



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016  
AND DECEMBER 31 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 March 31, 2017 and 2016 and December 31, 2016 (the "**Interim Condensed Consolidated Financial Statements**"). Such terms as "**Rosneft**", "**Company**" and "**Group**" in their different forms in this report mean Rosneft Oil Company and its consolidated subsidiaries, its equity share in associates and joint ventures. This report contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may materially differ from those discussed in such forward-looking statements as a result of various factors.*

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

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

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

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## Overview

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

According to oil and marketable gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers, proved hydrocarbon reserves reached 38 billion boe per SEC classification and 46 billion boe per PRMS classification as of December 31, 2016<sup>1</sup> and amounted to 34 billion boe per SEC classification and 43 billion boe per PRMS classification as of December 31, 2015.

In the first quarter of 2017 crude oil and NGL production of the Company amounted to 56.1 mln tonnes, the production of natural and associated gas was 17.2 bcm.

In the first quarter of 2017, the Company's total crude oil processing amounted to 28.30 mln tonnes at the refineries in Russia and abroad. The remaining volumes of crude oil are mostly 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.

## Financial and operating highlights

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
<b>Financial results, RUB billion</b>						
Revenues and equity share in profits of associates and joint ventures	1,410	1,485	(5.1)%	1,410	1,048	34.5%
EBITDA	333	365	(8.8)%	333	273	22.0%
Net income attributable to Rosneft shareholders	13	52	(75.0)%	13	12 <sup>1</sup>	8.3%
Capital expenditures	192	234	(17.9)%	192	154	24.7%
Free cash flow	89	25	>100%	89	115	(22.6)%
Net Debt	1,963	1,890	3.9%	1,963	1,611	21.8%
<b>Operational results</b>						
Hydrocarbon production (th. boe per day)	5,785	5,831	(0.8)%	5,785	5,208	11.1%
Crude oil and NGL production (th. barrels per day)	4,620	4,655	(0.8)%	4,620	4,089	13.0%
Gas production (th. boe per day)	1,165	1,176	(0.9)%	1,165	1,119	4.1%
Production of petroleum products and petrochemical products in Russia (mln tonnes)	24.59	25.83	(4.8)%	24.59	19.01	29.4%
Production of petroleum products and petrochemical products outside Russia (mln tonnes)	2.76	3.43	(19.5)%	2.76	3.33	(17.1)%

<sup>1</sup> On March 31, 2016 the Company acquired 100% shares in a real estate leasing entity. The cost of the acquisition amounted to RUB 3 billion. In the first quarter of 2017 the Company obtained final assessment of fair value of real estate leasing entity with the effect of restatement of RUB 2 billion recognized in accordance with IFRS rules.

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

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
<b>Financial results, USD billion</b>						
Revenues and equity share in profits of associates and joint ventures	24.8	24.1	2.9%	24.8	14.5	71.0%
EBITDA	5.7	5.8	(1.7)%	5.7	3.7	54.1%
Net income attributable to Rosneft shareholders	0.2	0.8	(75.0)%	0.2	0.2	–
Capital expenditures	3.3	3.7	(10.8)%	3.3	2.1	57.1%
Free cash flow	1.4	0.4	>100%	1.4	1.5	(6.7)%
Net debt	34.8	31.2	11.5%	34.8	23.9	45.6%

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

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

### **Rosneft and the Kurdistan Regional Government of Iraq Signed an Offtake Contract**

Rosneft and the Kurdistan Regional Government of Iraq signed a Cooperation Agreement in the fields of upstream, infrastructure, logistics and trading. The document was signed on the sidelines of the IP week conference in London.

Pursuant to the Cooperation Agreement the parties signed a pre-financed Crude Oil Purchase and Sale Contract of Kurdistan Region Crude oil over the period 2017-2019.

### **Rosneft announces successful finalization of a project with Saras S.p.A.**

In January 2017 the Company sold a 12% share in charter capital of Saras S.p.A to institutional investors. The transaction price amounted to EUR 175 million.

### **Company finalized the offer to Bashneft shareholders**

As a result of the offer the Company acquired 13,481,080 ordinary shares of Bashneft from approximately five thousand minority shareholders. Amount that was directed to the payment of mandatory offer shares – RUB 49.97 billion.

## **Subsequent event**

### **Rosneft Acquires a Strategic Asset in the New Production Cluster in Khanty-Mansiysk Autonomous District**

On April 17, 2017 the Company completed the acquisition of 100% of shares in LLC National Petroleum Company – Projects, an entity engaged in development of the Kondinsky, Zapadno-Erginsky, Chaprovsky and Novo-Endyrsky license areas in the Khanty-Mansiysk Autonomous District. The base consideration amounted to RUB 40 billion; the agreement also envisages the subsequent adjusting payment. As expected, on completion of the fair valuation of the assets acquired and liabilities assumed, the purchase price will be substantially allocated to the cost of mineral rights. The Company does not anticipate any significant goodwill being recognized upon completion of the fair value estimation.

## Macroeconomic factors affecting results of operations

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

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

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

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

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

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

The table below sets forth the average crude oil and petroleum 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			For 3 months ended March 31,		
	March 31, 2017	December 31, 2016	Change	March 31, 2017	March 31, 2016	Change
<b>World market</b>	(USD per barrel)		%	(USD per barrel)		%
Brent (dated)	53.7	49.5	8.5%	53.7	33.9	58.4%
Urals (average Med and NWE)	52.3	48.3	8.2%	52.3	32.2	62.4%
Urals (FOB Primorsk)	50.5	46.1	9.5%	50.5	29.9	69.1%
Urals (FOB Novorossysk)	51.0	46.8	9.0%	51.0	30.8	65.5%
Dubai	53.3	48.4	10.2%	53.3	30.4	75.1%
	(USD per tonne)		%	(USD per tonne)		%
Naphtha (av. FOB/CIF Med)	472	427	10.6%	472	306	54.1%
Naphtha (av. FOB Rotterdam/CIF NWE)	483	439	10.2%	483	319	51.5%
Naphtha (CFR Japan)	498	450	10.7%	498	345	44.5%
Fuel oil (av. FOB/CIF Med)	294	265	10.9%	294	139	111.9%
Fuel oil (av. FOB Rotterdam/CIF NWE)	287	262	9.2%	287	132	116.8%
High sulphur fuel oil 180 cst (FOB Singapore)	317	296	7.1%	317	160	97.8%
Gasoil (av. FOB/CIF Med)	477	449	6.3%	477	307	55.3%
Gasoil (av. FOB Rotterdam/CIF NWE)	477	451	5.7%	477	306	55.8%
Gasoil(FOB Singapore)	478	443	8.0%	478	295	62.1%
	(th. RUB per barrel)		%	(th. RUB per barrel)		%
Brent (dated)	3.16	3.12	1.3%	3.16	2.53	24.9%
Urals (average Med and NWE)	3.07	3.05	0.9%	3.07	2.40	28.1%
Urals (FOB Primorsk)	2.97	2.91	2.1%	2.97	2.23	33.3%
Urals (FOB Novorossysk)	3.00	2.95	1.7%	3.00	2.30	30.5%
Dubai	3.14	3.05	2.8%	3.14	2.27	38.0%
	(th. RUB per tonne)		%	(th. RUB per tonne)		%
Naphtha (av. FOB/CIF Med)	27.8	26.9	3.1%	27.8	22.8	21.5%
Naphtha (av. FOB Rotterdam/CIF NWE)	28.4	27.7	2.8%	28.4	23.8	19.4%
Naphtha (CFR Japan)	29.3	28.4	3.2%	29.3	25.7	14.0%
Fuel oil (av. FOB/CIF Med)	17.3	16.7	3.5%	17.3	10.3	67.0%
Fuel oil (av. FOB Rotterdam/CIF NWE)	16.9	16.5	1.9%	16.9	9.9	70.9%
High sulphur fuel oil 180 cst (FOB Singapore)	18.7	18.7	(0.1)%	18.7	12.0	55.9%
Gasoil (av. FOB/CIF Med)	28.1	28.3	(0.9)%	28.1	22.9	22.5%
Gasoil (av. FOB Rotterdam/CIF NWE)	28.1	28.5	(1.4)%	28.1	22.8	22.8%
Gasoil(FOB Singapore)	28.1	27.9	0.7%	28.1	22.0	27.8%
<b>Russian market (net of VAT, including excise tax)</b>	(th. RUB per tonne)		%	(th. RUB per tonne)		%
Crude oil	14.2	13.2	7.9%	14.2	9.3	41.1%
Fuel oil	9.5	8.9	7.3%	9.5	3.7	>100%
Summer diesel	30.2	28.5	6.0%	30.2	25.6	17.9%
Winter diesel	32.6	31.9	2.0%	32.6	26.8	21.6%
Jet fuel	28.6	28.1	1.7%	28.6	24.0	19.4%
High octane gasoline	34.2	33.3	2.7%	34.2	30.2	13.0%
Low octane gasoline	30.3	30.8	(1.6)%	30.3	26.6	13.7%

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 7.2% in the first quarter of 2017 compared with the fourth quarter of 2016 and nominal RUB appreciation against USD by 26.8% in the first quarter of 2017 compared with the same period of 2016.

The Russian Government regulates the price of the gas sold in Russia by Gazprom and its affiliates which is considered as the benchmark for domestic gas market. Rosneft's average domestic gas sales price (net of VAT) was RUB 3.32 thousand and RUB 3.32 thousand per th. cubic meters in the first quarter of 2017 and in the fourth quarter of 2016, respectively. In the first quarter of 2016 Rosneft's average domestic gas sales price (net of VAT) was RUB 3.34 thousand per th. cubic meters.

### 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 3 months ended March 31,	
	March 31, 2017	December 31, 2016	2017	2016
Consumer price index (CPI) for the period*	1.0%	1.3%	1.0%	2.1%
Average RUB/USD exchange rate for the period**	58.84	63.07	58.84	74.63
RUB/USD exchange rate at the end of the period	56.38	60.66	56.38	67.61
Average RUB/EUR exchange rate for the period	62.65	68.13	62.65	82.34
RUB/EUR exchange rate at the end of the period	60.60	63.81	60.60	76.54

Source: Central Bank of Russian Federation.

\*Producer price index amounted to 13% y-o-y at the end of March 2017.

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

### Taxation

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

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
<b>Mineral extraction tax</b>						
Crude oil (RUB per tonne)	7,961	6,776	17.5%	7,961	4,080	95.1%
<b>Export customs duty for crude oil</b>						
Crude oil (US\$ per tonne)	86.4	91.7	(5.7)%	86.4	55.0	57.2%
Crude oil (RUB per tonne)	5,086	5,781	(12.0)%	5,086	4,104	23.9%
Crude oil (RUB per barrel)	687	781	(12.0)%	687	554	23.9%
<b>Export customs duty for petroleum products</b>						
Gasoline (RUB per tonne)	1,524	3,523	(56.7)%	1,524	2,500	(39.0)%
Naphtha (RUB per tonne)	2,795	4,101	(31.8)%	2,795	2,911	(4.0)%
Light and middle distillates (RUB per tonne)	1,524	2,308	(34.0)%	1,524	1,641	(7.1)%
Liquid fuels (fuel oil) (RUB per tonne)	5,086	4,738	7.3%	5,086	3,362	51.3%

\*Calculated based on unrounded data.

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



In accordance with new amendments of the Tax legislation, acting from January 1, 2017, the excise tax rates on the petroleum products are differentiated in line with quality requirements to petroleum products:

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

In accordance with new amendments of 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 44.7% and 44.7% in the first quarter of 2017 and in the fourth quarter of 2016, respectively. In the first quarter of 2016 effective tax burden of the Company was 34.9%.

The mineral extraction tax and the export customs duty accounted for approximately 37.2% and 34.5% of Rosneft's total revenues in the first quarter of 2017 and in the fourth quarter of 2016, respectively. The mineral extraction tax and the export customs duty was approximately 29.0% of Rosneft's total revenues in the first quarter of 2016. Tax withdrawing share in the financial results excluding forex and one off effects was up to 89% in the first quarter 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 changes every month. It is calculated in USD per barrel of crude oil produced using average exchange rate established by the Central Bank of Russia for the respective month.

Starting from **January 1, 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 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 2017 the Company applied reduced and zero MET tax rates at certain fields:

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).

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

### ***MET rate for natural gas***

In the first quarter of 2017 and in the fourth quarter of 2016 average extraction tax for natural gas was RUB 528 and RUB 534 per th. cubic meters, respectively. In the first quarter of 2016 average extraction tax for natural gas was RUB 530 per th. cubic meters.

### ***MET rate for gas condensate***

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

Significant volume of gas condensate produced at Rospan fields is subject to mineral extraction gas condensate tax rate, which amounted to RUB 3,616 and RUB 3,111 per tonne in the first quarter of 2017 and in the fourth quarter of 2016, respectively. In the first quarter of 2016 tax rate of mineral extraction gas condensate was RUB 2,861 per tonne.

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 until December 31, 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.

## Export customs duty on crude oil export to CIS

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

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

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

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

The FAS sets tariffs for gas pipeline transportation. The tariff includes two parts. 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.

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

*Recent changes of Transneft transportation tariffs*

*Crude oil*

Starting from February 1, 2017 transit tariffs via Belarus territory increased by 7.7%.

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

*Recent changes in railroad transportation tariffs*

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

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

The Rosneft's average transportation tariffs in rouble terms applied to major transportation routes in first quarter 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 Algeria, Norway, United Arab Emirates, Canada, Brazil, Vietnam, Venezuela and the USA and also stakes in refineries in Germany and Belarus.

### **Operating Segments**

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

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

### **Intersegment Sales**

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

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

## Financial performance for the three months ended March 31, 2017 and 2016 and December 31, 2016 (Consolidated statement of profit or loss)

in RUB billions

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
<b>Revenues and equity share in profits of associates and joint ventures</b>						
Oil, gas, petroleum products and petrochemicals sales	1,383	1,456	(5.0)%	1,383	1,026	34.8%
Support services and other revenues	18	19	(5.3)%	18	19	(5.3)%
Equity share in profits of associates and joint ventures	9	10	(10.0)%	9	3	>100%
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>1,410</b>	<b>1,485</b>	<b>(5.1)%</b>	<b>1,410</b>	<b>1,048</b>	<b>34.5%</b>
<b>Costs and expenses</b>						
Production and operating expenses	142	167	(15.0)%	142	137	3.6%
Cost of purchased oil, gas, petroleum products and refining costs	168	196	(14.3)%	168	130	29.2%
General and administrative expenses	36	38	(5.3)%	36	30	20.0%
Pipeline tariffs and transportation costs	153	155	(1.3)%	153	147	4.1%
Exploration expenses	2	4	(50.0)%	2	3	(33.3)%
Depreciation, depletion and amortization	143	133	7.5%	143	116	23.3%
Taxes other than income tax	460	400	15.0%	460	231	99.1%
Export customs duty	166	199	(16.6)%	166	132	25.8%
<b>Total costs and expenses</b>	<b>1,270</b>	<b>1,292</b>	<b>(1.7)%</b>	<b>1,270</b>	<b>926</b>	<b>37.1%</b>
<b>Operating income</b>	<b>140</b>	<b>193</b>	<b>(27.5)%</b>	<b>140</b>	<b>122</b>	<b>14.8%</b>
Finance income	34	33	3.0%	34	18	88.9%
Finance expenses	(59)	(52)	13.5%	(59)	(52)	13.5%
Other income	1	43	(97.7)%	1	–	–
Other expenses	(10)	(38)	(73.7)%	(10)	(12)	(16.7)%
Foreign exchange differences	(45)	(15)	>100%	(45)	(25)	80.0%
Cash flow hedges reclassified to profit or loss	(36)	(36)	–	(36)	(37)	(2.7)%
<b>Income before income tax</b>	<b>25</b>	<b>128</b>	<b>(80.5)%</b>	<b>25</b>	<b>14</b>	<b>78.6%</b>
Income tax expense	(4)	(62)	(93.5)%	(4)	(2)	100.0%
<b>Net income</b>	<b>21</b>	<b>66</b>	<b>(68.2)%</b>	<b>21</b>	<b>12</b>	<b>75.0%</b>
<b>Net income attributable to</b>						
- Rosneft shareholders	13	52	(75.0)%	13	12	8.3%
- non-controlling interests	8	14	(42.9)%	8	–	–

## Upstream Operating Results

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

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
<b>Operational results</b>						
Hydrocarbon production (th. boe per day)	5,785	5,831	(0.8)%	5,785	5,208	11.1%
Crude oil and NGL production (th. barrels per day)	4,620	4,655	(0.8)%	4,620	4,089	13.0%
Gas production (th. boe per day)	1,165	1,176	(0.9)%	1,165	1,119	4.1%
Hydrocarbon production (mln boe) <sup>1</sup>	482.7	497.7	(3.0)%	482.7	440.1	9.7%
<b>Financial results, RUB billions</b>						
EBITDA	325	324	0.3%	325	256	27.0%
Capital expenditures <sup>2</sup>	167	185	(9.7)%	167	135	23.7%
Upstream operating expenses	81.1	89.4	(9.3)%	81.1	68.3	18.7%
<b>Indicators per boe</b>						
EBITDA, RUB/boe	673	651	3.4%	673	582	15.6%
Capital expenditures, RUB/boe	346	372	(7.0)%	346	307	12.7%
Upstream operating expenses, RUB/boe	168	180	(6.7)%	168	155	8.4%
Upstream operating expenses, USD/boe <sup>3</sup>	2.9	2.8	3.6%	2.9	2.1	38.1%

<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.

## Upstream EBITDA

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
<b>Revenues and equity share in profits of associates and joint ventures</b>	<b>775</b>	<b>746</b>	<b>3.9%</b>	<b>775</b>	<b>515</b>	<b>50.5%</b>
<i>Including equity share in profits of associates and joint ventures</i>	8	7	14.3%	8	1	>100%
<b>Expenses net of depreciation</b>	<b>500</b>	<b>461</b>	<b>8.5%</b>	<b>500</b>	<b>294</b>	<b>70.1%</b>
<i>including</i>						
Upstream operating expenses <sup>1</sup>	81	89	(9.3)%	81	68	18.7%
General and administrative expenses	14	15	(6.7)%	14	14	-
Hydrocarbon procurement costs <sup>2</sup>	11	5	>100%	11	12	(8.3)%
Pipeline tariffs and transportation costs and other costs <sup>3</sup>	10	12	(16.7)%	10	11	(9.1)%
Exploration expenses	2	4	(50.0)%	2	3	(33.3)%
Taxes other than income tax	382	336	13.7%	382	186	>100%
<i>Effect of prepayments offsetting</i>	50	39	28.2%	50	35	42.9%
<b>EBITDA</b>	<b>325</b>	<b>324</b>	<b>0.3%</b>	<b>325</b>	<b>256</b>	<b>27.0%</b>

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

<sup>2</sup> See section "Cost of Purchased Oil, Gas and Petroleum Products and Refining Costs and others". Since September 2016 main procurement costs and related transportation expenses were transferred to Downstream segment.

<sup>3</sup> Other costs include the estimation of ecological reserves revision of RUB 0.5 billion in the first quarter of 2017, RUB 4.3 billion in the fourth quarter of 2016, and in the amount of RUB 0.2 billion in the first quarter of 2016.

## Operating indicators

### Production of Crude Oil and NGL

Rosneft has main fully consolidated production and development enterprises, which produce crude oil in Western Siberia, Eastern Siberia, Timan Pechora, Central Russia, southern part of European Russia and the Russian Far East. The Company also has a 20% stake in the Sakhalin-1 project and a 50% stake in JSC “Tomskneft” VNK, both accounted for using proportionate consolidation method. In addition, Rosneft participates in major production joint ventures accounted for using the equity method: Udmurtneft – 49.57% and Slavneft – 49.94%. The Company also participates in international projects in Vietnam, Venezuela and Canada. In October 2016 the Company acquired production assets of Bashneft.

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

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
	(million of barrels)			(million of barrels)		
Yuganskneftegaz (Western Siberia)	114.6	119.6	(4.2)%	114.6	115.0	(0.3)%
Projects of the Vankor group (Eastern Siberia)	43.2	44.4	(2.7)%	43.2	39.7	8.8%
Samotlorneftegaz (Western Siberia)	35.2	36.5	(3.6)%	35.2	37.4	(5.9)%
Bashneft-Dobycha (Central Russia)	30.9	31.4	(1.6)%	30.9	–	–
Orenburgneft (Central Russia)	29.6	30.8	(3.9)%	29.6	30.9	(4.2)%
Samaraneftegaz (Central Russia)	23.3	23.7	(1.7)%	23.3	22.8	2.2%
RN-Uvatneftegaz (Western Siberia)	21.0	21.4	(1.9)%	21.0	21.4	(1.9)%
Verkhnechonskneftegaz (Eastern Siberia)	15.8	16.2	(2.5)%	15.8	16.1	(1.9)%
Varyeganneftegaz (Western Siberia)	11.4	11.6	(1.7)%	11.4	11.4	–
RN-Nyaganneftegaz (Western Siberia)	10.9	11.1	(1.8)%	10.9	10.8	0.9%
Purneftegaz (Western Siberia)	9.3	9.9	(6.1)%	9.3	9.8	(5.1)%
Tomskneft (Western Siberia)	8.9	9.2	(3.3)%	8.9	8.8	1.1%
Offshore projects (Far East) <sup>1</sup>	6.4	7.1	(9.9)%	6.4	7.8	(17.9)%
Severnaya Neft (Timan Pechora)	6.0	6.2	(3.2)%	6.0	6.0	–
Bashneft-Polyus (Timan Pechora) <sup>2</sup>	4.9	4.5	8.9%	4.9	–	–
Sorovskneft (Western Siberia)	4.2	4.4	(4.5)%	4.2	–	–
Taas-Yuryah (Far East)	2.1	2.1	–	2.1	2.0	5.0%
Other	10.1	10.0	1.0%	10.1	9.0	12.2%
<b>Crude oil and NGL production by fully and proportionately consolidated enterprises</b>	<b>387.8</b>	<b>400.1</b>	<b>(3.1)%</b>	<b>387.8</b>	<b>348.9</b>	<b>11.1%</b>
Slavneft (Western and Eastern Siberia)	13.4	13.8	(2.9)%	13.4	14.0	(4.3)%
Udmurtneft (Central Russia)	5.5	5.8	(5.2)%	5.5	5.8	(5.2)%
Messoyakhaneftegaz (Western Siberia)	2.5	2.3	8.7%	2.5	–	–
Other	6.6	6.3	4.8%	6.6	3.4	94.1%
<b>Total share in production of associates and JV</b>	<b>28.0</b>	<b>28.2</b>	<b>(0.7)%</b>	<b>28.0</b>	<b>23.2</b>	<b>20.7%</b>
<b>Total crude oil and NGL production</b>	<b>415.8</b>	<b>428.3</b>	<b>(2.9)%</b>	<b>415.8</b>	<b>372.1</b>	<b>11.7%</b>
<b>Daily crude oil and NGL production (th. barrels per day)</b>	<b>4,620</b>	<b>4,655</b>	<b>(0.8)%</b>	<b>4,620</b>	<b>4,089</b>	<b>13.0%</b>

<sup>1</sup>Net of royalty and government share

<sup>2</sup>Refers to 100% consolidated share in production

In the first quarter of 2017 the production decreased by 2.9% mln barrels to 415.8 mln barrels compared to 428.3 mln barrels in the fourth quarter of 2016. Decrease in oil and NGL production in the first quarter of 2017 vs the fourth quarter of 2016 was caused by worldwide reduction of crude oil production pursuant the Arrangements on reduction of crude oil world production of OPEC members and other important crude oil producers in October 2016 and by abnormal cold winter periods.

Significant increase in crude oil and NGL (by 11.7%) compared to the first quarter of 2016 resulted from the acquisition of Bashneft assets in the fourth quarter of 2016 and from increased share in JV Petromanagaz (Venezuela) in May 2016. Organic growth of crude oil production was mainly driven by the development of Suzun field and East-Messoyakhscoe field started in the third quarter of 2016 and by positive production dynamic at fields of Yuganskneftegaz and Samaraneftegaz.

In the first quarter of 2017 the Company increased its production drilling by 9% up to 2.3 mln tonnes compared with the first quarter 2016. The share of in-house services in the total drilling footage exceeds 60%. New wells put into operation increased by 23% compared to the first quarter of 2016 with app. 32% share of horizontal wells.



## Production of Gas

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

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
	bcm			bcm		
Sibneftegas (Western Siberia)	3.06	3.16	(3.2)%	3.06	3.03	1.0%
Projects of the Vankor group (Eastern Siberia) <sup>2</sup>	2.10	2.23	(5.8)%	2.10	2.14	(1.9)%
Rospan International (Western Siberia)	1.62	1.67	(3.0)%	1.62	1.44	12.5%
Purneftegaz (Western Siberia)	1.50	1.52	(1.3)%	1.50	1.56	(3.8)%
Samotlorneftegaz (Western Siberia)	1.49	1.51	(1.3)%	1.49	1.53	(2.6)%
Yuganskneftegaz (Western Siberia)	1.13	1.17	(3.4)%	1.13	1.15	(1.7)%
Offshore projects (Far East) <sup>3,3</sup>	1.03	1.04	(1.0)%	1.03	0.58	77.6%
Varyeganneftegaz (Western Siberia)	0.93	0.92	1.1%	0.93	0.82	13.4%
Krasnodarneftegaz (Southern Russia)	0.72	0.76	(5.3)%	0.72	0.79	(8.9)%
Orenburgneft (Central Russia)	0.47	0.55	(14.5)%	0.47	0.64	(26.6)%
RN-Nyaganneftegaz (Western Siberia)	0.43	0.42	2.4%	0.43	0.38	13.2%
Tomskneft (Western Siberia)	0.25	0.26	(3.8)%	0.25	0.21	19.0%
Bashneft-Dobycha (Central Russia)	0.13	0.13	–	0.13	–	–
Samaraneftegaz (Central Russia)	0.11	0.12	(8.3)%	0.11	0.12	(8.3)%
Sakhalinmorneftegaz (Far East)	0.08	0.08	–	0.08	0.08	–
RN-Uvatnaftegaz (Western Siberia)	0.06	0.07	(14.3)%	0.06	0.06	–
Verkhnechonskneftegaz (Eastern Siberia)	0.06	0.05	20.0%	0.06	0.05	20.0%
Severnaya Neft (Timan Pechora)	0.05	0.06	(16.7)%	0.05	0.06	(16.7)%
Sorovskneft (Western Siberia)	0.03	0.03	–	0.03	–	–
Bashneft-Polyus (Timan Pechora)	0.02	0.02	–	0.02	–	–
Other	0.32	0.26	21.3%	0.32	0.33	(3.0)%
<b>Total gas production by fully and proportionately consolidated enterprises</b>	<b>15.59</b>	<b>16.03</b>	<b>(2.7)%</b>	<b>15.59</b>	<b>14.97</b>	<b>4.1%</b>
Purgaz (Western Siberia)	1.43	1.49	(4.0)%	1.43	1.56	(8.3)%
Slavneft (Western and Eastern Siberia)	0.12	0.11	9.1%	0.12	0.12	–
Other	0.07	0.14	(50.0)%	0.07	0.07	–
<b>Total share in production of associates and JV</b>	<b>1.62</b>	<b>1.74</b>	<b>(6.9)%</b>	<b>1.62</b>	<b>1.75</b>	<b>(7.4)%</b>
<b>Total gas production</b>	<b>17.21</b>	<b>17.77</b>	<b>(3.2)%</b>	<b>17.21</b>	<b>16.72</b>	<b>2.9%</b>
Natural gas	8.00	8.11	(1.4)%	8.00	7.87	1.7%
Associated gas	9.21	9.66	(4.7)%	9.21	8.85	4.1%
<b>Daily gas production (mcm per day)</b>	<b>191.2</b>	<b>193.2</b>	<b>(1.0)%</b>	<b>191.2</b>	<b>183.7</b>	<b>4.1%</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

Gas production for the first quarter of 2017 amounted to 17.21 bcm. The decrease in production compared with the fourth quarter of 2016 was mainly due to unscheduled works at the Lukoil-Western Siberia gas pipeline in the first quarter of 2017, which had adverse effect on gas production at the Vankor field.

The growth was driven by launching of wells in the northern tip of the Chayvo field (Sakhalin Island) in 2016, reaching the design capacity at Rospan's Novo-Urengoy gas and condensate treatment plant in August 2016, successful launching of wells in the Tyumen suite of the Yem-Yegovskoye field in the first quarter of 2017, as well as the increase in the gas production at the Severo-Varyoganskoye field due to new wells putting on stream and growing gas deliveries from the Van-Yoganskoye field to the Tyumen compressor station after the renovation.

The level of utilization of associated petroleum gas was 90% in the first quarter of 2017.

## 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 8 billion in the first quarter of 2017 due to positive dynamics of JV income.

The equity share in financial results of upstream associates and joint ventures was RUB 7 billion and RUB 1 billion of profit in the fourth and first quarters of 2016.

### Upstream production and operating expenses

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

Upstream production and operating expenses were RUB 81.1 billion (168 RUB/boe) and decreased by 9.3% (a decrease by 6.7% per boe) in the first quarter of 2017 compared with RUB 89.4 billion (180 RUB/boe) the fourth quarter of 2016. The decrease was mainly due to seasonal decrease in workovers in the first quarter of 2017.

Upstream production and operating expenses increased by 18.7% (an increase by 8.4% per boe) compared to RUB 68.3 billion (155 RUB/boe) in the same period of 2016 that is mainly due to acquisition of Bashneft assets in October 2016.

### Exploration Expenses

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 first quarter of 2017, exploration expenses amounted to RUB 2 billion and decreased due to seasonal factors compared to the fourth quarter of 2016. In the first quarter of 2016 exploration expenses were RUB 3 billion.

### Mineral extraction tax

The amount of mineral extraction tax was RUB 358 billion in the first quarter of 2017 compared to RUB 313 billion in the fourth quarter of 2016. The growth of MET expense mainly due to MET rate growth by 17.5% for the period.

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

	For 3 months ended		change %	For 3 months ended March 31,		change %
	March 31, 2017	December 31, 2016		2017	2016	
	<b>(thousand RUB per tonne, except %)</b>					
Average enacted oil mineral extraction tax rate	7.96	6.78	17.5%	7.96	4.08	95.1%
Actual mineral extraction tax expense per tonne of oil produced	6.93	5.82	19.1%	6.93	3.67	88.8%
Actual mineral extraction tax expense per tonne of oil equivalent produced*	5.63	4.74	18.8%	5.63	2.98	88.9%
	<b>(RUB per thousand cubic meters, except %)</b>					
Average actual gas extraction tax rate	528	534	(1.1)%	528	530	(0.4)%

\*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”).

## 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			For 3 months ended March 31,		
	December, 31, 2017	December 31, 2016	% change	2017	2016	% change
<b>Operational results, mln tonne</b>						
Crude oil processing at refineries	28.30	30.37	(6.8)%	28.30	22.61	25.2%
<i>Processing at Company's own refineries in Russia</i>	23.71	25.01	(5.2)%	23.71	17.57	34.9%
<i>Processing at Company's own refineries outside Russia</i>	2.76	3.25	(15.1)%	2.76	3.13	(11.8)%
<i>Processing at Associates' refineries</i>	1.83	2.11	(13.3)%	1.83	1.91	(4.2)%
<b>Financial results, RUB billion</b>						
EBITDA	20	51	(60.8)%	20	27	(25.9)%
Capital expenditures of refineries*	11	30	(63.3)%	11	11	–
Operating expenses of processing in Russia	29.3	31.9	(8.2)%	29.3	19.5	50.3%
Operating expenses of processing outside Russia	4.6	7.4	(37.8)%	4.6	9.2	(50.0)%
<b>Indicators per tonne of the output**</b>						
EBITDA, RUB per tonne	756	1,805	(58.1)%	756	1,304	(42.0)%
Capital expenditure of refineries, RUB per tonne	416	1,062	(60.8)%	416	520	(20.0)%
Operating expenses for processing in Russia, RUB per tonne	1,234	1,277	(3.4)%	1,234	1,109	11.3%
Operating expenses for processing outside Russia, RUB per tonne	1,667	2,277	(26.8)%	1,667	2,932	(43.1)%

\*Refer to "Capital expenditures".

\*\*Calculated from unrounded data.

## Downstream EBITDA

	For 3 months ended			For 3 months ended March 31,		
	March 31, 2017	December 31, 2016	% change	2017	2016	% change
	RUB billion			RUB billion		
<b>Revenues and equity share in profits of associates and joint ventures</b>	<b>1,434</b>	<b>1,400</b>	<b>2.4%</b>	<b>1,434</b>	<b>1,053</b>	<b>36.2%</b>
<i>Including equity share in profits of associates and joint ventures</i>	2	3	(33.3)%	2	2	–
<b>Expenses net of depreciation including</b>	<b>1,414</b>	<b>1,349</b>	<b>4.8%</b>	<b>1,414</b>	<b>1,026</b>	<b>37.8%</b>
Operating expenses at refineries, cost of additives and materials procured for processing	39	49	(20.4)%	39	41	(4.9)%
Operating expenses of retail companies	12	12	–	12	10	20.0%
Cost of purchased oil, gas, petroleum products and refining costs including intersegment turnover	956	868	10.1%	956	641	49.1%
Administrative expenses including doubtful debt allowances	10	12	(16.7)%	10	8	25.0%
Pipeline tariffs and transportation costs and other costs	153	148	3.4%	153	140	9.3%
Taxes other than income tax	84	67	25.4%	84	43	95.3%
Export customs duty	166	199	(16.6)%	166	132	25.8%
<i>Effect from intragroup balance change and others</i>	(6)	(6)	–	(6)	11	>100%
<b>EBITDA*</b>	<b>20</b>	<b>51</b>	<b>(60.8)%</b>	<b>20</b>	<b>27</b>	<b>(25.9)%</b>

\*Calculated from unrounded data.

## Operating indicators

### Petroleum Product Output

Rosneft processes produced and procured crude oil at its refineries: the Tuapse refinery on the Black Sea coast in the South of Russia, the Komsomolsk refinery in the Russian Far East, the Achinsk and Angarsk refineries in Eastern Siberia, the Kuibyshev, Novokuibyshevsk and Syzran refineries in the Samara region, the Saratov refinery and the Ryazan refinery (the European part of Russia) and others. Rosneft also owns processing crude oil in Belarus, and until 31 December 2016, the Company owned production capacity at four Ruhr Oel GmbH (ROG) refineries in Germany. At the end of December 2016 the Company completed the restructuring of foreign refining assets of Ruhr Oel GmbH in Germany including additional share in PCK Raffinerie GmbH, 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 3 months ended March 31,		%
	March 31, 2017	December 31, 2016		2017	2016	
	mln of tonnes			mln of tonnes		
Crude oil processing at refineries in Russia <sup>1</sup>	25.54	27.05	(5.6)%	25.54	19.48	31.1%
Crude oil processing at refineries outside Russia	2.76	3.32	(16.9)%	2.76	3.13	(11.8)%
including crude oil processing in Germany <sup>2</sup>	2.76	3.25	(15.1)%	2.76	3.13	(11.8)%
including crude oil processing in Belarus	0.00	0.07	(100.0)%	0.00	0.00	–
<b>Total Group crude oil processing</b>	<b>28.30</b>	<b>30.37</b>	<b>(6.8)%</b>	<b>28.30</b>	<b>22.61</b>	<b>25.2%</b>
<b>Petroleum product output:</b>						
High octane gasoline	3.85	3.93	(2.0)%	3.85	2.87	34.1%
Low octane gasoline	0.02	0.04	(50.0)%	0.02	0.03	(33.3)%
Naphtha	1.57	1.76	(10.8)%	1.57	1.25	25.6%
Diesel	8.53	8.74	(2.4)%	8.53	6.04	41.2%
Fuel oil	6.13	6.62	(7.4)%	6.13	5.59	9.7%
Jet fuel	0.71	0.74	(4.1)%	0.71	0.63	12.7%
Petrochemicals	0.40	0.45	(11.1)%	0.40	0.16	>100%
Other	3.38	3.55	(4.8)%	3.38	2.44	38.5%
<b>Product output at Rosneft's refineries in Russia</b>	<b>24.59</b>	<b>25.83</b>	<b>(4.8)%</b>	<b>24.59</b>	<b>19.01</b>	<b>29.4%</b>
Product output at refineries outside Russia	2.76	3.43	(19.5)%	2.76	3.33	(17.1)%
including crude oil output in Germany	2.76	3.37	(18.1)%	2.76	3.33	(17.1)%
including product output in Belarus	0.00	0.06	(100.0)%	0.00	0.00	–
<b>Total Group product output</b>	<b>27.35</b>	<b>29.26</b>	<b>(6.5)%</b>	<b>27.35</b>	<b>22.34</b>	<b>22.4%</b>

<sup>1</sup>Including processing at YANOS refinery

<sup>2</sup>Excluding additives obtained for processing

In the first quarter of 2017 Rosneft's total refinery throughput in Russia amounted to 25.54 mln tonnes. The decrease in production at Russian refineries compared to the fourth quarter of 2016 was mainly due to the optimization of utilization rate at refineries in terms of corresponding demand.

In the first quarter of 2017 crude oil processing volume at refineries in Russia was 31.1% higher 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 first quarter of 2017, processing volume at the German refineries decreased by 15.1% compared to the fourth quarter of 2016 due to scheduled seasonal turnarounds.

## Financial indicators

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

In the first quarter of 2017 revenues and equity share in profits of associates and joint ventures amounted to RUB 1,410 billion in comparison with RUB 1,485 billion in the fourth quarter of 2016. Decrease in revenues in RUB terms in the first quarter of 2017 is mainly due to RUB appreciation against USD and decrease in retail petroleum product sales during January holidays.

In the first quarter of 2016 revenues and equity share in profits of associates and joint ventures amounted to RUB 1,048 billion.

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 3 months ended March 31,				
	March 31, 2017		December 31, 2016		% change	2017		2016		% change
	% of revenue		% of revenue			% of revenue		% of revenue		
RUB billion, except %										
<b>Crude oil</b>										
International Sales to non-CIS	518	36.8%	568	38.3%	(8.8)%	518	36.8%	401	38.2%	29.2%
Europe and other directions	290	20.6%	335	22.6%	(13.4)%	290	20.6%	215	20.5%	34.9%
Asia	228	16.2%	233	15.7%	(2.1)%	228	16.2%	186	17.7%	22.6%
International sales to CIS	33	2.3%	23	1.5%	43.5%	33	2.3%	32	3.1%	3.1%
Domestic sales	22	1.6%	24	1.6%	(8.3)%	22	1.6%	18	1.7%	22.2%
<b>Total crude oil</b>	<b>573</b>	<b>40.7%</b>	<b>615</b>	<b>41.4%</b>	<b>(6.8)%</b>	<b>573</b>	<b>40.7%</b>	<b>451</b>	<b>43.0%</b>	<b>27.1%</b>
<b>Gas</b>	<b>59</b>	<b>4.2%</b>	<b>60</b>	<b>4.0%</b>	<b>(1.7)%</b>	<b>59</b>	<b>4.2%</b>	<b>61</b>	<b>5.8%</b>	<b>(2.8)%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	426	30.2%	404	27.3%	5.4%	426	30.2%	276	26.3%	54.3%
Europe and other directions	316	22.4%	307	20.8%	2.9%	316	22.4%	206	19.6%	53.4%
Asia	110	7.8%	97	6.5%	13.4%	110	7.8%	70	6.7%	57.1%
International Sales to CIS	17	1.2%	27	1.8%	(37.0)%	17	1.2%	7	0.7%	>100.0%
Domestic sales	278	19.7%	297	20.0%	(6.4)%	278	19.7%	198	18.9%	40.4%
Wholesale	173	12.3%	177	11.9%	(2.3)%	173	12.3%	108	10.3%	60.2%
Retail	105	7.4%	120	8.1%	(12.5)%	105	7.4%	90	8.6%	16.7%
Sales of bunker fuel to end-users	10	0.7%	11	0.7%	(9.1)%	10	0.7%	5	0.5%	100.0%
<b>Total petroleum products</b>	<b>731</b>	<b>51.8%</b>	<b>739</b>	<b>49.8%</b>	<b>(1.1)%</b>	<b>731</b>	<b>51.8%</b>	<b>486</b>	<b>46.4%</b>	<b>50.4%</b>
<b>Sales of LNG</b>	<b>0</b>	<b>0.0%</b>	<b>2</b>	<b>0.1%</b>	<b>(100.0)%</b>	<b>0</b>	<b>0.0%</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Petrochemical products</b>	<b>20</b>	<b>1.4%</b>	<b>40</b>	<b>2.7%</b>	<b>(50.0)%</b>	<b>20</b>	<b>1.4%</b>	<b>28</b>	<b>2.7%</b>	<b>(28.6)%</b>
International sales	7	0.5%	28	1.9%	(75.0)%	7	0.5%	24	2.3%	(70.8)%
Domestic sales	13	0.9%	12	0.8%	8.3%	13	0.9%	4	0.4%	225.0%
<b>Sales of petroleum products, petrochemicals and LNG</b>	<b>751</b>	<b>53.2%</b>	<b>781</b>	<b>52.6%</b>	<b>(3.8)%</b>	<b>751</b>	<b>53.2%</b>	<b>514</b>	<b>49.1%</b>	<b>(46.1)%</b>
<b>Support services and other revenues</b>	<b>18</b>	<b>1.3%</b>	<b>19</b>	<b>1.3%</b>	<b>(5.3)%</b>	<b>18</b>	<b>1.3%</b>	<b>19</b>	<b>1.8%</b>	<b>(5.3)%</b>
<b>Equity share in profits of associates and joint ventures</b>	<b>9</b>	<b>0.6%</b>	<b>10</b>	<b>0.7%</b>	<b>(10.0)%</b>	<b>9</b>	<b>0.6%</b>	<b>3</b>	<b>0.3%</b>	<b>200.0%</b>
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>1,410</b>	<b>100.0%</b>	<b>1,485</b>	<b>100%</b>	<b>(5.1)%</b>	<b>1,410</b>	<b>100.0%</b>	<b>1,048</b>	<b>100.0%</b>	<b>34.5%</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 3 months ended March 31,				
	March 31, 2017		December 31, 2016		%	2017		2016		%
	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	191.1	45.1%	208.1	45.9%	(8.2)%	191.1	45.1%	193.2	48.6%	(1.1)%
Europe and other directions	107.4	25.4%	125.9	27.8%	(14.7)%	107.4	25.4%	112.5	28.3%	(4.5)%
Asia	83.7	19.7%	82.2	18.1%	1.8%	83.7	19.7%	80.7	20.3%	3.7%
International Sales to CIS	14.1	3.3%	10.3	2.3%	36.9%	14.1	3.3%	18.5	4.7%	(23.8)%
Domestic	10.4	2.4%	11.8	2.6%	(11.9)%	10.4	2.4%	11.1	2.8%	(6.3)%
<b>Total crude oil</b>	<b>215.6</b>	<b>50.8%</b>	<b>230.2</b>	<b>50.8%</b>	<b>(6.3)%</b>	<b>215.6</b>	<b>50.8%</b>	<b>222.8</b>	<b>56.1%</b>	<b>(3.2)%</b>
	<b>mln</b>		<b>mln</b>			<b>mln</b>		<b>mln</b>		
<b>Crude oil</b>	<b>tonnes</b>		<b>tonnes</b>			<b>tonnes</b>		<b>tonnes</b>		
International Sales to non-CIS	25.8	45.1%	28.1	45.9%	(8.2)%	25.8	45.1%	26.1	48.6%	(1.1)%
Europe and other directions	14.5	25.4%	17.0	27.8%	(14.7)%	14.5	25.4%	15.2	28.3%	(4.5)%
Asia	11.3	19.7%	11.1	18.1%	1.8%	11.3	19.7%	10.9	20.3%	3.7%
International Sales to CIS	1.9	3.3%	1.4	2.3%	36.9%	1.9	3.3%	2.5	4.7%	(23.8)%
Domestic sales	1.4	2.4%	1.6	2.6%	(11.9)%	1.4	2.4%	1.5	2.8%	(6.3)%
<b>Total crude oil</b>	<b>29.1</b>	<b>50.8%</b>	<b>31.1</b>	<b>50.8%</b>	<b>(6.3)%</b>	<b>29.1</b>	<b>50.8%</b>	<b>30.1</b>	<b>56.1%</b>	<b>(3.2)%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	17.1	29.8%	17.3	28.3%	(1.2)%	17.1	29.8%	14.9	27.8%	14.8%
Europe and other directions	12.2	21.2%	12.7	20.8%	(3.9)%	12.2	21.2%	11.4	21.3%	7.0%
Asia	4.9	8.6%	4.6	7.5%	6.5%	4.9	8.6%	3.5	6.5%	40.0%
International Sales to CIS	0.7	1.2%	1.0	1.6%	(30.0)%	0.7	1.2%	0.3	0.6%	>100.0%
Domestic sales	9.2	16.1%	10.1	16.5%	(8.9)%	9.2	16.1%	7.2	13.4%	27.8%
Wholesale	6.5	11.4%	7.0	11.4%	(7.1)%	6.5	11.4%	4.8	8.9%	35.4%
Retail	2.7	4.7%	3.1	5.1%	(12.9)%	2.7	4.7%	2.4	4.5%	12.5%
Sales of bunker fuel to end-users	0.5	0.9%	0.5	0.8%	0.0%	0.5	0.9%	0.3	0.6%	66.7%
<b>Total petroleum products</b>	<b>27.5</b>	<b>48.0%</b>	<b>28.9</b>	<b>47.2%</b>	<b>(4.8)%</b>	<b>27.5</b>	<b>48.0%</b>	<b>22.7</b>	<b>42.4%</b>	<b>21.1%</b>
<b>Sales of LNG</b>	–	–	<b>0.1</b>	<b>0.2%</b>	<b>(100)%</b>	–	–	–	–	–
<b>Petrochemical products</b>	<b>0.7</b>	<b>1.2%</b>	<b>1.1</b>	<b>1.8%</b>	<b>(36.4)%</b>	<b>0.7</b>	<b>1.2%</b>	<b>0.8</b>	<b>1.5%</b>	<b>(12.5)%</b>
International sales	0.3	0.5%	0.7	1.1%	(57.1)%	0.3	0.5%	0.6	1.1%	(50.0)%
Domestic sales	0.4	0.7%	0.4	0.7%	0.0%	0.4	0.7%	0.2	0.4%	100.0%
<b>Total crude oil and products, LNG</b>	<b>57.3</b>	<b>100.0%</b>	<b>61.2</b>	<b>100.0%</b>	<b>(6.4)%</b>	<b>57.3</b>	<b>100.0%</b>	<b>53.6</b>	<b>100.0%</b>	<b>6.9%</b>
<b>Gas</b>	<b>bcm</b>		<b>bcm</b>			<b>bcm</b>		<b>bcm</b>		
<b>Sales Volumes</b>	<b>17.61</b>		<b>18.03</b>		<b>(2.3)%</b>	<b>17.61</b>		<b>17.80</b>		<b>(1.1)%</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)<sup>1</sup>:

	For 3 months ended				% change	For 3 months ended March 31,				% change
	March 31, 2017		December 31, 2016			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	2.98	22.0	2.93	21.7	1.4%	2.98	22.0	2.28	16.9	30.2%
Europe and other directions <sup>2</sup>	2.88	21.3	2.84	21.1	0.9%	2.88	21.3	2.20	16.3	30.7%
Asia <sup>2</sup>	3.11	23.0	3.07	22.7	1.3%	3.11	23.0	2.42	17.9	28.5%
Crude oil, CIS	2.29	16.9	2.14	15.8	7.0%	2.29	16.9	1.72	12.7	33.1%
Petroleum products, non- CIS		25.1		23.8	5.5%		25.1		18.4	36.4%
Europe and other directions		26.1		24.5	6.5%		26.1		18.0	45.0%
Asia		22.5		21.9	2.7%		22.5		20.0	12.5%
Petroleum products, CIS		26.5		25.6	3.5%		26.5		25.0	6.0%
Sales of LNG		–		20.2	–		–		–	–
Petrochemical products		28.0		38.5	(27.3)%		28.0		40.3	(30.5)%
<b>Average domestic prices</b>										
Crude oil	2.18	16.1	2.08	15.4	4.5%	2.18	16.1	1.67	12.3	30.9%
Petroleum products		30.2		29.4	2.7%		30.2		27.7	9.0%
Wholesale		26.5		25.4	4.3%		26.5		22.6	17.3%
Retail		39.2		38.3	2.3%		39.2		37.9	3.4%
Gas (the RUB./the cubic meter) <sup>3</sup>		3.32		3.32	0.0%		3.32		3.34	(0.6)%
Petrochemical products		31.9		29.2	9.2%		31.9		17.0	87.6%
<b>Sales of bunker fuel to end-users</b>		19.7		20.2	(2.5)%		19.7		16.2	21.6%

<sup>1</sup>Average price is calculated from unrounded figures.

<sup>2</sup>Price excludes revenues under prepaid long-term crude oil supply contracts and revenues from crude oil sales to Transneft (RUB 28 billion and RUB 26 billion, in the first quarter of 2017 and in the fourth quarter of 2016; RUB 22 billion in the first quarter of 2016, respectively).

<sup>3</sup>Including gas sales outside Russian Federation average gas prices were 3.35 th.RUB./th. cubic meter in the first quarter of 2017 and 3.37 th.RUB./th. cubic meter in the fourth quarter of 2016 and 3.40 th.RUB./th. cubic meter in the first quarter of 2016.

## International Crude Oil Sales to non-CIS

Revenues from international crude oil sales to non-CIS countries in the first quarter of 2017 amounted to RUB 518 billion compared to RUB 568 billion in the fourth quarter of 2016. Revenue decrease was due to downturn in sales volumes by 8.2% (unfavourable impact on revenue of RUB 47 billion) and was partially offset by increase in average price by 1.4% or RUB 8 billion.

In the first quarter of 2017 revenues from international crude oil sales to non-CIS countries increased by 29.2% compared with the same period of 2016. Average sales price upturn by 30.2% (positive impact on revenue of RUB 130 billion) was partially offset by decrease in sales volume by 1.1% (unfavourable impact on revenue of RUB 2 billion).

## International Crude Oil Sales to CIS

Revenue from sales of crude oil to CIS in the first quarter of 2017 amounted to RUB 33 billion compared to RUB 23 billion in the fourth quarter of 2016. The increase was mainly caused by upturn of sales volume by 36.9% (positive impact on revenue of RUB 8 billion) and was accompanied by growth of average sales price by 7.0% (favourable impact on revenues of RUB 2 billion).

In the first quarter of 2016 revenues from international crude oil sales to CIS countries amounted to RUB 32 billion.

## Domestic Sales of Crude Oil

In the first quarter of 2017 revenues from domestic sales of crude oil amounted to RUB 22 billion, which is 8.3% lower than in the fourth quarter of 2016, mainly due to volume decrease of 11.9% (unfavorable impact on revenue of RUB 3 billion) and was partially offset by average sales upturn up to 4.5% (favorable impact on revenue of RUB 1 billion).

In the first quarter of 2017 revenues from domestic crude oil sales amounted RUB 22 billion that were 22.2% higher in comparison with the same period of 2016, which was mainly attributable to growth of average sales price by 30.9% (positive impact on revenue RUB 5 billion) and was partially offset by downturn of crude oil sales volumes by 6.3% (unfavorable effect on revenues RUB 1 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 first quarter of 2017 and in the fourth quarter of 2016\*:

	For 3 months ended						% change		
	March 31, 2017			December 31, 2016					
	RUB billion	mln of tonnes	Average price th.RUB/tonne	RUB billion	mln of tonnes	Average price th.RUB/tonne	RUB billion	mln of tonnes	Average price th.RUB/tonne
High octane gasoline	7	0.2	35.0	6	0.2	31.3	16.7%	0.0%	11.8%
Naphtha	44	1.5	28.1	41	1.5	27.1	7.3%	0.0%	3.7%
Diesel (Gasoil)	123	4.5	26.9	111	4.1	26.7	10.8%	9.8%	0.7%
Fuel oil	124	7.0	18.4	117	6.9	17.8	6.0%	1.4%	3.4%
Other	6	0.2	27.1	4	0.2	28.5	50.0%	0.0%	(4.9)%
<b>Petroleum products exported to non-CIS</b>	<b>304</b>	<b>13.4</b>	<b>22.8</b>	<b>279</b>	<b>12.9</b>	<b>22.1</b>	<b>9.0%</b>	<b>3.9%</b>	<b>3.2%</b>
Petroleum products sold from German refineries	85	2.1	40.9	93	3.0	31.4	(8.6)%	(30.0)%	30.3%
Petroleum products bought and sold outside Russia	37	1.6	23.7	32	1.4	22.4	15.6%	14.3%	5.8%
<b>Trading of petroleum products outside Russia</b>	<b>122</b>	<b>3.7</b>	<b>33.5</b>	<b>125</b>	<b>4.4</b>	<b>28.5</b>	<b>(2.4)%</b>	<b>(15.9)%</b>	<b>17.5%</b>
<b>Total</b>	<b>426</b>	<b>17.1</b>	<b>25.1</b>	<b>404</b>	<b>17.3</b>	<b>23.8</b>	<b>5.4%</b>	<b>(1.2)%</b>	<b>5.5%</b>

\*Average price is calculated from unrounded figures.

Revenues from the international sales of petroleum products to non-CIS countries were RUB 426 billion in comparison with RUB 404 billion in the fourth quarter of 2016 , which is 5.4% higher due to the upturn of average price up to 5.5% (positive impact on revenues of RUB 26 billion), and was partially offset by decrease in sales volumes by 1.2% (unfavourable impact on revenues of RUB 4 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 first quarters of 2017 and 2016\*:

	For 3 months ended March 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	7	0.2	35.0	3	0.1	32.2	>100.0%	100.0%	8.7%
Naphtha	44	1.5	28.1	33	1.4	23.6	33.3%	7.1%	19.1%
Diesel (Gasoil)	123	4.5	26.9	71	3.3	21.6	73.2%	36.4%	24.5%
Fuel oil	124	7.0	18.4	79	6.7	11.8	57.0%	4.5%	55.9%
Other	6	0.2	27.1	6	0.2	22.3	0.0%	0.0%	21.5%
<b>Petroleum products exported to non-CIS</b>	<b>304</b>	<b>13.4</b>	<b>22.8</b>	<b>192</b>	<b>11.7</b>	<b>16.4</b>	<b>58.3%</b>	<b>14.5%</b>	<b>39.0%</b>
Petroleum products sold from German refineries	85	2.1	40.9	72	2.7	26.6	18.1%	(22.2)%	53.8%
Petroleum product purchased and sold outside Russia	37	1.6	23.7	12	0.5	21.7	>100.0%	>100.0%	9.2%
<b>Trading of petroleum products outside Russia</b>	<b>122</b>	<b>3.7</b>	<b>33.5</b>	<b>84</b>	<b>3.2</b>	<b>25.8</b>	<b>45.2%</b>	<b>15.6%</b>	<b>29.8%</b>
<b>Total</b>	<b>426</b>	<b>17.1</b>	<b>25.1</b>	<b>276</b>	<b>14.9</b>	<b>18.4</b>	<b>54.3%</b>	<b>14.8%</b>	<b>36.4%</b>

\*Average price is calculated from unrounded figures.



In the first quarter of 2017 revenues from sales of petroleum products to non-CIS countries were 54.3% higher than in the same period of 2016 mainly due to average price upturn by 36.4% (favourable impact on revenues of RUB 112 billion), and was accompanied by increase in sales volumes by 14.8 (favourable impact on revenues of RUB 42 billion).

Increase in sales of petroleum product purchased and sold outside Russia due to an increase in trading activity of the foreign division of the Company.

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

Revenues from sales of petroleum products to CIS countries were RUB 17 billion in the first quarter of 2017 that were 37.0% lower compared with the fourth quarter of 2016 mainly due to decrease in sales volumes by 30.0% (unfavourable impact on revenues of RUB 11 billion) and was partially offset by average price upturn by 3.5% (favourable effect on revenues of RUB 1 billion).

Revenues from sales of petroleum products to CIS countries in the first quarter of 2017 were over 2 times higher (or RUB 10 billion) compared to the same period of 2016 due to increase in petroleum products sales volumes by 133% (favourable effect on revenues of RUB 9 billion) and was accompanied by average price upturn by 6.0% (positive impact on revenues of RUB 1 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 Russian the first quarter of 2017 and in the fourth quarter of 2016\*:

	For 3 months ended						% change		
	March 31, 2017			December 31, 2016					
	RUB billion	mln of tonnes	Average price th. RUB/tonne	RUB billion	mln of tonnes	Average price th. RUB/tonne	RUB billion	mln of tonnes	Average price th. RUB/tonne
High octane gasoline	143	3.8	38.2	149	4.0	37.5	(4.0)%	(5.0)%	1.9%
Diesel (Gasoil)	91	2.7	33.1	99	3.1	32.0	(8.1)%	(12.9)%	3.4%
Fuel oil	10	0.9	11.1	9	0.9	9.6	11.1%	0.0%	15.6%
Jet fuel	21	0.7	30.4	22	0.7	29.3	(4.5)%	0.0%	3.8%
Other	13	1.1	12.3	18	1.4	13.0	(27.8)%	(21.4)%	(5.4)%
<b>Total</b>	<b>278</b>	<b>9.2</b>	<b>30.2</b>	<b>297</b>	<b>10.1</b>	<b>29.4</b>	<b>(6.4)%</b>	<b>(8.9)%</b>	<b>2.7%</b>

\*Average price is calculated from unrounded figures.

Revenues from sales of petroleum products on the domestic market were RUB 278 billion in the first quarter of 2017 or by 6.4% lower compared with the fourth quarter of 2016, which was mainly due to decrease in petroleum products sales volume of 8.9% (unfavourable effect on revenue of RUB 26 billion), partially offset by 2.7% upturn of average sales price (positive effect on revenue of RUB 7 billion).

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

	For 3 months ended March 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	143	3.8	38.2	99	2.9	35.9	44.4%	31.0%	6.4%
Diesel (Gasoil)	91	2.7	33.1	70	2.4	29.2	30.0%	12.5%	13.4%
Fuel oil	10	0.9	11.1	3	0.6	4.5	>100.0%	50.0%	>100.0%
Jet fuel	21	0.7	30.4	18	0.6	27.2	16.7%	16.7%	11.8%
Other	13	1.1	12.3	8	0.7	11.8	62.5%	57.1%	4.2%
<b>Total</b>	<b>278</b>	<b>9.2</b>	<b>30.2</b>	<b>198</b>	<b>7.2</b>	<b>27.7</b>	<b>40.4%</b>	<b>27.8%</b>	<b>9.0%</b>

\*Average price is calculated from unrounded figures.

Revenues from sales of petroleum products on the domestic market in the first quarter of 2017 were 40.4% higher compared to the same period of 2016. The increase was due to sales volume growth of 27.8% (favourable effect on revenue of RUB 55 billion) and average sales price growth of 9.0% (favourable effect on revenue of RUB 25 billion).

### **Sales of bunker fuel**

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

Revenues from sales of bunker fuel in the first quarter of 2017 were RUB 10 billion, and decrease by 9.1% in comparison with the fourth quarter of 2016, which is mainly attributed to downturn of average sales price by 2.5% (negative impact on revenue of RUB 1 billion).

Revenues from sales of bunker fuel in the first quarter of 2017 increased by 100% or RUB 5 billion in comparison with the same period of 2016 due to increase in sales volumes by 66.7% (positive effect on revenue of RUB 3 billion), was accompanied by average sales price upturn by 21.6% or RUB 2 billion.

### **Petrochemical Product Sales**

Revenues from sales of petrochemical products in the first quarter of 2017 amounted to RUB 20 billion (0.7 mln tonnes).

Petrochemical product sales volumes from German refineries amounted to 0.1 mln tonnes in the first quarter of 2017.

### **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			For 3 months ended		
	March 31, 2017	December 31, 2016	% change	March 31, 2017	March 31, 2016	% change
	(RUB billion)			(RUB billion)		
<b>Revenue</b>						
In the Russian Federation	57.7	59.4	(2.9)%	57.7	58.7	(1.7)%
Outside the Russian Federation	1.2	1.4	(14.3)%	1.2	1.9	(36.8)%
<b>Total</b>	<b>58.9</b>	<b>60.8</b>	<b>(3.1)%</b>	<b>58.9</b>	<b>60.6</b>	<b>(2.8)%</b>
<b>Sales volumes</b>	(bcm)			(bcm)		
In the Russian Federation	17.42	17.86	(2.5)%	17.42	17.57	(0.9)%
Outside the Russian Federation	0.19	0.17	11.8%	0.19	0.23	(17.4)%
<b>Total</b>	<b>17.61</b>	<b>18.03</b>	<b>(2.3)%</b>	<b>17.61</b>	<b>17.80</b>	<b>(1.1)%</b>
<b>Average price</b>	(th. RUB/th. of cubic metres)			(th. RUB/th. of cubic metres)		
In the Russian Federation	3.32	3.32	0.0%	3.32	3.34	(0.6)%
Outside the Russian Federation	6.26	8.07	(22.4)%	6.26	8.44	(25.8)%
<b>Total</b>	<b>3.35</b>	<b>3.37</b>	<b>(0.6)%</b>	<b>3.35</b>	<b>3.40</b>	<b>(1.5)%</b>

\*Average price is calculated from unrounded figures.

In the first quarter of 2017 revenues from gas sales in the Russian Federation decreased in comparison with the fourth quarter of 2016 and amounted to RUB 57.7 billion due to sales volume downturn by 2.5% (negative impact on revenues of RUB 1 billion).

Gas volumes downturn up to 1.1% (negative effect on revenue of RUB 1 billion) in the first quarter of 2017 compared with the same period 2016 and decrease in average price by 1.5% (unfavorable impact on revenues of RUB 1 billion) contributed to gas sales decrease by 2.8% compared with the same period of 2016.

### **Support Services and Other Revenues**

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

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

	For 3 months ended				% change	For 3 months ended March 31,				% change
	March 31, 2017		December 31, 2016			2017		2016		
	% of total revenue		% of total revenue			% of total revenue		% of total revenue		
	billion RUB, except %									
Drilling services	1.1	6.1%	0.7	3.6%	57.1%	1.1	6.1%	0.6	3.2%	83.3%
Sales of materials	5.4	30.1%	6.7	34.2%	(19.4)%	5.4	30.1%	5.5	29.6%	(1.8)%
Repairs and maintenance services	0.6	3.3%	0.7	3.6%	(14.3)%	0.6	3.3%	0.7	3.8%	(14.3)%
Rent services	1.5	8.3%	1.5	7.7%	0.0%	1.5	8.3%	0.9	4.8%	66.7%
Construction services	0.0	0.0%	0.1	0.5%	–	0.0	0.0%	0.0	0.0%	–
Transport services	3.8	21.1%	3.0	15.3%	26.7%	3.8	21.1%	4.5	24.2%	(15.6)%
Electric power sales and transmission	2.6	14.4%	2.6	13.3%	0.0%	2.6	14.4%	2.3	12.4%	13.0%
Other revenues	3.0	16.7%	4.3	21.8%	(30.2)%	3.0	16.7%	4.1	22.0%	(26.8)%
<b>Total</b>	<b>18.0</b>	<b>100.0%</b>	<b>19.6</b>	<b>100.0%</b>	<b>(8.2)%</b>	<b>18.0</b>	<b>100.0%</b>	<b>18.6</b>	<b>100.0%</b>	<b>(3.2)%</b>

Support services and other revenues in the first quarter of 2017 amounted to RUB 18 billion or 8.2% lower in comparison with the fourth quarter of 2016.

Support services and other revenues in the first quarter of 2017 decreased by 3.2% 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 2 billion and RUB 3 billion in the first quarter of 2017 and in the fourth quarter of 2016<sup>1</sup>. The equity share in net financial results of downstream associates and joint ventures was RUB 2 billion in the first quarter of 2016.

### Downstream production and operating cost

Downstream operating expenses include\*:

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
	billion RUB, except %					
Operating expenses at refineries in Russia	29.3	31.9	(8.2)%	29.3	19.5	50.3%
Operating expenses at refineries and cost of additives and materials procured for processing outside Russia	9.7	16.2	(40.1)%	9.7	21.2	(54.2)%
Operating expenses of retail companies	11.6	12.5	(7.2)%	11.6	10.2	13.7%
<b>Downstream operating expenses</b>	<b>50.6</b>	<b>60.6</b>	<b>(16.5)%</b>	<b>50.6</b>	<b>50.9</b>	<b>(0.6)%</b>
<i>Intragroup inventory effect and others</i>	<i>(5.6)</i>	<i>(5.6)</i>	<i>-</i>	<i>(5.6)</i>	<i>11.1</i>	<i>-</i>
<b>Total Downstream Operating expenses**</b>	<b>45.0</b>	<b>55.0</b>	<b>(18.2)%</b>	<b>45.0</b>	<b>62.0</b>	<b>(27.4)%</b>

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

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

Operating expenses of refineries and retail companies in the first quarter of 2017 decreased by 16.5% compared with the fourth quarter of 2016 and amounted to RUB 50.6 billion.

In the first quarter of 2017 operating expenses of refineries and retail companies decreased by 0.6% compared with the same period of 2016.

<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			For 3 months ended		
	March 31, 2017	December 31, 2016	% change	December31, 2017	2016	% change
<b>Operating expenses at refineries in Russia (RUB billion)</b>	<b>29.3</b>	<b>31.9</b>	<b>(8.2)%</b>	<b>29.3</b>	<b>19.5</b>	<b>50.3%</b>
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne) <sup>1</sup>	1,279	1,335	(4.2)%	1,279	1,132	13.0%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,234	1,277	(3.4)%	1,234	1,109	11.3%
<b>Operating expenses at refineries outside Russia (RUB billion)*</b>	<b>4.6</b>	<b>7.4</b>	<b>(37.8)%</b>	<b>4.6</b>	<b>9.2</b>	<b>(50.0)%</b>
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,667	2,197	(24.1)%	1,667	2,809	(40.7)%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,667	2,277	(26.8)%	1,667	2,932	(43.1)%
<b>Total operating expenses at Rosneft's refineries (RUB billion)</b>	<b>33.9</b>	<b>39.3</b>	<b>(13.7)%</b>	<b>33.9</b>	<b>28.7</b>	<b>18.1%</b>

\*Refineries outside Russia also procured the additives and materials for processing: in the first quarter of 2017 – RUB 5.1 billion, in the fourth quarter of 2016 – RUB 8.8 billion, in the first quarter of 2016 – RUB 12.0 billion.

Operating expenses of Rosneft's refineries in Russia in the first quarter of 2017 amounted to RUB 29.3 billion and decreased by 8.2% compared with the fourth quarter of 2016. The decrease is mainly due to planned decrease in turnaround expenses.

In the first quarter of 2017 operating expenses of Rosneft's refineries in Russia increased by 50.3% compared with the same period of 2016 mainly due to increased tariffs of natural monopolies, indexation of wages and Bashneft assets acquisition in the fourth quarter of 2016.

Operating expenses of Rosneft's refineries outside Russia decreased in the first quarter of 2017 by 37.8% in comparison with the fourth quarter of 2016 due to decline of production volumes caused by schedule turnarounds.

In the first quarter of 2017 operating costs per tonne of crude oil throughput of Rosneft's refineries in Russia decreased by 3.4% compared with the fourth quarter of 2016 and amounted to RUB 1,234 per tonne. The decrease was mostly due to lower scheduled turnaround expenses. The increase of 11.3% in operating costs per tonne at refineries in Russia in the first quarter of 2017 compared with the same period of 2016 was due to increased tariffs of natural monopolies, indexation of wages and due to the acquisition of Bashneft assets with higher operating costs caused by more difficult process of production (production of fuel oil and aromatics).

Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia were RUB 1,667 per tonne in the first quarter of 2017 which is a decrease of 26.8% compared with the fourth quarter of 2016.

## 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 3 months ended		% change
	March 31, 2017	December 31, 2016		March 31, 2017	2016	
<b>Crude oil and gas procurement</b>						
Cost of crude oil and gas procured (RUB billion)**	117	139	(15.8)%	117	103	13.6%
<i>including Domestic market</i>	65	65	–	65	49	32.7%
<i>International market</i>	52	74	(29.7)%	52	54	(3.7)%
Volume of crude oil procured (millions of barrels)	41.7	54.2	(23.1)%	41.7	48.0	(13.1)%
<i>including Domestic market</i>	24.7	28.0	(11.8)%	24.7	25.7	(3.9)%
<i>International market</i>	17.0	26.2	(35.1)%	17.0	22.3	(23.8)%
Volume of gas procured (bcm)	5.60	5.17	8.3%	5.60	5.53	1.3%
<b>LNG procurement</b>						
Cost of LNG (RUB billion)	–	2	–	–	–	–
Volume of LNG procured (millions of tonnes)	–	0.11	–	–	–	–
<b>Petroleum products procurement</b>						
Cost of petroleum products procured (RUB billion)***	45	41	9.8%	45	20	>100%
Volume of petroleum products procured (millions of tonnes)	1.77	1.64	7.9%	1.77	0.83	>100%
<b>Crude oil, gas and petroleum products refining services</b>						
Cost of refining of crude oil under processing agreements (RUB billion)	6.3	7.2	(12.5)%	6.3	6.9	(8.7)%
Volumes of crude oil and petroleum products, refined under processing agreements (millions of tonnes)	2.1	2.2	(4.5)%	2.1	2.5	(16.0)%
Volumes of refining of gas under processing agreements (bcm)	2.4	2.6	(7.7)%	2.4	2.6	(7.7)%
<b>Petroleum products for blending procurement</b>						
Cost of petroleum products procured for blending (RUB billion)	5.7	6.1	(6.6)%	5.7	6.1	(6.6)%
<i>Including intercompany purchases</i>	5.5	6.0	(8.3)%	5.5	6.0	(8.3)%
Inventory revaluation written-off	–	7	–	–	–	–
<b>Total cost of procured oil, gas and petroleum products and refining costs (RUB billion)</b>	<b>168</b>	<b>196</b>	<b>(14.3)%</b>	<b>168</b>	<b>130</b>	<b>29.5%</b>

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

\*\*Including cost of Upstream segment in the amount of RUB 6 billion, RUB 5 billion in the first quarter of 2017 and in the fourth quarter of 2016, also RUB 12 billion in the first quarter of 2016.

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

## Crude oil and Gas procurement

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

Crude oil and gas procurement costs were RUB 117 billion and RUB 139 billion in the first quarter of 2017 and in the fourth quarter of 2016 respectively. The decrease in crude oil and gas procurement by 15.8% in the first quarter of 2017 compared with the previous quarter is mainly attributable to satisfaction demand by own resources that mostly substituted procurement of crude oil from the third parties.

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

	For 3 months ended			For 3 months ended		% change
	March 31, 2017	December 31, 2016	% change	March 31, 2017	March 31, 2016	
	mln barrels			mln barrels		
International market	17.0	26.2	(35.1)%	17.0	22.3	(23.8)%
Udmurteft	5.6	6.2	(9.7)%	5.6	6.2	(9.7)%
Slavneft	12.6	12.4	1.6%	12.6	13.3	(5.3)%
Lukoil-Reservnefteproduct	0.5	4.7	(89.4)%	0.5	–	–
Others	6.0	4.7	27.7%	6.0	6.2	(3.2)%
<b>Total</b>	<b>41.7</b>	<b>54.2</b>	<b>(23.1)%</b>	<b>41.7</b>	<b>48.0</b>	<b>(13.1)%</b>

Rosneft performs oil swaps operations in order to optimize transportation costs of deliveries to refineries. Revenues and costs related to these operations are shown 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 7.4 mln barrels, 6.6 mln barrels and 9.1 mln barrels in the first quarter of 2017, in the fourth and first quarters of 2016, respectively.

## Petroleum products procurement

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

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

The table below sets forth Rosneft’s costs, volumes and average prices per tonne of petroleum products procured from third parties in the first quarter of 2017 and in the fourth quarter of 2016:

	For 3 months ended						% change		
	March 31, 2017			December 31, 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>7</b>	<b>0.18</b>		<b>6</b>	<b>0.16</b>		<b>16.7%</b>	<b>12.5%</b>	
High octane gasoline	1	0.02	37.8	2	0.03	36.0	(50.0)%	(33.3)%	5.0%
Diesel	4	0.12	33.1	3	0.07	34.5	33.3%	71.4%	(4.1)%
Jet fuel	0	0.00	26.8	0	0.01	25.6	–	(100.0)%	4.7%
Others	2	0.04	29.3	1	0.05	25.9	100.0%	(20.0)%	–
<b>Petroleum products and petrochemicals procured outside Russia</b>	<b>38</b>	<b>1.59</b>	<b>23.9</b>	<b>35</b>	<b>1.48</b>	<b>23.7</b>	<b>8.6%</b>	<b>7.4%</b>	<b>0.8%</b>
<i>Including petroleum products procurement</i>	37	1.57	23.8	32	1.42	22.2	15.6%	10.6%	7.2%
<b>Total</b>	<b>45</b>	<b>1.77</b>	<b>25.1</b>	<b>41</b>	<b>1.64</b>	<b>24.7</b>	<b>9.8%</b>	<b>7.9%</b>	<b>1.6%</b>

\*Calculated based on unrounded numbers.

The volume of petroleum products procured in Russia in the first quarter of 2017 increased up to 0.18 mln tonnes in comparison with the fourth quarter of 2016. Procurement of petroleum products outside Russia meets the contractual obligations under long-term agreements for sales of petroleum products.

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

	For 3 months ended March 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><i>Petroleum products procurement in Russia</i></b>	<b>7</b>	<b>0.18</b>		<b>6</b>	<b>0.21</b>		<b>16.7%</b>	<b>(14.3)%</b>	
High octane gasoline	1	0.02	37.8	2	0.05	33.7	(50.0)%	(60.0)%	12.2%
Diesel	4	0.12	33.1	2	0.07	34.2	100.0%	71.4%	(3.2)%
Jet fuel	0	0.00	26.8	0	0.00	28.0	–	–	(4.3)%
Others	2	0.04	29.3	2	0.09	20.4	–	(55.6)%	–
<b><i>Petroleum products and petrochemicals procured outside Russia</i></b>	<b>38</b>	<b>1.59</b>	<b>23.9</b>	<b>14</b>	<b>0.62</b>	<b>22.2</b>	<b>&gt;100%</b>	<b>&gt;100%</b>	<b>7.7%</b>
<i>Including petroleum products procurement</i>	37	1.57	23.8	12	0.56	20.8	>100%	>100%	14.4%
<b>Total</b>	<b>45</b>	<b>1.77</b>	<b>25.1</b>	<b>20</b>	<b>0.83</b>	<b>23.7</b>	<b>&gt;100%</b>	<b>&gt;100%</b>	<b>5.9%</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 decreased (0.03 mln tonnes) in the first quarter of 2017 compared with the same period of 2016 due to demand satisfaction by own resources.

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

Petroleum products and petrochemicals procured outside Russia amounted to RUB 38 billion (1.59 mln tonnes) in the first quarter of 2017. Procurement of petroleum products outside Russia meets the contractual obligation under long-term agreements for sales of petroleum products.

The volume of petroleum products and petrochemicals procured outside Russia in the first quarter of 2017 significantly increased in comparison with RUB 14 billion (0.62 mln tonnes) in the first quarter of 2016 which was caused by upturn of supply under new projects in terms of long-term sales agreements.

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

Starting from April 2014, associated petroleum gas sales to Sibur Holding and purchases of dry stripped gas from “Sibur” are presented on a net basis in the Company’s financial statements in processing costs. Processing costs was RUB 3.21 billion, RUB 3.72 billion and RUB 3.41 billion in the first quarter of 2017, in the fourth and first quarters of 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 first quarter of 2017 Rosneft's transportation costs decreased by 1.3% and amounted to RUB 153 billion compared with the fourth quarter of 2016. The decrease in transportation costs was mainly due to a decreased share of crude oil and petroleum products export.

The table below sets forth the comparison (quarter-on-quarter basis) of costs per tonne of crude oil and petroleum products transported by pipeline, railroad and mixed transportation and gas transportation costs via gas pipeline system in the first quarter of 2017 and in the fourth quarter of 2016:

	For 3 months ended								% change		
	March 31, 2017				December 31, 2016						
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume	Cost	Cost per tonne
<b>CRUDE OIL</b>											
<b><u>International sales</u></b>											
Pipeline	25.5	92.1%	51.5	2.02	28.4	96.3%	55.5	1.95	(10.2)%	(7.2)%	3.6%
Railroad and mixed	0.5	1.8%	1.7	3.34	0.6	2.0%	1.9	3.18	(16.7)%	(10.5)%	5.0%
Pipeline and FCA***	1.7	6.1%			0.5	1.7%			>100%		
<b><u>Transportation to refineries</u></b>											
Pipeline**	26.0		19.8	0.76	27.5		18.7	0.68	(5.5)%	5.9%	11.8%
Railroad and mixed	2.5		8.0	3.17	2.7		8.1	2.97	(7.4)%	(1.2)%	6.7%
<b>PETROLEUM PRODUCTS</b>											
<b><u>International sales</u></b>											
Pipeline	2.2	12.0%	6.7	2.99	2.0	10.4%	5.5	2.72	10.0%	21.8%	9.9%
Railroad and mixed	13.6	73.9%	36.8	2.71	14.4	75.0%	36.6	2.54	(5.6)%	0.5%	6.7%
Pipeline and FCA***	2.6	14.1%			2.8	14.6%			(7.1)%		
<b>GAS</b>											
	bcm		RUB/bcm		bcm		RUB/bcm				
Pipeline****	11.1		12.9	1.16	11.3		12.8	1.13	(1.8)%	0.8%	2.7%
<b>Other transportation expenses*****</b>											
			16				16			(0.0)%	
<b>Total</b>	<b>74.6</b>		<b>153</b>		<b>78.9</b>		<b>155</b>		<b>(5.5)%</b>	<b>(1.3)%</b>	

\*Calculated based on unrounded data.

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

\*\*\*Rosneft exported part of crude oil and petroleum products in the first quarter of 2017 and fourth quarter of 2016 through its own export terminal in Tuapse, on FCA terms, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

\*\*\*\*Part of gas volumes was dispatched on terms under which Rosneft does not bear transportation expenses. In the first quarter of 2017 and fourth quarter of 2016 these volumes amounted to 6.5 bcm and 6.7 bcm respectively.

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

Crude oil pipeline transportation cost per tonne of international sales in the first quarter of 2017 increased by 3.6% in comparison with the fourth quarter of 2016 which was due to Transneft tariffs growth.

The increase in crude oil railroad and mixed transportation cost per tonne of international sales was 5.0% due to due to indexation of railroad tariffs.

Crude oil pipeline transportation cost per tonne of supplies to refineries increased by 11.8% in the first quarter of 2017 compared to the fourth quarter of 2016 which was caused by change in structure of transportation routes.

Crude oil railroad and mixed transportation cost per tonne of supplies to refineries in the first quarter of 2017 increased by 6.7% compared with the fourth quarter of 2016 due to tariffs indexation and change in transportation structure.

The increase in pipeline cost per tonne of petroleum product international sales was 9.9% in the first quarter of 2017 compared to the previous quarter mainly due to change in logistic structure and growth of transportation tariffs of separate directions.

Railroad and mixed transportation cost per tonne of petroleum product international sales increased by 6.7% in the first quarter of 2017 compared to the fourth quarter of 2016 due to railroad tariffs indexation and change in logistic structure.

Gas transportation costs increase by 2.7% in the first quarter of 2017 compared to the fourth quarter of 2016 resulted from increase in average transportation distance to final consumers. In the first quarter 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 first quarters of 2017 and 2016:

	For 3 months ended March 31,								% change		
	2017				2016						
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume	Cost	Cost per tonne
<b>CRUDE OIL</b>											
<b>International sales</b>											
Pipeline	25.5	92.1%	51.5	2.02	27.5	96.2%	53.1	1.93	(7.3)%	(3.0)%	4.7%
Railroad and mixed	0.5	1.8%	1.7	3.34	1.1	3.8%	4.1	3.64	(54.5)%	(58.5)%	(8.2)%
Pipeline and FCA***	1.7	6.1%			0.0	0.0%			100%		
<b>Transportation to refineries</b>											
Pipeline**	26.0		19.8	0.76	20.9		15.8	0.76	24.4%	25.3%	–
Railroad and mixed	2.5		8.0	3.17	1.7		6.2	3.76	47.1%	29.0%	(15.7)%
<b>PETROLEUM PRODUCTS</b>											
<b>International sales</b>											
Pipeline	2.2	12.0%	6.7	2.99	1.0	6.2%	3.4	3.27	>100%	97.1%	(8.6)%
Railroad and mixed	13.6	73.9%	36.8	2.71	13.4	83.8%	41.2	3.08	1.5%	(10.7)%	(12.0)%
Pipeline and FCA***	2.6	14.1%			1.6	10.0%			62.5%		
<b>GAS</b>											
	bcm		RUB/bcm		bcm		RUB/bcm				
Pipeline****	11.1		12.9	1.16	11.8		13.0	1.10	(5.9)%	(0.8)%	5.5%
<b>Other transportation expenses*****</b>											
			16				10			60.0%	
<b>Total</b>	<b>74.6</b>		<b>153</b>		<b>67.2</b>		<b>147</b>		<b>11.0%</b>	<b>4.1%</b>	

\*Calculated based on unrounded data.

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

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

\*\*\*\* Part of gas volumes was dispatched on terms where Rosneft does not bear transportation expenses. In the first quarters of 2017 and 2016 these volumes amounted to 6.5 bcm, 6.0 bcm respectively.

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

The change in transportation costs per tonne of products sold (for crude oil and petroleum products) in the first quarter of 2017 compared with the same period of 2016 mainly due to change in logistic structure.

## Excise tax

In the first quarter of 2017 excise tax was RUB 77 billion, including additional costs related to processing outside Russian Federation in the amount of RUB 22 billion<sup>1</sup>, in comparison with RUB 61 billion in the fourth quarter of 2016.

Excise tax, excluding additional costs related to processing outside Russian Federation, amounted to RUB 55 billion in the first quarter of 2017 in comparison with RUB 37 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 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
	<b>RUB billion, except %</b>					
Export customs duty for crude oil	117	148	(20.9)%	117	99	18.2%
Export customs duty for petroleum products	49	51	(3.9)%	49	33	48.5%
<b>Total export customs duty</b>	<b>166</b>	<b>199</b>	<b>(16.6)%</b>	<b>166</b>	<b>132</b>	<b>25.8%</b>

Export customs duty amounted to RUB 166 billion in the first quarter of 2017 compared to RUB 199 billion in the fourth quarter of 2016 (decreased by 16.6%). The decline was mostly due to decreased customs duty rate on crude oil (from 42% to 30%), downturn of crude oil export volumes in the first quarter of 2017 that was compensated by negative duty lag effect.

The growth in export customs duty in the first quarter of 2017 compared with the same period of 2016 mainly resulted from increase in petroleum products export volumes due to the acquisition of Bashneft assets and higher customs duty rate resulting from the increase in Urals price.

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

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
Urals (average Med and NWE) (USD/bbl)	52.3	48.3	8.2%	52.3	32.2	62.4%
Hypothetical export customs duty on crude oil <sup>1</sup> (th. RUB/tonne)	5.23	6.34	(17.5)%	5.23	3.79	38.0%
Average enacted export customs duty on crude oil (th. RUB/tonne)	5.09	5.78	(12.0)%	5.09	4.10	23.9%
Average customs duty on crude oil exports subject to regular rate (th. RUB/tonne)	5.03	5.75	(12.5)%	5.03	4.10	22.7%

<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 might be 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 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
<b>Financial results, RUB billion</b>						
EBITDA	(12)	(10)	20.0%	(12)	(10)	20.0%
Capital expenditures*	10	8	25.0%	10	6	66.7%

\*Refer to “Capital expenditures”.

## Separate indicators of the consolidated financial statements

### Costs and Expenses

#### General and Administrative Expenses

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

General and administrative expenses were RUB 36 billion in the first quarter of 2017 compared to RUB 38 billion in the fourth quarter of 2016. Planned decrease in general and administrative expenses related to strengthening of administrative expense monitoring in terms of current inflation level.

## Depreciation, Depletion and Amortization

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

In the first quarter of 2017 DDA amounted to RUB 143 billion (increase of 7.5%) compared with the fourth quarter of 2016. Increase was due to putting into operation of fixed assets and due to the acquisition of oilfield service assets (Targin) in December 2016.

In the first quarter of 2017 DDA was 23.3% higher compared to the same period of 2016 due to the acquisition of Bashneft assets in October 2016 and Targin assets in December 2016.

## Taxes Other than Income Tax

Taxes other than income tax include the mineral extraction tax, the excise tax, the property tax and other taxes. The basis for calculation of mineral extraction tax is described under “Macroeconomic Factors Affecting Results of Operations – 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 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
Mineral extraction tax	358	313	14.4%	358	172	>100%
Excise tax	77	61	26.2%	77	37	>100%
Social security tax	16	13	23.1%	16	13	23.1%
Property tax	8	11	(27.3)%	8	8	–
Other taxes, interest, penalties and other payments to budget	1	2	(50.0)%	1	1	–
<b>Total taxes other than income tax</b>	<b>460</b>	<b>400</b>	<b>15.0%</b>	<b>460</b>	<b>231</b>	<b>99.1%</b>

Taxes other than income tax were RUB 460 billion and increased by 15% in the first quarter of 2017, compared to RUB 400 billion in the fourth quarter of 2016 due to growth of the mineral extraction tax and costs (excise tax) related to crude oil processing outside the Russian Federation (the costs are recharged to final consumers).

In the first quarter of 2017 taxes other than income tax in comparison with the same period of 2016 increased approximately twofold due to MET base rate growth and Bashneft assets acquisition 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 first quarter of 2017 net finance expenses increased to RUB 25 billion compared to RUB 19 billion in the fourth quarter of 2016 mainly due to the interest accrued in the first quarter of 2017 on other borrowings under repurchase agreement operations concluded at the end of 2016.

In the first quarter of 2017 net finance expenses decreased by 26.5% compared to RUB 34 billion in the same period of 2016 that was mainly due to RUB appreciation against USD and positive result from fair value measurement of derivative financial instruments.

## Other Income and Other Expenses

In the first quarter of 2017 other income was RUB 1 billion compared to RUB 43 billion in the fourth quarter of 2016. Positive effect from the restructuring of German assets was recognized in the statement of profit or loss in the fourth quarter of 2016. In the first quarter of 2016 other income was RUB 0 billion.

In the first quarter of 2017 other expenses amounted to RUB 10 billion compared to RUB 38 billion in the previous quarter. Other expenses include effect of fixed assets disposal in the course of operating activities and other expenses. The effect from market value decline of some financial assets was recognized in the statement of profit or loss in the fourth quarter of 2016.

In the first quarter of 2016 other expenses were RUB 12 billion.

## 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 first quarter of 2017 and in the fourth and first quarters of 2016 foreign exchange loss recognized in profit and loss statement was RUB 45 billion, RUB 15 billion and RUB 25 billion, respectively.

There were no effects from capitalization of the foreign exchange differences on capital loans to fund capital expenditures in the reported periods.

### **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 first quarter of 2017 was RUB 36 billion, RUB 36 billion in the fourth quarter of 2016 and RUB 37 billion in the first quarter of 2016.

### **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 3 months ended March 31,	
	March 31, 2017	December 31, 2016	2017	2016
Effective rate of income tax (IFRS)	16.0%	37.3 <sup>1</sup> %	16.0%	14.3%

<sup>1</sup> Excluding one-off recognition of income tax of RUB 17 billion accrued on disposal of shares in subsidiaries in the fourth quarter of 2016.

The Company applies the provisions of IAS 12 "Income taxes" to determine effective tax rate. In comparison with the first quarter of 2017 the increase in effective tax rate in the fourth quarter of 2016 was mainly due to growth of permanent tax differences and growth of tax on intra-group dividends.

In accordance with the consolidated statement of comprehensive income, income tax expense was RUB 4 billion, RUB 62 billion and RUB 2 billion in the first quarter of 2017, in the fourth and in the first quarters of 2016, respectively.

### **Net Income**

Net income amounted to RUB 21 billion (RUB 13 billion attributable to Rosneft's shareholders) in the first quarter of 2017 compared with the net income of RUB 66 billion in the fourth quarter of 2016 (RUB 52 billion attributable to Rosneft's shareholders). Net profit downturn was mostly driven by decrease in operating result, increase in net financial expenses and negative effect of foreign exchange differences in the first quarter of 2017.

Net income amounted to RUB 12 billion (RUB 12 billion attributable to Rosneft's shareholders) in the first quarter 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 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
	RUB billion			RUB billion		
Net cash provided by operating activities	163	102	59.8	163	210	(22.4)
Net cash (used in)/received from investing activities	(202)	(939)	(78.5)	(202)	129	–
Net cash (used in)/received from financing activities	(105)	847	–	(105)	55	–

### Net cash provided by operating activities

Net cash provided by operating activities amounted to RUB 163 billion in the first quarter of 2017 compared to RUB 102 billion in the fourth quarter of 2016.

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

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2017	December 31, 2016		2017	2016	
	RUB billion			RUB billion		
<b>Net cash provided by operating activity</b>	<b>163</b>	<b>102</b>	<b>59.8%</b>	<b>163</b>	<b>210</b>	<b>(22.4)%</b>
<i>Effect from operations with trading securities</i>	–	–		–	(1)	–
<b>Adjusted net cash provided by operating activity</b>	<b>163</b>	<b>102</b>	<b>59.8%</b>	<b>163</b>	<b>209</b>	<b>(22.0)%</b>
<i>Offsetting of prepayments received under long term supply contracts at average ex.rate</i>	118	94	25.5%	118	60	96.7%
<i>Financing under future suppliers</i>	–	63	–	–	–	–
<b>Adjusted net cash provided by operating activity</b>	<b>281</b>	<b>259</b>	<b>8.5%</b>	<b>281</b>	<b>269</b>	<b>4.5%</b>

In the first quarter of 2017 adjusted operating cash flow was RUB 281 billion compared with RUB 259 billion in the fourth quarter of 2016. Stability in operating cash flow was mainly caused by strengthening of internal control of working capital.

In the first quarter of 2016 adjusted operating cash flow was RUB 269 billion.

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

Net cash used in the investing activities was RUB 202 billion in the first quarter of 2017 compared to RUB 939 billion used in the investing activities in the fourth quarter of 2016. In the first quarter of 2017 the Company repaid the liability related to mandatory offer to acquire Bashneft shares in the amount of RUB 50 billion.

In the fourth quarter of 2016 planned growth of investing activity was due to the acquisition of Bashneft assets (RUB 330 billion), payments for participation interest in JV, long-term cash deposits in Russian banks and planned capital expenditures.

Net cash received from investing activities in the first quarter of 2016 was RUB 129 billion.

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

Net cash used in financing activities was RUB 105 billion in the first quarter of 2017 compared to RUB 847 billion received from financing activities in the fourth quarter of 2016. In the first quarter of 2017 the Company made scheduled repayment of loans and Eurobonds.

In the fourth quarter of 2016 the Company raised long-term and short-term ruble funds. Effect from raising ruble funds was partially compensated by planned repayment of foreign currency loans and by proceeds from sales of shares in subsidiaries (RUB 308 billion in 2016).

## Capital Expenditures

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

	For 3 months ended		% change	For 3 months ended		% change
	March 31, 2017	December 31, 2016		March 31, 2017		
	RUB billion			RUB billion		
Yuganskneftegaz	45	44	2.3%	45	34	32.4%
Vankor projects	11	18	(38.9)%	11	16	(31.3)%
Orenburgneft	6	9	(33.3)%	6	6	–
Samotlorneftegaz	10	14	(28.6)%	10	10	–
Offshore projects	1	6	(83.3)%	1	12	(91.7)%
Uvatneftegaz	7	7	–	7	6	16.7%
Verkhnechonskneftegaz	5	4	25.0%	5	4	25.0%
Purneftegaz	5	6	(16.7)%	5	3	66.7%
Rospan International	11	15	(26.7)%	11	7	57.1%
Samaraneftegaz	7	7	–	7	5	40.0%
Varyoganneftegaz	4	6	(33.3)%	4	4	–
VSNKG	4	6	(33.3)%	4	6	(33.3)%
Tomskneft VNK	2	1	100.0%	2	2	–
Nyaganneftegaz	4	5	(20.0)%	4	2	100.0%
Severnaya Neft	3	5	(40.0)%	3	3	–
Tumenneftegaz	4	3	33.3%	4	2	100.0%
Taas-Yuryah Neftegazodobycha	10	7	42.9%	10	3	>100%
Sibneftegaz	1	1	–	1	1	–
Bashneft Mining	4	7	(42.9)%	4	–	–
Bashneft-Polus	4	4	–	4	–	–
Sorovskneft	2	2	–	2	–	–
Other	17	13	30.8%	17	9	88.9%
Government grants	–	(5)	(100.0)%	–	–	–
<b>Total upstream segment</b>	<b>167</b>	<b>185</b>	<b>(9.7)%</b>	<b>167</b>	<b>135</b>	<b>23.7%</b>
Tuapse refinery	1	6	(83.3)%	1	1	–
Kuibyshev refinery	1	5	(80.0)%	1	1	–
Novokuibyshevsk refinery	1	3	(66.7)%	1	1	–
Syzran refinery	1	1	–	1	2	(50.0)%
Angarsk refinery	1	2	(50.0)%	1	1	–
Achinsk refinery	1	2	(50.0)%	1	1	–
Ryazan refinery	1	2	(50.0)%	1	1	–
Komsomolsk refinery	–	–	–	–	1	(100.0)%
Saratov refinery	–	–	–	–	–	–
Basheft refinery brunch	2	4	(50.0)%	2	–	–
Other refineries	2	5	(60.0)%	2	2	–
Marketing Business Units and others	4	11	(63.6)%	4	2	100.0%
<b>Total downstream segment</b>	<b>15</b>	<b>41</b>	<b>(63.4)%</b>	<b>15</b>	<b>13</b>	<b>15.4%</b>
<b>Total other activities</b>	<b>10</b>	<b>8</b>	<b>25.0%</b>	<b>10</b>	<b>6</b>	<b>66.7%</b>
<b>Total capital expenditures</b>	<b>192</b>	<b>234</b>	<b>(17.9)%</b>	<b>192</b>	<b>154</b>	<b>24.7%</b>
Acquisition of licenses	15	8	87.5%	15	6	>100%
Return of auction advances	–	–	–	–	(4)	(100.0)%

In the first quarter of 2017 total capital expenditures amounted to RUB 192 billion (decrease by 17.9%) compared with RUB 234 billion in the fourth quarter of 2016. The decrease is caused by seasonal factor.

The increase in total capital expenditures in the first quarter of 2017 in comparison with the same period of 2016 was due to the expansion of the drilling program and planned growth of investment in the development of new fields.

In the first quarter of 2017 upstream capital expenditures amounted to RUB 167 billion (decrease by 9.7%) in comparison with RUB 185 billion in the fourth quarter of 2016. The decrease is caused by seasonal factor. In the first quarter of 2016 upstream capital expenditures were RUB 135 billion. The growth of upstream capital expenses by 23.7% is mainly due to increased development drilling (+ 9% to the same period of 2016) and increased launches of new projects and the acquisition of new assets.

In the first quarter of 2017 downstream capital expenditures were RUB 15 billion, including capital expenditures of investment tariffs, in comparison with RUB 41 billion in the fourth quarter of 2016. Downstream capital expenditures in the first quarter of 2016 were RUB 13 billion.

In the first quarter of 2017 capital expenditures of refineries amounted to RUB 11 billion compared to RUB 30 billion in the fourth quarter of 2016. In the first quarter of 2016 capital expenditures of refineries amounted to RUB 11 billion. In the first quarter of 2017 capital expenditures of refineries were mainly directed to refinery modernization projects and to the maintenance of current refining capacities.

Capital expenditures of other activities are mainly related to scheduled purchases of transport and other equipment assets and amounted to RUB 10 billion in the first quarter of 2017, RUB 8 billion and RUB 6 billion in the fourth and first quarters of 2016, respectively.

The license acquisition costs in the first quarter of 2017 amounted to RUB 15 billion and referred to acquisition of new licenses for research, exploration and production at sites in Irkutsk, Orenburg and Saratov regions, Bashkortostan republic and Khanty-Mansiysky autonomous district.

The license acquisition costs in the fourth quarter of 2016 amounted to RUB 8 billion and referred to acquisition of new licenses for research, exploration and production at sites in the Samara region, Orenburg region, Irkutsk region, Chechen Republic, the Sakha Republic (Yakutia) and the Khanty-Mansiysky Autonomous district.

The license acquisition costs in the first quarter of 2016 amounted to RUB 6 billion and referred to acquisition of new licenses for research, exploration and production at sites in the Sakha Republic (Yakutia), Krasnoyarsk region, the Samara region, the Yamalo-Nenetsky Autonomous district. In the first quarter of 2016 the Company also returned the advance in the amount of RUB 4 billion issued in the fourth quarter of 2015 for the participation in auctions.

## Debt Obligations

Rosneft net debt amounts to RUB 1,963 billion as of March 31, 2017 compared to RUB 1,890 billion as of December 31, 2016.

Rosneft's total loans and borrowings and other financial liabilities was RUB 3,358 billion as of March 31, 2017 compared to RUB 3,585 billion as of December 31, 2016. The decrease in total debt was mainly attributable to scheduled payments of debt nominated in the foreign currency and RUB appreciation effect.

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

As of March 31, 2017, December 31, 2016 and March 31, 2016: 24.2%, 24.7% and 33.1%, respectively, of Rosneft's loans and borrowings were secured by crude oil export contracts (excluding exports to the CIS).

As of March 31, 2017, December 31, 2016 and March 31, 2016: pledged oil exports constituted 4.4%, 4.4% and 4.5%, respectively, of the total crude oil export sales for the analyzed period (excluding exports to the CIS).

The net debt calculation is disclosed in the following table:

As of the date	March 31, 2017	December 31, 2016	March 31, 2016
	<b>RUB billion</b>		
Short-term loans and borrowings and other financial liabilities	2,033	1,671	986
Long-term loans and borrowings and other financial liabilities	1,325	1,914	2,222
<b>Total debt</b>	<b>3,358</b>	<b>3,585</b>	<b>3,208</b>
Cash and cash equivalents	607	790	882
Other short-term financial assets and part of deposits	788*	905*	715
<b>Net debt</b>	<b>1,963</b>	<b>1,890</b>	<b>1,611</b>

\*In 2016 the Company made some market linked deposits to participate in trading transactions and in current M&A transactions and to finance crude oil supplies to Venezuela and Cuba. Deposits are placed in Russian high-rated banks with possible 1 year-term of repayment.

## Key consolidated financial highlights (in RUB terms)

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

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2017	December 31, 2016	2017	2016
EBITDA margin	22.8%	24.0%	22.8%	25.2%
Net income attributable to Rosneft shareholders margin	0.9%	3.5%	0.9%	1.1%
Net debt to annualised EBITDA	1.40	1.38 <sup>1</sup>	1.40	1.34
Current ratio	0.66	0.83	0.66	1.30
	<b>RUB / bbl</b>			
EBITDA/bbl	859	912	859	782
Upstream capital expenditures/bbl	431	462	431	387
Upstream operating expenses/bbl	209	223	209	196
Free cash flow before interest/bbl	229	62	229	330
	<b>RUB / boe</b>			
EBITDA/boe	690	733	690	620
Upstream capital expenditures/boe	346	372	346	307
Upstream operating expenses/boe	168	180	168	155
Free cash flow before interest/boe	184	50	184	261

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

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

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

### Upstream Measures\*

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2017	December 31, 2016	2017	2016
Crude oil and NGL production (mln bbl)	387.8	400.1	387.8	348.9
Crude oil, NGL and gas production (mln boe)	482.7	497.7	482.7	440.1

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

### Calculation of Free Cash Flow

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2017	December 31, 2016	2017	2016
	<b>RUB billion</b>			
Operating cash flow	163	102	163	210
Capital expenditures	(192)	(234)	(192)	(154)
Trading securities operations*	–	–	–	(1)
Offsetting of prepayments under long term supply contracts <sup>1</sup>	118	94	118	60
Financing under future supplies	–	63	–	–
<b>Free cash flow (RUB equivalent)</b>	<b>89</b>	<b>25</b>	<b>89</b>	<b>115</b>

<sup>1</sup>Estimated at average exchange rate for the period

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

### Calculation of EBITDA

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2017	December 31, 2016	2017	2016
	<b>RUB billion</b>			
Revenues and equity share in profits of associates and joint ventures	1,410	1,485	1,410	1,048
Effect of prepayments offsetting	50	39	50	35
Operating expenses	(1,270)	(1,292)	(1,270)	(926)
Depreciation, depletion and amortization	143	133	143	116
<b>EBITDA</b>	<b>333</b>	<b>365</b>	<b>333</b>	<b>273</b>



## Calculation of EBITDA Margin

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2017	December 31, 2016	2017	2016
	RUB billion (except %)			
<b>EBITDA</b>	<b>333</b>	<b>365</b>	<b>333</b>	<b>273</b>
Revenues and equity share in profits of associates and joint ventures	1,410	1,485	1,410	1,048
Effect of prepayment offsetting	50	39	50	35
Adjusted revenues	1,460	1,524	1,460	1,083
<b>EBITDA margin</b>	<b>22.8%</b>	<b>24.0%</b>	<b>22.8%</b>	<b>25.2%</b>

## Calculation of Net Income Margin attributable to Rosneft shareholders

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2017	December 31, 2016	2017	2016
	RUB billion (except %)			
<b>Net income attributable to Rosneft shareholders</b>	<b>13</b>	<b>52</b>	<b>13</b>	<b>12</b>
Revenues and equity share in profits of associates and joint ventures	1,410	1,485	1,410	1,048
<b>Net income margin attributable to Rosneft shareholders</b>	<b>0.9%</b>	<b>3.5%</b>	<b>0.9%</b>	<b>1.1%</b>

## Calculation of Current ratio

As of the date	March 31, 2017	December 31, 2016	March 31, 2016
	RUB billion (except ratios)		
Current assets	2,047	2,300	2,298
Current liabilities	3,076	2,773	1,763
<b>Current ratio</b>	<b>0.66</b>	<b>0.83</b>	<b>1.30</b>

## Consolidated financial highlights (in USD terms)

### Consolidated statement of profit or loss\*

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2017	December 31, 2016	2017	2016
	USD billion			
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>24.8</b>	<b>24.1</b>	<b>24.8</b>	<b>14.5</b>
<b>Costs and expenses</b>				
Production and operating expenses	2.4	2.7	2.4	1.8
Cost of purchased oil, gas, petroleum products and refining costs	2.9	3.1	2.9	1.7
General and administrative expenses	0.6	0.6	0.6	0.4
Pipeline tariffs and transportation costs	2.6	2.4	2.6	2.0
Exploration expenses	–	0.1	–	–
Depreciation, depletion and amortization	2.4	2.2	2.4	1.6
Taxes other than income tax	7.8	6.3	7.8	3.1
Export customs duty	2.8	3.1	2.8	1.8
<b>Total costs and expenses</b>	<b>21.5</b>	<b>20.5</b>	<b>21.5</b>	<b>12.4</b>
<b>Operating income</b>	<b>3.3</b>	<b>3.6</b>	<b>3.3</b>	<b>2.1</b>
Finance income	0.6	0.5	0.6	0.2
Finance expenses	(1.0)	(0.9)	(1.0)	(0.7)
Other income	–	0.7	–	–
Other expenses	(0.2)	(0.6)	(0.2)	(0.1)
Foreign exchange differences	(1.7)	(0.7)	(1.7)	(0.8)
Cash flow hedges reclassified to profit or loss	(0.6)	(0.6)	(0.6)	(0.5)
<b>Income before income tax</b>	<b>0.4</b>	<b>2.0</b>	<b>0.4</b>	<b>0.2</b>
Income tax	(0.1)	(1.0)	(0.1)	–
<b>Net income</b>	<b>0.3</b>	<b>1.0</b>	<b>0.3</b>	<b>0.2</b>
<b>Net income attributable to Rosneft shareholders</b>	<b>0.2</b>	<b>0.8</b>	<b>0.2</b>	<b>0.2</b>

\* Calculated using average monthly exchange rates on the basis of 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 3 months ended March 31,	
	March 31, 2017	December 31, 2016	2017	2016
EBITDA margin	23.0%	24.1%	23.0%	25.5%
Net income margin	0.8%	3.4%	0.8%	1.4%
Net debt to annualised EBITDA	1.56	1.50 <sup>1</sup>	1.56	1.23
Current ratio	0.66	0.83	0.66	1.30
	USD/bbl**			
EBITDA/bbl	14.7	14.5	14.7	10.6
Upstream capital expenditures/bbl	7.3	7.3	7.3	5.2
Upstream operating expenses/bbl	3.6	3.5	3.6	2.6
Free cash flow/bbl	3.4	0.9	3.4	4.2
	USD/boe**			
EBITDA/boe	11.8	11.7	11.8	8.4
Upstream capital expenditures/boe	5.9	5.9	5.9	4.1
Upstream operating expenses/boe	2.9	2.8	2.9	2.1
Free cash flow/boe	2.7	0.8	2.7	3.3

\* Annualized, including EBITDA of Bashneft from January 1, 2016.

\*\* Calculated from unrounded data.

## Calculation of Free Cash Flow

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2017	December 31, 2016	2017	2016
	USD billion			
Operating cash flow	2.7	1.7	2.7	2.8
Capital expenditures	(3.3)	(3.7)	(3.3)	(2.1)
Trading securities operations	–	–	–	(0.0)
Offsetting under prepayments under long term supply contracts	2.0	1.4	2.0	0.8
Financing under future supplies	–	1.0	–	–
<b>Free cash flow</b>	<b>1.4</b>	<b>0.4</b>	<b>1.4</b>	<b>1.5</b>

## Calculation of EBITDA Margin

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2017	December 31, 2016	2017	2016
	USD billion (except %)			
Revenues and equity share in profits of associates and joint ventures	24.8	24.1	24.8	14.5
Operating expenses	(21.5)	(20.5)	(21.5)	(12.4)
Depreciation, depletion and amortization	2.4	2.2	2.4	1.6
<b>EBITDA</b>	<b>5.7</b>	<b>5.8</b>	<b>5.7</b>	<b>3.7</b>
Revenues and equity share in profits of associates and joint ventures	24.8	24.1	24.8	14.5
<b>EBITDA margin</b>	<b>23.0%</b>	<b>24.1%</b>	<b>23.0%</b>	<b>25.5%</b>

## Calculation of Net Income Margin

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2017	December 31, 2016	2017	2016
	USD billion (except %)			
<b>Net income attributable to Rosneft's shareholders</b>	<b>0.2</b>	<b>0.8</b>	<b>0.2</b>	<b>0.2</b>
Revenues and equity share in profits of associates and joint ventures	24.8	24.1	24.8	14.5
<b>Net income margin</b>	<b>0.8%</b>	<b>3.4%</b>	<b>0.8%</b>	<b>1.4%</b>

## Calculation of Current ratio

As of the date	March 31, 2017	December 31, 2016	March 31, 2016
		USD billion (except ratios)	
Current assets	36.3	37.9	34.0
Current liabilities	54.6	45.7	26.1
<b>Current ratio</b>	<b>0.66</b>	<b>0.83</b>	<b>1.30</b>

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

	2017	2016
	<b>RUB/USD</b>	
January	59.96	76.31
February	58.40	77.23
March	58.11	70.51
October	–	62.68
November	–	64.37
December	–	62.20

## Appendix 2: Average transportation tariffs in the first quarter of 2017 in RUB

The table sets forth the Rosneft's average transportation tariffs applied to major transportation routes in the first quarter of 2017 excluding transshipment:

	<b>For 3 months ended March 31, 2017 th. RUB/tonne</b>
<b>CRUDE OIL</b>	
<b>Domestic</b>	
<b>Pipeline</b>	
RN-Nyaganeftgaz (Krasnoleninsk) – Tuapse refinery	1.67
Samaraneftegaz (Mukhanovo) – Novokuibyshevsk refinery	0.08
Orenburgneft (Pokrovka) – Syzran refinery	0.20
Samotlorneftgaz – Omsk refinery	0.55
<b>Export</b>	
<b>Pipeline</b>	
Vankorneft (Purpe) – China	2.46
Verkhnechonskneftgaz (Talakan) – Kozmino	2.46
Uvatneftgaz (Demyanskoe) – China (to Russian – Kazakhstan boarder)	1.39
Yuganskneftgaz (Karkateevy) – Primorsk Port	1.87
Yuganskneftgaz (Yuzhny Balyk) – Primorsk Port	1.85
Samaraneftegaz (Kuleshovka) – Germany	1.04
<b>PETROLIUM PRODUCTS (Export)</b>	
<b>Railroad</b>	
Angarsk refinery – Nakhodka Port	5.40
Komsomolsk refinery – Nakhodka Port	2.13
Saratov refinery – Novorossiysk Port	2.12
Ryazan refinery – Ust–Luga Port	2.17
Achinsk refinery – Lugskaya Port	5.55
YaNOS – Avtovo Port	1.53
Samara refineries –Taman Port	2.68

Source: Transneft, RZD, Rosneft.