



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30 AND MARCH 31, 2017
AND FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016**

The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended June 30, 2017 and 2016 and March 31, 2017 (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, 2016¹ and amounted to 34 billion boe per SEC classification and 43 billion boe per PRMS classification as of December 31, 2015.

In the second quarter of 2017 crude oil and NGL production of the Company amounted to 56.08 mln tonnes, the production of natural and associated gas was 16.99 bcm.

In the second quarter of 2017, the Company's total crude oil processing amounted to 27.72 mln tonnes at the refineries in Russia and abroad. The remaining volumes of crude oil are mostly exported to Europe, Asia and the CIS.

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

Financial and operating highlights

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
Financial results, RUB billion						
Revenues and equity share in profits of associates and joint ventures	1,399	1,410	(0.8)%	2,809	2,280	23.2%
EBITDA	306	333	(8.1)%	639	621	2.9%
Net income attributable to Rosneft shareholders	68	13	>100%	81	101 ²	(19.8)%
Capital expenditures	215	192	12.0%	407	308	32.1%
Free cash flow	39	89	(56.2)%	128	193	(33.7)%
Net Debt	2,216	1,963	12.9%	2,216	1,507	47.0%
Operational results						
Hydrocarbon production (th. boe per day)	5,703	5,785	(1.4)%	5,744	5,212	10.2%
Crude oil and NGL production (th. barrels per day)	4,566	4,620	(1.2)%	4,593	4,100	12.0%
Gas production (th. boe per day)	1,137	1,165	(2.4)%	1,151	1,112	3.5%
Production of petroleum products and petrochemical products in Russia (mln tonnes)	23.87	24.59	(2.9)%	48.46	37.98	27.6%
Production of petroleum products and petrochemical products outside Russia (mln tonnes)	3.10	2.76	12.3%	5.86	6.59	(11.1)%

²On 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.

For reference only: Financial highlights in USD terms*

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
Financial results, USD billion						
Revenues and equity share in profits of associates and joint ventures	25.3	24.8	2.0%	50.1	33.7	48.7%
EBITDA	5.3	5.7	(7.0)%	11.0	9.0	22.2%
Net income attributable to Rosneft shareholders	1.2	0.2	>100%	1.4	1.6	(12.5)%
Capital expenditures	3.7	3.3	12.1%	7.0	4.4	59.1%
Free cash flow	0.7	1.4	(50.0)%	2.1	2.8	(25.0)%
Net debt	37.5	34.8	7.8%	37.5	23.4	60.3%

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

Significant events in the second quarter of 2017

Rosneft and Beijing Gas Group Company Limited closed the deal for sale and purchase of 20% shares in Verkhnechonskneftegaz

On June 29, 2017 the Company completed the sale of a 20% share in PJSC Verkhnechonskneftegaz, a subsidiary, to Beijing Gas Group Co., Ltd. The Company received a preliminary payment of US\$ 1,029 million (RUB 61 billion rubles at the CBR official exchange rate at the transaction closing date) and final settlement is expected to be made by the end of 2017.

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

On April 17, 2017 the Company completed an 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 net of cash acquired. The agreement also envisages a final payment.

Acquisition of LLC “Drilling Service Technology”

On April 27, 2017 the Company completed the acquisition of a 100% share in LLC “Drilling Service Technology”, a company involved in provision of drilling services in the Khanty-Mansy region, for a consideration of RUB 9 billion.

Rosneft and PTT Public Company Limited sign long-term contract for mutual oil supply

RTSA, a trading subsidiary company of Rosneft, and PTT Public Company Limited (Thailand) signed the long-term oil sale and purchase contract for mutual supplies of up to 200 mln tonnes till 2037 at the XXI St. Petersburg International Economic Forum.

Post-balance sheet events

Rosneft wins the auction for Erginskoye license area

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

Macroeconomic factors affecting results of operations

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

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

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

Changes in Crude Oil, Petroleum Product and Gas Prices

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

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

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

	For 3 months ended		Change	For 6 months ended June 30,		Change
	June 30, 2017	March 31, 2017		June 30, 2017	June 30, 2016	
World market	(USD per barrel)		%	(USD per barrel)		%
Brent (dated)	49.8	53.7	(7.3)%	51.8	39.7	30.3%
Urals (average Med and NWE)	48.8	52.3	(6.5)%	50.5	38.0	33.0%
Urals (FOB Primorsk)	47.4	50.5	(6.1)%	48.9	35.9	36.5%
Urals (FOB Novorossysk)	47.8	51.0	(6.3)%	49.4	36.8	34.0%
Dubai	49.8	53.3	(6.6)%	51.5	36.8	39.9%
	(USD per tonne)		%	(USD per tonne)		%
Naphtha (av. FOB/CIF Med)	422	472	(10.5)%	447	346	29.3%
Naphtha (av. FOB Rotterdam/CIF NWE)	432	483	(10.5)%	458	358	27.7%
Naphtha (CFR Japan)	446	498	(10.4)%	472	378	25.0%
Fuel oil (av. FOB/CIF Med)	281	294	(4.2)%	288	171	68.5%
Fuel oil (av. FOB Rotterdam/CIF NWE)	275	287	(4.1)%	281	164	70.8%
High sulphur fuel oil 180 cst (FOB Singapore)	304	317	(4.1)%	311	190	64.0%
Gasoil (av. FOB/CIF Med)	444	477	(6.9)%	460	356	29.2%
Gasoil (av. FOB Rotterdam/CIF NWE)	445	477	(6.6)%	461	357	29.2%
Gasoil(FOB Singapore)	449	478	(6.2)%	463	345	34.2%
	(th. RUB per barrel)		%	(th. RUB per barrel)		%
Brent (dated)	2.85	3.16	(9.9)%	3.00	2.79	7.5%
Urals (average Med and NWE)	2.79	3.07	(9.2)%	2.93	2.67	9.8%
Urals (FOB Primorsk)	2.71	2.97	(8.8)%	2.84	2.52	12.6%
Urals (FOB Novorossysk)	2.73	3.00	(9.0)%	2.86	2.59	10.6%
Dubai	2.84	3.14	(9.3)%	2.99	2.59	15.5%
	(th. RUB per tonne)		%	(th. RUB per tonne)		%
Naphtha (av. FOB/CIF Med)	24.1	27.8	(13.0)%	25.9	24.3	6.7%
Naphtha (av. FOB Rotterdam/CIF NWE)	24.7	28.4	(13.1)%	26.5	25.2	5.4%
Naphtha (CFR Japan)	25.5	29.3	(13.0)%	27.4	26.5	3.2%
Fuel oil (av. FOB/CIF Med)	16.1	17.3	(7.0)%	16.7	12.0	39.1%
Fuel oil (av. FOB Rotterdam/CIF NWE)	15.7	16.9	(6.9)%	16.3	11.5	41.0%
High sulphur fuel oil 180 cst (FOB Singapore)	17.4	18.7	(6.8)%	18.0	13.3	35.3%
Gasoil (av. FOB/CIF Med)	25.4	28.1	(9.6)%	26.7	25.0	6.6%
Gasoil (av. FOB Rotterdam/CIF NWE)	25.5	28.1	(9.3)%	26.7	25.1	6.7%
Gasoil(FOB Singapore)	25.6	28.1	(8.9)%	26.9	24.3	10.7%
Russian market (net of VAT, including excise tax)	(th. RUB per tonne)		%	(th. RUB per tonne)		%
Crude oil	12.5	14.2	(11.7)%	13.4	11.2	13.4%
Fuel oil	8.1	9.5	(15.0)%	8.8	4.7	87.8%
Summer diesel	31.3	30.2	3.6%	30.7	26.7	15.2%
Winter diesel	31.7	32.6	(2.5)%	32.2	27.4	17.4%
Jet fuel	26.9	28.6	(6.2)%	27.8	23.5	18.0%
High octane gasoline	35.7	34.2	4.3%	34.9	32.0	9.0%
Low octane gasoline	30.8	30.3	1.7%	30.6	28.9	5.6%

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 3.0% in the second quarter of 2017 compared with the first quarter of 2017 and nominal RUB appreciation against USD by 21.2% in the first half 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 3.25 thousand and RUB 3.32 thousand per th. cubic meters in the second quarter of 2017 and first quarter of 2017, respectively. In the first half of 2017 Rosneft's average domestic gas sales price (net of VAT) was RUB 3.29 thousand per th. cubic meters compared to RUB 3.25 thousand per th. cubic meters in the first half of 2016.

USD/RUB and EUR/RUB Exchange Rates and Inflation

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

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

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2017	March 31, 2017	2017	2016
Consumer price index (CPI) for the period*	1.3%	1.0%	2.3%	3.3%
Average RUB/USD exchange rate for the period**	57.15	58.84	57.99	70.26
RUB/USD exchange rate at the end of the period	59.09	56.38	59.09	64.26
Average RUB/EUR exchange rate for the period	62.79	62.65	62.72	78.37
RUB/EUR exchange rate at the end of the period	67.50	60.60	67.50	71.21

Source: Central Bank of Russian Federation.

*Producer price index amounted to 4.9% y-o-y at the end of June 2017.

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

Taxation

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

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
Mineral extraction tax						
Crude oil (RUB per tonne)	7,029	7,961	(11.7)%	7,492	5,109	46.6%
Export customs duty for crude oil						
Crude oil (US\$ per tonne)	84.3	86.4	(2.5)%	85.4	61.1	39.8%
Crude oil (RUB per tonne)	4,817	5,086	(5.3)%	4,950	4,291	15.3%
Crude oil (RUB per barrel)	651	687	(5.3)%	669	580	15.3%
Export customs duty for petroleum products						
Gasoline (RUB per tonne)	1,444	1,524	(5.3)%	1,483	2,614	(43.2)%
Naphtha (RUB per tonne)	2,648	2,795	(5.3)%	2,721	3,043	(10.6)%
Light and middle distillates (RUB per tonne)	1,471	1,524	(3.5)%	1,497	1,715	(12.7)%
Liquid fuels (fuel oil) (RUB per tonne)	4,913	5,086	(3.4)%	4,998	3,516	42.2%

*Calculated based on unrounded data.

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

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

	Since January 1 through March 31, 2016	Since April 1, through December 31, 2016	2017	2018
High octane gasoline (RUB per tonne)				
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
Naphtha (RUB per tonne)	10,500	13,100	13,100	13,100
Diesel (RUB per tonne)	4,150	5,293	6,800	7,072
Lubricants (RUB per tonne)	6,000	6,000	5,400	5,400
Benzol, paraxylene, ortoxylyene (RUB per tonne)	3,000	3,000	2,800	2,800
Middle distillates (RUB per tonne)	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 43.9% and 44.3% in the second and first quarters of 2017, respectively.

The mineral extraction tax and the export customs duty accounted for approximately 35.1% and 37.2% of Rosneft's total revenues in the second and first quarters of 2017, respectively, and also 36.1% and 31.0% in the first half of 2017 and 2016, respectively. Tax withdrawing share in the financial results excluding forex and one off effects was up to 89% in the first half of 2017.

Mineral Extraction Tax (MET)

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

Starting from **January 1, 2017** the mineral extraction tax rate will be calculated by multiplying the tax rate of **RUB 919 per tonne** (in 2016 – RUB 857 per tonne) by the adjustment ratio of $((P - 15) \times \text{Exchange rate} / 261)$, where "P" is the average Urals price per barrel 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"¹.

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

Tax relieves in 2017	Applicable in the Company
Zero rates	Oil fields with hard to recover reserves, including bazhenov, abalak, khadum, domanic formations
Reduced MET by coefficient "Dm", which characterizes crude oil production at a particular oil field	Oil fields located: <ul style="list-style-type: none"> In Irkutsk region, the republic of Sakha (Yakutia) and Krasnoyarsk territory which is applicable for the first 25 million tonnes of production On the territory of the Nenets Autonomous district, Yamalo-nenets Autonomous district – for the first 15 million tonnes of production Okhotsk sea fields subject to zero mineral extraction tax rate which is applicable for the first 30 million tonnes of production
	Oil fields with reserve depletion rate of over 80%.
	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.

¹ 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). In July 2017 MET withdrawals of RUB/tonne 428 were extended to 2020.

MET rate calculation for natural gas and gas condensate

MET rate for natural gas

In the second quarter of 2017 and in the first quarter of 2017 average extraction tax for natural gas was RUB 505 and RUB 528 per th. cubic meters, respectively. In the first half of 2017 and 2016 average extraction tax for natural gas was RUB 517 per th. cubic meters and RUB 537 per th. cubic meters, respectively.

MET rate for gas condensate

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

Significant volume of gas condensate produced at Rospan fields is subject to mineral extraction gas condensate tax rate, which amounted to RUB 3,460 and RUB 3,616 per tonne in the second quarter of 2017 and in the first quarter of 2017, respectively. In the first half of 2017 and 2016 tax rate of mineral extraction gas condensate was RUB 3,539 per tonne and RUB 3,007 per tonne, respectively.

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

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

Export Customs Duty on Crude Oil

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

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

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

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

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

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

Export customs duty on crude oil export to 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 and the Kirghiz republic all supplies above the quotes are subject for the duties.

In accordance with agreement between the Governments of Russian Federation and the Kazakhstan Republic on trade and economic cooperation in crude oil and petroleum products supplies dated December 9, 2010 the export ban was set for a specified list of petroleum products exported from Russian Federation to the Kazakhstan Republic.

Export Customs Duty on Petroleum Products

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

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

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

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

In 2017 and 2016 calculation of the export duty rate for petroleum products is based on the above marginal rates for each type of petroleum product.

Changes in Transport Tariffs of Pipeline and Railway Monopolies

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

The FAS² has the authority to set Transneft’s base tariffs for transportation of crude oil and petroleum products in Russia, which include a dispatch tariff, a pumping tariff, loading, charge-discharge, transshipment and other tariffs. Tariffs for railroad transportation are also regulated by the FAS. The tariffs are set in roubles and are not linked to the exchange rate.

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

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.

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

²The 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 June 30, 2017 and March 31, 2017 and for the six months ended June 30, 2017 and 2016 (Consolidated statement of profit or loss)

in RUB billions

	For 3 months ended		%	For 6 months ended June 30,		%
	June 30, 2017	March 31, 2017		2017	2016	
Revenues and equity share in profits of associates and joint ventures						
Oil, gas, petroleum products and petrochemicals sales	1,368	1,383	(1.1)%	2,751	2,227	23.5%
Support services and other revenues	18	18	–	36	38	(5.3)%
Equity share in profits of associates and joint ventures	13	9	44.4%	22	15	46.7%
Total revenues and equity share in profits of associates and joint ventures	1,399	1,410	(0.7)%	2,809	2,280	23.2%
Costs and expenses						
Production and operating expenses	155	142	9.2%	297	260	14.2%
Cost of purchased oil, gas, petroleum products and refining costs	199	168	18.5%	367	279	31.5%
General and administrative expenses	38	36	5.6%	74	60	23.3%
Pipeline tariffs and transportation costs	145	153	(5.2)%	298	282	5.7%
Exploration expenses	3	2	50.0%	5	7	(28.6)%
Depreciation, depletion and amortization	142	143	(0.7)%	285	229	24.5%
Taxes other than income tax	439	460	(4.6)%	899	560	60.5%
Export customs duty	160	166	(3.6)%	326	274	19.0%
Total costs and expenses	1,281	1,270	0.9%	2,551	1,951	30.8%
Operating income	118	140	(15.7)%	258	329	(21.6)%
Finance income	22	34	(35.3)%	56	41	36.6%
Finance expenses	(53)	(59)	(10.2)%	(112)	(96)	16.7%
Other income	–	1	(100.0)%	1	2	(50.0)%
Other expenses	(10)	(10)	–	(20)	(25)	(20.0)%
Foreign exchange differences	55	(45)	–	10	(41)	–
Cash flow hedges reclassified to profit or loss	(37)	(36)	2.8%	(73)	(74)	1.4%
Income before income tax	95	25	>100%	120	136	(11.8)%
Income tax expense	(15)	(4)	>100%	(19)	(33)	(42.4)%
Net income	80	21	>100%	101	103	(1.9)%
Net income attributable to						
- Rosneft shareholders	68	13	>100%	81	101	(19.8)%
- non-controlling interests	12	8	50.0%	20	2	>100%

Upstream Operating Results

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

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
Operational results						
Hydrocarbon production (th. boe per day)	5,703	5,785	(1.4)%	5,744	5,212	10.2%
Crude oil and NGL production (th. barrels per day)	4,566	4,620	(1.2)%	4,593	4,100	12.0%
Gas production (th. boe per day)	1,137	1,165	(2.4)%	1,151	1,112	3.5%
Hydrocarbon production (mln boe) ¹	482.2	482.7	(0.1)%	964.9	879.9	9.7%
Financial results, RUB billions						
EBITDA	258	325	(20.6)%	583	587	(0.7)%
Capital expenditures ²	189	167	13.2%	356	274	29.9%
Upstream operating expenses	89.2	81.1	10.0%	170.3	140.6	21.1%
Indicators per boe						
EBITDA, RUB/boe	535	673	(20.5)%	604	667	(9.4)%
Capital expenditures, RUB/boe	392	346	13.3%	369	311	18.6%
Upstream operating expenses, RUB/boe	185	168	10.1%	176 ⁴	160	10.0%
Upstream operating expenses, USD/boe ³	3.2	2.9	10.3%	3.0 ⁴	2.3	30.4%

¹ Excluding share in production of associates and joint ventures.

² Ref. to "Capital expenditures".

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

⁴ Excluding the acquisition of Bashneft assets, upstream operating expenses are 170 RUB/boe and 2.9 USD/boe in the first half of 2017.

Upstream EBITDA

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
Revenues and equity share in profits of associates and joint ventures	682	775	(12.0)%	1,457	1,193	22.1%
<i>Including equity share in profits of associates and joint ventures</i>	9	8	12.5%	17	10	70.0%
Expenses net of depreciation including	470	500	(6.0)%	970	669	45.0%
Upstream operating expenses ¹	89	81	10.0%	170	141	21.1%
General and administrative expenses	13	14	(7.1)%	27	25	8.0%
Hydrocarbon procurement costs ²	10	11	(9.1)%	21	17	23.5%
Pipeline tariffs and transportation costs and other costs ³	10	10	–	20	18	11.1%
Exploration expenses	4	2	100.0%	6	7	(14.3)%
Taxes other than income tax	344	382	(9.9)%	726	461	57.5%
<i>Effect of prepayments offsetting</i>	46	50	(8.0)%	96	63	52.4%
EBITDA	258	325	(20.6)%	583	587	(0.7)%

¹ Percentage is calculated from unrounded data.

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

³ Other costs include the estimation of ecological reserves revision of RUB 0.6 billion in the second quarter of 2017, RUB 0.5 billion in the first quarter of 2017 and RUB 1.1 billion and RUB 0.6 billion in the first half of 2017 and 2016, respectively.

Operating indicators

Production of Crude Oil and NGL

Rosneft has main fully consolidated production and development enterprises, which produce crude oil in Western Siberia, Eastern Siberia, Timan Pechora, Central Russia, southern part of European Russia and the Russian Far East. The Company also has a 20% stake in the Sakhalin-1 project and a 50% stake in JSC “Tomskneft” VNK, both accounted for using proportionate consolidation method. In addition, Rosneft participates in major production joint ventures accounted for using the equity method: Slavneft – 49.94%, Udmurtneft – 49.57% and Messoyakhaneftegaz -50%. The Company also participates in international projects in Vietnam, Venezuela and Canada. In October 2016 the Company acquired production assets of Bashneft. In April 2017 the Company acquired 100% shares in LLC National Petroleum Company – Projects. Production results of the newly acquired assets will be included in the Company’s production after commissioning of fields.

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

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
	(million of barrels)			(million of barrels)		
RN-Yuganskneftegaz (Western Siberia)	121.0	114.6	5.6%	235.6	231.7	1.7%
Projects of the Vankor group (Eastern Siberia)	40.9	43.2	(5.3)%	84.1	79.2	6.2%
Samotlorneftegaz (Western Siberia)	35.9	35.2	2.0%	71.1	74.7	(4.8)%
Bashneft-Dobycha (Central Russia)	30.4	30.9	(1.6)%	61.3	–	–
Orenburgneft (Central Russia)	29.1	29.6	(1.7)%	58.7	61.3	(4.2)%
Samaraneftegaz (Central Russia)	23.5	23.3	0.9%	46.8	45.6	2.6%
RN-Uvatneftegaz (Western Siberia)	17.8	21.0	(15.2)%	38.8	42.8	(9.3)%
Verkhnechonskneftegaz (Eastern Siberia)	14.7	15.8	(7.0)%	30.5	32.1	(5.0)%
Varyeganneftegaz (Western Siberia)	11.8	11.4	3.5%	23.2	22.8	1.8%
RN-Nyaganneftegaz (Western Siberia)	11.3	10.9	3.7%	22.2	21.6	2.8%
RN-Purneftegaz (Western Siberia)	9.6	9.3	3.2%	18.9	19.5	(3.1)%
Tomskneft (Western Siberia)	8.6	8.9	(3.4)%	17.5	17.5	–
Offshore projects (Far East) ¹	6.2	6.4	(3.1)%	12.6	15.7	(19.7)%
RN-Severnaya Neft (Timan Pechora)	6.3	6.0	5.0%	12.3	12.2	0.8%
Bashneft-Polyus (Timan Pechora) ²	4.7	4.9	(4.1)%	9.6	–	–
Sorovskneft (Western Siberia)	4.2	4.2	–	8.4	–	–
Taas-Yuryah (Far East)	2.1	2.1	–	4.2	4.0	5.0%
Other	9.2	10.1	(8.9)%	19.3	17.8	8.4%
Crude oil and NGL production by fully and proportionately consolidated enterprises	387.3	387.8	(0.1)%	775.1	698.5	11.0%
Slavneft (Western and Eastern Siberia)	13.4	13.4	–	26.8	27.8	(3.6)%
Udmurtneft (Central Russia)	5.6	5.5	1.8%	11.1	11.6	(4.3)%
Messoyakhaneftegaz (Western Siberia)	2.7	2.5	8.0%	5.2	–	–
Other	6.5	6.6	(1.5)%	13.1	8.3	57.8%
Total share in production of associates and JV	28.2	28.0	0.7%	56.2	47.7	17.8%
Total crude oil and NGL production	415.5	415.8	(0.1)%	831.3	746.2	11.4%
Daily crude oil and NGL production (th. barrels per day)	4,566	4,620	(1.2)%	4,593	4,100	12.0%

¹Net of royalty and government share

²Refers to 100% consolidated share in production

In the second quarter of 2017 oil and NGL production amounted to 415.5 mln barrels, decreasing by 0.1% compared with 415.8 mln barrels in the first quarter of 2017, which was caused by the worldwide reduction of crude oil production pursuant the Agreement on reduction of crude oil world production of OPEC members and other key crude oil producers in October 2016.

Significant increase in crude oil and NGL (by 11.4%) compared with the first half of 2016 resulted from the acquisition of Bashneft assets in the fourth quarter of 2016 and from increased share in JV Petromonagas (Venezuela) in May 2016. Organic growth of crude oil production was mainly driven by positive production dynamic at the Greenfields: Suzun and Messoyakhneftegaz, and the Brownfields: RN-Yuganskneftegaz, RN-Nyaganneftegaz, Samaraneftegaz, Varyeganneftegaz.

In the first half of 2017 the Company increased its production drilling by 22% up to 5.5 mln meters compared with the first half of 2016. The share of in-house services in the total drilling footage is app. 60%. Commissioning of new wells increased by more than 15% compared with the first half of 2016 with app. 34% share of horizontal wells.

Production of Gas

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

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
	bcm			bcm		
Sibneftegas(Western Siberia)	3.17	3.06	3.6%	6.23	6.08	2.5%
Projects of the Vankor group (Eastern Siberia) ²	2.19	2.10	4.3%	4.29	4.35	(1.4)%
Rospan International (Western Siberia)	1.53	1.62	(5.6)%	3.15	2.90	8.6%
RN-Purneftegaz (Western Siberia)	1.51	1.50	0.7%	3.01	3.10	(2.9)%
Samotlorneftegaz (Western Siberia)	1.47	1.49	(1.3)%	2.96	2.96	–
RN-Yuganskneftegaz (Western Siberia)	1.02	1.13	(9.7)%	2.15	2.29	(6.1)%
Offshore projects (Far East) ^{2,3}	1.11	1.03	7.8%	2.14	1.19	79.8%
Varyeganneftegaz (Western Siberia)	0.99	0.93	6.5%	1.92	1.60	20.0%
RN-Krasnodarneftegaz (Southern Russia)	0.63	0.72	(12.5)%	1.35	1.48	(8.8)%
Orenburgneft (Central Russia)	0.45	0.47	(4.3)%	0.92	1.24	(25.8)%
RN-Nyaganneftegaz (Western Siberia)	0.45	0.43	4.7%	0.88	0.76	15.8%
Tomskneft (Western Siberia)	0.20	0.25	(20.0)%	0.45	0.42	7.1%
Bashneft-Dobycha (Central Russia) ²	0.13	0.13	–	0.26	–	–
Samaraneftegaz (Central Russia)	0.11	0.11	–	0.22	0.24	(8.3)%
RN-Sakhalinmorneftegaz (Far East)	0.08	0.08	–	0.16	0.17	(5.9)%
RN-Uvatneftegaz (Western Siberia)	0.06	0.06	–	0.12	0.13	(7.7)%
Verkhnechonskneftegaz (Eastern Siberia)	0.05	0.06	(16.7)%	0.11	0.09	22.2%
RN-Severnaya Neft (Timan Pechora)	0.06	0.05	20.0%	0.11	0.12	(8.3)%
Sorovskneft (Western Siberia)	0.03	0.03	–	0.06	–	–
Bashneft-Polyus (Timan Pechora)	0.01	0.02	(50.0)%	0.03	–	–
Other	0.33	0.32	3.1%	0.65	0.66	(1.5)%
Total gas production by fully and proportionately consolidated enterprises	15.58	15.59	(0.1)%	31.17	29.78	4.7%
Purgaz (Western Siberia)	1.23	1.43	(14.0)%	2.66	3.06	(13.1)%
Slavneft (Western and Eastern Siberia)	0.11	0.12	(8.3)%	0.23	0.24	(4.2)%
Other	0.07	0.07	–	0.14	0.15	(6.7)%
Total share in production of associates and JV	1.41	1.62	(13.0)%	3.03	3.45	(12.2)%
Total gas production	16.99	17.21	(1.3)%	34.20	33.23	2.9%
Natural gas	7.77	8.00	(2.9)%	15.77	15.60	1.1%
Associated gas	9.22	9.21	0.1%	18.43	17.63	4.5%
Daily gas production (mcm per day)	186.7	191.2	(2.4)%	189.0	182.6	3.5%

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

² Including gas injection to maintain reservoir pressure.

³ Net of royalty and government share

Gas production in the second quarter of 2017 amounted to 16.99 bcm, decreasing by 1.3% compared with the first quarter of 2017. The decrease in production was mainly due to seasonal factor and scheduled preventive maintenance in the second quarter of 2017.

Gas production in the first half of 2017 amounted to 34.2 bcm, increasing by 2.9% compared with the first half of 2016. The growth was mainly driven by the launching of two 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 three new wells at the Tyumen suite of the Yem-Yegovskoye field in the first quarter of 2017, increase in gas production at Severo-Varyeganskoe field due to launch of new wells and increased gas delivery from the Van-Yeganskoye field through the Tumen compressor station after reconstruction.

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 9 billion in the second quarter of 2017 due to positive dynamics of JV income. In the first quarter of 2017 the equity share in the financial results of upstream associates and joint ventures was RUB 8 billion.

The equity share in the financial results of upstream associates and joint ventures was RUB 17 billion and RUB 10 billion of profit in the first half of 2017 and 2016, respectively.

Upstream production and operating expenses

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

Upstream production and operating expenses were RUB 89.2 billion (185 RUB/boe) and increased by 10.0% (an increase of 10.1% per boe) in the second quarter of 2017 compared with RUB 81.1 billion (168 RUB/boe) in the first quarter of 2017. The increase was mainly due to seasonal growth of workovers and planned maintenance in the second quarter of 2017.

Upstream production and operating expenses increased by 21.1% (an increase of 10.0% per boe) in the first half of 2017 compared to RUB 140.6 billion (160 RUB/boe) in the same period of 2016 that is mainly due to Bashneft assets acquisition in October 2016 and increased electricity tariffs. In the first half of 2017 upstream production and operating cost per boe, excluding Bashneft upstream operational cost per boe, was 170 RUB/boe (2.9 USD/boe) compared to 160 RUB/boe (2.3 USD/boe) in the first half of 2016. Organic growth of upstream operating expenses is mainly due to increased electricity tariffs, scheduled workovers and maintenance and other oil field services.

Exploration Expenses¹

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

In the second quarter of 2017, exploration expenses amounted to RUB 3 billion and increased due to exploration works at the fields under the scope of international projects. In the first half of 2017 and 2016 exploration expenses were RUB 5 billion and RUB 7 billion, respectively.

Mineral extraction tax

The amount of mineral extraction tax was RUB 332 billion in the second quarter of 2017 compared to RUB 358 billion in the first quarter of 2017. The reduction of MET expense was mainly due to effective MET rate decrease of 11.7% for the period due to the lower Urals price (by 9.2%).

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

	For 3 months ended		change %	For 6 months ended June 30,		change %
	June 30, 2017	March 31, 2017		2017	2016	
	(thousand RUB per tonne, except %)					
Average enacted oil mineral extraction tax rate	7.03	7.96	(11.7)%	7.49	5.11	46.6%
Actual mineral extraction tax expense per tonne of oil produced	6.05	6.93	(12.7)%	6.49	4.57	42.0%
Actual mineral extraction tax expense per tonne of oil equivalent produced*	4.92	5.63	(12.6)%	5.28	3.70	42.7%
	(RUB per thousand cubic meters, except %)					
Average actual gas extraction tax rate	505	528	(4.4)%	517	537	(3.7)%

*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”).

¹Net of i-co turnover of RUB 1billion in the second quarter 2017 and in the first half of 2017.

Downstream Operating Results

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

The results set in the table below:

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June, 30 2017	March 31, 2017		2017	2016	
Operational results, mln tonne						
Crude oil processing at refineries	27.72	28.30	(2.0)%	56.02	45.06	24.3%
<i>Processing at Company's own refineries in Russia</i>	22.61	23.71	(4.6)%	46.32	35.33	31.1%
<i>Processing at Company's own refineries outside Russia</i>	3.07	2.76	11.2%	5.83	6.19	(5.8)%
<i>Processing at Associates' refineries</i>	2.04	1.83	11.5%	3.87	3.54	9.3%
Financial results, RUB billion						
EBITDA	66	20	>100%	86	56	53.6%
Capital expenditures of refineries*	15	11	36.4%	26	21	23.8%
Operating expenses of processing in Russia	30.1	29.3	2.7%	59.4	39.4	50.8%
Operating expenses of processing outside Russia	4.7	4.6	2.2%	9.3	17.2	(45.9)%
Indicators per tonne of the output**						
EBITDA, RUB per tonne	2,570	756	>100%	1,649	1,349	22.2%
Capital expenditure of refineries, RUB per tonne	584	416	40.4%	499	506	(1.4)%
Operating expenses for processing in Russia, RUB per tonne	1,333	1,234	8.0%	1,282	1,115	15.0%
Operating expenses for processing outside Russia, RUB per tonne	1,533	1,667	(8.0)%	1,596	2,772	(42.4)%

*Refer to "Capital expenditures".

**Calculated from unrounded data.

Downstream EBITDA

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
	RUB billion			RUB billion		
Revenues and equity share in profits of associates and joint ventures	1,421	1,434	(0.9)%	2,855	2,283	25.1%
<i>Including equity share in profits of associates and joint ventures</i>	2	2	-	4	4	-
Expenses net of depreciation including	1,355	1,414	(4.2)%	2,769	2,227	24.3%
Operating expenses at refineries, cost of additives and materials procured for processing	40	39	2.6%	79	80	(1.3)%
Operating expenses of retail companies	12	12	-	24	21	14.3%
Cost of purchased oil, gas, petroleum products and refining costs including intersegment turnover	894	956	(6.5)%	1,850	1,463	26.5%
Administrative expenses including doubtful debt allowances	8	10	(20.0)%	18	16	12.5%
Pipeline tariffs and transportation costs and other costs	142	153	(7.2)%	295	272	8.5%
Taxes other than income tax	88	84	4.8%	172	96	79.2%
Export customs duty	160	166	(3.6)%	326	274	19.0%
<i>Effect from intragroup balance change and others</i>	11	(6)	-	5	5	-
EBITDA*	66	20	>100%	86	56	53.6%

*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 and increased its share in the Bayernoil refinery up to 25% (from 12.5%), in the Mineraloelraffinerie Oberrhein GmbH –up to 24% (from 12%), and the PCK Raffinerie GmbH up to 54.17% (from 35.42%), including additional share, which was acquired earlier in 2015. Starting from October 2016 crude oil processing at Bashneft refineries is incorporated in the oil processing of Rosneft group.

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

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
	mln of tonnes			mln of tonnes		
Crude oil processing at refineries in Russia ¹	24.62	25.54	(3.6)%	50.16	38.87	29.0%
Crude oil processing at refineries outside Russia	3.10	2.76	12.3%	5.86	6.19	(5.3)%
including crude oil processing in Germany ²	3.07	2.76	11.2%	5.83	6.19	(5.8)%
including crude oil processing in Belarus	0.03	0.00	100.0%	0.03	-	100.0%
Total Group crude oil processing	27.72	28.30	(2.0)%	56.02	45.06	24.3%
Petroleum product output:						
High octane gasoline	3.62	3.85	(6.0)%	7.47	5.59	33.6%
Low octane gasoline	0.04	0.02	100%	0.06	0.06	-
Naphtha	1.52	1.57	(3.2)%	3.09	2.70	14.4%
Diesel	7.99	8.53	(6.3)%	16.52	12.07	36.9%
Fuel oil	5.86	6.13	(4.4)%	11.99	10.77	11.3%
Jet fuel	0.87	0.71	22.5%	1.58	1.39	13.7%
Petrochemicals	0.40	0.40	-	0.80	0.27	>100%
Other	3.57	3.38	5.6%	6.95	5.13	35.5%
Product output at Rosneft's refineries in Russia	23.87	24.59	(2.9)%	48.46	37.98	27.6%
Product output at refineries outside Russia	3.10	2.76	12.3%	5.86	6.59	(11.1)%
including crude oil output in Germany	3.07	2.76	11.2%	5.83	6.59	(11.5)%
including product output in Belarus	0.03	0.00	100%	0.03	0.00	100%
Total Group product output	26.97	27.35	(1.4)%	54.32	44.57	21.9%

¹Including processing at YANOS refinery

²Excluding additives obtained for processing

In the second quarter of 2017 Rosneft's total refinery throughput in Russia decreased by 3.6% and amounted to 24.62 mln tonnes. The decrease in production at Russian refineries compared to the first quarter of 2017 was mainly due to scheduled turnarounds in spring period.

In the first half of 2017 crude oil processing volume at refineries in Russia was higher by 29% if compared with the same period of 2016. Including crude oil processing of the newly acquired assets from the beginning of 2016, organic growth of crude oil processing increased by 4.9% in the first half 2017 compared to the first half of 2016 in terms of the improved trend of market prices.

In the second quarter of 2017, processing volume at the German refineries increased by 11.2% after scheduled turnarounds in the first quarter of 2017 and reduced volumes of unscheduled turnarounds.

Financial indicators

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

In the second quarter of 2017 revenues and equity share in profits of associates and joint ventures amounted to RUB 1,399 billion in comparison with RUB 1,410 billion in the first quarter of 2017. Slightly decrease in revenues in RUB terms is mainly due to falling of worldwide crude oil price (-9.9% in RUB terms compared to the first quarter of 2017) which was significantly offset by increased volumes of crude oil sales.

In the first half of 2017 and 2016 revenues and equity share in profits of associates and joint ventures amounted to RUB 2,809 billion and RUB 2,280 billion, respectively.

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

	For 3 months ended					For 6 months ended June 30,				
	June 30, 2017		March 31, 2017		% change	2017		2016		% change
	% of revenue		% of revenue			% of revenue		% of revenue		
RUB billion, except %										
Crude oil										
International Sales to non-CIS	533	38.1%	518	36.8%	2.9%	1,051	37.4%	919	40.3%	14.4%
Europe and other directions	316	22.6%	290	20.6%	9.0%	606	21.6%	513	22.5%	18.1%
Asia	217	15.5%	228	16.2%	(4.8)%	445	15.8%	406	17.8%	9.6%
International sales to CIS	35	2.5%	33	2.3%	6.1%	68	2.4%	73	3.2%	(6.8)%
Domestic sales	24	1.7%	22	1.6%	9.1%	46	1.6%	40	1.8%	15.0%
Total crude oil	592	42.3%	573	40.7%	3.3%	1,165	41.4%	1,032	45.3%	12.9%
Gas	47	3.4%	59	4.2%	(20.3)%	106	3.8%	108	4.7%	(1.9)%
Petroleum products										
International Sales to non-CIS	376	26.8%	426	30.2%	(11.7)%	802	28.6%	587	25.7%	36.6%
Europe and other directions	280	19.9%	316	22.4%	(11.4)%	596	21.3%	441	19.3%	35.1%
Asia	96	6.9%	110	7.8%	(12.7)%	206	7.3%	146	6.4%	41.1%
International Sales to CIS	26	1.9%	17	1.2%	52.9%	43	1.5%	18	0.8%	138.9%
Domestic sales	288	20.6%	278	19.7%	3.6%	566	20.1%	415	18.2%	36.4%
Wholesale	172	12.3%	173	12.3%	(0.6)%	345	12.2%	226	9.9%	52.7%
Retail	116	8.3%	105	7.4%	10.5%	221	7.9%	189	8.3%	16.9%
Sales of bunker fuel to end-users	15	1.1%	10	0.7%	50.0%	25	0.9%	13	0.6%	92.3%
Total petroleum products	705	50.4%	731	51.8%	(3.6)%	1,436	51.1%	1,033	45.3%	39.0%
Sales of LNG	3	0.2%	–	–	–	3	0.1%	1	0.0%	>100%
Petrochemical products	21	1.5%	20	1.4%	5.0%	41	1.5%	53	2.3%	(22.6)%
International sales	8	0.6%	7	0.5%	14.3%	15	0.6%	47	2.0%	(68.1)%
Domestic sales	13	0.9%	13	0.9%	0.0%	26	0.9%	6	0.3%	>100%
Sales of petroleum products, petrochemicals and LNG	729	52.1%	751	53.2%	(2.9)%	1,480	52.7%	1,087	47.6%	36.2%
Support services and other revenues	18	1.3%	18	1.3%	0.0%	36	1.3%	38	1.7%	(5.3)%
Equity share in profits of associates and joint ventures	13	0.9%	9	0.6%	44.4%	22	0.8%	15	0.7%	46.7%
Total revenues and equity share in profits of associates and joint ventures	1,399	100.0%	1,410	100.0%	(0.8)%	2,809	100.0%	2,280	100.0%	23.2%

* 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 6 months ended June 30,				
	June 30, 2017		March 31, 2017		% change	2017		2016		% change
	mln bbl	% of total volume	mln bbl	% of total volume		mln bbl	% of total volume	mln bbl	% of total volume	
Crude oil										
International Sales to non-CIS	219.9	48.1%	191.1	45.1%	15.1%	411.0	46.6%	395.3	49.4%	4.0%
Europe and other directions	130.3	28.5%	107.4	25.4%	21.3%	237.7	26.9%	235.4	29.4%	1.0%
Asia	89.6	19.6%	83.7	19.7%	7.0%	173.3	19.7%	159.9	20.0%	8.4%
International Sales to CIS	17.7	3.9%	14.1	3.3%	25.5%	31.8	3.6%	37.0	4.6%	(14.1)%
Domestic	11.8	2.6%	10.4	2.4%	13.5%	22.2	2.5%	20.7	2.6%	7.2%
Total crude oil	249.4	54.6%	215.6	50.8%	15.7%	465.0	52.7%	453.0	56.6%	2.6%
	mln		mln			mln		mln		
Crude oil	tonnes		tonnes			tonnes		tonnes		
International Sales to non-CIS	29.7	48.1%	25.8	45.1%	15.1%	55.5	46.6%	53.4	49.4%	4.0%
Europe and other directions	17.6	28.5%	14.5	25.4%	21.3%	32.1	26.9%	31.8	29.4%	1.0%
Asia	12.1	19.6%	11.3	19.7%	7.0%	23.4	19.7%	21.6	20.0%	8.4%
International Sales to CIS	2.4	3.9%	1.9	3.3%	25.5%	4.3	3.6%	5.0	4.6%	(14.1)%
Domestic sales	1.6	2.6%	1.4	2.4%	13.5%	3.0	2.5%	2.8	2.6%	7.2%
Total crude oil	33.7	54.6%	29.1	50.8%	15.7%	62.8	52.7%	61.2	56.6%	2.6%
Petroleum products										
International Sales to non-CIS	16.2	26.2%	17.1	29.8%	(5.3)%	33.3	28.1%	29.3	27.2%	13.7%
Europe and other directions	11.8	19.1%	12.2	21.2%	(3.3)%	24.0	20.3%	22.4	20.8%	7.1%
Asia	4.4	7.1%	4.9	8.6%	(10.2)%	9.3	7.8%	6.9	6.4%	34.8%
International Sales to CIS	1.0	1.6%	0.7	1.2%	42.9%	1.7	1.4%	0.7	0.6%	142.9%
Domestic sales	9.3	15.1%	9.2	16.1%	1.1%	18.5	15.5%	14.5	13.4%	27.6%
Wholesale	6.4	10.4%	6.5	11.4%	(1.5)%	12.9	10.8%	9.5	8.8%	35.8%
Retail	2.9	4.7%	2.7	4.7%	7.4%	5.6	4.7%	5.0	4.6%	12.0%
Sales of bunker fuel to end-users	0.8	1.3%	0.5	0.9%	60.0%	1.3	1.1%	0.7	0.6%	85.7%
Total petroleum products	27.3	44.2%	27.5	48.0%	(0.7)%	54.8	46.1%	45.2	41.8%	21.2%
Sales of LNG	0.1	0.2%	–	–	–	0.1	0.1%	0.1	0.1%	0.0%
Petrochemical products	0.6	1.0%	0.7	1.2%	(14.3)%	1.3	1.1%	1.6	1.5%	(18.8)%
International sales	0.2	0.4%	0.3	0.5%	(33.3)%	0.5	0.4%	1.2	1.1%	(58.3)%
Domestic sales	0.4	0.6%	0.4	0.7%	0.0%	0.8	0.7%	0.4	0.4%	100.0%
Total crude oil and products, LNG	61.7	100.0%	57.3	100.0%	7.7%	119.0	100.0%	108.1	100.0%	10.1%
Gas	bcm		bcm			bcm		bcm		
Sales Volumes	14.29		17.61		(18.9)%	31.90		32.40		(1.5)%

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)¹:

	For 3 months ended				% change	For 6 months ended				% change
	June 30, 2017		March 31, 2017			June 30, 2017		June 30, 2016		
	(th.RUB/ barrel)	(th.RUB/ tonne)	(th.RUB/ barrel)	(th.RUB/ tonne)		(th.RUB/ barrel)	(th.RUB/ tonne)	(th.RUB/ barrel)	(th.RUB/ tonne)	
Average prices on foreign markets										
Crude oil, non-CIS	2.64	19.6	2.98	22.0	(10.9)%	2.80	20.7	2.52	18.6	11.3%
Europe and other directions ²	2.57	19.0	2.88	21.3	(10.8)%	2.70	20.1	2.44	18.0	11.7%
Asia ²	2.77	20.5	3.11	23.0	(10.9)%	2.93	21.7	2.65	19.6	10.7%
Crude oil, CIS	2.03	15.0	2.29	16.9	(11.2)%	2.15	15.9	1.94	14.4	10.4%
Petroleum products, non- CIS		23.6		25.1	(6.0)%		24.4		20.0	22.0%
Europe and other directions		24.3		26.1	(6.9)%		25.2		19.7	27.9%
Asia		22.0		22.5	(2.2)%		22.3		21.1	5.7%
Petroleum products, CIS		23.7		26.5	(10.6)%		24.7		24.3	1.6%
Sales of LNG		19.4		–	–		19.4		18.2	6.6%
Petrochemical products		29.6		28.0	5.7%		28.8		39.9	(27.8)%
Average domestic prices										
Crude oil	1.94	14.4	2.18	16.1	(10.6)%	2.05	15.2	1.89	14.0	8.6%
Petroleum products		31.2		30.2	3.3%		30.7		28.7	7.0%
Wholesale		27.1		26.5	2.3%		26.8		23.8	12.6%
Retail		40.1		39.2	2.3%		39.6		37.9	4.5%
Gas (the RUB./the cubic meter) ³		3.25		3.32	(2.1)%		3.29		3.25	1.2%
Petrochemical products		31.7		31.9	(0.6)%		31.8		15.9	100.0%
Sales of bunker fuel to end-users		18.9		19.7	(4.1)%		19.3		17.4	10.9%

¹Average price is calculated from unrounded figures.

²Price excludes revenues under prepaid long-term crude oil supply contracts and revenues from crude oil sales to Transneft (RUB 23 billion and RUB 28 billion, in the second quarter of 2017 and in the first quarter of 2017; RUB 49 billion in the first half of 2016, respectively).

³Including gas sales outside Russian Federation average gas prices were 3.28 th.RUB./th. cubic meter in the second quarter of 2017 and 3.35 th.RUB./th. cubic meter in the first quarter of 2017, 3.32 th.RUB./th. cubic meter in the first half of 2017 and 2016, respectively.

International Crude Oil Sales to non-CIS

Revenues from international crude oil sales to non-CIS countries in the second quarter of 2017 amounted to RUB 533 billion compared to RUB 518 billion in the first quarter of 2017. Revenue increase was due to upturn in sales volumes by 15.1% (favourable impact on revenue of RUB 81 billion) and was partially offset by decrease in average price by 10.9% or RUB 70 billion.

In the first half of 2017 revenues from international crude oil sales to non-CIS countries increased by 14.4% compared with the same period of 2016. Average sales price upturn by 11.3% (positive impact on revenue of RUB 110 billion) was accompanied by increase in sales volume by 4.0% (favourable impact on revenue of RUB 47 billion).

International Crude Oil Sales to CIS

Revenue from sales of crude oil to CIS in the second quarter of 2017 amounted to RUB 35 billion compared to RUB 33 billion in the first quarter of 2017. The increase was mainly caused by upturn of sales volume by 25.5% (positive impact on revenue of RUB 8 billion) and was partially offset by decrease in average sales price by 11.2% (unfavourable impact on revenues of RUB 6 billion).

In the first half of 2017 and 2016 revenues from international crude oil sales to CIS countries amounted to RUB 68 billion and RUB 73 billion, respectively. Decrease in sales volume by 14.1% (unfavourable impact on revenue of RUB 11 billion) was partially offset by increase in average sales price by 10.4% (favourable impact on revenues of RUB 6 billion).

Domestic Sales of Crude Oil

In the second quarter of 2017 revenues from domestic sales of crude oil amounted to RUB 24 billion, which is 9.1% higher than in the first quarter of 2017, mainly due to volume increase of 13.5% (favorable impact on revenue of RUB 3 billion) and was partially offset by average sales price downturn up to 10.6% (unfavorable impact on revenue of RUB 1 billion).

In the first half of 2017 revenues from domestic crude oil sales amounted RUB 46 billion that were 15% higher in comparison with the same period of 2016, which was mainly attributable to growth of average sales price by 8.6% (positive impact on revenue RUB 3 billion) and was accompanied by upturn of crude oil sales volumes up to 7.2% (favorable effect on revenues RUB 3 billion).

International Petroleum Product Sales to Non-CIS

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold to non-CIS countries in the second quarter of 2017 and in the first quarter of 2017*:

	For 3 months ended						% change		
	June 30, 2017			March 31, 2017			RUB billion	mln of tonnes	Average price th.RUB/tonne
	RUB billion	mln of tonnes	Average price th.RUB/tonne	RUB billion	mln of tonnes	Average price th.RUB/tonne			
High octane gasoline	4	0.1	34.2	7	0.2	35.0	(42.9)%	(50.0)%	(2.3)%
Naphtha	38	1.6	24.4	44	1.5	28.1	(13.6)%	6.7%	(13.2)%
Diesel (Gasoil)	101	4.2	24.5	123	4.5	26.9	(17.9)%	(6.7)%	(8.9)%
Fuel oil	100	6.2	16.9	124	7.0	18.4	(19.4)%	(11.4)%	(8.2)%
Other	6	0.2	28.3	6	0.2	27.1	0.0%	0.0%	4.4%
Petroleum products exported to non-CIS	249	12.3	20.8	304	13.4	22.8	(18.1)%	(8.2)%	(8.8)%
Petroleum products sold from German refineries	103	2.9	35.7	85	2.1	40.9	21.2%	38.1%	(12.7)%
Petroleum products bought and sold outside Russia	24	1.0	22.9	37	1.6	23.7	(35.1)%	(37.5)%	(3.4)%
Trading of petroleum products outside Russia	127	3.9	32.3	122	3.7	33.5	4.1%	5.4%	(3.6)%
Total	376	16.2	23.6	426	17.1	25.1	(11.7)%	(5.3)%	(6.0)%

*Average price is calculated from unrounded figures.

Revenues from the international sales of petroleum products to non-CIS countries in the second quarter of 2017 were RUB 376 billion in comparison with RUB 426 billion in the first quarter of 2017, which is 11.7% lower due to the downturn of average price up to 6.0% (negative impact on revenues of RUB 25 billion) which was accompanied by decrease in sales volumes by 5.3% (unfavourable impact on revenues of RUB 25 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 half of 2017 and 2016*:

	For 6 months ended June 30,						% change		
	2017			2016			RUB billion	million of tonnes	Average price th.RUB/tonne
	RUB billion	million of tonnes	Average price th.RUB/tonne	RUB billion	million of tonnes	Average Price th.RUB/tonne			
High octane gasoline	11	0.3	34.7	6	0.2	32.8	83.3%	50.0%	5.8%
Naphtha	82	3.1	26.3	68	2.7	24.9	20.6%	14.8%	5.6%
Diesel (Gasoil)	224	8.7	25.8	153	6.5	23.3	46.4%	33.8%	10.7%
Fuel oil	224	13.2	17.7	162	12.2	13.3	38.3%	8.2%	33.1%
Other	12	0.4	27.8	10	0.5	21.0	20.0%	(20.0)%	32.4%
Petroleum products exported to non-CIS	553	25.7	21.9	399	22.1	18.0	38.6%	16.3%	21.7%
Petroleum products sold from German refineries	188	5.0	37.9	151	5.3	28.5	24.5%	(5.7)%	33.0%
Petroleum product purchased and sold outside Russia	61	2.6	23.4	37	1.9	19.7	64.9%	36.8%	18.8%
Trading of petroleum products outside Russia	249	7.6	32.9	188	7.2	26.2	32.4%	5.6%	25.6%
Total	802	33.3	24.4	587	29.3	20.0	36.6%	13.7%	22.0%

*Average price is calculated from unrounded figures.

In the first half of 2017 revenues from sales of petroleum products to non-CIS countries were 36.6% higher than in the first half of 2016 and amounted to RUB 802 billion mainly due to average price upturn by 22.0% (favourable impact on revenues of RUB 142 billion), and sales volumes growth by 13.7% (favourable impact on revenues of RUB 81 billion) taking into account the acquisition of new assets.

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

International Petroleum Product Sales to CIS

Revenues from sales of petroleum products to CIS countries were RUB 26 billion in the second quarter of 2017 (52.9% higher) compared with the first quarter of 2017 mainly due to increase in sales volumes by 42.9% (favourable impact on revenues of RUB 11 billion) and was partially offset by average price downturn of 10.6% (unfavourable effect on revenues of RUB 2 billion).

Revenues from sales of petroleum products to CIS countries in the first half of 2017 were approximately twofold higher (or increase of RUB 25 billion) if compared to the same period of 2016 due to significant increase in petroleum products sales volumes (favourable effect on revenues of RUB 26 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 second quarter of 2017 and in the first quarter of 2017*:

	For 3 months ended						% change		
	June 30, 2017			March 31, 2017					
	RUB billion	mln of tonnes	Average price th. RUB/tonne	RUB billion	mln of tonnes	Average price th. RUB/tonne	RUB billion	mln of tonnes	Average price th. RUB/tonne
High octane gasoline	150	3.8	39.6	143	3.8	38.2	4.9%	0.0%	3.7%
Diesel (Gasoil)	93	2.8	33.5	91	2.7	33.1	2.2%	3.7%	1.2%
Fuel oil	5	0.6	9.0	10	0.9	11.1	(50.0)%	(33.3)%	(18.9)%
Jet fuel	23	0.8	28.9	21	0.7	30.4	9.5%	14.3%	(4.9)%
Other	17	1.3	12.4	13	1.1	12.3	30.8%	18.2%	0.8%
Total	288	9.3	31.2	278	9.2	30.2	3.6%	1.1%	3.3%

*Average price is calculated from unrounded figures.

Revenues from sales of petroleum products on the domestic market were RUB 288 billion in the second quarter of 2017 or by 3.6% higher compared with the first quarter of 2017, which was mainly due to 3.3% upturn of average sales price (positive effect on revenue of RUB 7 billion) and increase in petroleum products sales volume of 1.1% (favourable effect on revenue of RUB 3 billion).

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

	For 6 months ended June 30,						% change		
	2017			2016					
	RUB billion	million of tonnes	Average price th. RUB/tonne	RUB billion	million of tonnes	Average price th. RUB/tonne	RUB billion	million of tonnes	Average price th. RUB/tonne
High octane gasoline	293	7.6	38.9	212	5.7	37.0	38.2%	33.3%	5.1%
Diesel (Gasoil)	184	5.5	33.3	142	4.8	29.7	29.6%	14.6%	12.1%
Fuel oil	15	1.5	10.3	4	0.9	5.0	>100%	66.7%	>100%
Jet fuel	44	1.5	29.6	38	1.4	27.0	15.8%	7.1%	9.6%
Other	30	2.4	12.4	19	1.7	11.6	57.9%	41.2%	6.9%
Total	566	18.5	30.7	415	14.5	28.7	36.4%	27.6%	7.0%

*Average price is calculated from unrounded figures.

Revenues from sales of petroleum products on the domestic market in the first half of 2017 were RUB 566 billion or 36.4% higher compared to the same period of 2016. The increase was due to sales volume growth of 27.6% (favourable effect on revenue of RUB 115 billion) and average sales price growth of 7.0% (favourable effect on revenue of RUB 36 billion).

Sales of LNG

The Company supplies LNG under a contract with the Egyptian Natural Gas Holding Company, concluded in August of 2015. Sales volumes for the first half of 2017 amounted to 0.129 mln tonnes (RUB 3 billion).

Sales of bunker fuel

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

Revenues from sales of bunker fuel in the second quarter of 2017 were RUB 15 billion, and increase by 50% in comparison with the first quarter of 2017, which is mainly attributed to increase in sales volumes by 60.0% (positive effect on revenue of RUB 6 billion) which was partially offset by downturn of average sales price by 4.1% (negative impact on revenue of RUB 1 billion). Sales volume growth is mostly attributable to seasonal factor: opening of the navigation period.

Revenues from sales of bunker fuel in the first half of 2017 increased by 92.3% or RUB 12 billion in comparison with the same period of 2016 due to increase in sales volumes by 85.7% (positive effect on revenue of RUB 10 billion), was accompanied by average sales price upturn by 10.9% or RUB 2 billion.

Petrochemical Product Sales

Revenues from sales of petrochemical products in the second quarter of 2017 and in the first quarter of 2017 amounted to RUB 21 billion (0.6 mln tonnes) and RUB 20 billion (0.7 mln tonnes), respectively.

Petrochemical product sales volumes from German refineries amounted to 0.13 mln tonnes and 0.1 mln tonnes in the second quarter and the first quarter of 2017, respectively.

Revenues from sales of petrochemical products in the first half of 2017 decreased by RUB 12 billion and amounted to RUB 41 billion compared to the same period of 2016. International sales decreased by RUB 32 billion due to decline of sales volumes of 58.3% (negative impact on revenues of RUB 28 billion) which was accompanied by downturn of sales price by 27.8% (negative impact on revenues of RUB 4 billion). Domestic sales of petrochemical products increased by RUB 20 billion mainly due to the acquisition of new assets in 2016.

Gas Sales

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

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

	For 3 months ended		% change	For 6 months ended		% change
	June 30, 2017	March 31, 2017		June 30, 2017	June 30, 2016	
	(RUB billion)			(RUB billion)		
Revenue						
In the Russian Federation	45.9	57.7	(20.5)%	103.6	103.9	(0.3)%
Outside the Russian Federation	1.1	1.2	(8.3)%	2.3	3.7	(37.8)%
Total	47.0	58.9	(20.2)%	105.9	107.6	(1.6)%
Sales volumes	(bcm)			(bcm)		
In the Russian Federation	14.11	17.42	(19.0)%	31.53	31.93	(1.3)%
Outside the Russian Federation	0.18	0.19	(5.3)%	0.37	0.47	(21.3)%
Total	14.29	17.61	(18.9)%	31.90	32.40	(1.5)%
Average price	(th. RUB/th. of cubic metres)			(th. RUB/th. of cubic metres)		
In the Russian Federation	3.25	3.32	(2.1)%	3.29	3.25	1.2%
Outside the Russian Federation	5.96	6.26	(4.8)%	6.11	7.90	(22.7)%
Total	3.28	3.35	(2.1)%	3.32	3.32	–

*Average price is calculated from unrounded figures.

In the second quarter of 2017 revenues from gas sales in the Russian Federation decreased in comparison with the first quarter of 2017 and amounted to RUB 45.9 billion due to sales volume downturn by 19.0% (negative impact on revenues of RUB 11 billion) and decrease in average price by 2.1% (unfavorable impact on revenues of RUB 1 billion) caused by usage of the short transportation route. The reduction of gas sales is mainly due to seasonal factor.

In the Russian Federation gas sales downturn of 0.3% in the first half of 2017 compared with the same period 2016 resulted from gas sales volumes decline of 1.3% compared with the same period of 2016 that was compensated by average price upturn by 1.2%.

Support Services and Other Revenues

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

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

	For 3 months ended					For 6 months ended June 30,				
	June 30, 2017		March 31, 2017		% change	2017		2016		% change
	% of total revenue		% of total revenue			% of total revenue		% of total revenue		
	billion RUB, except %									
Drilling services	1.2	6.5%	1.1	6.1%	9.1%	2.3	6.3%	1.7	4.5%	35.3%
Sales of materials	6.2	33.7%	5.4	30.1%	14.8%	11.6	31.9%	11.7	30.7%	(0.9)%
Repairs and maintenance services	0.6	3.3%	0.6	3.3%	–	1.2	3.3%	1.7	4.5%	(29.4)%
Rent services	1.3	7.1%	1.5	8.3%	(13.3)%	2.8	7.7%	2.4	6.3%	16.7%
Construction services	0.2	1.1%	–	–	–	0.2	0.5%	0.1	0.3%	100.0%
Transport services	3.6	19.6%	3.8	21.1%	(5.3)%	7.4	20.3%	8.5	22.3%	(12.9)%
Electric power sales and transmission	1.8	9.8%	2.6	14.4%	(30.8)%	4.4	12.1%	3.8	10.0%	15.8%
Other revenues	3.5	19.0%	3.0	16.7%	16.7%	6.5	17.9%	8.2	21.4%	(20.7)%
Total	18.4	100.0%	18.0	100.0%	2.2%	36.4	100.0%	38.1	100.0%	(4.5)%

Support services and other revenues in the second quarter of 2017 amounted to RUB 18.4 billion or 2.2% higher in comparison with the first quarter of 2017.

Support services and other revenues in the first half of 2017 decreased by 4.5% 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 in the second and first quarters of 2017, respectively¹. The equity share in net financial results of downstream associates and joint ventures was RUB 4 billion in the first half of 2017 and 2016, respectively.

Downstream production and operating cost

Downstream operating expenses include¹:

	For 3 months ended			For 6 months ended		
	June 30, 2017		% change	June 30,		% change
	March 31, 2017			2017	2016	
	billion RUB, except %					
Operating expenses at refineries in Russia	30.1	29.3	2.7%	59.4	39.4	50.8%
Operating expenses at refineries and cost of additives and materials procured for processing outside Russia	10.2	9.7	5.2%	19.9	40.7	(51.1)%
Operating expenses of retail companies incl.:	12.3	11.6	6.0%	23.9	20.8	14.9%
<i>operating expenses</i>	8.4	8.5	(1.2)%	16.9	14.5	16.6%
<i>purchase cost of other inventories</i>	3.9	3.1	25.8%	7.0	6.3	11.1%
Downstream operating expenses	52.6	50.6	4.0%	103.2	100.9	2.3%
<i>Intragroup inventory effect and others</i>	10.8	(5.6)	>100.0%	5.2	5.1	2.0%
Total Downstream Operating expenses²	63.4	45.0	40.9%	108.4	106.0	2.3%

¹The difference between percentages presented in the above table and other sections is a result of rounding.

²Cost 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 second quarter of 2017 increased by 4.0% compared with the first quarter of 2017 and amounted to RUB 52.6 billion.

In the first half of 2017 operating expenses of refineries and retail companies increased by 2.3% compared with the same period of 2016.

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

Operating expenses at Company's refineries

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

	For 3 months ended		% change	For 6 months ended		% change
	June 30, 2017	March 31, 2017		June 30, 2017	2016	
Operating expenses at refineries in Russia (RUB billion)	30.1	29.3	2.7%	59.4	39.4	50.8%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,372	1,279	7.3%	1,325	1,137	16.5%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,332	1,234	7.9%	1,282	1,115	15.0%
Operating expenses at refineries outside Russia (RUB billion)*	4.7	4.6	2.2%	9.3	17.2	(45.9)%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,531	1,667	(8.2)%	1,595	2,603	(38.7)%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,531	1,667	(8.2)%	1,595	2,772	(42.5)%
Total operating expenses at Rosneft's refineries (RUB billion)	34.8	33.9	2.7%	68.7	56.6	21.4%

*Refineries outside Russia also procured the additives and materials for processing: in the second quarter of 2017 – RUB 5.5 billion, in the first quarter of 2017 – RUB 5.1 billion; in the first half of 2017 and 2016 – RUB 10.6 billion and RUB 23.5 billion, respectively.

Operating expenses of Rosneft's refineries in Russia in the second quarter of 2017 amounted to RUB 30.1 billion and increased by 2.7% compared with the first quarter of 2017. The increase is mainly due to planned turnaround expenses and maintenance services.

In the first half of 2017 operating expenses of Rosneft's refineries in Russia increased by 50.8% compared with the same period of 2016 mainly due to the acquisition of Bashneft assets in the fourth quarter of 2016, increased tariffs of natural monopolies and indexation of wages.

Operating expenses of Rosneft's refineries outside Russia increased in the second quarter of 2017 by 2.2% in comparison with the first quarter of 2017 due to growth of production volumes after scheduled turnarounds in the first quarter of 2017. Reduction of operating expenses at the refineries outside Russia in the first half of 2017 resulted from completion of the restructuring of foreign refining assets of Ruhr Oel GmbH in Germany and RUB appreciation.

In the second quarter of 2017 operating costs per tonne of crude oil throughput of Rosneft's refineries in Russia increased by 7.9% compared with the first quarter of 2017 and amounted to RUB 1,332 per tonne. The increase was mostly due to higher scheduled turnaround expenses. The increase of 15.0% in operating costs per tonne at refineries in Russia in the first half of 2017 compared with the same period of 2016 was due to the acquisition of Bashneft assets with higher operating costs caused by more difficult process of production (production of fuel oil and aromatics) and due to increased tariffs of natural monopolies, indexation of wages.

Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia were RUB 1,531 per tonne in the second quarter of 2017 (a decrease of 8.2%) compared with the first quarter of 2017. Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia reduced to RUB 1,595 per tonne in the first half of 2017 (a decrease of 42.5%) compared with the first half of 2016 that was mainly due to reduction of maintenance and turnaround expenses and RUB appreciation of 20.0% in the first half of 2017.

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

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

	For 3 months ended		% change	For 6 months ended		% change
	June 30, 2017	March 31, 2017		June 30, 2017	2016	
Crude oil and gas procurement						
Cost of crude oil and gas procured (RUB billion)**	159	117	35.9%	276	210	31.4%
<i>including Domestic market</i>	62	65	(4.6)%	127	96	32.3%
<i>International market</i>	97	52	86.5%	149	114	30.7%
Volume of crude oil procured (millions of barrels)	68.4	41.7	64.0%	110.1	92.7	18.8%
<i>including Domestic market</i>	29.0	24.7	17.4%	53.7	48.1	11.6%
<i>International market</i>	39.4	17.0	>100%	56.4	44.6	26.5%
Volume of gas procured (bcm)	2.48	5.60	(55.7)%	8.08	8.32	(2.9)%
LNG procurement						
Cost of LNG (RUB billion)	2	–	–	2	1	100.0%
Volume of LNG procured (millions of tonnes)	0.13	–	–	0.13	0.06	>100%
Petroleum products procurement						
Cost of petroleum products procured (RUB billion)***	31	45	(31.1)%	76	54	40.7%
Volume of petroleum products procured (millions of tonnes)	1.35	1.77	(23.7)%	3.12	2.43	28.4%
Crude oil, gas and petroleum products refining services						
Cost of refining of crude oil under processing agreements (RUB billion)	7.2	6.3	14.3%	13.5	13.7	(1.5)%
Volumes of crude oil and petroleum products, refined under processing agreements (millions of tonnes)	2.7	2.1	28.6%	4.8	4.4	9.1%
Volumes of refining of gas under processing agreements (bcm)	2.6	2.4	8.3%	5	5.0	0.0%
Cost of products procured for blending on retail companies (RUB billion)	6.1	5.7	7.0%	11.8	12.5	(5.6)%
<i>Including intercompany purchases(RUB billion)</i>	<i>6.0</i>	<i>5.5</i>	<i>9.1%</i>	<i>11.5</i>	<i>12.2</i>	<i>(5.7)%</i>
Total cost of procured oil, gas and petroleum products and refining costs (RUB billion)	199	168	18.5%	367	279	31.5%

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

**Including cost of Upstream segment in the amount of RUB 10 billion in the second quarter of 2017; RUB 11 billion in the first quarter of 2017 and RUB 21 billion and RUB 17 billion in the first half of 2017 and 2016, respectively.

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

Crude oil and Gas procurement

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

Crude oil and gas procurement costs were RUB 159 billion and RUB 117 billion in the second and first quarters of 2017, respectively. The increase in crude oil and gas procurement by 36% in the second quarter of 2017 compared with the previous quarter is mainly attributable to increased trading activity of the Company's foreign subsidiary and processing volume growth on the Company's refineries in Germany.

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

	For 3 months ended		% change	For 6 months ended		% change
	June 30, 2017	March 31, 2017		June 30, 2017	2016	
	mln barrels			mln barrels		
International market	39.4	17.0	>100%	56.4	44.6	26.5%
Udmurteft	6.2	5.6	10.7%	11.8	12.1	(2.5)%
Slavneft	14.3	12.6	13.5%	26.9	25.2	6.7%
Lukoil-Reservnefteproduct	0.5	0.5	–	1.0	–	–
Others	8.0	6.0	33.3%	14.0	10.8	29.6%
Total	68.4	41.7	64.0%	110.1	92.7	18.8%

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

The volume of swaps was 8.2 mln barrels, 7.4 mln barrels in the second and in the first quarters of 2017, respectively. In the first half of 2017 and 2016, the volume of swaps was 15.6 mln barrels and 16.5 mln barrels, respectively.

Petroleum products procurement

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

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

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

	For 3 months ended						% change		
	June 30, 2017			March 31, 2017			RUB billion	mln tonnes	th. RUB/ tonne
	RUB billion	mln tonnes	th. RUB/ tonne*	RUB billion	mln tonnes	th. RUB/ tonne*			
Petroleum products procurement in Russia	7	0.27		7	0.18		–	50.0%	
High octane gasoline	3	0.11	36.0	1	0.02	37.8	>100%	>100%	(4.8)%
Diesel	2	0.06	36.1	4	0.12	33.1	(50.0)%	(50.0)%	9.1%
Jet fuel	0	0.00	29.9	0	0.00	26.8	–	–	11.6%
Others	2	0.10	23.2	2	0.04	29.3	–	>100%	(20.8)%
Petroleum products and petrochemicals procured outside Russia	24	1.08	22.3	38	1.59	23.9	(36.8)%	(32.1)%	(6.7)%
<i>Including petroleum products procurement</i>	24	1.08	22.3	37	1.57	23.8	(35.1)%	(31.2)%	(6.3)%
Total	31	1.35	22.2	45	1.77	25.1	(31.1)%	(23.7)%	(11.6)%

*Calculated based on unrounded numbers.

The volume of petroleum products procured in Russia in the second quarter of 2017 grew up by 50.0% to 0.27 mln tonnes in comparison with the first quarter of 2017. 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 half of 2017 and 2016:

	<i>For 6 months ended June 30,</i>						% change		
	2017			2016			RUB billion	mln tonnes	th. RUB/tonne
	RUB billion	mln tonnes	th. RUB/tonne*	RUB billion	mln tonnes	th. RUB/tonne*			
<i>Petroleum products procurement in Russia</i>	14	0.45		12	0.41		16.7%	9.8%	
High octane gasoline	4	0.13	34.7	4	0.10	35.3	–	30.0%	(1.7)%
Diesel	6	0.18	34.1	4	0.15	31.9	50.0%	20.0%	6.9%
Jet fuel	0	0.00	27.9	0	0.00	27.5	–	–	1.5%
Others	4	0.14	20.1	4	0.16	23.4	–	(12.5)%	(14.1)%
<i>Petroleum products and petrochemicals procured outside Russia</i>	62	2.67	23.2	42	2.02	19.8	47.6%	32.2%	17.2%
<i>Including petroleum products procurement</i>	61	2.65	23.0	37	1.92	19.3	64.9%	38.0%	19.2%
Total	76	3.12	23.8	54	2.43	21.2	40.7%	28.4%	12.3%

*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 insignificantly increased (by 0.04 mln tonnes) in the first half of 2017 compared with the same period of 2016.

Petroleum products and petrochemicals procurement outside Russia

Petroleum products and petrochemicals procured outside Russia amounted to RUB 24 billion (1.08 mln tonnes) in the second 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 half of 2017 significantly increased (by 32.2%) in comparison with 2.02 mln tonnes in the first half of 2016 and was mainly driven by upturn of supply under new projects in terms of long-term sales agreements.

Crude oil and gas processing, petroleum products processing

Starting from April 2014, associated petroleum gas sales to 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 6.51 billion and RUB 7.08 billion in the first half of 2017 and 2016, respectively.

Pipeline Tariffs and Transportation Costs

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

In the second quarter of 2017 Rosneft's transportation costs decreased by 5.2% and amounted to RUB 145 billion compared to the first quarter of 2017. The reduction in transportation costs was mainly due to logistic optimization: increase in share of waterborne transportation and decrease in more expensive share of railroad shipment of crude oil products.

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

	For 3 months ended								% change		
	June 30, 2017				March 31, 2017				Volume	Cost	Cost per tonne
Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*				
CRUDE OIL											
<u>International sales</u>											
Pipeline	27.5	85.9%	55.1	2.00	25.5	92.1%	51.5	2.02	7.8%	7.0%	(1.0)%
Railroad and mixed	0.6	1.9%	1.9	3.40	0.5	1.8%	1.7	3.34	20.0%	11.8%	1.8%
Pipeline and FCA***	3.9	12.2%			1.7	6.1%			>100%		
<u>Transportation to refineries</u>											
Pipeline**	25.0		18.7	0.75	26.0		19.8	0.76	(3.8)%	(5.6)%	(1.3)%
Railroad and mixed	2.4		7.7	3.24	2.5		8.0	3.17	(4.0)%	(3.8)%	2.2%
PETROLEUM PRODUCTS											
<u>International sales</u>											
Pipeline	2.1	11.7%	5.8	2.71	2.2	12.0%	6.7	2.99	(4.5)%	(13.4)%	(9.4)%
Railroad and mixed	13.1	72.8%	30.5	2.34	13.6	73.9%	36.8	2.71	(3.7)%	(17.1)%	(13.7)%
Pipeline and FCA***	2.8	15.5%			2.6	14.1%			7.7%		
GAS											
	bcm		RUB/bcm		bcm		RUB/bcm				
Pipeline****	10.7		12.0	1.12	11.1		12.9	1.16	(3.6)%	(7.0)%	(3.4)%
Other transportation expenses*****			13				16			(18.8)%	
Total	77.4		145		74.6		153		3.8%	(5.2)%	

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

**** Part of gas volumes was dispatched on terms under which Rosneft does not bear transportation expenses. In the first half of 2017 and 2016, these volumes amounted to 3.6 bcm and 6.5 bcm, respectively.

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

Crude oil pipeline transportation cost per tonne of international sales in the second quarter of 2017 remained practically unchanged and amounted to RUB 2.0 thousand per tonne.

The increase in crude oil railroad and mixed transportation cost per tonne of international sales was 1.8% due to change in structure of transportation routes.

Crude oil pipeline transportation cost per tonne of supplies to refineries decreased by 1.3% in the second quarter of 2017 compared to the first quarter of 2017 which was caused by change in structure of transportation structure.

Crude oil railroad and mixed transportation cost per tonne of supplies to refineries in the second quarter of 2017 increased by 2.2% compared with the first quarter of 2017 due to change in transportation routes.

The decrease in pipeline cost per tonne of petroleum product international sales of 9.4% in the second quarter of 2017 compared to the previous quarter was mainly due to change in transportation structure (decrease in share of transportation routes with tariff partially denominated in USD).

Railroad and mixed transportation cost per tonne of petroleum product international sales decreased by 13.7% in the second quarter of 2017 compared to the first quarter of 2017 due to reduction of volumes shipped by railroads and simultaneous increase in share of waterborne transportation following the start of navigation period.

Gas transportation costs decrease of 3.4% in the second quarter of 2017 compared to the first quarter of 2017 was caused by seasonal factor. In the first and second 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 half of 2017 and 2016, respectively:

	For 6 months ended June 30,								% change		
	2017				2016				Volume	Cost	Cost per tonne
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*			
CRUDE OIL											
International sales											
Pipeline	53.0	88.8%	106.6	2.01	56.7	97.1%	109.5	1.93	(6.5)%	(2.6)%	4.1%
Railroad and mixed	1.1	1.8%	3.6	3.37	1.7	2.9%	6.2	3.54	(35.3)%	(41.9)%	(4.8)%
Pipeline and FCA***	5.6	9.4%							100%		
Transportation to refineries											
Pipeline**	51.0		38.5	0.76	41.5		30.9	0.74	22.9%	24.6%	2.7%
Railroad and mixed	4.9		15.7	3.21	3.5		12.1	3.56	40.0%	29.8%	(9.8)%
PETROLEUM PRODUCTS											
International sales											
Pipeline	4.3	11.8%	12.5	2.85	2.0	6.3%	6.5	3.15	>100%	92.3%	(9.5)%
Railroad and mixed	26.7	73.4%	67.3	2.53	25.6	80.5%	70.0	2.74	4.3%	(3.9)%	(7.7)%
Pipeline and FCA***	5.4	14.8%			4.2	13.2%			28.6%		
GAS											
	bcm			RUB/bcm	bcm			RUB/bcm			
Pipeline****	21.8		24.9	1.14	21.9		23.3	1.06	(0.5)%	6.9%	7.5%
Other transportation expenses*****											
			29				23			26.1%	
Total	152.0		298		135.2		282		12.4%	5.7%	

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

**** Part of gas volumes was dispatched on terms where Rosneft does not bear transportation expenses. In the first half of 2017 and 2016 these volumes amounted to 10.1 bcm and 10.5 bcm, respectively.

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

The change in transportation costs per tonne of products sold (for crude oil and petroleum products) for the first half of 2017 compared with the same period of 2016 mainly resulted from tariffs indexation and change in transportation routes. The change in shipping cost of gas (per bcm) was mainly caused by growth of average transportation distance to final consumers.

Excise tax

In the second quarter of 2017 excise tax was RUB 78 billion, including additional costs related to processing outside Russian Federation in the amount of RUB 23 billion¹, in comparison with RUB 77 billion in the second quarter of 2017.

Excise tax, excluding additional costs related to processing outside Russian Federation, amounted to RUB 110 billion in the first half of 2017 in comparison with RUB 84 billion in the same period of 2016 due to increased excise tax rate for petroleum products and the acquisition of Bashneft assets.

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

Export Customs Duty

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

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

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
			RUB billion, except %			
Export customs duty for crude oil	119	117	1.7%	236	209	12.9%
Export customs duty for petroleum products	41	49	(16.3)%	90	65	38.5%
Total export customs duty	160	166	(3.6)%	326	274	19.0%

Export customs duty amounted to RUB 160 billion in the second quarter of 2017 compared to RUB 166 billion in the first quarter of 2017 (decreased by 3.6%). The decline was mostly due to decreased customs duty rate by 5.3% in rouble terms, which was compensated by negative duty lag effect and upturn of crude oil export volumes in the second quarter of 2017.

The growth in export customs duty in the first half 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 (+9.8%).

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

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
Urals (average Med and NWE) (USD/bbl)	48.8	52.3	(6.5)%	50.5	38.0	33.0%
Hypothetical export customs duty on crude oil ¹ (th. RUB/tonne)	4.65	5.23	(11.1)%	4.94	4.75	4.0%
Enacted export customs duty on crude oil (th. RUB/tonne)	4.82	5.09	(5.3)%	4.95	4.29	15.3%
Average customs duty on crude oil exports subject to regular rate (th. RUB/tonne)	4.81	5.03	(4.4)%	4.88	4.24	15.1%

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

The deviation of an actual average customs duty on exports 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 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
Financial results, RUB billion						
EBITDA	(18)	(12)	(50.0)%	(30)	(22)	(36.4)%
Capital expenditures*	5	10	(50.0)%	15	7	>100%

*Refer to “Capital expenditures”.

Separate indicators of the consolidated financial statements

Costs and Expenses

General and Administrative Expenses

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

General and administrative expenses were RUB 38 billion in the second quarter of 2017 and included allowance for doubtful debt of RUB 3 billion. Excluding this effect general and administrative expenses were RUB 35 billion if compared to RUB 36 billion in the first quarter of 2017.

The 18.3% growth of general and administrative expenses (excluding one-off recognition of allowance for doubtful debt) in the first half of 2017 compared to the same period of 2016 was due to expanding activity resulted from the acquisition of new assets. The Company continues the monitoring of general and administrative expenses in term of current inflation level.

Depreciation, Depletion and Amortization

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

In the second quarter of 2017 DDA amounted to RUB 142 billion and did not change significantly compared with the first quarter of 2017, that was mainly related to stable production level for the period.

In the first half of 2017 DDA was 24.5% higher if compared to the same period of 2016 due to the acquisition of Bashneft assets in October 2016 and new oilfield assets in 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 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
Mineral extraction tax	332	358	(7.3)%	690	432	59.7%
Excise tax	78	77	1.3%	155	84	84.5%
Social security tax	16	16	–	32	25	28.0%
Property tax	10	8	25.0%	18	17	5.9%
Other taxes, interest, penalties and other payments to budget	3	1	>100.0%	4	2	>100%
Total taxes other than income tax	439	460	(4.6)%	899	560	60.5%

Taxes other than income tax were RUB 439 billion and decreased by 4.6 % in the second quarter of 2017, compared to RUB 460 billion in the first quarter of 2017 due to decrease in the mineral extraction tax expense that was compensated by the growth of indirect taxes (excise tax) related to crude oil processing outside the Russian Federation (the costs are recharged to final consumers).

In the first half 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 second quarter of 2017 net finance expenses increased to RUB 31 billion compared to RUB 25 billion in the first quarter of 2017 mainly due to positive results from fair value measurement of derivative financial instruments in the first quarter of 2017.

In the first half of 2017 net finance expenses increased to RUB 56 billion compared to RUB 55 billion in the same period of 2016. In the first half of 2017 finance expenses increased mainly due to the interest accrued on other borrowings under repurchase agreement operations concluded at the end of 2016. The increase in finance expenses was compensated by the increase in interest income for the use of funds and positive results from fair value measurement of derivative financial instruments.

Other Income and Other Expenses

In the second quarter of 2017 other income was RUB 0 billion compared to RUB 1 billion in the first quarter of 2017. In the first half of 2017 and 2016 other income was RUB 1 billion and RUB 2 billion, respectively.

In the second quarter of 2017 other expenses amounted to RUB 10 billion and did not change compared with the previous quarter. Other expenses include effect of fixed assets disposal in the course of operating activities and other expenses.

In the first half of 2017 and 2016 other expenses were RUB 20 billion and RUB 25 billion, respectively.

Effect from new assets fair value finalisation in the amount of RUB 2 billion¹ was recorded in accordance with IFRS in the financial result of prior period (first half of 2016).

¹ Please see section “Financial and operating results of the Company”.

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 second quarter of 2017 foreign exchange gain recognized in profit and loss statement was RUB 55 billion. In the first half of 2017 foreign exchange income recognized in profit and loss statement was RUB 10 billion. In the first half of 2016 foreign exchange loss was RUB 41 billion.

The effects from capitalization of the foreign exchange differences on capital loans to fund capital expenditures in the reported periods was RUB 27 billion in the first half of 2017.

Cash flow hedges reclassified to profit or loss

Cash flow hedges reclassified to profit or loss recognized in the consolidated statement of profit or loss in the second and in the first quarters of 2017 was RUB 37 billion and RUB 36 billion respectively. In the first half of 2017 and 2016 cash flow hedges reclassified to profit or loss recognized in the consolidated statement of profit or loss was RUB 73 billion and RUB 74 billion, respectively.

Income Tax

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

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2017	March 31, 2017	2017	2016
Effective rate of income tax (IFRS)	15.8%	16.0%	15.8%	19.1 ¹ %

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

The Company applies the provisions of IAS 12 "Income taxes" to determine effective tax rate. In accordance with the consolidated statement of comprehensive income, income tax was RUB 15 billion and RUB 4 billion in the second and in the first quarters of 2017. Significant growth of income tax was due to increased income before income tax in the second quarter of 2017.

In the first half of 2017 and 2016 income tax expense was RUB 19 billion and RUB 33 billion, respectively.

Net Income

Net income amounted to RUB 80 billion (RUB 68 billion attributable to Rosneft shareholders) in the second quarter of 2017 compared with the net income of RUB 21 billion (RUB 13 billion attributable to Rosneft shareholders) in the first quarter of 2017. Net profit upturn was mostly driven by positive effect of foreign exchange differences in the second quarter of 2017.

Net income amounted to RUB 101 billion (RUB 81 billion attributable to Rosneft shareholders) in the first half of 2017 compared to RUB 103 billion (RUB 101 billion attributable to Rosneft shareholders) in the first half of 2016. Net profit of Company's shareholders decreased in the first half of 2017 due to sale of stake of the Company's assets (growth of non-controlling interests).

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 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
	RUB billion			RUB billion		
Net cash provided by operating activities	41	163	(74.8)%	204	358	(43.0)%
Net cash (used in)/received from investing activities	(205)	(202)	1.5%	(407)	10	–
Net cash (used in)/received from financing activities	(21)	(105)	(80.0)%	(126)	(29)	>100%

Net cash provided by operating activities

Net cash provided by operating activities amounted to RUB 41 billion in the second quarter of 2017 compared to RUB 163 billion in the first quarter of 2017.

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

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2017	March 31, 2017		2017	2016	
	RUB billion			RUB billion		
Net cash provided by operating activity	41	163	(74.8)%	204	358	(43.0)%
<i>Effect from operations with trading securities</i>	–	–	–	–	(3)	(100)%
Adjusted net cash provided by operating activity	41	163	(74.8)%	204	355	(42.5)%
<i>Offsetting of prepayments received under long term supply contracts at average ex.rate</i>	140	118	18.6%	258	114	>100%
<i>Financing under future suppliers</i>	73	–	–	73	32	>100%
Adjusted net cash provided by operating activity	254	281	(9.6)%	535	501	6.8%

In the second quarter of 2017 adjusted operating cash flow was RUB 254 billion compared with RUB 281 billion in the first quarter of 2017. Stability in operating cash flow was mainly caused by strengthening of internal control. Increase in working capital in the second quarter of 2017 compared with the first quarter of 2017 was mainly driven by increased trade receivable due to growth of crude oil exports and due to effect of RUB depreciation at the end of reporting period in comparison with March 2017, compensated significantly by decrease in oil prices in USD terms.

In the first half of 2017 and 2016 adjusted operating cash flow was RUB 535 billion and RUB 501 billion, respectively.

Net cash (used in)/received from investing activities

Net cash used in the investing activities was RUB 205 billion in the first quarter of 2017 compared to RUB 202 billion used in the investing activities in the first quarter of 2017. In the second quarter of 2017 the Company's investing activity mainly referred to capital expenditures and acquisition of new assets.

In the first half of 2017 planned growth of investing activity was mainly due to the acquisition of new assets, acquisition of interest in associates and joint ventures and planned capital expenditures. Net cash received from investing activities in the first half of 2016 was RUB 10 billion.

Net cash used in financing activities

Net cash used in financing activities was RUB 21 billion in the second quarter of 2017 compared to RUB 105 billion used in financing activities in the first quarter of 2017. In the first quarter of 2017 the Company made scheduled repayment of loans and Eurobonds.

In the first half of 2017 net cash used in financing activities was RUB 126 billion compared to RUB 29 billion of net cash used in financing activities in the first half of 2016.

Capital Expenditures

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

	For 3 months ended		% change	For 6 months ended		% change
	June 30, 2017	March 31, 2017		June 30, 2017	2016	
	RUB billion			RUB billion		
RN-Yuganskneftegaz	51	45	13.3%	96	70	37.1%
Vankor projects	17	11	54.5%	28	37	(24.3)%
Orenburgneft	8	6	33.3%	14	13	7.7%
Samotlorneftegaz	12	10	20.0%	22	19	15.8%
Offshore projects	4	1	>100%	5	19	(73.7)%
RN-Uvatneftegaz	7	7	–	14	14	–
Verkhnechonskneftegaz	5	5	–	10	8	25.0%
RN-Purneftegaz	6	5	20.0%	11	8	37.5%
Rospan International	14	11	27.3%	25	18	38.9%
Samaraneftegaz	6	7	(14.3)%	13	11	18.2%
Varyoganneftegaz	5	4	25.0%	9	8	12.5%
VSNKG	6	4	50.0%	10	10	–
Tomskneft VNK	3	2	50.0%	5	4	25.0%
RN-Nyaganneftegaz	4	4	–	8	5	60.0%
RN-Severnaya Neft	3	3	–	6	6	–
Tumenneftegaz	5	4	25.0%	9	4	>100%
Taas-Yuryah Neftegazodobycha	10	10	–	20	9	>100%
Sibneftegaz	1	1	–	2	2	–
Bashneft-Dobycha	5	4	25.0%	9	–	>100%
Bashneft-Polyus	6	4	50.0%	10	–	>100%
Sorovskneft	2	2	–	4	–	>100%
Other	10	17	(41.2)%	27	12	>100%
Government grants	(1)	–	–	(1)	(3)	(66.7)%
Total upstream segment	189	167	13.2%	356	274	29.9%
Tuapse refinery	4	1	>100%	5	3	66.7%
Kuibyshev refinery	2	1	100.0%	3	3	–
Novokuibyshevsk refinery	1	1	–	2	3	(33.3)%
Syzran refinery	–	1	(100.0)%	1	3	(66.7)%
Angarsk refinery	1	1	–	2	2	–
Achinsk refinery	–	1	(100.0)%	1	1	–
Ryazan refinery	1	1	–	2	2	–
Komsomolsk refinery	1	–	100.0%	1	1	–
Saratov refinery	–	–	–	–	–	–
Basheft refinery brunch	1	2	(50.0)%	3	–	100.0%
Other refineries	4	2	100.0%	6	3	100.0%
Marketing Business Units and others	6	4	50.0%	10	6	66.7%
Total downstream segment	21	15	40.0%	36	27	33.3%
Total other activities	5	10	(50.0)%	15	7	114.3%
Total capital expenditures	215	192	12.0%	407	308	32.1%
Acquisition of licenses	9	15	(40.0)%	24	15	60.0%
Return of auction advances	–	–	–	–	(5)	(100.0)%

In the second quarter of 2017 total capital expenditures amounted to RUB 215 billion (increase by 12.0%) compared with RUB 192 billion in the first quarter of 2017. In the first half of 2017 and 2016 total capital expenditures were RUB 407 billion and RUB 308 billion, respectively. The increase in capital expenditures in the first half of 2017 compared with the same period of 2016 meets the strategic objectives of the Company and is mainly driven by the expansion investment program in key business segments and the acquisition of new assets.

In the second quarter of 2017 upstream capital expenditures amounted to RUB 189 billion (increase by 13.2%) in comparison with RUB 167 billion in the first quarter of 2017. In the first half of 2017 upstream capital expenditures were RUB 356 billion. The growth of upstream capital expenses by 29.9% compared to RUB 274 billion in the first half of 2016 is mainly due to increased volumes of development drilling (+22% to the first half of 2016) and field development and the acquisition of new assets.

In the second quarter of 2017 downstream capital expenditures were RUB 21 billion, including capital expenditures of investment tariffs in comparison with RUB 15 billion in the first quarter of 2017. Downstream capital expenditures in the first half of 2017 and 2016 were RUB 36 billion and RUB 27 billion, respectively. The increase in downstream capital expenditures in the first half of 2017 compared with the same period of 2016 was due to growth of high efficiency projects in refining.

In the second quarter of 2017 capital expenditures of refineries amounted to RUB 15 billion compared to RUB 11 billion in the first quarter of 2017. In the first half of 2017 and 2016 capital expenditures of refineries amounted to RUB 26 billion and RUB 21 billion, respectively. The capital expenditures are related to refinery modernization projects and to the maintenance of current refining capacities.

Capital expenditures of other activities are mainly related to scheduled purchases of IT, transport and other equipment assets and amounted to RUB 5 billion in the second quarter of 2017 and RUB 10 billion in the first quarter of 2017, respectively. In the first half of 2017 and 2016 capital expenditures of other activities amounted to RUB 15 billion and RUB 7 billion, respectively.

The license acquisition costs in the second quarter of 2017 amounted to RUB 9 billion, in the first quarter of 2017 amounted to RUB 15 billion. The license acquisition costs in the first half of 2017 amounted to RUB 24 billion and referred to acquisition of new licenses for research, exploration and production at Irkutsk, Orenburg and Saratov regions, Bashkortostan republic and Khanty-Mansiysky autonomous district.

The license acquisition costs in the first half of 2016 amounted to RUB 15 billion and the Company returned the advance in the amount of RUB 5 billion issued in the previous period for the participation in the auction.

Debt Obligations

Rosneft net debt amounts to RUB 2,216 billion as of June 30, 2017 compared to RUB 1,963 billion as of March 31, 2017.

Rosneft's total loans and borrowings and other financial liabilities were RUB 3,437 billion as of June 30, 2017 compared to RUB 3,358 billion as of March 31, 2017. The increase in total debt was mainly attributable to the acquisition of new assets and RUB depreciation effect at the end of the reporting period.

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

As of June 30, 2017, March 31, 2017 and June 30, 2016: 24.9%, 24.2% and 33.7%, respectively, of Rosneft's loans and borrowings were secured by crude oil export contracts (excluding exports to the CIS).

As of June 30, 2017, March 31, 2017 and June 30, 2016: pledged oil exports constituted 4.1%, 4.4% and 4.4%, respectively, of the total crude oil export sales for the analyzed period (excluding exports to the CIS).

The net debt calculation is disclosed in the following table:

As of the date	June 30, 2017	March 31, 2017	June 30, 2016
	RUB billion		
Short-term loans and borrowings and other financial liabilities	2,020	2,033	844
Long-term loans and borrowings and other financial liabilities	1,417	1,325	2,095
Total debt	3,437	3,358	2,939
Cash and cash equivalents	439	607	795
Other short-term financial assets and part of deposits	782*	788*	637
Net debt	2,216	1,963	1,507

*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 are set forth below:

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2017	March 31, 2017	2017	2016
EBITDA margin	21.2%	22.8%	22.0%	26.5%
Net income attributable to Rosneft shareholders margin	4.9%	0.9%	2.9%	4.4%
Net debt to annualized EBITDA	1.67 ¹	1.40 ¹	1.67 ¹	1.26
Current ratio	0.60	0.66	0.60	1.24
			RUB / bbl	
EBITDA/bbl	790	859	824	889
Upstream capital expenditures/bbl	488	431	459	392
Upstream operating expenses/bbl	230	209	220	201
Free cash flow before interest/bbl	101	229	165	276
			RUB / boe	
EBITDA/boe	635	690	662	706
Upstream capital expenditures/boe	392	346	369	311
Upstream operating expenses/boe	185	168	176 ²	160
Free cash flow before interest/boe	81	184	133	219

¹Including EBITDA of Bashneft since 2016.

²Excluding the acquisition of Bashneft assets upstream operating expenses are 170 RUB/boe and 2.9 USD/boe in the first half of 2017.

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

All the 'per unit of production' indicators are calculated by dividing the total amount in RUB by the total production volume (in mln bbl or mln boe).

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

Upstream Measures*

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2017	March 31, 2017	2017	2016
Crude oil and NGL production (mln bbl)	387.3	387.8	775.1	698.5
Crude oil, NGL and gas production (mln boe)	482.2	482.7	964.9	879.9

*Excluding share in production of associates and joint ventures.

Calculation of Free Cash Flow

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2017	March 31, 2017	2017	2016
			RUB billion	
Operating cash flow	41	163	204	358
Capital expenditures	(215)	(192)	(407)	(308)
Trading securities operations*	–	–	–	(3)
Offsetting of prepayments under long term supply contracts ¹	140	118	258	114
Financing under future supplies	73	–	73	32
Free cash flow (RUB equivalent)	39	89	128	193

¹Estimated 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 6 months ended June 30,	
	June 30, 2017	March 31, 2017	2017	2016
	RUB billion			
Revenues and equity share in profits of associates and joint ventures	1,399	1,410	2,809	2,280
Effect of prepayments offsetting	46	50	96	63
Operating expenses	(1,281)	(1,270)	(2,551)	(1,951)
Depreciation, depletion and amortization	142	143	285	229
EBITDA	306	333	639	621

Calculation of EBITDA Margin

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2017	March 31, 2017	2017	2016
	RUB billion (except %)			
EBITDA	306	333	639	621
Revenues and equity share in profits of associates and joint ventures	1,399	1,410	2,809	2,280
Effect of prepayments offsetting	46	50	96	63
Adjusted revenues	1,445	1,460	2,905	2,343
EBITDA margin	21.2%	22.8%	22.0%	26.5%

Calculation of Net Income Margin attributable to Rosneft shareholders

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2017	March 31, 2017	2017	2016
	RUB billion (except %)			
Net income attributable to Rosneft shareholders	68	13	81	101
Revenues and equity share in profits of associates and joint ventures	1,399	1,410	2,809	2,280
Net income margin attributable to Rosneft shareholders	4.9%	0.9%	2.9%	4.4%

Calculation of Current ratio

As of the date	June 30, 2017	March 31, 2017	June 30, 2016
	RUB billion (except ratios)		
Current assets	1,882	2,047	2,229
Current liabilities	3,138	3,076	1,796
Current ratio	0.60	0.66	1.24

Consolidated financial highlights (in USD terms)

Consolidated statement of profit or loss*

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2017	March 31, 2017	2017	2016
	USD billion			
Total revenues and equity share in profits of associates and joint ventures	25.3	24.8	50.1	33.7
Costs and expenses				
Production and operating expenses	2.7	2.4	5.1	3.7
Cost of purchased oil, gas, petroleum products and refining costs	3.4	2.9	6.3	4.0
General and administrative expenses	0.7	0.6	1.3	0.9
Pipeline tariffs and transportation costs	2.5	2.6	5.1	4.0
Exploration expenses	0.1	–	0.1	0.1
Depreciation, depletion and amortization	2.5	2.4	4.9	3.3
Taxes other than income tax	7.8	7.8	15.6	8.1
Export customs duty	2.8	2.8	5.6	3.9
Total costs and expenses	22.5	21.5	44.0	28.0
Operating income	2.8	3.3	6.1	5.7
Finance income	0.4	0.6	1.0	0.6
Finance expenses	(0.9)	(1.0)	(1.9)	(1.3)
Other income	–	–	–	–
Other expenses	(0.1)	(0.2)	(0.3)	(0.3)
Foreign exchange differences	0.2	(1.7)	(1.5)	(1.5)
Cash flow hedges reclassified to profit or loss	(0.7)	(0.6)	(1.3)	(1.1)
Income before income tax	1.7	0.4	2.1	2.1
Income tax expense	(0.3)	(0.1)	(0.4)	(0.5)
Net income	1.4	0.3	1.7	1.6
Net income attributable to Rosneft shareholders	1.2	0.2	1.4	1.6

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

Key consolidated financial highlights (in USD terms)

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

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2017	March 31, 2017	2017	2016
EBITDA margin	20.9%	23.0%	22.0%	26.7%
Net income margin	4.7%	0.8%	2.8%	4.7%
Net debt to annualised EBITDA	1.72 ¹	1.56 ¹	1.72 ¹	1.30
Current ratio	0.60	0.66	0.60	1.24
	USD/bbl*			
EBITDA/bbl	13.7	14.7	14.2	12.9
Upstream capital expenditures/bbl	8.5	7.3	7.9	5.6
Upstream operating expenses/bbl	4.0	3.6	3.8	2.9
Free cash flow/bbl	1.8	3.4	2.6	4.0
	USD/boe*			
EBITDA/boe	11.0	11.8	11.4	10.2
Upstream capital expenditures/boe	6.9	5.9	6.4	4.5
Upstream operating expenses/boe	3.2	2.9	3.0	2.3
Free cash flow/boe	1.4	2.7	2.1	3.2

* Calculated from unrounded data.

¹ Including EBITDA of Bashneft since 2016.

Calculation of Free Cash Flow

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2017	March 31, 2017	2017	2016
	USD billion			
Operating cash flow	0.7	2.7	3.4	4.9
Capital expenditures	(3.7)	(3.3)	(7.0)	(4.4)
Trading securities operations	–	–	–	0.0
Offsetting of prepayments under long term supply contracts	2.4	2.0	4.4	1.8
Financing future supplies	1.3	–	1.3	0.5
Free cash flow	0.7	1.4	2.1	2.8

Calculation of EBITDA Margin

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2017	March 31, 2017	2017	2016
	USD billion (except %)			
Revenues and equity share in profits of associates and joint ventures	25.3	24.8	50.1	33.7
Operating expenses	(22.5)	(21.5)	(44.0)	(28.0)
Depreciation, depletion and amortization	2.5	2.4	4.9	3.3
EBITDA	5.3	5.7	11.0	9.0
Revenues and equity share in profits of associates and joint ventures	25.3	24.8	50.1	33.7
EBITDA margin	20.9%	23.0%	22.0%	26.7%

Calculation of Net Income Margin

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2017	March 31, 2017	2017	2016
	USD billion (except %)			
Net income attributable to Rosneft shareholders	1.2	0.2	1.4	1.6
Revenues and equity share in profits of associates and joint ventures	25.3	24.8	50.1	33.7
Net income margin	4.7%	0.8%	2.8%	4.7%

Calculation of Current ratio

As of the date	June 30, 2017	March 31, 2017	June 30, 2016
	USD billion (except ratios)		
Current assets	31.9	36.3	34.7
Current liabilities	53.1	54.6	28.0
Current ratio	0.60	0.66	1.24

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

	2017	2016
	RUB/USD	
January	59.96	76.31
February	58.40	77.23
March	58.11	70.51
April	56.43	66.69
May	57.17	65.67
June	57.83	65.31

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

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

	For 3 months ended June 30, 2017 <i>th. RUB/tonne</i>	For 3 months ended March 31, 2017 <i>th. RUB/tonne</i>
CRUDE OIL		
Domestic		
Pipeline		
RN-Nyaganneftegaz (Krasnoleninsk) – Tuapse refinery	1.67	1.67
Samaraneftegaz (Mukhanovo) – Novokuibyshevsk refinery	0.08	0.08
Orenburgneft (Pokrovka) – Syzran refinery	0.20	0.20
Samotlorneftegaz – Omsk refinery	0.55	0.55
Export		
Pipeline		
Vankorneft (Purpe) – China	2.46	2.46
Verkhnechonskneftegaz (Talakan) – Kozmino	2.46	2.46
RN-Uvatneftegaz (Demyanskoe) – China (to Russian – Kazakhstan boarder)	1.39	1.39
RN-Yuganskneftegaz (Karkateevy) – Primorsk Port	1.87	1.87
RN-Yuganskneftegaz (Yuzhny Balyk) – Primorsk Port	1.85	1.85
Samaraneftegaz (Kuleshovka) – Germany	1.04	1.04
PETROLIUM PRODUCTS (Export)		
Railroad		
Angarsk refinery – Nakhodka Port	5.40	5.40
Komsomolsk refinery – Nakhodka Port	2.13	2.13
Saratov refinery – Novorossiysk Port	2.12	2.12
Ryazan refinery – Ust-Luga Port	2.17	2.17
Achinsk refinery – Lugskaya Port	5.55	5.55
YaNOS – Avtovo Port	1.53	1.53
Samara refineries –Taman Port	2.68	2.68

Source: Transneft, RZD, Rosneft.