



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED
MARCH 31, 2019 AND 2018
AND FOR THE THREE MONTHS ENDED DECEMBER 31, 2018**

Management's discussion and analysis of financial condition and results of operations of Rosneft for the first quarter of 2019

The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended March 31, 2019 and 2018, and December 31, 2018 (the "Interim Condensed Consolidated Financial Statements"). Such terms as "Rosneft", "Company" and "Group" in their different forms in this report mean PJSC Rosneft Oil Company and its consolidated subsidiaries, and its equity share in associates and joint ventures. This report contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may materially differ from those discussed in such forward-looking statements as a result of various factors.

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

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

To convert tonnes of liquid hydrocarbon (except gas condensate of JSC "Rosspan International") to barrels a 7.404 ratio is used. To convert Rosspan 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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Management's discussion and analysis of financial condition and results of operations of Rosneft for the first quarter of 2019

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, condensate, NGL and marketable gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers, proved hydrocarbon reserves reached 41 billion boe per SEC classification and 47 billion boe per PRMS classification as of December 31, 2018 and amounted to 40 billion boe per SEC classification and 47 billion boe per PRMS classification as of December 31, 2017.

In the first quarter of 2019 liquid hydrocarbons production of the Company amounted to 57.6 mln tonnes, the production of natural and associated gas was 17.12 bcm.

In the first quarter of 2019 the Company's total crude oil processing amounted to 26.87 mln tonnes at the refineries in Russia and abroad. The remaining volumes of crude oil are exported to Europe, Asia and the CIS.

Financial and operating highlights

	For 3 months ended		%	For 3 months ended March 31,		%
	March 31, 2019	December 31, 2019		change	2019	
Financial results, RUB billion						
Revenues and equity share in profits of associates and joint ventures	2,077	2,165	(4.1)%	2,077	1,722	20.6%
EBITDA	548	488	12.3%	548	385	42.3%
Net income attributable to Rosneft shareholders	131	109	20.2%	131	81	61.7%
Capital expenditures	214	257	(16.7)%	214	223	(4.0)%
Free cash flow*	197	261	(24.5)%	197	142	38.7%
Operational results						
Hydrocarbon production (th. boe per day)	5,902	5,938	(0.6)%	5,902	5,708	3.4%
Liquids production (th. barrels per day)	4,744	4,792	(1.0)%	4,744	4,566	3.9%
Gas production (th. boe per day)	1,158	1,146	1.0%	1,158	1,142	1.4%
Production of petroleum and petrochemical products (mln tonnes per day)	263	280	(6.1)%	263	265	(0.8)%
Production of petroleum products and petrochemical products in Russia (mln tonnes)	23.67	25.80	(8.3)%	23.67	23.89	(0.9)%
Production of petroleum products and petrochemical products outside Russia (mln tonnes)	2.50	2.84	(12.0)%	2.50	2.88	(13.2)%

*Free cash flow estimation includes interest expenses on the prepayment on long-term oil and petroleum products supply agreements. Interest expenses on the prepayment on long-term oil and petroleum products supply agreements are composed of interests accrued for the reporting period and offset against crude oil supply under the contracts in the amount of RUB 19 billion and interests paid of RUB 2 billion in the first quarter of 2019; offsetting of RUB 22 billion and interests paid of RUB 2 billion in the fourth quarter of 2018; offsetting of RUB 18 billion and interests paid of RUB 2 billion in the first quarter of 2018.

For reference only: Financial highlights in USD terms*

	For 3 months ended		%	For 3 months ended March 31,		%
	March 31, 2019	December 31, 2018		change	2019	
Financial results, USD billion						
Revenues and equity share in profits of associates and joint ventures	31.9	33.1	(3.6)%	31.9	30.9	3.2%
EBITDA	8.3	7.4	12.2%	8.3	6.8	22.1%
Net income attributable to Rosneft shareholders	1.9	1.6	18.8%	1.9	1.5	26.7%
Capital expenditures	3.2	3.9	(17.9)%	3.2	3.9	(17.9)%
Free cash flow	3.0	4.0	(25.0)%	3.0	2.5	20.0%

*Calculated using average monthly exchange rates of Bank of Russia for the reporting periods (Attachment 2).

Events after the reporting period

Rosneft Board of Directors recommended payout of dividends at 11.33 RUB per share which is 50 % of the Company's IFRS net profit attributable to Rosneft Oil Company shareholders

Taking into account payout of dividends for the first half of 2018, Rosneft Board of Directors recommended pay-out of dividends at 11.33 RUB per share. With the dividends paid for the first half of 2018 at 14.58 RUB per share the total dividend per one share for 2018 will be 25.91 RUB.

Macroeconomic factors affecting results of operations

Main factors affecting Rosneft's results of operations are:

- Changes in crude oil, gas and petroleum products prices;
- USD/RUB and EUR/RUB exchange rates and inflation;
- Changes in taxation of mineral extraction tax, export customs duty and excises;
- Changes in tariffs of natural monopolies (for pipeline and railway transport);
- Compliance with new restrictions of crude oil production under the Agreement reached by OPEC countries and major non-OPEC oil producing countries (OPEC+ Agreement);
- Changes in electricity prices.

Changes in Crude Oil, Petroleum Product and Gas Prices

The table below sets forth the average crude oil and petroleum products prices worldwide and in Russia in USD and RUB.

	For 3 months ended		Change	For 3 months ended March 31,		Change
	March 31, 2019	December 31, 2018		2019	2018	
World market	(USD per barrel)		%	(USD per barrel)		%
Brent	63.2	67.8	(6.8)%	63.2	66.8	(5.4)%
Urals (average Med and NWE)	63.2	67.3	(6.1)%	63.2	65.2	(3.1)%
Urals (FOB Primorsk)	61.6	65.5	(5.9)%	61.6	64.2	(4.0)%
Urals (FOB Novorossiysk)	61.3	65.2	(6.0)%	61.3	64.1	(4.5)%
Dubai	63.5	67.4	(5.9)%	63.5	63.9	(0.7)%
	(USD per tonne)		%	(USD per tonne)		%
Naphtha (av. FOB/CIF Med)	480	528	(9.1)%	480	559	(14.1)%
Naphtha (av. FOB Rotterdam/CIF NWE)	495	542	(8.6)%	495	572	(13.3)%
Naphtha (CFR Japan)	519	573	(9.3)%	519	581	(10.7)%
Fuel oil (av. FOB/CIF Med)	378	400	(5.5)%	378	356	6.2%
Fuel oil (av. FOB Rotterdam/CIF NWE)	375	395	(5.1)%	375	351	6.9%
High sulphur fuel oil 180 cst (FOB Singapore)	407	437	(6.9)%	407	375	8.6%
Gasoil (av. FOB/CIF Med)	578	624	(7.4)%	578	585	(1.2)%
Gasoil (av. FOB Rotterdam/CIF NWE)	581	625	(7.0)%	581	584	(0.5)%
Gasoil (FOB Singapore)	559	602	(7.1)%	559	578	(3.2)%
	(th. RUB per barrel)		%	(th. RUB per barrel)		%
Brent	4.18	4.51	(7.3)%	4.18	3.80	9.9%
Urals (average Med and NWE)	4.18	4.48	(6.6)%	4.18	3.71	12.7%
Urals (FOB Primorsk)	4.08	4.36	(6.4)%	4.08	3.65	11.6%
Urals (FOB Novorossiysk)	4.05	4.33	(6.5)%	4.05	3.65	11.0%
Dubai	4.20	4.48	(6.4)%	4.20	3.64	15.5%
	(th. RUB per tonne)		%	(th. RUB per tonne)		%
Naphtha (av. FOB/CIF Med)	31.7	35.1	(9.6)%	31.7	31.8	(0.2)%
Naphtha (av. FOB Rotterdam/CIF NWE)	32.8	36.0	(9.1)%	32.8	32.5	0.7%
Naphtha (CFR Japan)	34.3	38.1	(9.8)%	34.3	33.1	3.8%
Fuel oil (av. FOB/CIF Med)	25.0	26.6	(6.0)%	25.0	20.2	23.5%
Fuel oil (av. FOB Rotterdam/CIF NWE)	24.8	26.3	(5.6)%	24.8	19.9	24.3%
High sulphur fuel oil 180 cst (FOB Singapore)	26.9	29.0	(7.4)%	26.9	21.3	26.2%
Gasoil (av. FOB/CIF Med)	38.2	41.5	(7.9)%	38.2	33.3	14.9%
Gasoil (av. FOB Rotterdam/CIF NWE)	38.4	41.5	(7.5)%	38.4	33.2	15.6%
Gasoil (FOB Singapore)	37.0	40.0	(7.6)%	37.0	32.9	12.6%
Russian market (net of VAT, including excise tax)	(th. RUB per tonne)		%	(th. RUB per tonne)		%
Crude oil	20.9	18.2	14.7%	20.9	17.3	20.7%
Fuel oil	14.3	15.8	(9.3)%	14.3	10.7	34.2%
Summer diesel	38.5	41.4	(6.9)%	38.5	35.3	9.3%
Winter diesel	41.8	48.7	(14.2)%	41.8	37.8	10.6%
Jet fuel	37.2	42.5	(12.5)%	37.2	35.2	5.8%
High octane gasoline	34.4	41.2	(16.4)%	34.4	34.6	(0.6)%

Sources: average prices and changes are calculated based on the 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 of 0.5% in the first quarter of 2019 compared with the fourth quarter of 2018 and by nominal RUB depreciation of 14.0% compared with the first quarter of 2018. In March 2019, the Government and representatives of the oil sector came to an agreement on the extension of the "freezing of fuel prices" in the domestic market at the level of 2018, which is valid until July 1, 2019.

The Russian Government regulates the price of the gas sold in Russia by Gazprom and its affiliates, which is considered as the benchmark for the domestic gas market. The indexation of gas price intended for subsequent implementation to all consumer groups was not carried out in 2019; the indexation in 2018 amounted to 3.4% (since July – in regard to consumer price, since August 21 – in regard to producer price).

USD/RUB and EUR/RUB Exchange Rates and Inflation

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

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

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
Consumer price index (CPI) for the period ¹	1.8%	1.7%	1.8%	0.8%
Average RUB/USD exchange rate for the period ²	66.13	66.48	66.13	56.88
RUB/USD exchange rate at the end of the period	64.73	69.47	64.73	57.26
Average RUB/EUR exchange rate for the period	75.17	75.92	75.17	69.87
RUB/EUR exchange rate at the end of the period	72.72	79.46	72.72	70.56

Source: the Central Bank of the Russian Federation.

¹Producer price index amounted to 10.0% q-o-q in the first quarter of 2019.

²See Average monthly RUB/USD exchange rates in the Attachment 2.

MET, Excess Profit Tax, Export Duties and Excise Taxes

The table below provides information on actual tax rates of mineral extraction tax and export customs duty of crude oil and petroleum products¹:

	For 3 months ended		% change*	For 3 months ended March 31,		% change*
	March 31, 2019	December 31, 2018		2019	2018	
Mineral extraction tax						
Crude oil (RUB per tonne)	12,953	12,549	3.2%	12,953	10,405	24.5%
Export customs duty for crude oil						
Crude oil (USD per tonne)	87.2	141.4	(38.4)%	87.2	116.9	(25.4)%
Crude oil (RUB per tonne)	5,765	9,400	(38.7)%	5,765	6,649	(13.3)%
Crude oil (RUB per barrel)	779	1,270	(38.7)%	779	898	(13.3)%
Export customs duty for petroleum products						
Gasoline (RUB per tonne)	1,728	2,818	(38.7)%	1,728	1,993	(13.3)%
Naphtha (RUB per tonne)	3,166	5,169	(38.7)%	3,166	3,654	(13.4)%
Light and middle distillates (RUB per tonne)	1,728	2,818	(38.7)%	1,728	1,993	(13.3)%
Liquid fuels (fuel oil) (RUB per tonne)	5,765	9,400	(38.7)%	5,765	6,649	(13.3)%

*Calculated based on unrounded data.

Tax on additional income from production of hydrocarbons ("*excess profit tax*")¹ is put into effect starting from January 2019. The amount of excess profit tax is determined as the difference between estimated revenues and production costs by applying rate of 50%.

¹See detailed description of taxation in the Attachment 1

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

Excise duties (RUB per tonne)	Since January 1 through May 31, 2018	Since June 1 through December 31, 2018	Since January 1 through December 31, 2019
High octane gasoline			
High octane gasoline non-compliant with euro-5	13,100	13,100	13,100
High octane gasoline euro-5	11,213	8,213	12,314
Naphtha	13,100	13,100	13,912
Diesel	7,665	5,665	8,541
Jet fuel	2,800	2,800	2,800
Lubricants	5,400	5,400	5,400
Benzol, paraxylene, ortoxylyene	2,800	2,800	2,929
Middle distillates	8,662	6,665	9,241

The Company's tax burden on revenues was 51% for the first quarter of 2019. Mineral extraction tax and export duties are in excess of 80% of the tax burden.

The share of fiscal withdrawals in the Company's financial result (operating income before fiscal payments) amounted to 76% for the first quarter of 2019.

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 PJSC "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 JSC Russian Railways ("RZD"), another natural state-owned monopoly.

Recent changes of Transneft transportation tariffs

Crude oil

Starting from January 1, 2019 Transneft tariffs for oil pipeline transportation increased by 3.87%.

Starting from February 1, 2019 transit tariffs through the territory of the Republic of Belarus increased by 7.6%.

Recent changes in railroad transportation tariffs

Starting from January 1, 2019 railroad transportation tariffs increased by 3.5%.

Consolidated statement of profit or loss for the three months ended March 31, 2019 and December 31, 2018 and for the three months ended March 31, 2018

in RUB billions

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2019	December 31, 2018		2019	2018	
Revenues and equity share in profits of associates and joint ventures						
Oil, gas, petroleum products and petrochemicals sales	2,031	2,117	(4.1)%	2,031	1,689	20.2%
Support services and other revenues	21	22	(4.5)%	21	21	–
Equity share in profits of associates and joint ventures	25	26	(3.8)%	25	12	>100.0%
Total revenues and equity share in profits of associates and joint ventures	2,077	2,165	(4.1)%	2,077	1,722	20.6%
Costs and expenses						
Production and operating expenses	165	184	(10.3)%	165	158	4.4%
Cost of purchased oil, gas, petroleum products and refining costs	313	283	10.6%	313	232	34.9%
General and administrative expenses	65	54	20.4%	65	35	85.7%
Pipeline tariffs and transportation costs	170	165	3.0%	170	160	6.3%
Exploration expenses	1	4	(75.0)%	1	2	(50.0)%
Depreciation, depletion and amortization	174	163	6.7%	174	152	14.5%
Taxes other than income tax	667	706	(5.5)%	667	568	17.4%
Export customs duty	181	317	(42.9)%	181	215	(15.8)%
Total costs and expenses	1,736	1,876	(7.5)%	1,736	1,522	14.1%
Operating income	341	289	18.0%	341	200	70.5%
Finance income	40	33	21.2%	40	30	33.3%
Finance expenses	(64)	(73)	(12.3)%	(64)	(60)	6.7%
Other income	3	1	>100.0%	3	6	(50.0)%
Other expenses	(106)	(57)	86.0%	(106)	(16)	>100.0%
Foreign exchange differences	15	7	>100.0%	15	1	>100.0%
Cash flow hedges reclassified to profit or loss	(36)	(37)	(2.7)%	(36)	(36)	–
Income before income tax	193	163	18.4%	193	125	54.4%
Income tax expense	(37)	(31)	19.4%	(37)	(30)	23.3%
Net income	156	132	18.2%	156	95	64.2%
Net income attributable to						
- Rosneft shareholders	131	109	20.2%	131	81	61.7%
- non-controlling interests	25	23	8.7%	25	14	78.6%

Business Segments and Intersegment Sales

Most of all Rosneft's operations and assets are located in the Russian Federation. As geographical regions of the Russian Federation have similar economic and legal characteristics, Rosneft does not present geographical segments separately. Rosneft also carries out projects outside Russia, including exploration and production projects in Norway, Brazil, Vietnam, Venezuela, Iraqi Kurdistan, Egypt and also stakes in refineries in Germany, Belarus and India.

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 onshore and offshore in Russia and abroad, and internal oilfield service entities;
- *Refining and distribution (Downstream)*. Refining of crude oil, as well as the purchase, transportation, sale of crude oil and petroleum products and petrochemicals 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

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 sale price of Upstream (and the purchase price of Downstream) was recalculated using the export market price minus transportation cost, minus export duty, dispatches and other expenses relating to current sales. The price is established at oil gathering facility (point of sales) or connection point to Gasprom transportation system where Upstream dispatches the oil and gas to Downstream. All intercompany operations, including transactions from internal oilfield service entities and corporate service entities, are eliminated at the consolidated level.

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Upstream Operating Results

The segment includes Rosneft Group entities 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 entities. The segment includes revenues generated by the transfer of oil, gas and NGL to the Downstream segment for subsequent processing and sales to third parties and all operating costs associated with production and exploration, and also revenues and costs of oil service entities that provide services to the Group entities. The results are set in the table below:

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2019	December 31, 2018		2019	2018	
Operational results						
Hydrocarbon production (th. boe per day)	5,902	5,938	(0.6)%	5,902	5,708	3.4%
Liquids production (th. barrels per day)	4,744	4,792	(1.0)%	4,744	4,566	3.9%
Gas production (th. boe per day)	1,158	1,146	1.0%	1,158	1,142	1.4%
Hydrocarbon production (mln boe) ¹	493.8	507.1	(2.6)%	493.8	476.8	3.6%
Hydrocarbon production (mln toe)	71.7	73.7	(2.7)%	71.7	69.3	3.5%
Financial results, RUB billions						
EBITDA	531	463	14.7%	531	383	38.6%
Capital expenditures ²	191	219	(12.8)%	191	204	(6.4)%
Upstream operating expenses	96.3	104.2	(7.6)%	96.3	88.3	9.1%
Indicators per boe						
EBITDA, RUB/boe ¹	1,029	868	18.5%	1,029	778	32.3%
Capital expenditures, RUB/boe	387	432	(10.4)%	387	428	(9.6)%
Upstream operating expenses, RUB/boe	195	205	(4.9)%	195	185	5.4%
Upstream operating expenses, USD/boe ³	3.0	3.1	(3.2)%	3.0	3.3	(9.1)%

¹Excluding effect of associates and joint ventures.

²Ref. to "Capital expenditures".

³Calculated using average monthly exchange rates of Bank of Russia for the reporting periods (Attachment 2).

Upstream EBITDA

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2019	December 31, 2018		2019	2018	
Revenues and equity share in profits of associates and joint ventures	1,223	1,178	3.8%	1,223	943	29.7%
<i>Including equity share in profits of associates and joint ventures</i>	23	23	–	23	12	91.7%
Expenses net of depreciation including	725	751	(3.5)%	725	593	22.3%
Upstream operating expenses ¹	96	104	(7.6)%	96	88	9.1%
General and administrative expenses	16	18	(11.1)%	16	14	14.3%
Hydrocarbon procurement costs	5	8	(37.5)%	5	5	–
Pipeline tariffs and transportation costs and other costs ²	10	9	11.1%	10	8	25.0%
Exploration expenses	2	6	(66.7)%	2	3	(33.3)%
Taxes other than income tax	596	606	(1.7)%	596	475	25.5%
<i>Effect of prepayments offsetting</i>	33	36	(8.3)%	33	33	–
EBITDA	531	463	14.7%	531	383	38.6%

¹Percentage is calculated based on the unrounded data.

²Other costs include revision of ecological reserves of RUB 0.5 billion in the first quarter of 2019 and RUB 1.8 billion in the fourth quarter of 2018, and RUB 0.8 billion in the first quarter of 2018.

Operating indicators

Production of liquid hydrocarbons

Rosneft has main fully consolidated production and development enterprises, which produce liquid hydrocarbons in Western Siberia, Eastern Siberia, Timan-Pechora, Ural-Volga, Southern part of European Russia and the Russian Far East. The Company also has a 20% stake in the Sakhalin-1 project and a 50% stake in JSC "Tomskneft" VNK, both accounted for using proportionate consolidation method. In addition, Rosneft participates in major production joint ventures accounted for using the equity method: Slavneft – 49.94%, Udmurtneft – 49.57% and Messoyakhaneftegaz – 50.0%. The Company also participates in international projects in Vietnam, Venezuela and Egypt.

The following table sets forth Rosneft's liquid hydrocarbons production:

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2019	December 31, 2018		2019	2018	
	(million of barrels)			(million of barrels)		
RN-Yuganskneftegaz (Western Siberia)	128.6	133.1	(3.4)%	128.6	127.0	1.3%
Samotlorneftegaz (Western Siberia)	35.5	36.3	(2.2)%	35.5	35.5	–
Projects of the Vankor group (Eastern Siberia)	34.8	38.6	(9.8)%	34.8	39.3	(11.5)%
Bashneft-Dobycha (Ural-Volga)	30.0	30.8	(2.6)%	30.0	30.1	(0.3)%
Orenburgneft (Ural-Volga)	27.2	28.4	(4.2)%	27.2	26.6	2.3%
Samaraneftegaz (Ural-Volga)	23.2	23.9	(2.9)%	23.2	21.2	9.4%
RN-Uvatneftegaz (Western Siberia)	19.2	20.3	(5.4)%	19.2	19.6	(2.0)%
Verkhnechonskneftegaz (Eastern Siberia)	14.7	15.7	(6.4)%	14.7	15.4	(4.5)%
RN-Nyaganneftegaz (Western Siberia)	12.4	12.5	(0.8)%	12.4	8.8	40.9%
Varyeganneftegaz (Western Siberia)	11.5	11.7	(1.7)%	11.5	10.0	15.0%
Tomskneft (Western Siberia)	7.8	8.1	(3.7)%	7.8	8.0	(2.5)%
Vostsibneftegaz (Eastern Siberia)	7.3	4.9	49.0%	7.3	4.3	69.8%
RN-Purneftegaz (Western Siberia)	6.6	8.2	(19.5)%	6.6	8.0	(17.5)%
Taas-Yuryakh (Far East)	6.6	6.6	–	6.6	3.9	69.2%
RN-Severnaya Neft (Timan-Pechora)	5.2	5.7	(8.8)%	5.2	5.3	(1.9)%
Offshore projects (Far East) ¹	5.1	5.2	(1.9)%	5.1	5.0	2.0%
Kondaneft (Western Siberia)	4.7	4.4	6.8%	4.7	1.5	>100%
Rospan International (Western Siberia)	2.9	3.1	(6.5)%	2.9	2.9	–
Sorovskneft (Western Siberia)	2.6	2.5	4.0%	2.6	2.8	(7.1)%
Kharampurneftegaz (Western Siberia)	2.3	1.1	>100%	2.3	–	–
Bashneft-Polyus (Timan-Pechora) ²	2.0	2.0	–	2.0	2.0	–
Other	7.4	6.9	7.2%	7.4	5.9	25.4%
Liquids production by fully and proportionately consolidated enterprises	397.6	410.0	(3.0)%	397.6	383.1	3.8%
Slavneft (Western and Eastern Siberia)	12.9	13.2	(2.3)%	12.9	12.1	6.6%
Udmurtneft (Ural-Volga)	5.5	5.6	(1.8)%	5.5	5.5	–
Messoyakhaneftegaz (Western Siberia)	4.6	4.5	2.2%	4.6	3.7	24.3%
Other	6.4	7.6	(15.8)%	6.4	6.5	(1.5)%
Total share in production of associates and JV	29.4	30.9	(4.9)%	29.4	27.8	5.8%
Total liquids production	427.0	440.9	(3.2)%	427.0	410.9	3.9%
Daily liquids production (th. barrels per day)	4,744	4,792	(1.0)%	4,744	4,566	3.9%

¹Net of royalty and government share.

²Refers to 100% consolidated share in production.

In the first quarter of 2019, the average daily liquid hydrocarbons production amounted to 4.74 million barrels per day, having decreased by 1.0% compared to the fourth quarter of 2018 due to compliance with the OPEC+ Agreement obligations.

Compared to the first quarter of 2018, liquid hydrocarbons production increased by 3.9% driven by active development of greenfields, high operating performance at RN-Yuganskneftegaz, production ramp-up at other brownfield assets (Samaraneftegaz, RN-Nyaganneftegaz, Varyeganneftegaz).

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Production of Gas

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

	For 3 months ended			For 3 months ended March 31,		% change
	March 31, 2019	December 31, 2018	% change	2019	2018	
	bcm			bcm		
Sibneftegas (Western Siberia)	2.86	2.89	(1.0)%	2.86	3.04	(5.9)%
Projects of the Vankor group (Eastern Siberia) ²	1.68	1.72	(2.3)%	1.68	1.78	(5.6)%
Rospan International (Western Siberia)	1.66	1.69	(1.8)%	1.66	1.67	(0.6)%
Samotlorneftegaz (Western Siberia)	1.55	1.54	0.6%	1.55	1.52	2.0%
RN-Yuganskneftegaz (Western Siberia)	1.21	1.26	(4.0)%	1.21	1.20	0.8%
RN-Purneftegaz (Western Siberia)	1.09	1.28	(14.8)%	1.09	1.37	(20.4)%
Varyeganneftegaz (Western Siberia)	1.00	1.05	(4.8)%	1.00	1.04	(3.8)%
Zohr project (Egypt) ³	0.97	0.87	11.5%	0.97	0.16	>100%
Offshore projects (Far East) ^{2,3}	0.71	0.71	–	0.71	1.09	(34.9)%
RN-Nyaganneftegaz (Western Siberia)	0.51	0.52	(1.9)%	0.51	0.37	37.8%
RN-Krasnodarneftegaz (Southern Russia)	0.49	0.50	(2.0)%	0.49	0.54	(9.3)%
Verkhnechonskneftegaz (Eastern Siberia)	0.31	0.28	10.7%	0.31	0.06	>100%
Orenburgneft (Ural-Volga)	0.30	0.34	(11.8)%	0.30	0.36	(16.7)%
Tomskneft (Western Siberia)	0.25	0.25	–	0.25	0.25	–
Kharampurneftegaz (Western Siberia)	0.22	0.10	>100%	0.22	–	–
Rosneft Vietnam B.V. (Vietnam)	0.21	0.16	31.3%	0.21	0.23	(8.7)%
Samaraneftegaz (Ural-Volga)	0.13	0.14	(7.1)%	0.13	0.13	–
Bashneft-Dobycha (Ural-Volga) ²	0.13	0.13	–	0.13	0.13	–
RN-Sakhalinmorneftegaz (Far East)	0.10	0.10	–	0.10	0.10	–
RN-Uvatneftegaz (Western Siberia)	0.08	0.08	–	0.08	0.07	14.3%
RN-Severnaya Neft (Timan-Pechora)	0.04	0.05	(20.0)%	0.04	0.05	(20.0)%
Other	0.29	0.28	3.6%	0.29	0.22	31.8%
Total gas production by fully and proportionately consolidated enterprises	15.79	15.94	(0.9)%	15.79	15.38	2.7%
Purgaz (Western Siberia)	1.12	1.19	(5.9)%	1.12	1.32	(15.2)%
Slavneft (Western and Eastern Siberia)	0.12	0.12	–	0.12	0.11	9.1%
Other	0.09	0.06	50.0%	0.09	0.06	50.0%
Total share in production of associates and JV	1.33	1.37	(2.9)%	1.33	1.49	(10.7)%
Total gas production	17.12	17.31	(1.1)%	17.12	16.87	1.5%
Natural gas	8.36	8.32	0.5%	8.36	7.97	4.9%
Associated gas	8.76	8.99	(2.6)%	8.76	8.90	(1.6)%
Daily gas production (mcm per day)	190.2	188.2	1.1%	190.2	187.4	1.5%

¹ Production volume equals extracted volume minus flared volume and gas used for NGL production. Gross gas production amounted to 19.1 bcm in the first quarter of 2019 and 19.1 bcm in the fourth quarter of 2018; and 18.5 bcm in the first quarter of 2018.

² Including gas injection to maintain reservoir pressure.

³ Net of royalty and government share.

Gas production in the first quarter of 2019 amounted to 17.12 bcm, having increased by 1.5% compared with the same period of 2018. Production growth was mainly driven by increased capacity of Zohr project and commissioning of new wells with high gas factor at the Yem-Egovskoye field at RN-Nyaganneftegaz in 2018.

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 23 billion in the first quarter of 2019 and RUB 23 billion in the fourth quarter of 2018. Income growth in the first quarter of 2019 compared with the same period of 2018 is mainly due to increased income of Udmurtneft, Slavneft and Messoyakhneftegaz.

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.

Management's discussion and analysis of financial condition and results of operations of Rosneft for the first quarter of 2019

In the first quarter of 2019 compared with the fourth quarter of 2018 a decrease in the upstream production and operating expenses of 7.6% (a decrease of 4.9% per boe) to RUB 96.3 billion was mainly due to seasonal decrease in maintenance costs of oil-field equipment and reduction of production materials costs.

Upstream production and operating expenses increased in the first quarter of 2019 by 9.1% to RUB 96.3 billion (an increase of 5.4% per boe) compared with the same period of 2018 which is mainly due higher electricity tariffs, and higher costs for material and transport.

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.

Exploration expenses in the first quarter of 2019 and in the fourth quarter of 2018 were RUB 1 billion and RUB 4 billion, respectively.

Mineral extraction tax (MET) and Excess profit tax

MET

Decrease in MET expenses in the first quarter of 2019 if compared to the fourth quarter of 2018 was mainly due to decline in oil price q-o-q and introduction of excess profit tax.

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

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2019	December 31, 2018		2019	2018	
	(thousand RUB, except %)					
Average enacted mineral extraction tax rate (per tonne)	12.95	12.55	3.2%	12.95	10.41	24.5%
Actual mineral extraction tax expense per tonne of oil produced	10.43	10.37	0.6%	10.43	8.57	21.7%
Actual mineral extraction tax expense per tonne of oil equivalent produced ¹	8.48	8.45	0.4%	8.48	6.95	22.0%
	(RUB, except %)					
Actual gas extraction tax rate per thousand cubic meters	561	547	2.6%	561	549	2.2%
Actual extraction tax rate on gas condensate ² per tonne	5,632	4,231	33.1%	5,632	3,961	42.2%

¹Including consolidated oil and gas volumes.

²The main volumes of condensate assessed at the MET rate for gas condensate are extracted on fields of Rospan, for which the rates are set in the table.

The actual MET rate is lower than the average enacted tax rate for the periods analyzed because of tax incentives and application of excess profit tax starting from the first quarter of 2019, according to which a lower MET rate is applied compared to generally enacted rates. Tax incentives are established in accordance with the tax law in the form of reduced rates and tax deductions (See Attachment 1).

Excess profit tax

Excess profit tax was enacted since January 1, 2019 and is applied on a number of the Company's fields. The amount of excess profit tax is determined as the difference between estimated revenue and production costs by applying a rate of 50%. In the first quarter of 2019 excess profit tax expense was RUB 16 billion.

¹ Net of intercompany turnover of RUB 1 billion and RUB 2 billion in the first quarter of 2019 and fourth quarter of 2018, respectively. In the first quarter of 2018 net of intercompany turnover was RUB 1 billion.

Management's discussion and analysis of financial condition and results of operations of Rosneft for the first quarter of 2019

Downstream Operating Results

The segment includes Group entities 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 are set in the table below:

	For 3 months ended			For 3 months ended March 31,		
	March 31, 2019	December 31, 2018	% change	2019	2018	% change
Operational results, mln tonne						
Crude oil processing at refineries	26.87	29.53	(9.0)%	26.87	27.57	(2.5)%
<i>Processing at Company's own refineries in Russia</i>	22.55	24.78	(9.0)%	22.55	22.83	(1.2)%
<i>Processing at Company's own refineries outside Russia</i>	2.34	2.62	(10.7)%	2.34	2.87	(18.5)%
<i>Processing at Associates' refineries¹</i>	1.98	2.13	(7.0)%	1.98	1.87	5.9%
Financial results, RUB billion						
EBITDA	49	46	6.5%	49	15	>100%
Capital expenditures of refineries ²	13	21	(38.1)%	13	10	30.0%
Operating expenses of processing in Russia	30.6	39.4	(22.3)%	30.6	28.4	7.7%
Operating expenses of processing outside Russia	6.6	7.2	(8.3)%	6.6	5.8	13.8%
Indicators per tonne of the output, RUB per tonne³						
EBITDA ⁴	1,953	1,569	24.5%	1,953	568	>100%
Capital expenditure of refineries	522	766	(31.9)%	522	389	34.2%
Operating expenses for processing in Russia	1,357	1,590	(14.7)%	1,357	1,244	9.1%
Operating expenses for processing outside Russia	2,821	2,748	2.7%	2,821	2,021	39.6%

¹Excluding processing at Nayara

²Refer to "Capital expenditures".

³Calculated from unrounded data.

⁴Excluding effect of associates and joint ventures.

Downstream EBITDA

	For 3 months ended			For 3 months ended March 31,		
	March 31, 2019	December 31, 2018	% change	2019	2018	% change
	RUB billion			RUB billion		
Revenues and equity share in profits of associates and joint ventures	2,064	2,155	(4.2)%	2,064	1,735	19.0%
<i>Including equity share in profits of associates and joint ventures</i>	<i>0.4</i>	<i>3</i>	<i>(86.7)%</i>	<i>0.4</i>	<i>0.4</i>	<i>—</i>
Expenses net of depreciation including	2,015	2,109	(4.5)%	2,015	1,720	17.2%
Operating expenses at refineries, cost of additives	42	51	(17.6)%	42	41	2.4%
Operating expenses of retail entities	13	15	(13.3)%	13	12	8.3%
Cost of purchased oil, gas, petroleum products and refining costs including intersegment turnover	1,538	1,440	6.8%	1,538	1,186	29.7%
Administrative expenses, including loss allowance for expected credit losses	10	16	(37.5)%	10	10	—
Pipeline tariffs and transportation costs	169	165	2.4%	169	159	6.3%
Taxes other than income tax	81	86	(5.8)%	81	94	(13.8)%
Export customs duty	181	317	(42.9)%	181	215	(15.8)%
EBITDA	30	65	(53.8)%	30	18	66.7%
<i>Effect of intragroup inventory</i>	<i>(19)</i>	<i>19</i>	<i>—</i>	<i>(19)</i>	<i>3</i>	<i>—</i>
Adjusted EBITDA	49	46	6.5%	49	15	>100%

Operating indicators

Petroleum Product Output

Rosneft processes produced and procured crude oil at its refineries: the Tuapse refinery on the Black Sea coast in the South of Russia, the Komsomolsk refinery in the Russian Far East, the Achinsk and Angarsk refineries in Eastern Siberia, the Kuibyshevsk, Novokuibyshevsk and Syzran refineries in the Samara region, the Saratov and Ryazan refineries in the European part of Russia, Bashneft refineries and others. Rosneft also processes crude oil in Belarus and in Germany.

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

	For 3 months ended		%	For 3 months ended March 31,		%
	March 31, 2019	December 31, 2018		change	2019	
	mln of tonnes			mln of tonnes		
Crude oil processing at refineries in Russia ¹	24.50	26.79	(8.5)%	24.50	24.70	(0.8)%
Crude oil processing at refineries outside Russia	2.37	2.74	(13.5)%	2.37	2.87	(17.4)%
including crude oil processing in Germany ²	2.34	2.62	(10.7)%	2.34	2.87	(18.5)%
including crude oil processing in Belarus	0.03	0.12	(75.0)%	0.03	0.00	100.0%
Total Group crude oil processing	26.87	29.53	(9.0)%	26.87	27.57	(2.5)%
Petroleum product output:						
High octane gasoline	3.82	3.81	0.3%	3.82	3.66	4.4%
Low octane gasoline	0.01	0.02	(50.0)%	0.01	0.02	(50.0)%
Naphtha	1.29	1.68	(23.2)%	1.29	1.57	(17.8)%
Diesel	8.12	8.86	(8.4)%	8.12	8.18	0.7%
Fuel oil	5.83	6.30	(7.5)%	5.83	5.65	3.2%
Jet fuel	0.79	0.80	(1.3)%	0.79	0.81	(2.5)%
Petrochemicals	0.43	0.42	2.4%	0.43	0.43	–
Other	3.38	3.91	(13.6)%	3.38	3.57	(5.3)%
Product output at Rosneft's refineries in Russia	23.67	25.80	(8.3)%	23.67	23.89	(0.9)%
Product output at refineries outside Russia	2.50	2.84	(12.0)%	2.50	2.88	(13.2)%
including crude oil output in Germany	2.47	2.75	(10.2)%	2.47	2.88	(14.2)%
including product output in Belarus	0.03	0.09	(66.7)%	0.03	0.00	100.0%
Total Group product output	26.17	28.64	(8.6)%	26.17	26.77	(2.2)%

¹Including processing at YANOS refinery.

²Excluding additives received and other raw materials for processing.

Rosneft's total refinery throughput in Russia in the first quarter of 2019 amounted to 24.50 mln tonnes. If compared to the fourth quarter of 2018. The reduction is caused by maintenance works carried out at the Tuapse refinery in February-March 2019 and production optimization in the context of the current petroleum products demand.

In the first quarter of 2019, processing at the refineries in Germany decreased by 10.7% in comparison with the fourth quarter of 2018 and was mainly caused by scheduled turnarounds at PCK Raffinerie GmbH.

Reduction of processing of 18.5% in comparison with the first quarter of 2018 was mainly due to scheduled turnarounds at PCK Raffinerie GmbH in the first quarter of 2019, and also due to an off-scheduled partial shutdown of Bayernoil Raffineriegesellschaft mbH from September 1, 2018.

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Financial indicators

Revenues and equity share in profits of associates and joint ventures¹

Decrease in revenues in RUB terms for the first quarter of 2019 compared with the fourth quarter of 2018 is mainly due to worldwide crude oil price drop (6.6% in RUB terms compared with the fourth quarter of 2018), which was accompanied by increase in oil sales volumes.

The table below presents revenues from sales of crude oil, gas, petroleum and petrochemical products and other revenues in billions of RUB²:

	For 3 months ended					For 3 months ended March 31,				
	March 31, 2019		December 31, 2018		% change	2019		2018		% change
	% of revenue		% of revenue			% of revenue		% of revenue		
RUB billion, except %										
Crude oil										
International Sales to non-CIS	903	43.5%	930	42.9%	(2.9)%	903	43.5%	683	39.6%	32.2%
Europe and other directions	459	22.1%	440	20.3%	4.3%	459	22.1%	342	19.8%	34.2%
Asia	444	21.4%	490	22.6%	(9.4)%	444	21.4%	341	19.8%	30.2%
International sales to CIS	54	2.6%	49	2.3%	10.2%	54	2.6%	44	2.6%	22.7%
Domestic sales	32	1.5%	28	1.3%	14.3%	32	1.5%	29	1.7%	10.3%
Total crude oil	989	47.6%	1,007	46.5%	(1.8)%	989	47.6%	756	43.9%	30.8%
Gas	69	3.3%	70	3.2%	(1.4)%	69	3.3%	59	3.4%	16.9%
Petroleum products										
International Sales to non-CIS	529	25.4%	540	25.0%	(2.0)%	529	25.4%	499	28.9%	6.0%
Europe and other directions	412	19.8%	391	18.1%	5.4%	412	19.8%	390	22.6%	5.6%
Asia	117	5.6%	149	6.9%	(21.5)%	117	5.6%	109	6.3%	7.3%
International Sales to CIS	33	1.6%	42	1.9%	(21.4)%	33	1.6%	27	1.6%	22.2%
Domestic sales	369	17.8%	411	19.0%	(10.2)%	369	17.8%	311	18.1%	18.6%
Sales of bunker fuel to end-users	18	0.9%	24	1.1%	(25.0)%	18	0.9%	12	0.7%	50.0%
Total petroleum products	949	45.7%	1,017	47.0%	(6.7)%	949	45.7%	849	49.3%	11.8%
Petrochemical products	24	1.2%	23	1.1%	4.3%	24	1.2%	25	1.5%	(4.0)%
International sales	10	0.5%	10	0.5%	0.0%	10	0.5%	10	0.6%	0.0%
Domestic sales	14	0.7%	13	0.6%	7.7%	14	0.7%	15	0.9%	(6.7)%
Sales of petroleum products petrochemicals	973	46.9%	1,040	48.1%	(6.4)%	973	46.9%	874	50.8%	11.3%
Support services and other revenues	21	1.0%	22	1.0%	(4.5)%	21	1.0%	21	1.2%	0.0%
Equity share in profits of associates and joint ventures	25	1.2%	26	1.2%	(3.8)%	25	1.2%	12	0.7%	>100%
Total revenues and equity share in profits of associates and joint ventures	2,077	100.0%	2,165	100.0%	(4.1)%	2,077	100.0%	1,722	100.0%	20.6%

¹Under IFRS consolidated financial statements.

²The difference between percentages presented in the above table and other sections is caused by rounding.

Management's discussion and analysis of financial condition and results of operations of Rosneft for the first quarter of 2019

Sales Volumes

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

	For 3 months ended					For 3 months ended March 31,				
	March 31, 2019		December 31, 2018		% change	2019		2018		% 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	236.2	50.0%	228.7	49.4%	3.3%	236.2	50.0%	200.7	45.8%	17.7%
Europe and other directions	118.5	25.1%	109.5	23.7%	8.2%	118.5	25.1%	100.7	23.0%	17.7%
Asia	117.7	24.9%	119.2	25.7%	(1.3)%	117.7	24.9%	100.0	22.8%	17.7%
International Sales to CIS	16.3	3.4%	16.3	3.5%	0.0%	16.3	3.4%	16.3	3.7%	0.0%
Domestic	10.4	2.2%	8.9	1.9%	5.7%	10.4	2.2%	11.1	2.5%	(6.3)%
Total crude oil	262.9	55.6%	253.9	54.8%	3.5%	262.9	55.6%	228.1	52.0%	15.3%
	mln tonnes		mln tonnes			mln tonnes		mln tonnes		
International Sales to non-CIS	31.9	50.0%	30.9	49.4%	3.3%	31.9	50.0%	27.1	45.8%	17.7%
Europe and other directions	16.0	25.1%	14.8	23.7%	8.2%	16.0	25.1%	13.6	23.0%	17.7%
Asia	15.9	24.9%	16.1	25.7%	(1.3)%	15.9	24.9%	13.5	22.8%	17.7%
International Sales to CIS	2.2	3.4%	2.2	3.5%	0.0%	2.2	3.4%	2.2	3.7%	0.0%
Domestic sales	1.4	2.2%	1.2	1.9%	5.7%	1.4	2.2%	1.5	2.5%	(6.3)%
Total crude oil	35.5	55.6%	34.3	54.8%	3.5%	35.5	55.6%	30.8	52.0%	15.3%
Petroleum products										
International Sales to non-CIS	15.9	24.9%	15.4	24.5%	3.2%	15.9	24.9%	16.9	28.5%	(5.9)%
Europe and other directions	11.9	18.6%	10.9	17.3%	9.2%	11.9	18.6%	13.2	22.3%	(9.8)%
Asia	4.0	6.3%	4.5	7.2%	(11.1)%	4.0	6.3%	3.7	6.2%	8.1%
International Sales to CIS	1.0	1.6%	1.1	1.8%	(9.1)%	1.0	1.6%	0.9	1.5%	11.1%
Domestic sales	10.0	15.7%	10.3	16.5%	(2.9)%	10.0	15.7%	9.4	15.9%	6.4%
Sales of bunker fuel to end-users	0.7	1.1%	0.8	1.3%	(12.5)%	0.7	1.1%	0.5	0.8%	29.9%
Total petroleum products	27.6	43.3%	27.6	44.1%	0.0%	27.6	43.3%	27.7	46.7%	(0.4)%
Petrochemical products	0.7	1.1%	0.7	1.1%	0.0%	0.7	1.1%	0.8	1.3%	(5.6)%
International sales	0.3	0.5%	0.3	0.5%	0.0%	0.3	0.5%	0.3	0.5%	(6.3)%
Domestic sales	0.4	0.6%	0.4	0.6%	0.0%	0.4	0.6%	0.5	0.8%	(5.2)%
Total crude oil and products, LNG	63.8	100.0%	62.6	100.0%	1.9%	63.8	100.0%	59.3	100.0%	7.6%
	bcm		bcm			bcm		bcm		
Gas sales volumes	16.46		16.63		(1.0)%	16.46		16.56		(0.6)%

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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 3 months ended March 31,				% change
	March 31, 2019		December 31, 2018			2019		2018		
	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	3.96	29.3	4.25	31.4	(6.7)%	3.96	29.3	3.59	26.6	10.2%
Europe and other directions ²	3.87	28.6	4.04	29.9	(4.3)%	3.87	28.6	3.49	25.8	10.9%
Asia ²	4.06	30.1	4.45	33.0	(8.8)%	4.06	30.1	3.71	27.5	9.5%
Crude oil, CIS	3.28	24.3	3.09	22.9	6.1%	3.28	24.3	2.71	20.0	21.5%
Petroleum products, non- CIS		33.7		35.5	(5.1)%		33.7		29.7	13.5%
Europe and other directions		34.9		36.4	(4.1)%		34.9		29.7	17.5%
Asia		29.9		33.4	(10.5)%		29.9		29.7	0.7%
Petroleum products, CIS		34.2		38.3	(10.7)%		34.2		30.5	12.1%
Petrochemical products		36.9		39.6	(6.8)%		36.9		34.5	7.0%
Average domestic prices										
Crude oil	3.20	23.7	2.96	21.9	8.2%	3.20	23.7	2.58	19.1	24.1%
Petroleum products		37.0		40.0	(7.5)%		37.0		33.1	11.8%
Gas (th. RUB./the cubic meter) ³		3.59		3.60	(0.3)%		3.59		3.46	3.8%
Petrochemical products		32.5		32.4	0.3%		32.5		32.0	1.6%
Sales of bunker fuel to end-users		25.2		29.4	(14.3)%		25.2		21.6	16.7%

¹Average price is calculated from unrounded figures.

²Price excludes the effect of prepayments offsetting under prepaid long-term crude oil supply contracts and revenues from crude oil sales to Transneft (RUB 38 billion and RUB 39 billion in the first quarter of 2019 and fourth quarters of 2018, respectively; RUB 30 billion in the first quarter of 2018).

³Including gas sales outside Russian Federation average gas prices were 4.21 th. RUB./th. cubic meter in the first quarter of 2019 and 4.17 th. RUB./th. cubic meter in the fourth quarter of 2018. In the first quarter of 2018 average gas prices were 3.57 th. RUB./th. cubic meter.

International Crude Oil Sales to non-CIS

Revenue decrease in international crude oil sales to non-CIS countries in the first quarter of 2019 compared to the fourth quarter of 2018 was due to the downturn of 6.7% in average price or RUB 61 billion, which was partially offset by growth of sales volumes by 3.3% (favorable impact on revenue of RUB 30 billion).

Revenue growth of international crude oil sales to non-CIS countries in the first quarter of 2019 compared with the same period of 2018 was due to the average sales price upturn by 10.2% (positive impact on revenue of RUB 92 billion) and also was accompanied by increase in sales volume by 17.7% (favorable impact on revenue of RUB 125 billion).

International Crude Oil Sales to CIS

Revenue of international crude oil sales to CIS countries in the first quarter of 2019 increased due to the upturn of 6.1% in average sales price (positive impact on revenue of RUB 5 billion).

Revenue from international crude oil sales to CIS countries increased in the first quarter of 2019 compared with the same period of 2018 that was due to growth in average sales price of 21.5% (positive impact on revenue of RUB 10 billion).

Domestic Sales of Crude Oil

Revenue upturn of domestic sales of crude oil in the first quarter of 2019 compared with the fourth quarter of 2018 was due to volume increase of 5.7% (positive impact on revenue of RUB 4 billion).

Revenue upturn of domestic sales of crude oil in the first quarter of 2019 compared with the same period of 2018 is mainly attributable to upturn of average sales price of 24.1% (positive impact on revenue of RUB 5 billion) and was partially offset by downturn in crude oil sales volumes of 6.3% (negative effect on revenue of RUB 2 billion).

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International Petroleum Product Sales to Non-CIS

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold to non-CIS countries in the first quarter of 2019 and fourth quarter of 2018*:

	For 3 months ended						% change		
	March 31, 2019			December 31, 2018					
	RUB billion	mln of tonnes	Average price th.RUB/tonne	RUB billion	mln of tonnes	Average price th.RUB/tonne	RUB billion	mln of tonnes	Average price th.RUB/tonne
High octane gasoline	6	0.2	36.3	6	0.1	47.4	0.0%	100.0%	(23.4)%
Naphtha	43	1.4	31.3	56	1.6	35.1	(23.2)%	(12.5)%	(10.8)%
Diesel (Gasoil)	147	4.1	36.6	118	3.5	39.4	24.6%	17.1%	(7.1)%
Fuel oil	152	6.2	25.0	184	6.5	26.9	(17.4)%	(4.6)%	(7.1)%
Other	6	0.2	27.0	7	0.2	33.9	(14.3)%	0.0%	–
Petroleum products exported to non-CIS	354	12.1	29.8	371	11.9	32.0	(4.6)%	1.7%	(6.9)%
Petroleum products sold from German refineries	117	2.2	52.9	132	2.4	55.1	(11.4)%	(8.3)%	(4.0)%
Petroleum products bought and sold outside Russia	58	1.6	35.9	37	1.1	31.7	56.8%	45.5%	13.2%
Trading of petroleum products outside Russia	175	3.8	45.7	169	3.5	47.4	3.6%	8.6%	(3.6)%
Total	529	15.9	33.7	540	15.4	35.5	(2.0)%	3.2%	(5.1)%

*Average price is calculated from unrounded figures.

Revenue decrease in the international sales of petroleum products to non-CIS countries in the first quarter of 2019 compared to the fourth quarter of 2018 was due to downturn in average price of 5.1% (negative impact on revenue of RUB 32 billion) and was partially offset by sales volumes increase of 3.2% (positive impact of RUB 22 billion).

The table below sets forth Rosneft's revenues, volume and average price per tonne of petroleum products sold to non-CIS countries in the first quarters of 2019 and 2018*, respectively:

	For 3 months ended March 31,						% change		
	2019			2018					
	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	6	0.2	36.3	9	0.3	35.5	(33.3)%	(33.3)%	2.3%
Naphtha	43	1.4	31.3	48	1.5	31.5	(10.4)%	(6.7)%	(0.6)%
Diesel (Gasoil)	147	4.1	36.6	139	4.3	31.9	5.8%	(4.7)%	14.7%
Fuel oil	152	6.2	25.0	126	6.1	21.4	20.6%	1.6%	16.8%
Other	6	0.2	27.0	7	0.2	33.7	(14.3)%	0.0%	–
Petroleum products exported to non-CIS	354	12.1	29.8	329	12.4	26.8	7.6%	(2.4)%	11.2%
Petroleum products sold from German refineries	117	2.2	52.9	114	2.7	42.7	2.6%	(18.5)%	23.9%
Petroleum product purchased and sold outside Russia	58	1.6	35.9	56	1.8	30.5	3.6%	(11.1)%	17.7%
Trading of petroleum products outside Russia	175	3.8	45.7	170	4.5	37.8	2.9%	(15.6)%	20.9%
Total	529	15.9	33.7	499	16.9	29.7	6.0%	(5.9)%	13.5%

*Average price is calculated based on the unrounded figures.

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Revenue increase from sales of petroleum products to non-CIS countries in the first quarter of 2019 compared with the same period of 2018 was mainly attributable to average price upturn of 13.5% (favorable impact on revenue of RUB 62 billion), and was partially offset by sales volumes decrease of 5.9% (unfavorable impact of RUB 29 billion).

Growth in sales of petroleum products purchased and sold outside Russia resulted from an upturn in trading activity of the foreign division of the Company.

International Petroleum Product Sales to CIS

Revenue decrease in the international sales of petroleum products to CIS countries in the first quarter of 2019 compared with the fourth quarter of 2018 was attributable to average price downturn of 10.7% (unfavorable impact on revenue of RUB 5 billion) and sales volumes decrease of 9.1% (unfavorable impact of RUB 4 billion).

Revenue from international sales of petroleum products to CIS countries increased in the first quarter of 2019 compared with the same period of 2018 that was mainly attributable to average price upturn of 12.1% (favourable impact on revenue of RUB 3 billion), and was accompanied by sales volumes increase by 11.1% (favorable impact of RUB 3 billion).

Domestic Sales of Petroleum Products

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold in Russian regions in the first quarter of 2019 and in the fourth quarter of 2018*:

	For 3 months ended						% change		
	March 31, 2019			December 31, 2018					
	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	151	3.7	41.1	162	3.6	45.6	(6.8)%	2.8%	(9.9)%
Diesel (Gasoil)	154	3.5	43.9	171	3.7	45.2	(9.9)%	(5.4)%	(2.9)%
Fuel oil	15	1.0	15.4	19	1.0	19.0	(21.1)%	0.0%	(18.9)%
Jet fuel	33	0.8	41.3	40	0.9	46.3	(17.5)%	(11.1)%	(10.8)%
Other	16	1.0	16.1	19	1.1	17.4	(15.8)%	(9.1)%	(7.5)%
Total	369	10.0	37.0	411	10.3	40.0	(10.2)%	(2.9)%	(7.5)%

*Average price is calculated from unrounded figures.

Revenue decrease from sales of petroleum products on the domestic market in the first quarter of 2019 compared with the fourth quarter of 2018 was due to a downturn in average price of 7.5% (unfavorable impact on revenue of RUB 30 billion) and downturn in sales volumes of 2.9% (unfavorable impact of RUB 12 billion).

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold in Russian regions in the first quarters of 2019 and 2018*:

	For 3 months ended March 31,						% change		
	2019			2018					
	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	151	3.7	41.1	135	3.4	39.4	11.9%	8.8%	4.3%
Diesel (Gasoil)	154	3.5	43.9	120	3.1	39.3	28.3%	12.9%	11.7%
Fuel oil	15	1.0	15.4	11	0.9	11.6	36.4%	11.1%	32.8%
Jet fuel	33	0.8	41.3	29	0.8	37.9	13.8%	0.0%	9.0%
Other	16	1.0	16.1	16	1.2	13.2	0.0%	(16.7)%	–
Total	369	10.0	37.0	311	9.4	33.1	18.6%	6.4%	11.8%

*Average price is calculated from unrounded figures.

Sales of bunker fuel

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

Revenues from sales of bunker fuel in the first quarter of 2019 compared with the fourth quarter of 2018 decreased mainly due to a downturn in sales volume by 12.5% (unfavorable effect on revenue of RUB 3 billion) and downturn in average price of 14.3% (unfavorable impact of RUB 3 billion).

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Revenues growth of sales of bunker fuel in the first quarter of 2019 compared with the same period of 2018 was due to growth of sales volume by 29.9% (favorable effect on revenue of RUB 5 billion) and average sales price upturn of 16.7% (favorable effect of RUB 1 billion).

Petrochemical Products Sales

Petrochemical products sales volumes from the German refineries amounted to 0.11 mln tonnes in the first quarter of 2019 and the fourth quarter of 2018.

In the first quarter of 2019 compared with the fourth quarter of 2018 and the first quarter of 2018 international revenues of petrochemical products did not change and remained at the level of RUB 10 billion.

Domestic sales of petrochemical products in the first quarter of 2019 compared with the fourth quarter of 2018 increased mainly due to average sales price upturn of 0.3% (favorable effect on revenue of RUB 1 billion). Domestic sales of petrochemical products in the first quarter of 2019 compared with the first quarter of 2018 decreased mainly due to sales volume downturn of 5.2% (unfavorable effect of RUB 1 billion).

Gas Sales

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

	For 3 months ended		% change	For 3 months ended		% change
	March 31, 2019	December 31, 2018		March 31, 2019	March 31, 2018	
	RUB billion			RUB billion		
Revenue						
In the Russian Federation	54.9	56.1	(2.1)%	54.9	55.9	(1.8)%
Outside the Russian Federation	14.4	13.4	7.5%	14.4	3.1	>100%
Total	69.3	69.5	(0.3)%	69.3	59.0	17.5%
Sales volumes	bcm			bcm		
In the Russian Federation	15.29	15.59	(1.9)%	15.29	16.17	(5.4)%
Outside the Russian Federation	1.17	1.04	12.5%	1.17	0.39	>100%
Total	16.46	16.63	(1.0)%	16.46	16.56	(0.6)%
Average price	th. RUB/th. of cubic metres			th. RUB/th. of cubic metres		
In the Russian Federation	3.59	3.60	(0.3)%	3.59	3.46	3.8%
Outside the Russian Federation	12.32	12.76	(3.4)%	12.32	8.06	52.9%
Average price of the Company	4.21	4.17	1.0%	4.21	3.57	17.9%

*Average price is calculated from unrounded figures.

Gas sales downturn in the first quarter of 2019 compared with the fourth quarter of 2018 in the Russian Federation was due to a decrease in sales volumes of 1.9% as a consequence of reduction of associated petroleum gas production and optimization of procurement volumes. Growth of gas revenues outside Russia was driven mainly by the production growth at Zohr project.

Gas sales downturn in the first quarter of 2019 compared with the same period of 2018 in the Russian Federation of 1.8% resulted from a decrease in purchased gas sales volumes (negative impact on revenues of RUB 3.0 billion) while average sales price upturn of 3.8% (positive impact on revenues of RUB 2.0 billion). Significant growth of gas revenues outside Russia was driven mainly by the production growth at Zohr project.

Support Services and Other Revenues

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

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

	For 3 months ended					For 3 months ended March 31,				
	March 31, 2019		December 31, 2018		% change	2019		2018		% change
	% of total revenue		% of total revenue			% of total revenue		% of total revenue		
	billion RUB, except %									
Drilling services	0.5	2.4%	1.0	4.6%	(50.0)%	0.5	2.4%	0.8	3.9%	(37.5)%
Sales of materials	7.0	33.5%	7.4	34.0%	(5.4)%	7.0	33.5%	7.3	35.6%	(4.1)%
Repairs and maintenance services	0.7	3.3%	0.6	2.8%	16.7%	0.7	3.3%	0.5	2.4%	40.0%
Rent services	1.3	6.2%	1.6	7.3%	(18.8)%	1.3	6.2%	1.2	5.9%	8.3%
Transport services	4.8	23.0%	4.3	19.7%	11.6%	4.8	23.0%	4.1	20.0%	17.1%
Electric power sales and transmission	3.5	16.7%	3.1	14.2%	12.9%	3.5	16.7%	3.1	15.1%	12.9%
Other revenues	3.1	14.9%	3.8	17.4%	(18.4)%	3.1	14.9%	3.5	17.1%	(11.4)%
Total	20.9	100.0%	21.8	100.0%	(4.1)%	20.9	100.0%	20.5	100.0%	2.0%

Downstream production and operating costs

Downstream operating expenses include¹:

	For 3 months ended			% change	For 3 months ended March 31,		% change			
	March 31, 2019		December 31, 2018		2019			2018		
	billion RUB, except %									
Operating expenses at refineries in Russia	30.6		39.4		(22.3)%	30.6		28.4		7.7%
Operating expenses at refineries outside Russia	6.6		7.2		(8.3)%	6.6		5.8		13.8%
Additives and materials for processing	5.2		5.0		4.0%	5.2		6.6		(21.2)%
Operating expenses of retail entities including:	12.5		14.8		(15.5)%	12.5		12.3		1.6%
<i>operating expenses</i>	9.1		10.9		(16.5)%	9.1		9.1		–
<i>purchase cost of other inventories</i>	3.4		3.9		(12.8)%	3.4		3.2		6.3%
Downstream operating expenses	54.9		66.4		(17.3)%	54.9		53.1		3.4%
<i>Intragroup inventory effect and others</i>	2.1		15.8		–	2.1		9.0		–
Total Downstream Operating expenses²	57.0		82.2		(30.7)%	57.0		62.1		(8.2)%

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

²Cost of additives and materials produced for processing was presented in the "Cost of Purchased Oil, Gas and Petroleum Products and Refining Costs".

Operating expenses of refineries and retail entities (net of intragroup inventory effect) in the first quarter of 2019 compared with the fourth quarter of 2018 decreased by 17.3% due to seasonal factor, scheduled decrease of turnarounds and production services.

Increase in the operating expenses of refineries and retail entities (net of intragroup inventory effect) in the first quarter of 2019 compared with the first quarter of 2018 by 3.4% is mainly due higher volumes of turnarounds, growth of tariffs of natural monopolies, indexation of wages and also due to RUB depreciation against EUR.

Operating expenses of Company's refineries

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

	For 3 months ended		% change	For 3 months ended		% change
	March 31, 2019	December 31, 2018		March 31, 2019	March 31, 2018	
Operating expenses at refineries in Russia (RUB billion)	30.6	39.4	(22.3)%	30.6	28.4	7.7%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,401	1,650	(15.1)%	1,401	1,284	9.1%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,357	1,590	(14.7)%	1,357	1,244	9.1%
Operating expenses at refineries outside Russia (RUB billion)¹	6.6	7.2	(8.3)%	6.6	5.8	13.8%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	2,672	2,618	2.1%	2,672	2,014	32.4%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	2,821	2,748	2.7%	2,821	2,021	39.6%
Total operating expenses at Rosneft's refineries (RUB billion)	37.2	46.6	(20.2)%	37.2	34.2	8.8%

¹Refineries outside Russia also procured the additives and materials for processing: in the first quarter of 2019 – RUB 5.2 billion, in the fourth quarter of 2018 – RUB 5.0 billion; in the first quarter of 2018 – RUB 6.6 billion.

Operating expenses of Rosneft's refineries in Russia in the first quarter of 2019 compared with the fourth quarter of 2018 decreased by 22.3% to RUB 30.6 billion (a decrease of 14.7% per tonne), mainly due to scheduled decrease in turnarounds and production services.

Operating expenses of Rosneft's refineries in Russia in the first quarter of 2019 compared with the first quarter of 2018 increased by 7.7% (an increase of 9.1% per tonne) because of higher tariffs of monopolies and indexation of wages.

Operating expenses of Rosneft's refineries outside Russia in the first quarter of 2019 decreased by 8.3% compared with the fourth quarter of 2018, due to scheduled reduction of production services. Growth of 2.7% of operating expenses per tonne of refineries outside Russia was driven by costs of an off-scheduled partial shutdown together with decrease in production capacity in the first quarter of 2019.

The increase in the operating expenses of Rosneft's refineries outside Russia (and operating costs per tonne) in the first quarter of 2019 compared with the first quarter of 2018 was mainly driven by growth of planned turnarounds and RUB depreciation against EUR of 7.0%.

Cost of Purchased Oil, Gas, 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 costs¹:

	For 3 months ended		%	For 3 months ended		%
	March 31, 2019	December 31, 2018		March 31, 2019	March 31, 2018	
Crude oil and gas procurement						
Cost of crude oil and gas procured (RUB billion) ²	247	236	4.7%	247	166	48.8%
<i>including Domestic market</i>	112	109	2.8%	112	86	30.2%
<i>International market</i>	135	127	6.3%	135	80	68.8%
Volume of crude oil procured (millions of barrels)	70.9	65.9	7.6%	70.9	51.1	38.7%
<i>including Domestic market</i>	31.7	32.2	(1.6)%	31.7	28.3	12.0%
<i>International market</i>	39.2	33.7	16.3%	39.2	22.8	71.9%
Volume of gas procured (bcm)	3.91	4.01	(2.5)%	3.91	4.60	(15.0)%
Petroleum products procurement						
Cost of petroleum products procured (RUB billion) ³	58	40	45.0%	58	60	(3.3)%
Volume of petroleum products procured (millions of tonnes)	1.73	1.33	30.1%	1.73	2.03	(14.8)%
Crude oil, gas and petroleum products refining services						
Cost of refining of crude oil, gas and petroleum products under processing agreements (RUB billion)	7.7	6.4	20.3%	7.7	6.8	13.2%
Volumes of crude oil and petroleum products produced under processing agreements (millions of tonnes)	2.2	2.2	–	2.2	1.9	15.8%
Volumes of gas produced under processing agreements (bcm)	2.6	2.4	8.3%	2.6	2.7	(3.7)%
Cost of products procured for blending on retail entities (RUB billion)	10.4	14.8	(29.7)%	10.4	5.4	92.6%
<i>Including intercompany purchases (RUB billion)</i>	10.4	14.8	(29.7)%	10.4	5.4	92.6%
Total cost of procured oil, gas and petroleum products, and refining costs (RUB billion)	313	283	10.6%	313	232	34.9%

¹Cost of purchases under IFRS consolidated financial statements (net of intercompany turnover).

²Including costs of Upstream segment in the amount of RUB 5 billion in the first quarter of 2019, RUB 8 billion in the fourth quarter of 2018 and RUB 5 billion in the first quarter of 2018, respectively.

³Average procurement price of petroleum products purchased from third parties may be higher than the average selling price of petroleum products due to differences in the mix of procured and sold petroleum products.

Management's discussion and analysis of financial condition and results of operations of Rosneft for the first quarter of 2019

Crude oil procurement

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

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

	For 3 months ended		% change	For 3 months ended		% change
	March 31, 2019	December 31, 2018		March 31, 2018	2017	
	mln barrels			mln barrels		
International market	39.2	33.7	16.3%	39.2	22.8	71.9%
Udmurtneft	8.4	6.7	25.4%	8.4	6.1	37.7%
Slavneft	12.1	14.3	(15.4)%	12.1	12.1	0.0%
Messoyahaneftgaz	4.5	4.5	0.0%	4.5	3.7	21.6%
Lukoil-Reservnefteproduct	–	–	–	–	0.2	(100.0)%
Others	6.7	6.7	0.0%	6.7	6.2	8.1%
Total	70.9	65.9	7.6%	70.9	51.1	38.7%

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 10.0 mln barrels and 11.2 mln barrels in the first quarter of 2019 and in the fourth quarter of 2018, respectively; 8.7 mln barrels in the first quarter of 2018.

Petroleum products procurement

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

The table below sets forth Rosneft's costs, volumes and average prices per tonne of petroleum products procured from third parties in the first quarter of 2019 and fourth quarter of 2018, respectively:

	For 3 months ended						% change		
	March 31, 2019			December 31, 2018			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	6	0.17		7	0.18		(14.3)%	(5.6)%	
High octane gasoline	2	0.05	41.5	2	0.06	46.5	(0.0)%	(16.7)%	(10.8)%
Diesel	3	0.07	48.9	4	0.08	49.9	(25.0)%	(12.5)%	(2.0)%
Others	1	0.05	16.9	1	0.04	14.8	0.0%	25.0%	–
Petroleum products procured outside Russia	52	1.56	33.4	33	1.15	28.9	57.6%	35.7%	15.6%
Total	58	1.73		40	1.33		45.0%	30.1%	

*Calculated based on unrounded data.

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The table below sets forth Rosneft's costs, volumes and average prices per tonne of petroleum products procured from third parties in the first quarter of 2019 and 2018, respectively:

	For 3 months ended March 31,						% change		
	2019			2018			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>	6	0.17		7	0.20		(14.3)%	(15.0)%	
High octane gasoline	2	0.05	41.5	3	0.09	39.5	(33.3)%	(44.4)%	5.1%
Diesel	3	0.07	48.9	3	0.08	40.9	–	(12.5)%	19.6%
Others	1	0.05	16.9	1	0.03	21.7	–	66.7%	–
<i>Petroleum products and petrochemicals procured outside Russia</i>	52	1.56	33.4	53	1.83	28.9	(1.9)%	(14.8)%	15.6%
Total	58	1.73		60	2.03		(3.3)%	(14.8)%	

* Calculated based on unrounded data.

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

Crude oil and gas processing, petroleum products processing

Associated petroleum gas sales to PJSC “Sibur” and purchases of dry stripped gas from PJSC “Sibur” are presented on a net basis in the Company's financial statements in processing costs in the amount of RUB 4.2 billion in the first quarter of 2019 and RUB 5.1 billion in the fourth of 2018, 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.

The increase in transportation costs by 3% in the first quarter of 2019 compared with the fourth quarter of 2018 was mainly caused by increase in transportation tariffs in 2019.

The table below sets forth the comparison of costs per tonne of crude oil and petroleum products transported by pipeline, railroad and mixed transportation and gas transportation costs via gas pipeline system in the first quarter of 2019 and fourth quarter of 2018, respectively:

	For 3 months ended								% change		
	March 31, 2019				December 31 2018				Volume	Cost	Cost per tonne
Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t ¹	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t ¹				
CRUDE OIL											
International sales											
Pipeline	29.3	85.9%	65.3	2.23	29.3	88.5%	63.5	2.17	-	2.7%	2.8%
Railroad and mixed	0.7	2.1%	2.6	3.92	0.4	1.2%	1.6	3.85	75.0%	62.5%	1.7%
Pipeline and FCA ²	4.1	12.0%			3.4	10.3%			20.6%		
Transportation to refineries											
Pipeline ³	24.1		17.7	0.73	26.6		20.1	0.76	(9.4)%	(11.9)%	(3.3)%
Railroad and mixed	2.7		9.9	3.68	2.9		10.3	3.61	(6.9)%	(3.9)%	1.9%
PETROLEUM PRODUCTS											
International sales											
Pipeline	2.3	12.9%	6.1	2.70	1.7	9.8%	4.5	2.65	35.3%	35.6%	1.9%
Railroad and mixed	13.3	74.7%	38.6	2.90	12.4	71.2%	33.9	2.72	7.3%	13.9%	6.6%
Pipeline and FCA ⁴	2.2	12.4%			3.3	19.0%			(33.3)%		
GAS											
Pipeline ⁵	bcm		RUB/bcm		bcm		RUB/bcm				
	11.2		10.6	0.95	11.4		11.6	1.02	(1.8)%	(8.6)%	(6.9)%
Other transportation expenses⁶			19.0				19.5			(2.6)%	
Total	78.7		170		80		165		(1.6)%	3.0%	

¹Calculated based on unrounded data.

²Rosneft exported part of crude oil on FCA terms and through the foreign trading subsidiary of the Company, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

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

⁴Rosneft exported part of petroleum products through its own export terminal in Tuapse.

⁵Part of gas volumes was dispatched on terms under which Rosneft does not bear transportation expenses. In the first quarter of 2019 and in the fourth quarter of 2018 the volumes were 5.3 bcm and 5.2 bcm, respectively.

⁶Other 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 increased in the first quarter of 2019 to compare to fourth quarter of 2018 and amounted to RUB 2.23 thousand per tonne.

Crude oil pipeline transportation cost per tonne of supplies to refineries decreased by 3.3% in the first quarter of 2019 compared to the fourth quarter of 2018 that was caused by change in structure of transportation routes.

The increase in railroad and mixed transportation per tonne of petroleum products international sales by 6.6% in the first quarter of 2019 compared with the fourth quarter of 2018 was mainly due to higher transport tariffs and change in structure of transportation routes.

In the first quarter of 2019 and in the fourth quarter of 2018 indexation of gas transportation tariffs was not carried out.

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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 quarter of 2019 and 2018, respectively:

	For 3 months ended March 31,								% change		
	2019				2018				Volume	Cost	Cost per tonne
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t ¹	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t ¹			
CRUDE OIL											
<u>International sales</u>											
Pipeline	29.3	85.9%	65.3	2.23	26.9	91.8%	57.3	2.13	8.9%	14.0%	4.7%
Railroad and mixed	0.7	2.1%	2.6	3.92	0.5	1.7%	1.7	3.55	40.0%	52.9%	10.4%
Pipeline and FCA ²	4.1	12.0%			1.9	6.5%			115.8%		
<u>Transportation to refineries</u>											
Pipeline ³	24.1		17.7	0.73	25.1		19.4	0.77	(4.0)%	(8.8)%	(5.2)%
Railroad and mixed	2.7		9.9	3.68	2.5		8.7	3.51	8.0%	13.8%	4.8%
PETROLEUM PRODUCTS											
<u>International sales</u>											
Pipeline	2.3	12.9%	6.1	2.70	2.2	11.8%	6.2	2.87	4.5%	(1.6)%	(5.9)%
Railroad and mixed	13.3	74.7%	38.6	2.90	13.3	71.5%	36.4	2.75	-	6.0%	5.5%
Pipeline and FCA ⁴	2.2	12.4%			3.1	16.7%			(29.0)%		
GAS											
Pipeline ⁵	bcm		RUB/bcm		bcm		RUB/bcm				
	11.2		10.6	0.95	10.8		12.0	1.12	3.7%	(11.7)%	(15.2)%
Other transportation expenses⁶											
			19.0				18			5.6%	
Total	78.7		170		75.5		160		4.2%	6.3%	

¹Calculated based on unrounded data.

²Rosneft exported part of crude oil on FCA terms and through the foreign trading subsidiary of the Company, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

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

⁴Rosneft exported part of petroleum products through its own export terminal in Tuapse.

⁵Part of gas volumes was dispatched on terms where Rosneft does not bear transportation expenses. These volumes amounted to 5.3 bcm and 5.8 bcm in the first quarter of 2019 and 2018 respectively.

⁶Other 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 quarter of 2019 compared with the same period of 2018 mainly resulted from tariffs indexation.

Excise Taxes

Excise tax in the first quarter of 2019 was RUB 73 billion (including excise tax related to processing outside Russia in the amount of RUB 32 billion) compared with excise tax of RUB 80 billion in the fourth quarter of 2018 and of RUB 84 billion in the first quarter of 2018.

The decrease is caused by the introduction of "reverse excise tax" mechanism starting from 2019 (a deduction of accrued excise tax with a multiplying factor for crude oil sent for refining) in the amount of RUB 31 billion, partially offset by an increase in the excise taxes expense due to the increase in excise tax rates in the first quarter of 2019.

Export Customs Duties

Export customs duties include crude oil and petroleum products export customs duties. Export customs duty rates are presented above under "Macroeconomic Factors Affecting the Results of Operations – MET, Excess Profit Tax, Export Duties and Excise Taxes" and more information on export duty taxation is provided further in the Attachment 1 "Taxation".

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

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2019	December 31, 2018		2019	2018	
						RUB billion, except %
Export customs duty for crude oil	131	234	(44.0)%	131	158	(17.1)%
Export customs duty for petroleum products	50	83	(39.8)%	50	57	(12.3)%
Total export customs duty	181	317	(42.9)%	181	215	(15.8)%

Export customs duty decrease in the first quarter of 2019 compared with the fourth quarter of 2018 and the first quarter of 2018 was caused by lower export customs duty rates due to the changes in the Russian customs legislation effective January 1, 2019 (as part of the completion of the tax maneuver), and due to the favorable custom duty lag effect.

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

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2019	December 31, 2018		2019	2018	
						th. RUB per tonne, except %
Enacted export customs duty on crude oil	5.77	9.40	(38.7)%	5.77	6.65	(13.3)%
Actual customs duty on crude oil exports	4.92	8.89	(44.7)%	4.92	6.33	(22.3)%

The deviation of average actual export customs duty from the enacted one is caused by irregular monthly export volumes, which are subject to differing export customs duty rates, and by application of tariff exemptions and special formulas of calculation of the export customs duty rates ("preferential" rates) according to provisions of Art. 3.1 and Art. 35 of the Act of the Russian Federation "On the customs tariff".

Operating results of segment "Corporate and others"

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

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2019	December 31, 2018		2019	2018	
Financial results, RUB billion						
EBITDA	(32)	(21)	(52.4)%	(32)	(13)	>100.0%
Capital expenditures ¹	5	8	(37.5)%	5	5	–

¹Refer 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, changes in loss allowance for expected credit losses and other general expenses.

General and administrative expenses, net of the allowance for expected credit losses, were RUB 37.6 billion in the first quarter of 2019 and RUB 49.7 billion – in the fourth quarter of 2018, respectively. In the first quarter of 2018 general and administrative expenses amounted to RUB 35 billion. The Company recognized loss allowance for expected credit losses of RUB 27 billion in the first quarter 2019 in accordance with IFRS 9.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization include depreciation of crude oil and gas producing assets and other production and corporate assets. In the first quarter of 2019 DDA was RUB 174 billion and increased by 6.7% if compared with the fourth quarter of 2018. Due to the recognition of right-of-use assets under the new IFRS 16 *Leases* additional depreciation charges were accrued since January 2019. In the first quarter of 2018 the DDA was RUB 152 billion.

Taxes Other than Income Tax

Taxes other than income tax include the mineral extraction tax, excess profit tax, the excise tax, the property tax and other taxes. The basis for calculation of mineral extraction tax is set in the section “Taxation” in the Attachment 1.

The following table sets forth Rosneft's taxes other than income tax for the periods:

	For 3 months ended		% change	For 3 months ended		% change
	March 31, 2019	December 31, 2018		March 31, 2019	March 31, 2018	
Mineral extraction tax	548	597	(8.2)%	548	455	20.4%
Excess profit tax ¹	16	–	–	16	–	–
Excise tax	73	80	(8.8)%	73	84	(13.1)%
including “reversed excise tax” from 2019	(31)	–	–	(31)	–	–
Social security tax	18	17	5.9%	18	17	5.9%
Property tax	10	10	–	10	11	(9.1)%
Other taxes, interest, penalties and other payments to budget	2	2	–	2	1	100%
Total taxes other than income tax	667	706	(5.5)%	667	568	17.4%

¹Enacted starting from January 2019.

In the first quarter of 2019 taxes other than income tax decreased by 5.5% compared with the fourth quarter of 2018, which was mainly driven by reduction of oil production and compensated by implementation of excess profit tax.

Taxes other than income tax in the first quarter of 2019 increased by 17.4% compared with the first quarter of 2018 mainly due to increase in enacted MET rate driven by higher oil prices in RUB terms, and implementation of excess profit tax.

Finance Income and Expenses

In the first quarter of 2019, net finance expenses were RUB 24 billion compared with RUB 40 billion in the fourth quarter of 2018 and RUB 30 billion in the first quarter of 2018. The changes were mainly caused by the fair value re-measurement of derivative financial instruments and re-measurement of other financial assets in accordance with IFRS 9 *Financial Instruments*.

Other Income and Expenses

In the first quarter of 2019, other income amounted to RUB 3 billion compared with RUB 1 billion in the fourth quarter of 2018. In the first quarter of 2018 other income was RUB 6 billion.

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Other expenses include assets impairment, effect of fixed assets disposal in the course of operating activities and other expenses. In the first quarter of 2019, other expenses increased up to RUB 106 billion compared to RUB 57 billion in the fourth quarter of 2018. In the first quarter of 2019 the Company recognized impairment of Downstream assets as the consequence of impact of the tax maneuver, in the amount of RUB 80 billion. In the first quarter of 2018, other expenses were RUB 16 billion.

Foreign Exchange Differences

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

The profit from foreign exchange effects was RUB 15 billion and RUB 7 billion and in the first quarter of 2019 and in the fourth quarter of 2018, respectively. In the first quarter of 2018 profit from foreign exchange effects was RUB 1 billion.

Capitalized exchange differences resulting from foreign currency borrowings used for capital construction projects and the acquisition of property, plants and equipment were RUB 0 billion in the first quarter of 2019.

Cash flow hedges reclassified to profit or loss

Cash flow hedges reclassified to profit or loss in the first quarter of 2019 and fourth quarter of 2018 were RUB 36 billion and RUB 37 billion, respectively. In the first quarter of 2018 cash flow hedges reclassified to profit or loss were RUB 36 billion.

Income Tax

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

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
Effective rate of income tax (IFRS)	19.2%	19.0%	19.2%	24%

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

Net Income

In the first quarter of 2019, the net income was RUB 156 billion (RUB 131 billion attributable to Rosneft shareholders) in comparison with RUB 132 billion (RUB 109 billion attributable to Rosneft shareholders) the fourth quarter of 2018. Growth is mainly caused by the positive dynamic of operating income (+18.0% if compared to the fourth quarter of 2018) and positive FX effect. As the consequence of the tax maneuver the Company recognized impairment of Downstream assets of RUB 80 billion in the first quarter of 2019. This caused negative impact on the financial results for the reporting period.

In the first quarter of 2018, net income amounted to RUB 95 billion (RUB 81 billion attributable to Rosneft shareholders).

Liquidity and Capital Resources

Cash Flows

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

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2019	December 31, 2018		2019	2018	
	RUB billion			RUB billion		
Net cash received from operating activities	248	376	(34.0)%	248	271	(8.5)%
Net cash used in investing activities	(224)	(51)	>100%	(224)	(221)	1.4%
Net cash (used in)/received from financing activities	(530)	55	–	(530)	(67)	>100%

Net cash received from operating activities

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

	For 3 months ended		% change	For 3 months ended March 31,		% change
	March 31, 2019	December 31, 2018		2019	2018	
	RUB billion			RUB billion		
Net cash provided by operating activity	248	376	(34.0)%	248	271	(8.5)%
<i>Offset of prepayments received under long term supply contracts at average ex.rate</i>	86	48	79.2%	86	40	>100%
<i>Offset of other financial liabilities²</i>	41	38	7.9%	41	34	20.6%
<i>Interest expense for prepayments under long term supply contracts¹</i>	21	24	(12.5)%	21	20	5.0%
<i>Financing of future deliveries</i>	15	32	(53.1)%	15	–	–
Adjusted net cash provided by operating activity	411	518	(20.7)%	411	365	12.6%

¹Interest expenses for prepayments under long term supply contracts are included into adjusted operating cash flows. Interest expenses on the prepayment on long-term oil and petroleum products supply agreements are composed of interests accrued for the reporting period and offset against crude oil supply under the contracts in the amount of RUB 19 billion and interests paid of RUB 2 billion in the first quarter of 2019; offsetting of RUB 22 billion and interests paid of RUB 2 billion in the fourth quarter of 2018; offsetting of RUB 18 billion and interests paid of RUB 2 billion in the first quarter of 2018.

²Other financial liabilities are offset by suppliers.

The decrease in operating cash flow in the first quarter of 2019 is mainly changes in working capital driven by higher price at the end of the reporting period compared to December 2018.

Net cash used in investing activities

In the first quarter of 2019 the Company's investing activity mainly referred to capital expenditures. The increase in cash used in investing activities compared with the fourth quarter of 2018 is attributable to returns of current and non-current financial assets in the fourth quarter of 2018.

Slight increase in cash used in investing activity if compared to the same period of 2018 was due to acquisition of short term financial assets.

Net cash (used in)/received from financing activities

In the first quarters of 2019 and 2018 net cash used in financing activities was mainly used for the scheduled repayment of loans and eurobonds.

In the fourth quarter of 2018 net cash received from financing activity was RUB 55 billion driven by attracting long-term and short-term ruble funds, which was partially compensated by dividend repayments of RUB 155 billion to the Company's shareholders and RUB 30 billion to non-controlling shareholders.

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Capital Expenditures

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

	For 3 months ended		%	For 3 months ended		%
	March 31, 2019	December 31, 2018		March 31, 2018	2017	
	RUB billion			RUB billion		
RN-Yuganskneftegaz	46	50	(8.0)%	46	58	(20.7)%
Vankor projects	16	19	(15.8)%	16	15	6.7%
Samotlorneftegaz	17	18	(5.6)%	17	14	21.4%
Upstream projects (Zohr)	11	15	(26.7)%	11	10	10.0%
Rospan International	6	8	(25.0)%	6	9	(33.3)%
Orenburgneft	8	8	–	8	8	–
RN-Uvatneftegaz	6	9	(33.3)%	6	7	(14.3)%
Samaraneftegaz	8	7	14.3%	8	7	14.3%
Vostsibneftegaz	8	5	60.0%	8	6	33.3%
RN-Purneftegaz*	4	7	(42.9)%	4	5	(20.0)%
RN-Nyaganneftegaz	5	7	(28.6)%	5	6	(16.7)%
Kondaneft	5	6	(16.7)%	5	6	(16.7)%
Taas-Yuryakh Neftegazodobycha	4	6	(33.3)%	4	6	(33.3)%
Bashneft-Dobycha	4	7	(42.9)%	4	4	–
Tyumenneftegaz	4	5	(20.0)%	4	5	(20.0)%
Varyoganneftegaz	5	6	(16.7)%	5	5	–
RN-Severnaya Neft	5	4	25.0%	5	4	25.0%
Kharampurneftegaz	1	9	(88.9)%	1	4	(75.0)%
Verkhnechonskneftegaz	5	2	>100%	5	4	25.0%
Bashneft-Polyus	4	4	–	4	2	100.0%
Upstream projects (Sakhalin-1)	3	3	–	3	3	–
Tomskneft VNK	3	3	–	3	2	50.0%
Sibneftegaz	2	2	–	2	1	100.0%
Sorovskneft	2	1	100.0%	2	1	100.0%
Other	9	15	(40.0)%	9	12	(25.0)%
Government grants	–	(7)	–	–	–	–
Total upstream segment	191	219	(12.8)%	191	204	(6.4)%
Novokuibyshevsk refinery	1	1	–	1	1	–
Tuapse refinery	1	2	(50.0)%	1	1	–
Kuibyshev refinery	–	2	(100.0)%	–	1	(100.0)%
Syzran refinery	1	2	(50.0)%	1	1	–
Ryazan refinery	1	1	–	1	1	–
Komsomolsk refinery	3	2	50.0%	3	–	–
Angarsk refinery	1	–	–	1	1	–
Bashneft refineries	2	1	100.0%	2	1	100.0%
Saratov refinery	–	1	(100.0)%	–	–	–
Achinsk refinery	–	–	–	–	–	–
Other refineries	3	9	(66.7)%	3	3	–
Marketing Business Units and others	5	9	(44.4)%	5	4	25.0%
Total downstream segment	18	30	(40.0)%	18	14	28.6%
Total other activities	5	8	(37.5)%	5	5	–
Total capital expenditures	214	257	(16.7)%	214	223	(4.0)%
Acquisition of licenses	2	1	100.0%	2	1	100.0%
Return of auction advances	–	–	–	–	–	–

*Including Sevkomneftegaz.

In the first quarter of 2019 total capital expenditures amounted to RUB 214 billion (decrease by 16.7%) compared with RUB 257 billion in the fourth quarter of 2018.

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In the first quarter of 2019 upstream capital expenditures decreased by 12.8% if compared to the level of the fourth quarter and amounted to RUB 191 billion. The decrease is mainly caused by seasonal factor. Upstream capital expenditures in the first quarter of 2019 compared to the same period of 2018 decreased by 6.4% mainly due to the advanced schedule of operational drilling and construction of production facilities at Yuganskneftegaz in the first quarter of 2018.

In the first quarter of 2019 downstream capital expenditures were RUB 18 billion, including capital expenditures of investment tariffs, in comparison with RUB 30 billion in the fourth quarter of 2018.

Capital expenditures of other activities are mainly related to scheduled purchases of IT equipment, vessels, transport and other equipment assets.

The license acquisition costs of RUB 2 billion in the first quarter of 2019 referred to the acquisition of new licenses for research, exploration and production at Orenburg region, Irkutsk region and Republic of Bashkortostan.

Financial liabilities and liquid funds

Financial liabilities detailed by currencies and liquid funds are set in the table below¹:

As of the date	<i>currency in bln</i>											
	March 31, 2019				December 31, 2018				March 31, 2018			
	USD	RUB	Euro	Other (RUB equivalent)	USD	RUB	Euro	Other (RUB equivalent)	USD	RUB	Euro	Other (RUB equivalent)
Financial liabilities	(26.5)	(1,844)	(3.9)	(0.9)	(26.7)	(2,227)	(3.9)	–	(28.5)	(2,120)	(3.1)	–
Liquid funds ²	8.8	389	0.5	3.0	9.3	417	5.9	4.2	6.2	327	5.7	2.1
Net financial liabilities	(17.7)	(1,455)	(3.4)	2.1	(17.4)	(1,810)	2.0	4.2	(22.3)	(1,793)	2.6	2.1

¹Calculated based on unrounded data

²Include cash and cash equivalents, short-term financial assets and part of bank deposits

The level of financial liabilities and liquid funds, which generate additional yield to fulfil the Company's commitments, remained at the point which strongly secured the Company's high financial stability.

Management's discussion and analysis of financial condition and results of operations of Rosneft for the first quarter of 2019

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 3 months ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
EBITDA margin	26.0%	22.2%	26.0%	21.9%
Net income margin attributable to Rosneft shareholders	6.3%	5.0%	6.3%	4.7%
Current ratio	0.94	1.05	0.94	0.79
	RUB / bbl			
EBITDA/bbl ¹	1,315	1,127	1,315	974
Upstream capital expenditures/bbl	480	534	480	532
Upstream operating expenses/bbl	242	254	242	230
Free cash flow/bbl	495	637	495	371
	RUB / boe			
EBITDA/boe ¹	1,059	911	1,059	782
Upstream capital expenditures/boe	387	432	387	428
Upstream operating expenses/boe	195	205	195	185
Free cash flow/boe	399	515	399	298

¹The effect of income from associates and joint ventures is excluded for calculation.

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.

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

Upstream Measures¹

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
Liquids production (mln bbl)	397.6	410.0	397.6	383.1
Hydrocarbon production (mln boe)	493.8	507.1	493.8	476.8

¹Excluding share in production of associates and joint ventures.

Calculation of EBITDA

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
	RUB billion			
Revenues and equity share in profits of associates and joint ventures	2,077	2,165	2,077	1,722
Effect of prepayments offsetting	33	36	33	33
Costs and expenses	(1,736)	(1,876)	(1,736)	(1,522)
Depreciation, depletion and amortization	174	163	174	152
EBITDA	548	488	548	385

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Calculation of Free Cash Flow

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
	RUB billion			
Operating cash flow	248	376	248	271
Capital expenditures	(214)	(257)	(214)	(223)
Offset of prepayments under long-term supply agreements ¹	86	48	86	40
Offset of other financial liabilities	41	38	41	34
Interest expense on prepayments under long-term supply agreements ²	21	24	21	20
Financing of future deliveries	15	32	15	–
Free cash flow (RUB equivalent)	197	261	197	142

¹ Based on average exchange rates during the reporting periods (monthly basis).

² Free cash flow estimation includes interest expenses on the prepayments on long-term oil and petroleum products supply agreements. Interest expenses on the prepayments on long-term oil and petroleum products supply agreements are composed of interests accrued for the reporting period and offset against crude oil supply under the contracts in the amount of RUB 19 billion and interests paid of RUB 2 billion in the first quarter of 2019; the offsetting of RUB 22 billion and interests paid of RUB 2 billion in the fourth quarter of 2018; offsetting of RUB 18 billion and interests paid of RUB 2 billion in the first quarter of 2018.

Calculation of EBITDA Margin

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
	RUB billion (except %)			
EBITDA	548	488	548	385
Revenues and equity share in profits of associates and joint ventures	2,077	2,165	2,077	1,722
Effect of prepayments offsetting	33	36	33	33
Adjusted revenues	2,110	2,201	2,110	1,755
EBITDA margin	26.0%	22.2%	26.0%	21.9%

Calculation of Net Income Margin attributable to Rosneft shareholders

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
	RUB billion (except %)			
Net income attributable to Rosneft shareholders	131	109	131	81
Revenues and equity share in profits of associates and joint ventures	2,077	2,165	2,077	1,722
Net income margin	6.3%	5.0%	6.3%	4.7%

Calculation of Current ratio

As of the date	March 31, 2019	December 31, 2018	March 31, 2018
	RUB billion (except ratios)		
Current assets	2,492	3,022	2,190
Current liabilities	2,661	2,874	2,786
Current ratio	0.94	1.05	0.79

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Consolidated financial highlights (in USD terms)

Consolidated statement of profit or loss*

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
	USD billion			
Total revenues and equity share in profits of associates and joint ventures	31.9	33.1	31.9	30.9
Costs and expenses				
Production and operating expenses	2.5	2.7	2.5	2.8
Cost of purchased oil, gas, petroleum products and refining costs	4.7	4.3	4.7	4.1
General and administrative expenses	1.0	0.8	1.0	0.6
Pipeline tariffs and transportation costs	2.6	2.5	2.6	2.8
Exploration expenses	–	0.1	–	–
Depreciation, depletion and amortization	2.6	2.5	2.6	2.7
Taxes other than income tax	10.1	10.6	10.1	10.0
Export customs duty	2.7	4.7	2.7	3.8
Total costs and expenses	26.2	28.2	26.2	26.8
Operating income	5.7	4.9	5.7	4.1
Finance income	0.6	0.5	0.6	0.5
Finance expenses	(1.0)	(1.1)	(1.0)	(1.1)
Other income	–	–	–	0.1
Other expenses	(1.6)	(0.9)	(1.6)	(0.3)
Foreign exchange differences	(0.3)	(0.4)	(0.3)	(0.5)
Cash flow hedges reclassified to profit or loss	(0.5)	(0.5)	(0.5)	(0.6)
Income before income tax	2.9	2.5	2.9	2.2
Income tax expense	(0.6)	(0.5)	(0.6)	(0.5)
Net income	2.3	2.0	2.3	1.7
Net income attributable to Rosneft shareholders	1.9	1.6	1.9	1.5

* Calculated using average monthly USD exchange rates based on the Central Bank of Russia data for the reporting period (Attachment 2).

Key consolidated financial highlights (in USD terms)

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

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
EBITDA margin	26.0%	22.4%	26.0%	22.0%
Net income margin attributable to Rosneft shareholders	6.0%	4.8%	6.0%	4.9%
Current ratio	0.94	1.05	0.94	0.79
	USD/bbl*			
EBITDA/bbl	19.9	17.1	19.9	17.2
Upstream capital expenditures/bbl	7.3	8.0	7.3	9.3
Upstream operating expenses/bbl	3.7	3.8	3.7	4.1
Free cash flow/bbl	7.4	9.6	7.4	6.6
	USD/boe			
EBITDA/boe	16.0	13.8	16.0	13.8
Upstream capital expenditures/boe	5.8	6.5	5.8	7.5
Upstream operating expenses/boe	3.0	3.1	3.0	3.3
Free cash flow/boe	6.0	7.8	6.0	5.3

* Calculated from unrounded data.

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Calculation of Free Cash Flow

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
	USD billion			
Operating cash flow	3.8	5.7	3.8	4.7
Capital expenditures	(3.2)	(3.9)	(3.2)	(3.9)
Offset of prepayments under long-term supply agreements	1.3	0.7	1.3	0.7
Offset of other financial liabilities	0.6	0.6	0.6	0.6
Interest expense on prepayments under long-term supply contracts	0.3	0.4	0.3	0.4
Financing of future deliveries	0.2	0.5	0.2	–
Free cash flow	3.0	4.0	3.0	2.5

Calculation of EBITDA Margin

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
	USD billion (except %)			
Revenues and equity share in profits of associates and joint ventures	31.9	33.1	31.9	30.9
Operating expenses	(26.2)	(28.2)	(26.2)	(26.8)
Depreciation, depletion and amortization	2.6	2.5	2.6	2.7
EBITDA	8.3	7.4	8.3	6.8
Revenues and equity share in profits of associates and joint ventures	31.9	33.1	31.9	30.9
EBITDA margin	26.0%	22.4%	26.0%	22.0%

Calculation of Net Income Margin

	For 3 months ended		For 3 months ended March 31,	
	March 31, 2019	December 31, 2018	2019	2018
	USD billion (except %)			
Net income attributable to Rosneft shareholders	1.9	1.6	1.9	1.5
Revenues and equity share in profits of associates and joint ventures	31.9	33.1	31.9	30.9
Net income margin	6.0%	4.8%	6.0%	4.9%

Calculation of Current ratio

As of the date	March 31, 2019	December 31, 2018	March 31, 2018
		USD billion (except ratios)	
Current assets	38.5	43.5	38.2
Current liabilities	41.0	41.4	48.6
Current ratio	0.94	1.05	0.79

Attachment 1: Taxation

Mineral Extraction Tax (MET)

MET rate calculation for crude oil

The rate of mineral extraction tax (MET) for crude oil is tied to the Urals price in the international market, and 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.

In 2018 the mineral extraction tax rate was calculated follows:

$$919 \times K_p - 559 \times K_p \times K_{rel} + K_k, \text{ where}$$

919 – the base tax rate in RUB per tonne;

K_p – the coefficient characterizing the dynamics of world oil prices equal to $(P - 15) \times \text{Exchange rate} / 261$, where “P” is the average Urals price per barrel in USD and “Exchange rate” is the average RUB/USD exchange rate established by the Central Bank of Russia in the respective month;

K_{rel} – the reduction coefficient, defined as the difference between 1 and the result of multiplication of the coefficients characterizing the degree of depletion of a particular field, a specific hydrocarbon deposit, the amount of reserves of a particular field, the degree of complexity of production, region of production and oil properties;

K_k – the additional term, increasing MET rate, enacted for the period since January 1, 2017 till December 31, 2021, in the amount of RUB 357 for 2018 (RUB 428 RUB for 2019-2021).

Since January 1, 2019 two new terms ($K_{man} \times S_{vn}$ and C_{abd}) have been added to the formula for calculating MET rate for oil in connection with the introduction of “reverse excise duty” and reduction of export customs duties as a part of the completion of the tax maneuver.

For the fields that pay excess profit tax, the MET rate will be calculated as follows: $(P - 15) \times 7.3 \times 0.5 \times “K” \times “Exchange rate” - “Export duty” \times “Exchange rate”$,

Where:

“P” – Urals price (see above);

“Export duty” – rate of export customs duty on crude oil in USD per tonne;

“K” – the coefficient characterizing the period of time elapsed from the date of the beginning of commercial oil production at the field (further “grace period”):

Groups	“K”	Note
1,2	0.4	prior to the expiration of the first 5 years of commercial production
	0.6	the 6 th year of commercial production
	0.8	the 7 th year of commercial production
	1.0	from the 8 th year of commercial production
3	1.0	Not applicable
4	0.5	before the end of the 1 st year of commercial production
	0.75	the 2 nd year of commercial production
	1.0	from the 3 rd year of commercial production

In 2019 the Company applies various tax incentives for production and special tax treatment for MET on crude oil:

Tax incentives for production of MET in 2019	Applicable to the Company
Reduced rate due to the $P=0$	Oil fields of bazhenov, abalak, khadum, domanic formations.
MET reduced by “Dm” coefficient, which characterizes crude oil production at a particular oil field	Oil fields with high-viscosity crude oil (in-situ viscosity more than 10 000 mPa*s). 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 mPa*s and less than 10 000 mPa*s)

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Tax deduction	Oil fields with permeability less than $2 \times 10^{-3} \mu\text{m}^2$ and deposits of the Tyumen suite. At fields located entirely within the boundaries of the Nizhnevartovsk region of KHAMAO – Yugra, the initial recoverable oil reserves of which amount to 450 million tonnes or more as of January 1, 2016 (the amount of the deduction is determined in aggregate for the specified fields and amounts to RUB 2,917 million for the tax period (calendar month)). Oil production at fields with export duty exemptions under “general” tax regime. The deduction is aimed at compensating the loss of economic effect from the granted export duty benefits in connection with the completion of the tax maneuver (due to which the duties are gradually reduced to zero from 2024).
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 special MET rates for each project group ranging from 5% to 30% of hydrocarbon prices are applied.
Special tax regime exempting the Company from paying mineral extraction tax.	Exploration projects in the Sakhalin-1 PSA.

MET rate calculation for natural gas and gas condensate

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. Gas condensate mineral extraction tax rate is applied in case of separate purification of gas condensate.

In line with the formula the base rate for gas condensate is RUB 42 per 1 tonne and for natural gas – RUB 35 per 1 th. cubic meters. The base rates are multiplied by a 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 the tax rate for mineral extraction gas condensate is adjusted by the multiplying coefficient 6.5. Starting from 2019 the mineral extraction tax rate increased by the amount of reduction in export customs duties on crude oil multiplied by 0.75.

Reducing coefficient in 2019	Applicable to 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, Krasnoyarsk region and the 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%.

Tax on additional income from hydrocarbons production (excess profit tax)

Since January 1, 2019 the tax on additional income from production of hydrocarbons was enacted. The tax is charged at the rate of 50% of the hydrocarbons production income calculated as the difference between the estimated revenue and costs (losses). The new tax regime requires paying the MET but at a reduced rate and paying export duties with exemption from their payment for a certain period for greenfields in Eastern Siberia and other new regions of oil production (groups 1-2).

New tax regime is applicable to the following groups of oil fields:

Groups	Geographic location	Depletion as of 01.01.17
Greenfields of Eastern Siberia and other new regions of oil production		
1	The Republic of Sakha, Irkutsk region, NAO	Not exceeding 5%
2	The Yamal-Nenets Autonomous district, Krasnoyarsk region, Caspian sea	Deposits specified in the Note to the Common Customs Tariff as of 01.01.2018.
Brownfields of Western Siberia		
3	KHAMAO, YANAO, Komi Republic, Tyumen region	From 20% to 80% or from 10% to 80% provided that on 01.01.2011 worked out >1%. List of fields is determined by the Law.
Greenfields of Western Siberia		
4	KHAMAO, YANAO, Komi Republic, Tyumen region	Not exceeding 5%. List of fields is determined by the Law.

Excise duties

Petroleum products producers are taxpayers of an excise on petroleum products in the territory of the Russian Federation. Besides, the tax is paid by legal entities when importing excise goods into the territory of the Russian Federation.

The Company as an owner of raw materials applies excises deductions for particular types of petroleum products in the cases provided by the legislation, as well as “reverse excise” mechanism (deduction of the accrued excise tax with an increasing coefficient) for oil raw material.

Federal law of 03.08.2018 No. 301-FZ (subject to the provisions of Federal law of 27.11.2018 № 424-FZ) provides for amendments to the taxation of excise duties since January 2019.

In particular new excisable goods (oil raw material and dark bunker fuel) and new operations subject to excise taxation were introduced, with the possibility of applying the mechanism of “reverse excise” (deduction of the accrued excise tax with an increasing coefficient):

- for oil raw material (for the organizations-owners of crude oil raw material processed in the Russian Federation which received special certificate from the tax authorities);
- dark bunker fuel (when using fuel for bunkering (refuelling) of vessels and (or) machinery and constructions located in the internal sea waters and continental shelf of the Russian Federation, etc.).

The law sets the procedure of application of “reverse excise” on oil raw material, including:

- arrangements for obtaining a special certificate, required for the application of “reverse excise”;
- the approach for calculating the excise rate on oil raw material (based on market oil prices, forex rates, the number and types of oil products, increased regional coefficients for certain subjects of Russian Federation);
- the approach for calculating the “damping component” of the excise deduction aimed at reducing the effect of macroeconomic fluctuations on the domestic market of motor fuels.

There is an increase of 1,000 RUB/t since January 1, 2022 of the current excise tax deduction in respect of production of medium distillates for bunkering (refuelling) of vessels and (or) machinery and constructions located in the internal sea waters and continental shelf of the Russian Federation, etc., as well as for the sale of medium distillates exported outside the territory of the Russian Federation as supplies on vessels or placed under the export customs procedure.

Export Customs Duty

Export Customs Duty on Crude Oil

The rate of export customs duty on crude oil is tied 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
From 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
From 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
From 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

The export customs duty changes 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 the 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 field (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. In December 2017, by results of the annual monitoring which is carried out by the Ministry of Energy of the Russian Federation within an established order of application of special formulas of calculation of rates of the export customs duties, the oil volume which can be exported with application of zero customs duty rate from the East-Messoyakh field has been reduced to 21.2 mln tonnes in connection with improvement of investment indicators of development of this field.

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

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

Export duties are not payable on crude oil exports to countries that are members of Eurasian Economic Agreement. At the same time quotes for tax-free sale of crude oil and petroleum products are set. In accordance with agreement with Armenia and the Kyrgyz 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.

The Protocol on amendments to the Agreement between the Government of the Russian Federation and the Government of the Republic of Belarus on measures to regulate trade and economic cooperation in the export of oil and oil products dated January 12, 2007 introduced quotas for duty-free export of oil and oil products to the Republic of Belarus and a ban on export in excess of the established quotas from November 1, 2018.

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.

Marginal export customs duties for petroleum products are set as a percentage of the marginal export customs duty for crude oil as listed in table below:

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

*In accordance with the Federal law of 19.07.2018 № 201-FZ, the Government of the Russian Federation was granted the authority to establish export duty rates for the indicated oil products for the period from 01.08.2018 to 31.12.2018 in the amount of up to 90% of the maximum duty rate for crude oil.

In 2018 and 2019, marginal export customs duties are set for estimation of customs duty, depending on the type of oil product.

According to the Federal law of 19.07.2018 № 201-FZ "On amendments to articles 3.1 and 35 of the Law of the Russian Federation "On customs tariff", the export of oil produced in the subsoil areas that have passed on the tax on additional income from production of hydrocarbons (1,2 group), since January 1, 2019 is exempt from

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

payment of export customs duties before the expiration of 7 years of industrial production, after the expiration of the exemption - standard duty rates.

The Federal law № 305-FZ "On amendments to article 3.1 of the law of the Russian Federation "On customs tariff" introduced the following amendments to the procedure for calculating export duties on oil and oil products.

- 1) Duty rate for crude oil is calculated as the product of the marginal rate and the adjusting factor, which reflects the gradual reduction of the export duty rate until zero in 2024.
- 2) The Government of the Russian Federation has the right to impose "protective" duties on crude oil (in an amount not exceeding the level of $29.2 + 45\% \times (\text{the price of "Urals"}) / t$) – USD 182.5 / t) and oil products with a significant change in oil prices and the price of oil above USD 182.5 per ton. "Protective" duties are applied within six consecutive calendar months, starting from the calendar month following the calendar month in which a significant change in oil prices is recorded in the manner prescribed by law. When applying the "protective" duty on crude oil, the rates of export duties on petroleum products may be set by the Government of the Russian Federation in the amount of 60% of the duty on crude oil.
- 3) At the level of the law, the list of fields and the maximum accumulated volume of oil that can be exported using special formulas for calculating the export duty rate shall be fixed. The above-mentioned East-Messoyakh field (the total amount of oil that can be exported using the "preferential" rate – 32.08 mln tonnes), Srednebotuobinskoye field (32.742 mln tonnes) and Kuyumbinskoye field (76.433 mln tonnes) are named in the Law.

Attachment 2: Average monthly RUB/USD exchange rates, calculated using the Bank of Russia data

	2019	2018
	RUB/USD	
January	67.35	56.79
February	65.86	56.81
March	65.15	57.03
April		60.46
May		62.21
June		62.71
July		62.88
August		66.12
September		67.66
October		65.89
November		66.24
December		67.31