount of RUB 100 billion. The finalization of the payments shall be made by March 30, 2018.

Net effect from the recognition of this non-operating income in the Profit or loss statement of 2017 was RUB 80 billion, including positive effect of RUB 48 billion in the net income attributable to Rosneft shareholders.

Net income amounted to RUB 297 billion (RUB 222 billion attributable to Rosneft shareholders) in the twelve months of 2017 compared to RUB 192 billion (RUB 174 billion attributable to Rosneft shareholders) in the twelve 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 12 months ended		% change
	December 31, September 30,			December 31,		
	2017	2017		2017	2016	
	RUB billion			RUB billion		
Net cash received from/(used in) operating activities	125	(1)	–	337	679	(50.4)%
Net cash used in investing activities	(257)	(497)	(48.3)%	(1,162)	(973)	19.4%
Net cash received from financing activities	228	287	(20.6)%	381	645	(40.9)%

### Net cash received from/(used in) operating activities

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

	For 3 months ended		% change	For 12 months ended		% change
	December 31, September 30,			December 31,		
	2017	2017		2017	2016*	
	RUB billion			RUB billion		
<b>Net cash provided by/(used in) operating activity</b>	<b>125</b>	<b>(1)</b>	<b>–</b>	<b>337</b>	<b>679</b>	<b>(50.4)%</b>
<i>Effect from operations with trading securities</i>	–	–	–	–	(4)	(100.0)%
<b>Adjusted net cash provided by/(used in) operating activity</b>	<b>125</b>	<b>(1)</b>	<b>–</b>	<b>337</b>	<b>675</b>	<b>(50.1)%</b>
<i>Offsetting of prepayments received under long term supply contracts at average ex-rate</i>	140	144	(2.8)%	542	288	88.2%
<i>Interest expense for prepayments under long term supply contracts**</i>	20	20	–	81	90	(10.0)%
<i>Financing of future deliveries</i>	51	75	(32.0)%	207	95	>100%
<b>Adjusted net cash provided by operating activity</b>	<b>336</b>	<b>238</b>	<b>41.2%</b>	<b>1,167</b>	<b>1,148</b>	<b>1.7%</b>

\* Comparative periods were revised due to adjustment set above.

\*\* Interest 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 71 billion and interests paid of RUB 10 billion in the twelve months of 2017; and offsetting of RUB 75 billion and interests paid of RUB 15 billion on twelve months of 2016.

In the fourth quarter of 2017, adjusted operating cash flow was RUB 336 billion compared with RUB 238 billion in the third quarter of 2017. In the twelve months of 2017 and 2016 adjusted operating cash flow was RUB 1,167 billion and RUB 1,148 billion, respectively.

### Net cash used in investing activities

Net cash used in investing activities was 257 billion in the fourth quarter of 2017 compared to RUB 497 billion in the third quarter of 2017. In the fourth quarter of 2017 the Company's investing activity mainly referred to capital expenditures, acquisition of licenses and financing of new strategic assets. The reduction in cash used in the investing activity compared to the third quarter of 2017 resulted from the investments to Essar project made in the previous quarter.

In the twelve 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 investing activities was 1,162 billion if compared to RUB 973 billion used in investing activities in the twelve months of 2016.

### Net cash provided by financing activities

Net cash provided by financing activities was RUB 228 billion in the fourth quarter of 2017 compared to RUB 287 billion in the third quarter of 2017. In the fourth quarter of 2017 the Company raised long-term and short-term rouble funds. Effect from raising rouble funds was partially compensated by dividend payment of RUB 68 billion (including dividends on the Company's common shares in the amount of RUB 41 billion).

In the twelve months of 2017 net cash provided by financing activities was RUB 381 billion compared to RUB 645 billion. Total dividends payments (including dividends paid to minority) were RUB 142 billion in 2017 and RUB 126 billion in 2016, respectively.

## Capital Expenditures

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

	For 3 months ended		% change	For 12 months ended		% change
	December 31, 2017	September 30, 2017		December 31, 2017		
	RUB billion			RUB billion		
RN-Yuganskneftegaz	62	49	26.5%	207	158	31.0%
Vankor projects	18	16	12.5%	62	72	(13.9)%
Orenburgneft	13	7	85.7%	34	29	17.2%
Samotlorneftegaz	15	13	15.4%	50	44	13.6%
Offshore projects	2	4	(50.0)%	11	30	(63.3)%
RN-Uvatneftegaz	7	5	40.0%	26	26	–
Verkhnechonskneftegaz	5	4	25.0%	19	17	11.8%
RN-Purneftegaz	8	5	60.0%	24	19	26.3%
Rospan International	11	14	(21.4)%	50	42	19.0%
Samaraneftegaz	10	8	25.0%	31	24	29.2%
Varyoganneftegaz	6	4	50.0%	19	18	5.6%
VSNGK	7	6	16.7%	23	21	9.5%
Tomskneft VNK	2	1	100.0%	8	7	14.3%
RN-Nyaganneftegaz	6	5	20.0%	19	12	58.3%
RN-Severnaya Neft	5	3	66.7%	14	14	–
Tyumenneftegaz	7	7	–	23	10	>100%
Taas-Yuryah Neftegazodobycha	8	9	(11.1)%	37	22	68.2%
Sibneftegaz	1	1	–	4	5	(20.0)%
Bashneft-Dobycha	8	7	14.3%	24	7	>100%
Bashneft-Polyus	4	6	(33.3)%	20	4	>100%
Sorovskneft	2	1	100.0%	7	2	>100%
Kondanef	7	5	40.0%	17	–	–
Upstream projects (Zohr)	12	–	–	12	–	–
Other	27	16	68.8%	65	33	97.0%
Government grants	(4)	(3)	33.3%	(8)	(8)	–
<b>Total upstream segment</b>	<b>249</b>	<b>193</b>	<b>29.0%</b>	<b>798</b>	<b>608</b>	<b>31.3%</b>
Tuapse refinery	2	3	(33.3)%	10	11	(9.1)%
Kuibyshev refinery	2	2	–	7	10	(30.0)%
Novokuibyshevsk refinery	2	2	–	6	8	(25.0)%
Syzran refinery	1	1	–	3	5	(40.0)%
Angarsk refinery	2	1	100.0%	5	5	–
Achinsk refinery	1	1	–	3	4	(25.0)%
Ryazan refinery	2	1	100.0%	5	4	25.0%
Komsomolsk refinery	–	1	(100.0)%	2	2	–
Saratov refinery	1	1	–	2	1	100.0%
Bashneft refineries	3	2	50.0%	8	5	60.0%
Other refineries	5	3	66.7%	14	10	40.0%
Marketing Business Units and others	7	5	40.0%	22	20	10.0%
<b>Total downstream segment</b>	<b>28</b>	<b>23</b>	<b>21.7%</b>	<b>87</b>	<b>85</b>	<b>2.4%</b>
<b>Total other activities</b>	<b>15</b>	<b>7</b>	<b>&gt;100%</b>	<b>37</b>	<b>16</b>	<b>&gt;100%</b>
<b>Total capital expenditures</b>	<b>292</b>	<b>223</b>	<b>30.9%</b>	<b>922</b>	<b>709</b>	<b>30.0%</b>
<b>Acquisition of licenses</b>	<b>5</b>	<b>13</b>	<b>(61.5)%</b>	<b>42</b>	<b>24</b>	<b>75.0%</b>
<b>Return of auction advances</b>	<b>–</b>	<b>(8)</b>	<b>–</b>	<b>(8)</b>	<b>(13)</b>	<b>(38.5)%</b>

In the fourth quarter of 2017 total capital expenditures amounted to 292 billion (an increase of 30.9%) compared with RUB 223 billion in the third quarter of 2017. In the twelve months of 2017 and 2016 total capital expenditures were RUB 922 billion and RUB 709 billion, respectively. The increase in capital expenditures in the twelve months of 2017 compared with the same period of 2016 is mainly driven by the development of investment program in key business segments and the acquisition of new assets.

In the fourth quarter of 2017 upstream capital expenditures amounted to RUB 249 billion (an increase of 29.0% or RUB 56 billion) in comparison with RUB 193 billion in the third quarter of 2017. In the twelve months of 2017 upstream capital expenditures were RUB 798 billion. The growth in upstream capital expenses of 31.3% compared to RUB 608 billion in the twelve months of 2016 is mainly due to the development of drilling program (+29.5% to the twelve months of 2016), scheduled investments at the Greenfields and the acquisition of new assets.

In the fourth quarter of 2017 downstream capital expenditures were RUB 28 billion, including capital expenditures of investment tariffs, and increased by 21.7% in comparison with RUB 23 billion in the third quarter of 2017. Downstream capital expenditures in the twelve months of 2017 compared to the same period of 2016 increased by RUB 2 billion and amounted to RUB 87 billion.

In the fourth quarter of 2017 capital expenditures of refineries amounted to RUB 21 billion compared with RUB 18 billion in the third quarter of 2017. In the twelve months of 2017 and 2016 capital expenditures of refineries amounted to RUB 65 billion, and were aimed at refinery upgrade program and maintenance of current projects.

Capital expenditures of other activities are mainly related to scheduled purchases of IT, transport and other equipment assets and amounted to RUB 15 billion in the fourth quarter of 2017 and RUB 7 billion in the third quarter of 2017, respectively. In the twelve months of 2017 and 2016 capital expenditures of other activities amounted to RUB 37 billion and RUB 16 billion, respectively.

The license acquisition costs in the fourth quarter of 2017 amounted to RUB 5 billion and RUB 13 billion in the third quarter of 2017, respectively. In the third quarter of 2017 the Company returned the advance in the amount of RUB 8 billion issued in the previous period for the participation in the auction. The license acquisition costs in the twelve months of 2017 amounted to RUB 42 billion and referred to acquisition of new licenses for research, exploration and production at Samara, Orenburg and Saratov regions, Republic of Bashkortostan, Republic of Sakha (Yakutia), the Khanty-Mansi and the Yamal-Nenets Autonomous areas.

The license acquisition costs in the twelve months of 2016 amounted to RUB 24 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:

*currency in bln*

As of the date	December 31, 2017				September 30, 2017				December 31, 2016			
	USD	RUB	Euro	Other (RUB equivalent)	USD	RUB	Euro	Other (RUB equivalent)	USD	RUB	Euro	Other (RUB equivalent)
Financial liabilities	(30.1)	(2,028)	(3.6)	–	(31.4)	(1,815)	(1.2)	–	(37.5)	(1,180)	(0.6)	–
Liquid funds*	6.5	377	5.4	2	6.2	312	5.3	2	14.5	763	0.7	3
<b>Net financial liabilities</b>	<b>(23.6)</b>	<b>(1,651)</b>	<b>1.8</b>	<b>2</b>	<b>(25.2)</b>	<b>(1,503)</b>	<b>4.1</b>	<b>2</b>	<b>(23.0)</b>	<b>(417)</b>	<b>0.1</b>	<b>3</b>

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

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.



## 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 12 months ended December 31,	
	December 31, 2017	September 30, 2017	2017	2016
EBITDA margin	22.4%	24.0%	22.6%	25.0%
Net income margin attributable to Rosneft shareholders	5.9%	3.1%	3.7%	3.5%
Current ratio	0.60	0.52	0.60	0.83
	<b>RUB / bbl</b>			
EBITDA/bbl	1,003	948	900	879
Upstream capital expenditures/bbl	636	493	512	418
Upstream operating expenses/bbl	248	234	230	208
Free cash flow /bbl	112	38	157	302
	<b>RUB / boe</b>			
EBITDA/boe	803	767	724	701
Upstream capital expenditures/boe	509	399	412	334
Upstream operating expenses/boe*	199	189	185	166
Free cash flow /boe	90	31	126	241

\*Excluding the acquisition of Bashneft assets upstream operating expenses are 177 RUB/boe (3.0 USD/boe) in the twelve months of 2017 and 163 RUB/boe (2.5 USD/boe) in the twelve months of 2016.

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 12 months ended December 31,	
	December 31, 2017	September 30, 2017	2017	2016
Crude oil and NGL production (mln bbl)	391.7	391.4	1,558.2	1,454.0
Crude oil, NGL and gas production (mln boe)	489.3	483.8	1,938.0	1,822.3

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

### Calculation of Free Cash Flow

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2017	September 30, 2017	2017	2016
	<b>RUB billion</b>			
Operating cash flow	125	(1)	337	679
Capital expenditures	(292)	(223)	(922)	(709)
Trading securities operations	—	—	—	(4)
Offsetting of prepayments under long term supply contracts*	140	144	542	288
Interest expense on prepayments under long term supply contracts**	20	20	81	90
Financing of future deliveries	51	75	207	95
<b>Free cash flow (RUB equivalent)</b>	<b>44</b>	<b>15</b>	<b>245</b>	<b>439</b>

\*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 71 billion and interests paid of RUB 10 billion in the twelve months of 2017; and offsetting of RUB 75 billion and interests paid of RUB 15 billion in the twelve months of 2016.

## Calculation of EBITDA

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2017	September 30, 2017	2017	2016
	RUB billion			
Revenues and equity share in profits of associates and joint ventures	1,709	1,496	6,014	4,988
Effect of prepayments offsetting	48	49	193	134
Costs and expenses	(1,510)	(1,318)	(5,390)	(4,333)
Depreciation, depletion and amortization	146	144	586	489
<b>EBITDA</b>	<b>393</b>	<b>371</b>	<b>1,403</b>	<b>1,278</b>

## Calculation of EBITDA Margin

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2017	September 30, 2017	2017	2016
	RUB billion (except %)			
<b>EBITDA</b>	<b>393</b>	<b>371</b>	<b>1,403</b>	<b>1,278</b>
Revenues and equity share in profits of associates and joint ventures	1,709	1,496	6,014	4,988
Effect of prepayments offsetting	48	49	193	134
Adjusted revenues	1,757	1,545	6,207	5,122
<b>EBITDA margin</b>	<b>22.4%</b>	<b>24.0%</b>	<b>22.6%</b>	<b>25.0%</b>

## Calculation of Net Income Margin

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2017	September 30, 2017	2017	2016
	RUB billion (except %)			
<b>Net income attributable to Rosneft shareholders</b>	<b>100</b>	<b>47</b>	<b>222</b>	<b>174</b>
Revenues and equity share in profits of associates and joint ventures	1,709	1,496	6,014	4,988
<b>Net income margin</b>	<b>5.9%</b>	<b>3.1%</b>	<b>3.7%</b>	<b>3.5%</b>

## Calculation of Current ratio

As of the date	December 31, 2017	September 30, 2017	December 31, 2016
	RUB billion (except ratios)		
Current assets	2,292	1,833	2,300
Current liabilities	3,836	3,505	2,773
<b>Current ratio</b>	<b>0.60</b>	<b>0.52</b>	<b>0.83</b>

## Calculation of Return on Average Capital Employed (ROACE)

	For 12 months ended December 31,	
	2017	2016
	(RUB billion, except %)	
Revenue and equity share in profits of associates and joint ventures	6,014	4,988
Total costs and expenses	(5,390)	(4,333)
Effect of prepayments offsetting	193	134
Income tax expense	(98)	(114)
<b>Return used for the calculation of ROACE</b>	<b>719</b>	<b>675</b>
Average capital employed	6,209	4,871
<b>ROACE</b>	<b>11.6%</b>	<b>13.9%</b>

## Calculation of Return on Average Equity (ROAE)

	For 12 months ended December 31,	
	2017	2016
	(RUB billion, except %)	
Net income attributable to Rosneft shareholders	222	174
Average equity, including non-controlling interests	3,983	3,356
<b>ROAE</b>	<b>5.6%</b>	<b>5.2%</b>

## Consolidated financial highlights (in USD terms)

### Consolidated statement of profit or loss\*

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2017	September 30, 2017	2017	2016
	USD billion			
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>30.1</b>	<b>26.2</b>	<b>106.4</b>	<b>77.2</b>
<b>Costs and expenses</b>				
Production and operating expenses	2.7	2.6	10.4	8.4
Cost of purchased oil, gas, petroleum products and refining costs	4.4	3.6	14.3	9.3
General and administrative expenses	0.9	0.7	2.9	1.9
Pipeline tariffs and transportation costs	2.6	2.5	10.2	8.6
Exploration expenses	0.1	0.1	0.3	0.2
Depreciation, depletion and amortization	2.5	2.4	10.0	7.4
Taxes other than income tax	9.6	7.8	33.0	19.6
Export customs duty	3.1	2.6	11.3	9.9
<b>Total costs and expenses</b>	<b>25.9</b>	<b>22.3</b>	<b>92.4</b>	<b>65.3</b>
<b>Operating income</b>	<b>4.2</b>	<b>3.9</b>	<b>14.0</b>	<b>11.9</b>
Finance income	0.4	0.4	1.8	1.4
Finance expenses	(1.0)	(1.0)	(3.9)	(2.9)
Other income	1.8	0.1	1.9	0.8
Other expenses	(0.5)	(0.5)	(1.3)	(1.2)
Foreign exchange differences	(0.9)	(0.9)	(3.3)	(3.0)
Cash flow hedges reclassified to profit or loss	(0.6)	(0.6)	(2.5)	(2.2)
<b>Income before income tax</b>	<b>3.4</b>	<b>1.4</b>	<b>6.7</b>	<b>4.8</b>
Income tax expense	(0.8)	(0.5)	(1.6)	(1.8)
<b>Net income</b>	<b>2.6</b>	<b>0.9</b>	<b>5.1</b>	<b>3.0</b>
<b>Net income attributable to Rosneft shareholders</b>	<b>1.8</b>	<b>0.7</b>	<b>3.8</b>	<b>2.7</b>

\*Calculated using average monthly exchange rates based on the Bank of Russia data for the reporting period (Appendix 1).

## 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 12 months ended December 31,	
	December 31, 2017	September 30, 2017	2017	2016
EBITDA margin	22.3%	24.0%	22.6%	25.0%
Net income margin	6.0%	2.7%	3.6%	3.5%
Current ratio	0.60	0.52	0.60	0.83
	USD/bbl*			
EBITDA/bbl	17.1	16.1	15.4	13.3
Upstream capital expenditures/bbl	10.9	8.4	8.8	6.3
Upstream operating expenses/bbl	4.2	4.0	3.9	3.1
Free cash flow/bbl	1.9	0.7	2.6	4.4
	USD/boe			
EBITDA/boe	13.7	13.0	12.4	10.6
Upstream capital expenditures/boe	8.7	6.8	7.1	5.0
Upstream operating expenses/boe	3.4	3.2	3.2	2.5
Free cash flow/boe	1.5	0.6	2.1	3.5

\*Calculated from unrounded data.

## Calculation of Free Cash Flow

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2017	September 30, 2017	2017	2016
	USD billion			
Operating cash flow	2.1	–	5.6	10.0
Capital expenditures	(5.0)	(3.8)	(15.8)	(10.7)
Trading securities operations	–	–	–	(0.1)
Offsetting of prepayments under long term supply contracts	2.4	2.5	9.3	4.4
Interest expense on prepayments under long term supply contracts	0.3	0.3	1.4	1.3
Financing of future deliveries	0.9	1.3	3.6	1.5
<b>Free cash flow</b>	<b>0.7</b>	<b>0.3</b>	<b>4.1</b>	<b>6.4</b>

## Calculation of EBITDA Margin

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2017	September 30, 2017	2017	2016
	USD billion (except %)			
Revenues and equity share in profits of associates and joint ventures	30.1	26.2	106.4	77.2
Operating expenses	(25.9)	(22.3)	(92.4)	(65.3)
Depreciation, depletion and amortization	2.5	2.4	10.0	7.4
<b>EBITDA</b>	<b>6.7</b>	<b>6.3</b>	<b>24.0</b>	<b>19.3</b>
Revenues and equity share in profits of associates and joint ventures	30.1	26.2	106.4	77.2
<b>EBITDA margin</b>	<b>22.3%</b>	<b>24.0%</b>	<b>22.6%</b>	<b>25.0%</b>

## Calculation of Net Income Margin

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2017	September 30, 2017	2017	2016
	USD billion (except %)			
<b>Net income attributable to Rosneft shareholders</b>	<b>1.8</b>	<b>0.7</b>	<b>3.8</b>	<b>2.7</b>
Revenues and equity share in profits of associates and joint ventures	30.1	26.2	106.4	77.2
<b>Net income margin</b>	<b>6.0%</b>	<b>2.7%</b>	<b>3.6%</b>	<b>3.5%</b>

## Calculation of Current ratio

As of the date	December 31, 2017	September 30, 2017	December 31, 2016
	USD billion (except ratios)		
Current assets	39.8	31.6	37.9
Current liabilities	66.6	60.4	45.7
<b>Current ratio</b>	<b>0.60</b>	<b>0.52</b>	<b>0.83</b>

## 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
October	57.73	62.68
November	58.92	64.37
December	58.59	62.20

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

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

	For 3 months ended December 31, 2017	For 3 months ended September 30, 2017
	<i>th. RUB/tonne</i>	
<b>CRUDE OIL</b>		
<b>Domestic</b>		
<b>Pipeline</b>		
RN-Nyaganneftegaz (Krasnoleninsk) – Tuapse refinery	1.67	1.67
Samotlorneftegaz – Omsk refinery	0.55	0.55
RN-Yuganskneftegaz (Karkateevy) – Novoil	0.69	0.69
<b>Export</b>		
<b>Pipeline</b>		
Vankorneft (Purpe) – China	2.46	2.46
Verkhnechonskneftegaz (Talakan) – Kozmino	2.46	2.46
RN-Uvatneftegaz (Demyanskoe) – China (to Russia – 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
<b>PETROLEUM PRODUCTS (Export)</b>		
<b>Railroad</b>		
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.