



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED  
DECEMBER 31, 2018 AND SEPTEMBER 30, 2018  
AND FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018 AND 2017**

## Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

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*The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended December 31, 2018 and 2017 and September 30, 2018 (the "Consolidated Financial Statements"). Such terms as "Rosneft", "Company" and "Group" in their different forms in this report mean PJSC Rosneft Oil Company and its consolidated subsidiaries, 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 "Rospan International") to barrels a 7.404 ratio is used. To convert Rospan gas condensate to barrels a 8.3 ratio is used. To convert a thousand of cubic meters of gas to barrels of oil equivalent a 6.09 ratio is used.*

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## Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

### Overview

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

According to oil and marketable gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers, proved hydrocarbon reserves reached 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 fourth quarter of 2018 crude oil and NGL production of the Company amounted to 59.5 mln tonnes, the production of natural and associated gas was 17.31 bcm. In the twelve months of 2018 crude oil and NGL production of the Company amounted to 230.19 mln tonnes, the production of natural and associated gas was 67.26 bcm.

In the fourth quarter of 2018 the Company's total crude oil processing amounted to 29.53 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		% change	For 12 months ended December 31,		% change
	December 31, 2018	September 30, 2018		2018	2017*	
<b>Financial results, RUB billion</b>						
Revenues and equity share in profits of associates and joint ventures	2,165	2,286	(5.3)%	8,238	6,011	37.0%
EBITDA	488	643	(24.1)%	2,081	1,400	48.6%
Net income attributable to Rosneft shareholders	109	142	(23.2)%	549	222	>100%
Capital expenditures	257	227	13.2%	936	922	1.5%
Free cash flow**	261	509	(48.7)%	1,133	245	>100%
<b>Operational results</b>						
Hydrocarbon production (th. boe per day)	5,938	5,826	1.9%	5,795	5,718	1.3%
Crude oil and NGL production (th. barrels per day)	4,792	4,726	1.4%	4,673	4,577	2.1%
Gas production (th. boe per day)	1,146	1,100	4.2%	1,122	1,141	(1.7)%
Production of petroleum products and petrochemical products in Russia (mln tonnes)	25.80	25.82	(0.1)%	99.73	96.90	2.9%
Production of petroleum products and petrochemical products outside Russia (mln tonnes)	2.84	3.10	(8.4)%	11.93	12.18	(2.1)%

\* Financial results for 12 months of 2017 are adjusted due to the allocation of the final purchase price of the assets acquired in 2017.

\*\* 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 22 billion and interests paid of RUB 2 billion in the fourth quarter of 2018; offsetting of RUB 23 billion and interests paid of RUB 1 billion in the third quarter of 2018; offsetting of RUB 85 billion and interests paid of RUB 6 billion in the 12 months of 2018, and offsetting of RUB 71 billion and interests paid of RUB 10 billion in the 12 months of 2017.

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

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2018	September 30, 2018		2018	2017	
<b>Financial results, USD billion</b>						
Revenues and equity share in profits of associates and joint ventures	33.1	35.8	(7.5)%	133.7	106.4	25.7%
EBITDA	7.4	9.8	(24.5)%	33.1	24.0	37.9%
Net income attributable to Rosneft shareholders	1.6	2.3	(30.4)%	8.9	3.8	>100%
Capital expenditures	3.9	3.5	11.4%	15.0	15.8	(5.1)%
Free cash flow	4.0	7.8	(48.7)%	17.9	4.1	>100%

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

## **Significant events of the fourth quarter of 2018**

### **Rosneft and ChemChina sign an oil supply contract**

Rosneft and China National Chemical Corporation (ChemChina) signed an oil supply contract which provides for supplies of ESPO crude oil in the amount of up to 2.4 million tonnes through the Kozmino port for a year.

## Macroeconomic factors affecting results of operations

Main factors affecting Rosneft's results of operations are:

- Changes in crude oil, gas and petroleum product prices;
- USD/RUB and EUR/RUB exchange rates and inflation;
- Taxation including changes in mineral extraction tax, export customs duty and excises;
- Changes in tariffs of natural monopolies (for pipeline and railway transport);
- Reduction of crude oil production under the Agreement reached earlier by OPEC countries and major non-OPEC oil producing countries (OPEC+ Agreement) in 2017-2018;
- Changes in electricity prices.

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

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

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

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

	For 3 months ended		Change	For 12 months ended December 31,		Change
	December 31, 2018	September 30, 2018		2018	2017	
<b>World market</b>	(USD per barrel)		%	(USD per barrel)		%
Brent (dated)	67.8	75.2	(9.9)%	71.1	54.3	31.0%
Urals (average Med and NWE)	67.3	74.2	(9.3)%	69.8	53.1	31.4%
Urals (FOB Primorsk)	65.5	72.9	(10.1)%	68.5	52.0	31.8%
Urals (FOB Novorossiysk)	65.2	73.2	(11.0)%	68.6	52.3	31.3%
Dubai	67.4	74.3	(9.2)%	69.5	53.2	30.5%
	(USD per tonne)		%	(USD per tonne)		%
Naphtha (av. FOB/CIF Med)	528	642	(17.7)%	588	472	24.5%
Naphtha (av. FOB Rotterdam/CIF NWE)	542	651	(16.8)%	600	483	24.3%
Naphtha (CFR Japan)	573	667	(14.1)%	615	494	24.6%
Fuel oil (av. FOB/CIF Med)	400	426	(6.2)%	397	302	31.4%
Fuel oil (av. FOB Rotterdam/CIF NWE)	395	421	(6.2)%	391	297	31.9%
High sulphur fuel oil 180 cst (FOB Singapore)	437	456	(4.1)%	424	323	31.5%
Gasoil (av. FOB/CIF Med)	624	663	(5.9)%	630	484	30.3%
Gasoil (av. FOB Rotterdam/CIF NWE)	625	658	(5.1)%	628	485	29.5%
Gasoil (FOB Singapore)	602	651	(7.4)%	616	480	28.1%
	(th. RUB per barrel)		%	(th. RUB per barrel)		%
Brent (dated)	4.51	4.93	(8.6)%	4.46	3.17	40.7%
Urals (average Med and NWE)	4.48	4.86	(8.0)%	4.38	3.10	41.2%
Urals (FOB Primorsk)	4.36	4.78	(8.8)%	4.29	3.03	41.6%
Urals (FOB Novorossiysk)	4.33	4.80	(9.7)%	4.30	3.05	41.1%
Dubai	4.48	4.87	(7.9)%	4.36	3.11	40.3%
	(th. RUB per tonne)		%	(th. RUB per tonne)		%
Naphtha (av. FOB/CIF Med)	35.1	42.1	(16.5)%	36.9	27.6	33.8%
Naphtha (av. FOB Rotterdam/CIF NWE)	36.0	42.7	(15.5)%	37.6	28.2	33.5%
Naphtha (CFR Japan)	38.1	43.7	(12.9)%	38.6	28.8	33.9%
Fuel oil (av. FOB/CIF Med)	26.6	27.9	(4.9)%	24.9	17.6	41.2%
Fuel oil (av. FOB Rotterdam/CIF NWE)	26.3	27.6	(4.8)%	24.5	17.3	41.8%
High sulphur fuel oil 180 cst (FOB Singapore)	29.0	29.9	(2.7)%	26.6	18.8	41.3%
Gasoil (av. FOB/CIF Med)	41.5	43.4	(4.6)%	39.5	28.2	40.0%
Gasoil (av. FOB Rotterdam/CIF NWE)	41.5	43.1	(3.7)%	39.4	28.3	39.2%
Gasoil (FOB Singapore)	40.0	42.6	(6.1)%	38.6	28.0	37.7%
<b>Russian market (net of VAT, including excise tax)</b>	(th. RUB per tonne)		%	(th. RUB per tonne)		%
Crude oil	18.2	23.3	(21.7)%	20.2	14.6	38.3%
Fuel oil	15.8	15.9	(0.6)%	14.0	9.6	46.7%
Summer diesel	41.4	40.1	3.2%	39.3	31.8	23.5%
Winter diesel	48.7	43.5	12.1%	42.7	34.2	24.9%
Jet fuel	42.5	38.6	10.1%	38.3	30.2	26.8%
High octane gasoline	41.2	40.8	0.9%	39.9	35.7	11.6%
Low octane gasoline	41.7	37.1	12.5%	37.2	32.1	16.1%

Sources: average prices and changes are calculated based on the unrounded data of analytical agencies.

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The difference between price movements denominated in USD and those denominated in RUB is explained by nominal RUB depreciation against USD of 1.4% in the fourth quarter of 2018 compared with the third quarter of 2018 and 6.9% compared with the twelve months of 2017.

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. Starting from July 2017, regulated gas price for all groups of end-users grew up by 3.9%. The indexation of gas price intended for subsequent implementation to all consumer groups was 3.4% in 2018 (since July - in part of the price of realization to the population, since 21th of August - in part of price for industrial consumers).

### USD/RUB and EUR/RUB Exchange Rates and Inflation

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

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

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2018	September 30, 2018	2018	2017
Consumer price index (CPI) for the period*	1.7%	0.4%	4.3%	2.5%
Average RUB/USD exchange rate for the period**	66.48	65.53	62.71	58.35
RUB/USD exchange rate at the end of the period	69.47	65.59	69.47	57.60
Average RUB/EUR exchange rate for the period	75.92	76.18	73.95	65.90
RUB/EUR exchange rate at the end of the period	79.46	76.23	79.46	68.87

Source: the Central Bank of the Russian Federation.

\*Producer price index amounted to 15.3% q-o-q in the fourth quarter of 2018.

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

### MET, Export Duties and Excise Taxes<sup>1</sup>

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

	For 3 months ended		% change*	For 12 months ended December 31,		% change*
	December 31, 2018	September 30, 2018		2018	2017	
<b>Mineral extraction tax</b>						
Crude oil (RUB per tonne)	12,549	14,011	(10.4)%	12,468	8,134	53.3%
<b>Export customs duty for crude oil</b>						
Crude oil (USD per tonne)	141.4	134.9	4.8%	128.5	86.7	48.2%
Crude oil (RUB per tonne)	9,400	8,832	6.4%	8,094	5,058	60.0%
Crude oil (RUB per barrel)	1,270	1,193	6.4%	1,093	683	60.0%
<b>Export customs duty for petroleum products</b>						
Gasoline (RUB per tonne)	2,818	2,649	6.4%	2,426	1,516	60.1%
Naphtha (RUB per tonne)	5,169	4,856	6.5%	4,449	2,779	60.1%
Light and middle distillates (RUB per tonne)	2,818	2,649	6.4%	2,426	1,516	60.1%
Liquid fuels (fuel oil) (RUB per tonne)	9,400	8,832	6.4%	8,094	5,058	60.0%

\*Calculated based on unrounded data.

<sup>1</sup> See detailed disclosure on Tax legislation in Attachment 1.



## Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

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

Excise duties (RUB per tonne)	Since January 1 through December 31, 2017	Since January 1 through May 31, 2018	Since June 1 through December 31, 2018	Since January 1 through December 31, 2019
<b>High octane gasoline</b>				
High octane gasoline non-compliant with euro-5	13,100	13,100	13,100	13,100
High octane gasoline euro-5	10,130	11,213	8,213	12,314
<b>Naphtha</b>	13,100	13,100	13,100	13,912
<b>Diesel</b>	6,800	7,665	5,665	8,541
<b>Jet fuel</b>	2,800	2,800	2,800	2,800
<b>Lubricants</b>	5,400	5,400	5,400	5,400
<b>Benzol, paraxylene, ortoxylyene</b>	2,800	2,800	2,800	2,929
<b>Middle distillates</b>	7,800	8,662	6,665	9,241

Effective tax burden of the Company was 48.7% and 47.7% in the fourth quarter of 2018 and the third quarter of 2018, respectively, and 47.9% in the twelve months of 2018 and 44.5% in the twelve months of 2017, respectively.

The mineral extraction tax and the export customs duty accounted for approximately 42.2% and 40.6% of Rosneft's total revenues in the fourth and third quarters of 2018, respectively, and approximately 40.3% in the twelve months of 2018 and 35.7% in the twelve months of 2017.

Tax withdrawing share in the financial results was up to 85.9% in the twelve months of 2018.

### 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 January 1, 2018 Transneft tariffs for oil pipeline transportation increased by 3.95%.

#### *Recent changes in railroad transportation tariffs*

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

In January 2018 railroad transportation tariffs increased by 5.4% to December 2017 level. In 2018 RZD adopted a number of decisions on the application of decreasing coefficients to the current tariffs for the transportation of cargoes of the Company in certain directions.

Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

Consolidated statement of profit or loss for the three months ended December 31, 2018 and September 30, 2018 and for the twelve months ended December 31, 2018 and 2017, respectively

in RUB billions

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2018	September 30, 2018		2018	2017*	
<b>Revenues and equity share in profits of associates and joint ventures</b>						
Oil, gas, petroleum products and petrochemicals sales	2,117	2,245	(5.7)%	8,076	5,877	37.4%
Support services and other revenues	22	17	29.4%	80	77	3.9%
Equity share in profits of associates and joint ventures	26	24	8.3%	82	57	43.9%
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>2,165</b>	<b>2,286</b>	<b>(5.3)%</b>	<b>8,238</b>	<b>6,011</b>	<b>37.0%</b>
<b>Costs and expenses</b>						
Production and operating expenses	184	170	8.2%	642	607	5.8%
Cost of purchased oil, gas, petroleum products and refining costs	283	299	(5.4)%	1,099	837	31.3%
General and administrative expenses	54	35	54.3%	167	172	(2.9)%
Pipeline tariffs and transportation costs	165	161	2.5%	638	596	7.0%
Exploration expenses	4	2	100%	11	15	(26.7)%
Depreciation, depletion and amortization	163	163	-	635	586	8.4%
Taxes other than income tax	706	745	(5.2)%	2,701	1,919	40.8%
Export customs duty	317	289	9.7%	1,061	658	61.2%
<b>Total costs and expenses</b>	<b>1,876</b>	<b>1,864</b>	<b>0.6%</b>	<b>6,954</b>	<b>5,390</b>	<b>29.0%</b>
<b>Operating income</b>	<b>289</b>	<b>422</b>	<b>(31.5)%</b>	<b>1,284</b>	<b>621</b>	<b>&gt;100%</b>
Finance income	33	30	10.0%	122	107	14.0%
Finance expenses	(73)	(81)	(9.9)%	(290)	(225)	28.9%
Other income	1	21	(95.2)%	49	110	(55.5)%
Other expenses	(57)	(150)	(62.0)%	(294)	(75)	>100%
Foreign exchange differences	7	27	(74.1)%	107	3	>100%
Cash flow hedges reclassified to profit or loss	(37)	(36)	2.8%	(146)	(146)	-
<b>Income before income tax</b>	<b>163</b>	<b>233</b>	<b>(30.0)%</b>	<b>832</b>	<b>395</b>	<b>&gt;100%</b>
Income tax expense	(31)	(56)	(44.6)%	(183)	(98)	86.7%
<b>Net income</b>	<b>132</b>	<b>177</b>	<b>(25.4)%</b>	<b>649</b>	<b>297</b>	<b>&gt;100%</b>
<b>Net income attributable to</b>						
- Rosneft shareholders	109	142	(23.2)%	549	222	>100%
- non-controlling interests	23	35	(34.3)%	100	75	33.3%

\*The consolidated financial statements of 12M 2017 were revised in connection with the finalization of the assessment of the fair value of the assets acquired in 2017.

## **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, United Arab Emirates, Brazil, Vietnam, Venezuela, Iraqi Kurdistan, Egypt and also stakes in refineries in Germany and Belarus.

### **Operating Segments**

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

- *Exploration and production (Upstream)*. Geological exploration and development of fields and crude oil and gas production both 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.

## Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

### 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 12 months ended December 31,		% change
	December 31, 2018	September 30, 2018		2018	2017	
<b>Operational results</b>						
Hydrocarbon production (th. boe per day)	5,938	5,826	1.9%	5,795	5,718	1.3%
Crude oil and NGL production (th. barrels per day)	4,792	4,726	1.4%	4,673	4,577	2.1%
Gas production (th. boe per day)	1,146	1,100	4.2%	1,122	1,141	(1.7)%
Hydrocarbon production (mln boe) <sup>1</sup>	507.1	498.4	1.7%	1,964.3	1,938.0	1.4%
Hydrocarbon production (mln toe)	73.7	72.4	1.8%	285.5	281.7	1.3%
<b>Financial results, RUB billions</b>						
EBITDA	463	598	(22.6)%	1,978	1,297	52.5%
Capital expenditures <sup>2</sup>	219	206	6.3%	840	798	5.3%
Upstream operating expenses	104.2	96.0	8.5%	381.2	359.0	6.2%
<b>Indicators per boe</b>						
EBITDA, RUB/boe <sup>1</sup>	868	1,154	(24.8)%	968	648	49.4%
Capital expenditures, RUB/boe	432	413	4.6%	428	412	3.9%
Upstream operating expenses, RUB/boe	205	193	6.2%	194	185	4.9%
Upstream operating expenses, USD/boe <sup>3</sup>	3.1	2.9	6.9%	3.1	3.2	(3.1)%

<sup>1</sup>Excluding effect of associates and joint ventures.

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

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

### Upstream EBITDA

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2018	September 30, 2018		2018	2017	
<b>Revenues and equity share in profits of associates and joint ventures</b>	<b>1,178</b>	<b>1,335</b>	<b>(11.8)%</b>	<b>4,679</b>	<b>3,180</b>	<b>47.1%</b>
<i>Including equity share in profits of associates and joint ventures</i>	23	23	–	76	42	81.0%
<b>Expenses net of depreciation including</b>	<b>751</b>	<b>795</b>	<b>(5.5)%</b>	<b>2,863</b>	<b>2,076</b>	<b>37.9%</b>
Upstream operating expenses <sup>1</sup>	104	96	8.5%	381	359	6.2%
General and administrative expenses	18	17	5.9%	65	57	14.0%
Hydrocarbon procurement costs <sup>2</sup>	8	7	14.3%	26	35	(25.7)%
Pipeline tariffs and transportation costs and other costs <sup>3</sup>	9	6	50.0%	34	32	6.3%
Exploration expenses	6	3	100.0%	16	19	(15.8)%
Taxes other than income tax	606	666	(9.0)%	2,341	1,574	48.7%
Effect of prepayments offsetting	36	58	(37.9)%	162	193	(16.1)%
<b>EBITDA</b>	<b>463</b>	<b>598</b>	<b>(22.6)%</b>	<b>1,978</b>	<b>1,297</b>	<b>52.5%</b>

<sup>1</sup>Percentage is calculated based on the unrounded data.

<sup>2</sup>Starting from the first quarter of 2018 the part of gas trading activity was reclassified to Downstream operating segment.

<sup>3</sup>Other costs include revision of ecological reserves of RUB 1.8 billion and RUB 0.4 billion in the fourth and third quarters of 2018, respectively; and RUB 3.4 billion and RUB 1.8 billion in the twelve months of 2018 and 2017, respectively.

## Operating indicators

### Production of Crude Oil and NGL

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

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

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2018	September 30, 2018		2018	2017	
	(million of barrels)			(million of barrels)		
RN-Yuganskneftegaz (Western Siberia)	133.1	131.3	1.4%	519.8	492.6	5.5%
Projects of the Vankor group (Eastern Siberia)	38.6	40.4	(4.5)%	159.0	163.7	(2.9)%
Samotlorneftegaz (Western Siberia)	36.3	36.0	0.8%	143.8	144.5	(0.5)%
Bashneft-Dobycha (Central Russia)	30.8	30.5	1.0%	121.4	122.7	(1.1)%
Orenburgneft (Central Russia)	28.4	28.4	–	110.4	116.3	(5.1)%
Samaraneftegaz (Central Russia)	23.9	22.7	5.3%	89.7	93.7	(4.3)%
RN-Uvatneftegaz (Western Siberia)	20.3	18.8	8.0%	78.3	71.3	9.8%
Verkhnechonskneftegaz (Eastern Siberia)	15.7	15.0	4.7%	61.0	61.3	(0.5)%
Varyeganneftegaz (Western Siberia)	11.7	11.9	(1.7)%	44.1	46.1	(4.3)%
RN-Nyaganneftegaz (Western Siberia)	12.5	12.3	1.6%	43.3	44.4	(2.5)%
RN-Purneftegaz (Western Siberia) <sup>1</sup>	9.8	9.9	(1.0)%	36.2	38.8	(6.7)%
Tomskneft (Western Siberia)	8.1	8.3	(2.4)%	32.4	34.6	(6.4)%
RN-Severnaya Neft (Timan Pechora)	5.7	5.9	(3.4)%	22.4	24.0	(6.7)%
Taas-Yuryakh (Far East)	6.6	6.1	8.2%	21.5	9.2	>100%
Offshore projects (Far East) <sup>2</sup>	5.2	5.1	2.0%	19.6	22.0	(10.9)%
Vostsibneftegaz (Eastern Siberia)	4.9	4.2	16.7%	17.1	5.5	>100%
Kondaneft (Western Siberia)	4.4	3.4	29.4%	11.8	1.7	>100%
Sorovskneft (Western Siberia)	2.5	2.9	(13.8)%	11.0	15.2	(27.6)%
Bashneft-Polyus (Timan Pechora) <sup>3</sup>	2.0	2.1	(4.8)%	8.1	14.7	(44.9)%
Other	9.5	9.2	3.3%	36.7	35.9	2.2%
<b>Crude oil and NGL production by fully and proportionately consolidated enterprises</b>	<b>410.0</b>	<b>404.4</b>	<b>1.4%</b>	<b>1,587.6</b>	<b>1,558.2</b>	<b>1.9%</b>
Slavneft (Western and Eastern Siberia)	13.2	13.1	0.8%	51.1	52.9	(3.4)%
Udmurtneft (Central Russia)	5.6	5.6	–	22.3	22.4	(0.4)%
Messoyakhaneftegaz (Western Siberia)	4.5	4.3	4.7%	16.5	11.7	41.0%
Other	7.6	7.4	2.7%	28.1	25.3	11.1%
<b>Total share in production of associates and JV</b>	<b>30.9</b>	<b>30.4</b>	<b>1.6%</b>	<b>118.0</b>	<b>112.3</b>	<b>5.1%</b>
<b>Total crude oil and NGL production</b>	<b>440.9</b>	<b>434.8</b>	<b>1.4%</b>	<b>1,705.6</b>	<b>1,670.5</b>	<b>2.1%</b>
<b>Daily crude oil and NGL production (th. barrels per day)</b>	<b>4,792</b>	<b>4,726</b>	<b>1.4%</b>	<b>4,673</b>	<b>4,577</b>	<b>2.1%</b>

<sup>1</sup>Including Kharampurneftegaz and Sevkomneftegaz.

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

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

In the fourth quarter of 2018 daily crude oil and NGL production amounted to 4.79 mln barrels per day, exceeding the daily production level of the third quarter of 2018 by 1.4% driven by increased production at RN-Yuganskneftegaz, RN-Uvatneftegaz, and rapid production recovery at a number of oil fields after removing of restrictions under the OPEC+ Agreement.

According to the results of the twelve months of 2018, daily crude oil and NGL production of the Company reached 4.67 mln barrels per day (230.2 mln tonnes), which is 2.1% higher than the level of the twelve months of 2017. Key growth factors were: achieving record production at one of the major Company's unit – RN-Yuganskneftegaz, launching new large fields (the second stage of Srednebotuobinskoye, Tagulskoye, Russkoye and Kuyumbinskoye fields) and continued active development of existing projects in terms of production restrictions under the OPEC+ Agreement during the year.

In the twelve months of 2018 the development drilling almost remained at the level of the twelve months of 2017 and amounted to more than 12 mln meters, while the construction volume of complex multilateral wells doubled. The number of new wells commissioning increased by 3.5% up to 3.4 th. wells.

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Horizontal wells share increased up to 48% and the number of new horizontal wells with multistage fracturing up by 51%. In-house drilling share is more than 50%.

### Production of Gas

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

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2018	September 30, 2018		2018	2017	
	bcm			bcm		
Sibneftegas (Western Siberia)	2.89	3.01	(4.0)%	11.96	12.58	(4.9)%
Projects of the Vankor group (Eastern Siberia) <sup>2</sup>	1.72	1.87	(8.0)%	7.25	8.37	(13.4)%
Rospan International (Western Siberia)	1.69	1.59	6.3%	6.63	6.45	2.8%
Samotlorneftegaz (Western Siberia)	1.54	1.36	13.2%	5.90	5.82	1.4%
RN-Purneftegaz (Western Siberia) <sup>3</sup>	1.45	1.44	0.7%	5.61	6.07	(7.6)%
RN-Yuganskneftegaz (Western Siberia)	1.26	1.21	4.1%	4.77	4.64	2.8%
Varyeganneftegaz (Western Siberia)	1.05	0.98	7.1%	4.06	3.97	2.3%
Offshore projects (Far East) <sup>2,4</sup>	0.71	0.66	7.6%	3.12	4.13	(24.5)%
Zohr project (Egypt) <sup>4</sup>	0.87	0.73	19.2%	2.16	0.02	>100%
RN-Krasnodarneftegaz (Southern Russia)	0.50	0.46	8.7%	1.99	2.47	(19.4)%
RN-Nyaganneftegaz (Western Siberia)	0.52	0.50	4.0%	1.78	1.79	(0.6)%
Orenburgneft (Central Russia)	0.34	0.32	6.3%	1.38	1.74	(20.7)%
Tomskneft (Western Siberia)	0.25	0.24	4.2%	0.95	0.94	1.1%
Verkhnechonskneftegaz (Eastern Siberia)	0.28	0.26	7.7%	0.87	0.23	>100%
Rosneft Vietnam B.V. (Vietnam)	0.16	0.18	(11.1)%	0.78	0.64	21.9%
Samaraneftegaz (Central Russia)	0.14	0.13	7.7%	0.52	0.47	10.6%
Bashneft-Dobycha (Central Russia) <sup>2</sup>	0.13	0.12	8.3%	0.50	0.53	(5.7)%
RN-Sakhalinmorneftegaz (Far East)	0.10	0.09	11.1%	0.37	0.35	5.7%
RN-Uvatneftegaz (Western Siberia)	0.08	0.07	14.3%	0.30	0.24	25.0%
RN-Severnaya Neft (Timan Pechora)	0.05	0.05	–	0.19	0.21	(9.5)%
Other	0.21	0.16	31.3%	0.76	0.71	7.0%
<b>Total gas production by fully and proportionately consolidated enterprises</b>	<b>15.94</b>	<b>15.43</b>	<b>3.3%</b>	<b>61.85</b>	<b>62.37</b>	<b>(0.8)%</b>
Purgaz (Western Siberia)	1.19	1.02	16.7%	4.72	5.30	(10.9)%
Slavneft (Western and Eastern Siberia)	0.12	0.12	–	0.47	0.45	4.4%
Other	0.06	0.05	20.0%	0.22	0.29	(24.1)%
<b>Total share in production of associates and JV</b>	<b>1.37</b>	<b>1.19</b>	<b>15.1%</b>	<b>5.41</b>	<b>6.04</b>	<b>(10.4)%</b>
<b>Total gas production</b>	<b>17.31</b>	<b>16.62</b>	<b>4.2%</b>	<b>67.26</b>	<b>68.41</b>	<b>(1.7)%</b>
Natural gas	8.32	7.99	4.1%	32.33	31.58	2.4%
Associated gas	8.99	8.63	4.2%	34.93	36.83	(5.2)%
<b>Daily gas production (mcm per day)</b>	<b>188.2</b>	<b>180.7</b>	<b>4.2%</b>	<b>184.3</b>	<b>187.4</b>	<b>(1.7)%</b>

<sup>1</sup>Production volume equals extracted volume minus flared volume and gas used for NGL production. Gross gas production amounted to 19.1 bcm in the fourth quarter of 2018, 18.4 bcm in the third quarter of 2018; 74.2 bcm and 73.3 bcm in the twelve months of 2018 and 2017, respectively.

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

<sup>3</sup>Including Kharampurneftegaz and Sevkomneftegaz.

<sup>4</sup>Net of royalty and government share.

Gas production in the fourth quarter of 2018 amounted to 17.31 bcm, increasing by 4.2 % compared with the third quarter of 2018. The increase in gas production was mainly driven by the completion of scheduled preventive maintenance at Sibur gas processing plants and Rospan fields in the third quarter of 2018, a seasonal increase in demand during the autumn-winter period, higher gas production due to the increase in the capacity of the Zohr project in Egypt.

The decrease in gas production in the twelve months of 2018 of 1.7% compared with the same period of 2017 was mainly due to a reduction of associated gas production on the fields with developing infrastructure and on a number of other assets based on the back of economic efficiency of development and external constraints.

### 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 fourth quarter of 2018, remaining at the level of the third quarter of 2018.

## **Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018**

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Considerable income growth in the twelve months of 2018 up to RUB 76 billion compared with the same period of 2017 (RUB 42 billion) is mainly due to improved macroeconomic conditions and increased production volumes of Messoyakhneftegaz, and growth of equity income of international JV.

### **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.

In the fourth quarter of 2018 compared with the third quarter of 2018 an increase in the upstream production and operating expenses of 8.5% (an increase of 6.2% per boe) to RUB 104.2 billion was mainly due to higher tariffs of natural monopolies, increased costs in technological transport and production growth after removing of restriction under OPEC+ Agreement.

Upstream production and operating expenses increased in the twelve months of 2018 by 6.2% to RUB 381.2 billion (an increase of 4.9% per boe) compared with the same period of 2017 which is mainly due higher electricity tariffs, increased cost of repair and maintenance of a growing stock of wells and other oilfield services, and higher costs for material and transport.

### **Exploration Expenses<sup>1</sup>**

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

Exploration expenses in the fourth quarter of 2018 and in the third quarter of 2018 were RUB 4 billion and RUB 2 billion, respectively. In the twelve months of 2018 and 2017, exploration expenses amounted to RUB 11 billion and RUB 15 billion, respectively. The decrease of 26.7% is caused by implementation of large-scale work on seismic exploration in the strategically important regions of presence in 2017 and continued processing and interpretation of the data in the current year.

### **Mineral extraction tax**

The decrease in MET expense in the fourth quarter of 2018 compared with the third quarter of 2018 was mainly due to enacted MET rate decrease of 10.4%, caused by lower Urals price (by 8.0% in RUB terms).

The increase in MET expense in the twelve months of 2018 compared with the same period of 2017 was mainly due to enacted MET rate increase of 53.3%, caused by higher Urals price (by 41.2% in RUB terms).

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<sup>1</sup> Net of intercompany turnover of RUB 2 billion and RUB 1 billion in the fourth quarter of 2018 and in the third quarter of 2018, respectively and RUB 5 bln and RUB 4 bln in 2018 and 2017, respectively.



**Management’s discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018**

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

	For 3 months ended		%	For 12 months ended December 31,		%
	December 31, 2018	September 30, 2018		2018	2017	
	(thousand RUB, except %)					
Average enacted mineral extraction tax rate (per tonne)	12.55	14.01	(10.4)%	12.47	8.13	53.4%
Actual mineral extraction tax expense per tonne of oil produced	10.37	11.84	(12.4)%	10.44	7.06	47.8%
Actual mineral extraction tax expense per tonne of oil equivalent produced <sup>1</sup>	8.45	9.68	(12.7)%	8.50	5.74	48.1%
	(RUB, except %)					
Actual gas extraction tax rate per thousand cubic meters	547	558	(2.0)%	551	521	5.8%
Actual extraction tax rate on gas condensate <sup>2</sup> per tonne	4,231	4,611	(8.2)%	4,309	3,747	15.0%

<sup>1</sup>Including consolidated oil and gas volumes

<sup>2</sup>The 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 mineral extraction tax rate is lower than generally established tax rates for the analyzed periods primarily due to tax exemptions, which are active in the form of zero rates and reduced extraction tax rate by “Dm” coefficient, which characterizes complexity of crude oil production at a particular oil field (See Attachment 1).



**Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018**

**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 12 months ended December 31,		
	December 31, 2018	September 30, 2018	% change	2018	2017	% change
<b>Operational results, mln tonne</b>						
Crude oil processing at refineries	29.53	29.82	(1.0)%	115.04	112.80	2.0%
<i>Processing at Company's own refineries in Russia</i>	24.78	24.72	0.2%	95.40	92.61	3.0%
<i>Processing at Company's own refineries outside Russia</i>	2.62	3.00	(12.7)%	11.53	12.00	(3.9)%
<i>Processing at Associates' refineries</i>	2.13	2.10	1.4%	8.11	8.19	(1.0)%
<b>Financial results, RUB billion</b>						
EBITDA	46	60	(23.3)%	163	177	(7.9)%
Capital expenditures of refineries <sup>1</sup>	21	13	61.5%	55	65	(15.4)%
Operating expenses of processing in Russia	39.4	32.9	19.8%	130.0	116.8	11.3%
Operating expenses of processing outside Russia	7.2	6.5	10.8%	26.9	22.6	19.0%
<b>Indicators per tonne of the output, RUB per tonne<sup>2</sup></b>						
EBITDA <sup>3</sup>	1,569	2,165	(27.5)%	1,478	1,568	(5.7)%
Capital expenditure of refineries	766	469	63.3%	514	621	(17.2)%
Operating expenses for processing in Russia	1,590	1,331	19.5%	1,364	1,261	8.2%
Operating expenses for processing outside Russia	2,748	2,167	26.8%	2,333	1,883	23.9%

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

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

<sup>3</sup>Excluding effect of associates and joint ventures.

**Downstream EBITDA**

	For 3 months ended			For 12 months ended December 31,		
	December 31, 2018	September 30, 2018	% change	2018	2017	% change
	RUB billion			RUB billion		
<b>Revenues and equity share in profits of associates and joint ventures</b>	<b>2,155</b>	<b>2,304</b>	<b>(6.5)%</b>	<b>8,255</b>	<b>6,096</b>	<b>35.4%</b>
<i>Including equity share in profits of associates and joint ventures</i>	3	—	—	5	13	(61.5)%
<b>Expenses net of depreciation including</b>	<b>2,109</b>	<b>2,244</b>	<b>(6.0)%</b>	<b>8,092</b>	<b>5,919</b>	<b>36.7%</b>
Operating expenses at refineries, cost of additives	51	47	8.5%	182	163	11.7%
Operating expenses of retail entities	15	14	7.1%	55	50	10.0%
Cost of purchased oil, gas, petroleum products and refining costs including intersegment turnover	1,443	1,641	(12.1)%	5,767	4,080	41.3%
Administrative expenses, including loss allowance for expected credit losses	16	5	>100%	47	39	20.5%
Pipeline tariffs and transportation costs	165	160	3.1%	635	587	8.2%
Taxes other than income tax	86	86	—	361	360	0.3%
Export customs duty	317	289	9.7%	1,061	658	61.2%
<i>Effect of intragroup inventory and others expense/(income)</i>	16	2	>100%	(16)	(18)	11.1%
<b>EBITDA</b>	<b>46</b>	<b>60</b>	<b>(23.3)%</b>	<b>163</b>	<b>177</b>	<b>(7.9)%</b>

## 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 12 months ended December 31,		%
	December 31, 2018	September 30, 2018		2018	2017	
	mln of tonnes			mln of tonnes		
Crude oil processing at refineries in Russia <sup>1</sup>	26.79	26.77	0.1%	103.34	100.55	2.8%
Crude oil processing at refineries outside Russia	2.74	3.05	(10.2)%	11.70	12.25	(4.5)%
including crude oil processing in Germany <sup>2</sup>	2.62	3.00	(12.7)%	11.53	12.00	(3.9)%
including crude oil processing in Belarus	0.12	0.05	>100.0%	0.17	0.25	(32.0)%
<b>Total Group crude oil processing</b>	<b>29.53</b>	<b>29.82</b>	<b>(1.0)%</b>	<b>115.04</b>	<b>112.80</b>	<b>2.0%</b>
<b>Petroleum product output:</b>						
High octane gasoline	3.81	3.98	(4.3)%	14.99	15.18	(1.3)%
Low octane gasoline	0.02	0.03	(33.3)%	0.09	0.11	(18.2)%
Naphtha	1.68	1.64	2.4%	6.40	6.22	2.9%
Diesel	8.86	8.81	0.6%	34.07	33.01	3.2%
Fuel oil	6.30	6.17	2.1%	23.99	23.04	4.1%
Jet fuel	0.80	1.07	(25.2)%	3.56	3.31	7.6%
Petrochemicals	0.42	0.31	35.5%	1.57	1.52	3.3%
Other	3.91	3.81	2.6%	15.06	14.51	3.8%
<b>Product output at Rosneft's refineries in Russia</b>	<b>25.80</b>	<b>25.82</b>	<b>(0.1)%</b>	<b>99.73</b>	<b>96.90</b>	<b>2.9%</b>
<b>Product output at refineries outside Russia</b>	<b>2.84</b>	<b>3.10</b>	<b>(8.4)%</b>	<b>11.93</b>	<b>12.18</b>	<b>(2.1)%</b>
including crude oil output in Germany	2.75	3.06	(10.1)%	11.80	11.95	(1.3)%
including product output in Belarus	0.09	0.04	>100.0%	0.13	0.23	(43.5)%
<b>Total Group product output</b>	<b>28.64</b>	<b>28.92</b>	<b>(1.0)%</b>	<b>111.66</b>	<b>109.08</b>	<b>2.4%</b>

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

<sup>2</sup>Excluding additives received and other raw materials for processing.

Rosneft's total refinery throughput in Russia in the fourth quarter of 2018 amounted to 26.79 mln tonnes. If compared to the third quarter of 2018 the increase is mainly due to the regulation of utilisation rate in terms of current demand.

In the fourth quarter of 2018, processing at the refineries in Germany decreased by 12.7% in comparison with the third quarter of 2018 that was mainly caused by the unscheduled partial shutdown of the refinery in September 2018.

In the twelve months of 2018 crude oil production at the German refineries decreased by 3.9% if compared with the same period of 2017, mainly caused by unscheduled partial shutdown of the refinery in September 2018.

**Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018**

**Financial indicators**

**Revenues and equity share in profits of associates and joint ventures<sup>1</sup>**

Increase in revenues in RUB terms for year 2018 compared with year 2017 is mainly due to worldwide crude oil price growth (41.2% in RUB terms compared to year 2017) was accompanied by increase in petroleum products sales volumes.

The table below presents revenues from sales of crude oil, gas, petroleum and petrochemical products and other revenues in billions of RUB<sup>2</sup>:

	For 3 months ended					For 12 months ended December 31,				
	December 31, 2018		September 30, 2018		% change	2018		2017		% change
	% of revenue		% of revenue			% of revenue		% of revenue		
<b>RUB billion, except %</b>										
<b>Crude oil</b>										
International Sales to non-CIS	930	42.9%	938	41.2%	(0.9)%	3,419	41.5%	2,279	38.0%	50.0%
Europe and other directions	440	20.3%	444	19.6%	(0.9)%	1,673	20.3%	1,324	22.1%	26.4%
Asia	490	22.6%	494	21.6%	(0.8)%	1,746	21.2%	955	15.9%	82.8%
International sales to CIS	49	2.3%	55	2.4%	(10.9)%	203	2.5%	145	2.4%	40.0%
Domestic sales	28	1.3%	35	1.5%	(20.0)%	123	1.5%	116	1.9%	6.0%
<b>Total crude oil</b>	<b>1,007</b>	<b>46.5%</b>	<b>1,028</b>	<b>45.1%</b>	<b>(2.0)%</b>	<b>3,745</b>	<b>45.5%</b>	<b>2,540</b>	<b>42.3%</b>	<b>47.4%</b>
<b>Gas</b>	<b>70</b>	<b>3.2%</b>	<b>55</b>	<b>2.4%</b>	<b>27.3%</b>	<b>234</b>	<b>2.8%</b>	<b>215</b>	<b>3.6%</b>	<b>8.8%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	540	25.0%	643	28.1%	(16.0)%	2,272	27.6%	1,626	27.1%	39.7%
Europe and other directions	391	18.1%	476	20.8%	(17.9)%	1,700	20.7%	1,210	20.2%	40.5%
Asia	149	6.9%	167	7.3%	(10.8)%	572	6.9%	416	6.9%	37.5%
International Sales to CIS	42	1.9%	44	1.9%	(4.5)%	151	1.8%	117	1.9%	29.1%
Domestic sales	411	19.0%	423	18.5%	(2.8)%	1,489	18.1%	1,226	20.4%	21.5%
Sales of bunker fuel to end-users	24	1.1%	27	1.2%	(11.1)%	85	1.0%	57	0.9%	49.1%
<b>Total petroleum products</b>	<b>1,017</b>	<b>47.0%</b>	<b>1,137</b>	<b>49.7%</b>	<b>(10.6)%</b>	<b>3,997</b>	<b>48.5%</b>	<b>3,026</b>	<b>50.3%</b>	<b>32.1%</b>
<b>Sales of LNG</b>	–	–	–	–	–	–	–	12	0.2%	(100.0)%
<b>Petrochemical products</b>	<b>23</b>	<b>1.1%</b>	<b>25</b>	<b>1.1%</b>	<b>(8.0)%</b>	<b>100</b>	<b>1.2%</b>	<b>84</b>	<b>1.4%</b>	<b>19.0%</b>
International sales	10	0.5%	10	0.4%	0.0%	41	0.5%	31	0.5%	32.3%
Domestic sales	13	0.6%	15	0.7%	(13.3)%	59	0.7%	53	0.9%	11.3%
<b>Sales of petroleum products, petrochemicals and LNG</b>	<b>1,040</b>	<b>48.1%</b>	<b>1,162</b>	<b>50.8%</b>	<b>(10.5)%</b>	<b>4,097</b>	<b>49.7%</b>	<b>3,122</b>	<b>51.9%</b>	<b>31.2%</b>
<b>Support services and other revenues</b>	<b>22</b>	<b>1.0%</b>	<b>17</b>	<b>0.7%</b>	<b>29.4%</b>	<b>80</b>	<b>1.0%</b>	<b>77</b>	<b>1.3%</b>	<b>3.9%</b>
<b>Equity share in profits of associates and joint ventures</b>	<b>26</b>	<b>1.2%</b>	<b>24</b>	<b>1.0%</b>	<b>8.3%</b>	<b>82</b>	<b>1.0%</b>	<b>57</b>	<b>0.9%</b>	<b>43.9%</b>
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>2,165</b>	<b>100.0%</b>	<b>2,286</b>	<b>100.0%</b>	<b>(5.3)%</b>	<b>8,238</b>	<b>100.0%</b>	<b>6,011</b>	<b>100.0%</b>	<b>37.0%</b>

<sup>1</sup>Under IFRS consolidated financial statements.

<sup>2</sup>The 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 fourth quarter of 2018 and twelve months of 2018

**Sales Volumes**

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

	For 3 months ended					For 12 months ended December 31,				
	December 31, 2018		September 30, 2018		% change	2018		2017		% change
	mln bbl	% of total volume	mln bbl	% of total volume		mln bbl	% of total volume	mln bbl	% of total volume	
<b>Crude oil</b>										
International Sales to non-CIS	228.7	49.4%	213.2	45.9%	7.3%	851.4	46.9%	839.6	46.9%	1.4%
Europe and other directions	109.5	23.7%	97.0	20.9%	12.9%	413.1	22.7%	486.4	27.2%	(15.1)%
Asia	119.2	25.7%	116.2	25.0%	2.6%	438.3	24.2%	353.2	19.7%	24.1%
International Sales to CIS	16.3	3.5%	15.5	3.3%	5.2%	64.4	3.6%	62.2	3.5%	3.5%
Domestic	8.9	1.9%	10.4	2.2%	(14.4)%	40.0	2.2%	51.1	2.9%	(21.7)%
<b>Total crude oil</b>	<b>253.9</b>	<b>54.8%</b>	<b>239.1</b>	<b>51.4%</b>	<b>6.2%</b>	<b>955.8</b>	<b>52.7%</b>	<b>952.9</b>	<b>53.3%</b>	<b>0.3%</b>
	mln tonnes		mln tonnes			mln tonnes		mln tonnes		
International Sales to non-CIS	30.9	49.4%	28.8	45.9%	7.3%	115.0	46.9%	113.4	46.9%	1.4%
Europe and other directions	14.8	23.7%	13.1	20.9%	12.9%	55.8	22.7%	65.7	27.2%	(15.1)%
Asia	16.1	25.7%	15.7	25.0%	2.6%	59.2	24.2%	47.7	19.7%	24.1%
International Sales to CIS	2.2	3.5%	2.1	3.3%	5.2%	8.7	3.6%	8.4	3.5%	3.5%
Domestic sales	1.2	1.9%	1.4	2.2%	(14.4)%	5.4	2.2%	6.9	2.9%	(21.7)%
<b>Total crude oil</b>	<b>34.3</b>	<b>54.8%</b>	<b>32.3</b>	<b>51.4%</b>	<b>6.2%</b>	<b>129.1</b>	<b>52.7%</b>	<b>128.7</b>	<b>53.3%</b>	<b>0.3%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	15.4	24.5%	16.9	26.9%	(8.9)%	66.0	26.9%	63.7	26.3%	3.6%
Europe and other directions	10.9	17.3%	12.3	19.6%	(11.4)%	49.0	20.0%	46.0	19.0%	6.5%
Asia	4.5	7.2%	4.6	7.3%	(2.2)%	17.0	6.9%	17.7	7.3%	(4.0)%
International Sales to CIS	1.1	1.8%	1.1	1.8%	0.0%	4.1	1.7%	4.4	1.8%	(6.8)%
Domestic sales	10.3	16.5%	10.9	17.4%	(5.5)%	39.9	16.3%	38.7	16.0%	3.1%
Sales of bunker fuel to end-users	0.8	1.3%	0.9	1.4%	(11.1)%	3.1	1.3%	2.8	1.2%	10.7%
<b>Total petroleum products</b>	<b>27.6</b>	<b>44.1%</b>	<b>29.8</b>	<b>47.6%</b>	<b>(7.4)%</b>	<b>113.1</b>	<b>46.2%</b>	<b>109.6</b>	<b>45.3%</b>	<b>3.2%</b>
<b>Sales of LNG</b>	–	–	–	–	–	–	–	<b>0.6</b>	<b>0.2%</b>	<b>(100.0)%</b>
<b>Petrochemical products</b>	<b>0.7</b>	<b>1.1%</b>	<b>0.6</b>	<b>1.0%</b>	<b>16.7%</b>	<b>2.8</b>	<b>1.1%</b>	<b>2.8</b>	<b>1.2%</b>	<b>0.0%</b>
International sales	0.3	0.5%	0.2	0.4%	50.0%	1.1	0.4%	1.1	0.5%	0.0%
Domestic sales	0.4	0.6%	0.4	0.6%	0.0%	1.7	0.7%	1.7	0.7%	0.0%
<b>Total crude oil and products, LNG</b>	<b>62.6</b>	<b>100.0%</b>	<b>62.7</b>	<b>100.0%</b>	<b>(0.2)%</b>	<b>245.0</b>	<b>100.0%</b>	<b>241.7</b>	<b>100.0%</b>	<b>1.4%</b>
	bcm		bcm			bcm		bcm		
<b>Gas sales volumes</b>	<b>16.63</b>		<b>14.45</b>		<b>15.1%</b>	<b>62.03</b>		<b>63.91</b>		<b>(2.9)%</b>

## Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

### Average Sales Prices

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

	For 3 months ended				% change	For 12 months ended December 31,				% change
	December 31, 2018		September 30, 2018			2018		2017		
	th.RUB/ barrel	th.RUB/ tonne	th.RUB/ barrel	th.RUB/ tonne		th.RUB/ barrel	th.RUB/ tonne	th.RUB/ barrel	th.RUB/ tonne	
<b>Average prices on foreign markets</b>										
Crude oil, non-CIS	4.25	31.4	4.71	34.9	(10.0)%	4.23	31.3	2.95	21.9	42.9%
Europe and other directions**	4.04	29.9	4.59	34.0	(12.1)%	4.08	30.2	2.89	21.4	41.1%
Asia**	4.45	33.0	4.82	35.7	(7.6)%	4.38	32.4	3.06	22.6	43.4%
Crude oil, CIS	3.09	22.9	3.53	26.1	(12.3)%	3.16	23.4	2.32	17.1	36.8%
Petroleum products, non- CIS		35.5		38.2	(7.1)%		34.7		25.8	34.5%
Europe and other directions		36.4		38.9	(6.4)%		35.0		26.6	31.6%
Asia		33.4		36.3	(8.0)%		34.0		23.6	44.1%
Petroleum products, CIS		38.3		40.6	(5.7)%		36.7		26.7	37.5%
Sales of LNG		–		–	–		–		18.9	(100.0)%
Petrochemical products		39.6		41.1	(3.6)%		38.3		29.1	31.6%
<b>Average domestic prices</b>										
Crude oil	2.96	21.9	3.40	25.2	(13.1)%	3.06	22.6	2.26	16.7	35.3%
Petroleum products		40.0		38.8	3.1%		37.4		31.7	18.0%
Gas (th. RUB./the cubic meter)***		3.60		3.25	10.8%		3.39		3.33	1.8%
Petrochemical products		32.4		38.1	(15.0)%		34.7		32.0	8.4%
<b>Sales of bunker fuel to end-users</b>		29.4		29.3	0.3%		27.3		20.0	36.5%

\*Average price is calculated from unrounded figures.

\*\*Price excludes the effect of prepayments offsetting under prepaid long-term crude oil supply contracts and revenues from crude oil sales to Transneft (RUB 39 billion and RUB 44 billion in the fourth and third quarters of 2018, respectively; RUB 151 billion and RUB 111 billion in the twelve months 2018 and 2017, respectively).

\*\*\*Including gas sales outside Russian Federation average gas prices were 4.17 th. RUB./th. cubic meter in the fourth quarter of 2018 and 3.80 th. RUB./th. cubic meter in the third quarter of 2018; 3.77 th. RUB./th. cubic meter and 3.36 th. RUB./th. cubic meter in the twelve months of 2018 and 2017, respectively.

### International Crude Oil Sales to non-CIS

Revenue decrease in international crude oil sales to non-CIS countries in the fourth quarter of 2018 compared with the third quarter of 2018 was due to the downturn of 10.0% in average price or RUB 102 billion, which was partially offset by growth of sales volumes by 7.3% (favorable impact on revenue of RUB 72 billion).

Revenue growth of international crude oil sales to non-CIS countries in the twelve months of 2018 compared with the same period of 2017 was mostly due to the upturn of 42.9% in average price or RUB 1 061 billion and growth of sales volumes by 1.4% (favorable impact on revenue of RUB 44 billion).

### International Crude Oil Sales to CIS

Revenue of international crude oil sales to CIS countries in the fourth quarter of 2018 decrease due to the downturn of 12.3% in average sales price (unfavorable impact on revenues of RUB 7 billion), which was offset by an increase in sales volume by 5.2% (positive impact on revenue of RUB 1 billion).

Revenue from international crude oil sales to CIS countries increased in the twelve months of 2018 compared with the same period of 2017 that was due to growth in average sales price of 36.8% (positive impact on revenues of RUB 54 billion) and was accompanied by sales volume growth of 3.5% (favorable impact on revenue of RUB 4 billion).

## Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

### Domestic Sales of Crude Oil

Revenue downturn of domestic sales of crude in the fourth quarter of 2018 compared with the third quarter of 2018 was due to downturn of average sales price of 13.1% (negative impact on revenue of RUB 2 billion), was accompanied by volume downturn of 14.4% (unfavorable impact on revenue of RUB 5 billion).

Revenue upturn of domestic sales of crude oil in the twelve months of 2018 compared with the same period of 2017 is mainly attributable to upturn of average sales price of 35.3% (positive impact on revenue of RUB 32 billion) and was partially offset by downturn in crude oil sales volumes of 21.7% (negative effect on revenues of RUB 7 billion).

### International Petroleum Product Sales to Non-CIS

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

	For 3 months ended						% change		
	December 31, 2018			September 30, 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	0.1	47.4	9	0.2	47.8	(33.3)%	(50.0)%	(0.8)%
Naphtha	56	1.6	35.1	62	1.5	42.1	(9.7)%	6.7%	(16.6)%
Diesel (Gasoil)	118	3.5	39.4	181	4.3	41.7	(34.8)%	(18.6)%	(5.5)%
Fuel oil	184	6.5	26.9	188	6.5	28.8	(2.1)%	0.0%	(6.6)%
Other	7	0.2	33.9	7	0.2	40.1	0.0%	0.0%	(15.5)%
<b>Petroleum products exported to non-CIS</b>	<b>371</b>	<b>11.9</b>	<b>32.0</b>	<b>447</b>	<b>12.7</b>	<b>35.2</b>	<b>(17.0)%</b>	<b>(6.3)%</b>	<b>(9.1)%</b>
Petroleum products sold from German refineries	132	2.4	55.1	150	2.8	53.7	(12.0)%	(14.3)%	2.6%
Petroleum products bought and sold outside Russia	37	1.1	31.7	46	1.4	35.3	(19.6)%	(21.4)%	(10.2)%
<b>Trading of petroleum products outside Russia</b>	<b>169</b>	<b>3.5</b>	<b>47.4</b>	<b>196</b>	<b>4.2</b>	<b>47.9</b>	<b>(13.8)%</b>	<b>(16.7)%</b>	<b>(1.0)%</b>
<b>Total</b>	<b>540</b>	<b>15.4</b>	<b>35.5</b>	<b>643</b>	<b>16.9</b>	<b>38.2</b>	<b>(16.0)%</b>	<b>(8.9)%</b>	<b>(7.1)%</b>

\*Average price is calculated from unrounded figures.

Revenue decrease in the international sales of petroleum products to non-CIS countries in the fourth quarter of 2018 compared with the third quarter of 2018 was due to downturn in average price up to 7.1% (negative impact on revenues of RUB 40 billion) and was accompanied by sales volumes decrease of 8.9% (unfavorable impact on revenues of RUB 63 billion).

The table below sets forth Rosneft's revenues, volume and average price per tonne of petroleum products sold to non-CIS countries in the twelve months of 2018 and 2017\*:

	For 12 months ended December 31,						% change		
	2018			2017					
	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	30	0.7	42.1	21	0.6	35.2	42.9%	16.7%	19.6%
Naphtha	227	6.2	36.8	171	6.1	27.9	32.7%	1.6%	31.9%
Diesel (Gasoil)	581	15.8	37.9	426	15.8	26.9	36.4%	0.0%	40.9%
Fuel oil	658	25.4	25.9	449	25.0	18.6	46.5%	1.6%	39.2%
Other	27	0.8	35.7	26	1.0	26.6	3.8%	(20.0)%	34.2%
<b>Petroleum products exported to non-CIS</b>	<b>1,523</b>	<b>48.9</b>	<b>31.6</b>	<b>1,093</b>	<b>48.5</b>	<b>22.9</b>	<b>39.3%</b>	<b>0.8%</b>	<b>38.0%</b>
Petroleum products sold from German refineries	537	10.7	50.1	416	10.6	39.3	29.1%	0.9%	27.5%
Petroleum product purchased and sold outside Russia	212	6.4	33.0	117	4.6	25.4	81.2%	39.1%	29.9%
<b>Trading of petroleum products outside Russia</b>	<b>749</b>	<b>17.1</b>	<b>43.7</b>	<b>533</b>	<b>15.2</b>	<b>35.1</b>	<b>40.5%</b>	<b>12.5%</b>	<b>24.5%</b>
<b>Total</b>	<b>2,272</b>	<b>66.0</b>	<b>34.7</b>	<b>1,626</b>	<b>63.7</b>	<b>25.8</b>	<b>39.7%</b>	<b>3.6%</b>	<b>34.5%</b>

\*Average price is calculated based on the unrounded figures.

Revenue from sales of petroleum products to non-CIS countries increase in the twelve months of 2018 compared with the same period of 2017 was mainly attributable to average price upturn of 34.5% (favorable impact on revenues of RUB 589 billion), and was accompanied by sales volumes increase of 3.6% (favorable impact on revenues of RUB 61 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 fourth quarter of 2018 compared with the third quarter of 2018 attributable to average price downturn of 5.7% (unfavorable impact on revenues of RUB 4 billion).

Revenue from international sales of petroleum products to CIS countries increased in the twelve months of 2018 compared with the same period of 2017 that was mainly attributable to average price upturn of 37.5% (favourable impact on revenues of RUB 41 billion), and was partially offset by sales volumes downturn by 6.8% (unfavorable impact on revenues of RUB 7 billion).

#### **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 fourth quarter of 2018 compared with the third quarter of 2018 decreased mainly due to a decrease in sales volume by 11.1% (unfavorable effect on revenue of RUB 3 billion).

Revenues growth of sales of bunker fuel in the twelve months of 2018 compared with the same period of 2017 was due to average sales price upturn of 36.5% (favorable effect on revenue of RUB 22 billion) and growth of sales volume by 10.7% (favorable effect on revenue of RUB 6 billion).

#### **Petrochemical Products Sales**

Petrochemical products sales volumes from the German refineries amounted to 0.11 mln tonnes in the fourth and 0.13 mln tonnes third quarters of 2018, respectively.

In the fourth quarter of 2018 compared with the third 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 fourth quarter of 2018 compared with the third quarter of 2018 decreased by 13.3% and amounted to RUB 13 billion mainly due to average sales price downturn of 15.0%.

In the twelve months of 2018 compared with the same period of 2017 international revenues increased due to upturn in average sales price by 31.6% (positive impact on revenues of RUB 10 billion). Domestic sales of petrochemical products in the twelve months of 2018 compared with the twelve months of 2017 increased mainly due to upturn in average sales price by 8.4% (positive impact on revenues of RUB 6 billion).



**Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018**

**Gas Sales**

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

	For 3 months ended			For 12 months ended		
	December 31, 2018	September 30, 2018	% change	December 31, 2018	December 31, 2017	% change
	RUB billion			RUB billion		
<b>Revenue</b>						
In the Russian Federation	56.1	44.2	26.9%	200.5	210.4	(4.7)%
Outside the Russian Federation	13.4	10.7	25.2%	33.3	4.4	>100%
<b>Total</b>	<b>69.5</b>	<b>54.9</b>	<b>26.6%</b>	<b>233.8</b>	<b>214.8</b>	<b>8.8%</b>
	bcm			bcm		
<b>Sales volumes</b>						
In the Russian Federation	15.59	13.57	14.9%	59.13	63.22	(6.5)%
Outside the Russian Federation	1.04	0.88	18.2%	2.90	0.69	>100%
<b>Total</b>	<b>16.63</b>	<b>14.45</b>	<b>15.1%</b>	<b>62.03</b>	<b>63.91</b>	<b>(2.9)%</b>
	th. RUB/th. of cubic metres			th. RUB/th. of cubic metres		
<b>Average price</b>						
In the Russian Federation	3.60	3.25	10.8%	3.39	3.33	1.8%
Outside the Russian Federation	12.76	12.29	3.8%	11.46	6.34	80.8%
<b>Average price of the Company</b>	<b>4.17</b>	<b>3.80</b>	<b>9.7%</b>	<b>3.77</b>	<b>3.36</b>	<b>12.2%</b>

\*Average price is calculated from unrounded figures.

Increase in gas sales volumes in the Russian Federation of 14.9% in the fourth quarter of 2018 compared with the third quarter of 2018 was due to seasonal factor accompanied by average sales price upturn of 10.8%. Significant growth of gas revenues outside Russia was mainly due to the production growth at Zohr project.

In the Russian Federation gas sales downturn in the twelve months of 2018 compared with the same period of 2017 resulted from decrease in gas sales volumes of 6.5% (negative impact on revenues of RUB 13.6 billion), caused by reduction of gas production and procurement, that was partially offset by the average sales price upturn of 1.8% (positive impact on revenues of RUB 3.7 billion). Significant growth of gas revenues outside Russia was mainly due to 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.

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

	For 3 months ended					For 12 months ended December 31,				
	December 31, 2018		September 30, 2018		% change	2018		2017		% change
	% of total revenue		% of total revenue			% of total revenue		% of total revenue		
	billion RUB, except %									
Drilling services	1.0	4.6%	0.7	4.0%	42.9%	3.0	3.7%	4.3	5.6%	(30.2)%
Sales of materials	7.4	34.0%	6.5	37.1%	13.8%	30.7	38.3%	27.4	35.6%	12.0%
Repairs and maintenance services	0.6	2.8%	0.4	2.3%	50.0%	2.0	2.5%	2.5	3.2%	(20.0)%
Rent services	1.6	7.3%	1.4	8.0%	14.3%	5.3	6.6%	5.3	6.9%	0.0%
Construction services	0.0	0.0%	0.2	1.1%	(100.0)%	0.5	0.6%	0.5	0.6%	0.0%
Transport services	4.3	19.7%	2.9	16.6%	48.3%	15.2	18.9%	14.7	19.0%	3.4%
Electric power sales and transmission	3.1	14.2%	2.1	12.0%	47.6%	10.5	13.1%	9.9	12.8%	6.1%
Other revenues	3.8	17.4%	3.3	18.9%	15.2%	13.1	16.3%	12.6	16.3%	4.0%
<b>Total</b>	<b>21.8</b>	<b>100.0%</b>	<b>17.5</b>	<b>100.0%</b>	<b>24.6%</b>	<b>80.3</b>	<b>100.0%</b>	<b>77.2</b>	<b>100.0%</b>	<b>4.0%</b>



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### Equity share in profits of downstream associates and joint ventures

The equity share in net financial results (profits) of downstream<sup>1</sup> associates and joint ventures amounts to RUB 5 billion in the twelve months of 2018. In the twelve months of 2017, the equity income was RUB 13 billion.

### Downstream production and operating costs

Downstream operating expenses include\*:

	For 3 months ended		% change	For 12 months ended		% change
	December 31, 2018	September 30, 2018		December 31,		
	2018	2018		2018	2017	
	billion RUB, except %					
Operating expenses at refineries in Russia	39.4	32.9	19.8%	130.0	116.8***	11.3%
Operating expenses at refineries and cost of additives and materials procured for processing outside Russia	12.2	13.2	(7.6)%	52.2	46.5	12.3%
Operating expenses of retail entities including:	14.8	14.1	5.0%	54.6	49.8	9.6%
<i>operating expenses</i>	10.9	9.5	14.7%	38.8	35.2	10.2%
<i>purchase cost of other inventories</i>	3.9	4.6	(15.2)%	15.8	14.6	8.2%
<b>Downstream operating expenses</b>	<b>66.4</b>	<b>60.2</b>	<b>10.3%</b>	<b>236.8</b>	<b>213.1</b>	<b>11.1%</b>
<i>Intragroup inventory effect and others</i>	15.8	2.8	>100%	(15.5)	(18.5)***	-
<b>Total Downstream Operating expenses**</b>	<b>82.2</b>	<b>63.0</b>	<b>30.5%</b>	<b>221.3</b>	<b>194.6</b>	<b>13.7%</b>

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

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

\*\*\*Adjusted for intercompany purchases.

Operating expenses of refineries and retail entities (net of intragroup inventory effect) in the fourth quarter of 2018 compared with the third quarter of 2018 increased by 10.3% due to seasonal factor and scheduled rise of production expenses.

Operating expenses of refineries and retail entities (net of intragroup inventory effect) in the twelve months of 2018 compared with the twelve months of 2017 increased by 11.1%, that is mainly due to growth of volumes of scheduled turnarounds at refineries, higher electricity expenses, 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 12 months ended		% change
	December 31, 2018	September 30, 2018		December 31,		
	2018	2018		2018	2017	
<b>Operating expenses at refineries in Russia (RUB billion)</b>	<b>39.4</b>	<b>32.9</b>	<b>19.8%</b>	<b>130.0</b>	<b>116.8</b>	<b>11.3%</b>
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,650	1,378	19.7%	1,410	1,306	8.0%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,590	1,331	19.5%	1,364	1,261	8.2%
<b>Operating expenses at refineries outside Russia (RUB billion)*</b>	<b>7.2</b>	<b>6.5</b>	<b>10.8%</b>	<b>26.9</b>	<b>22.6</b>	<b>19.0%</b>
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	2,618	2,124	23.3%	2,280	1,891	20.6%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	2,748	2,167	26.8%	2,333	1,883	23.9%
<b>Total operating expenses at Rosneft's refineries (RUB billion)</b>	<b>46.6</b>	<b>39.4</b>	<b>18.3%</b>	<b>156.9</b>	<b>139.4</b>	<b>12.6%</b>

\*Refineries outside Russia also procured the additives and materials for processing: in the fourth quarter of 2018 – RUB 5.0 billion, in the third quarter of 2018 – RUB 6.7 billion; in the twelve months of 2018 and 2017 – RUB 25.3 billion and RUB 23.9 billion, respectively.

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

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Operating expenses of Rosneft's refineries in Russia in the fourth quarter of 2018 compared with the third quarter of 2018 increased by 19.8% to RUB 39.4 billion (an increase of 19.5% per tonne), mainly due to scheduled growth of turnaround expenses and production expenses, and seasonal growth of energy consumption.

Operating expenses of Rosneft's refineries in Russia in the twelve months of 2018 compared with the twelve months of 2017 increased by 11.3% (an increase of 8.2% per tonne) because of growth of electricity tariffs, indexation of wages and scheduled increase in turnaround expenses.

Operating expenses of Rosneft's refineries outside Russia in the fourth quarter of 2018 increased by 10.8% if compared with the third quarter of 2018, due to planned growth of production services and higher seasonal energy consumption. Growth of 26.8% of operating expenses per tonne of refineries outside Russia was driven by seasonal growth of expenses on the back of decrease in production capacity in the fourth quarter of 2018.

The increase in the operating expenses of Rosneft's refineries outside Russia (and operating costs per tonne) in the twelve months of 2018 compared with the twelve months of 2017 was mainly driven by growth of planned turnaround expenses and RUB depreciation against EUR of 10.9%.

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

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

	For 3 months ended		%	For 12 months ended		%
	December 31, 2018	September 30, 2018		December 31, 2018	December 31, 2017	
<b>Crude oil and gas procurement</b>						
Cost of crude oil and gas procured (RUB billion)**	236	242	(2.5)%	846	651	30.0%
<i>including Domestic market</i>	109	106	2.8%	395	273	44.7%
<i>International market</i>	127	136	(6.6)%	451	378	19.3%
Volume of crude oil procured (millions of barrels)	65.9	61.0	8.0%	232.9	243.9	(4.5)%
<i>including Domestic market</i>	32.2	29.9	7.7%	118.1	108.7	8.6%
<i>International market</i>	33.7	31.1	8.4%	114.8	135.2	(15.1)%
Volume of gas procured (bcm)	4.01	1.93	>100%	12.87	15.25	(15.6)%
<b>LNG procurement</b>						
Cost of LNG (RUB billion)	–	–	–	–	11	(100.0)%
Volume of LNG procured (millions of tonnes)	–	–	–	–	0.62	(100.0)%
<b>Petroleum products procurement</b>						
Cost of petroleum products procured (RUB billion)***	40	50	(20.0)%	225	146	54.1%
Volume of petroleum products procured (millions of tonnes)	1.33	1.56	(14.7)%	7.24	5.67	27.7%
<b>Crude oil, gas and petroleum, products refining services</b>						
Cost of refining of crude oil, gas and petroleum products under processing agreements (RUB billion)	6.4	7.3	(12.3)%	27.9	29.0	(3.8)%
Volumes of crude oil and petroleum products produced under processing agreements (millions of tonnes)	2.2	2.1	4.8%	8.3	9.6	(13.5)%
Volumes of gas produced under processing agreements (bcm)	2.4	2.6	(7.7)%	10.4	10.4	0.0%
<b>Cost of products procured for blending on retail entities (RUB billion)</b>						
	14.8	7.8	89.7%	34.8	24.7	40.9%
<i>Including intercompany purchases (RUB billion)</i>	14.8	7.8	89.7%	34.8	24.1	44.4%
<b>Total cost of procured oil, gas and petroleum products, and refining costs (RUB billion)</b>	<b>283</b>	<b>299</b>	<b>(5.4)%</b>	<b>1,099</b>	<b>837</b>	<b>31.3%</b>

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

\*\*Including costs of Upstream segment in the amount of RUB 9 billion in the fourth quarter of 2018, RUB 7 billion in the third quarter of 2018 and RUB 27 billion and RUB 35 billion in the twelve months of 2018 and 2017, respectively.

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

## Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

### Crude oil and Gas procurement

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

The decrease in crude oil and gas procurement of 2.5% in the fourth quarter of 2018 compared with the previous quarter is mainly attributable to reduction of crude oil prices.

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

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2018	September 30, 2018		2018	2017	
	mln barrels			mln barrels		
International market	33.7	31.1	8.4%	114.8	135.2	(15.1)%
Udmurtneft	6.7	6.2	8.1%	24.8	23.6	5.1%
Slavneft	14.3	13.0	10.0%	51.1	51.4	(0.6)%
Messoyahaneftgaz	4.5	4.3	4.7%	16.4	11.7	40.2%
Lukoil-Reservnefteproduct	–	0.2	(100)%	0.6	1.5	(60.0)%
Others	6.7	6.2	8.1%	25.2	20.5	22.9%
<b>Total</b>	<b>65.9</b>	<b>61.0</b>	<b>8.0%</b>	<b>232.9</b>	<b>243.9</b>	<b>(4.5)%</b>

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

The volume of swaps was 11.2 mln barrels and 10.9 mln barrels in the fourth quarter of 2018 and in the third quarter of 2018, respectively; 39.9 mln barrels and 34.6 mln barrels in the twelve months of 2018 and 2017, respectively.

### Petroleum products procurement

Petroleum products from third parties are primarily procured to cover current needs of Rosneft's retail subsidiaries. Procurement of petroleum products is exposed to seasonal fluctuations in volumes and mix. Procurement prices may 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 fourth and third quarters of 2018, respectively:

	For 3 months ended						% change		
	December 31, 2018			September 30, 2018			RUB billion	mln tonnes	th. RUB/ tonne
	RUB billion	mln tonnes	th. RUB/ tonne*	RUB billion	mln tonnes	th. RUB/ tonne*			
<b>Petroleum products procurement in Russia</b>	<b>7</b>	<b>0.18</b>		<b>6</b>	<b>0.20</b>		<b>16.7%</b>	<b>(10.0)%</b>	
High octane gasoline	2	0.06	46.5	2	0.05	43.4	0.0%	20.0%	7.1%
Diesel	4	0.08	49.9	3	0.08	48.7	33.3%	0.0%	2.5%
Jet fuel	0	0.00	47.8	0	0.00	47.2	0.0%	0.0%	1.3%
Others	1	0.04	14.8	1	0.07	18.1	0.0%	(42.9)%	(18.2)**%
<b>Petroleum products procured outside Russia</b>	<b>33</b>	<b>1.15</b>	<b>28.9</b>	<b>44</b>	<b>1.36</b>	<b>32.2</b>	<b>(25.0)%</b>	<b>(15.4)%</b>	<b>(10.2)%</b>
<b>Total</b>	<b>40</b>	<b>1.33</b>		<b>50</b>	<b>1.56</b>		<b>(20.0)%</b>	<b>(14.7)%</b>	

\*Calculated based on unrounded data.

\*\* The decrease is due to product mix.

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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 twelve months of 2018 and 2017, respectively:

	For 12 months ended December 31,						% change		
	2018			2017			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>	<b>26</b>	<b>0.77</b>		<b>30</b>	<b>1.01</b>		<b>(13.3)%</b>	<b>(23.8)%</b>	
High octane gasoline	9	0.27	35.1	9	0.27	32.8	0.0%	0.0%	7.0%
Diesel	13	0.31	40.9	12	0.34	35.7	8.3%	(8.8)%	14.6%
Jet fuel	0	0.00	44.0	0	0.02	30.4	0.0%	>(100)%	44.7%
Others	4	0.19	18.9	9	0.38	20.4	(55.6)%	(50.0)%	(7.4)%
<i>Petroleum products and petrochemicals procured outside Russia</i>	<b>199</b>	<b>6.47</b>	<b>30.8</b>	<b>116</b>	<b>4.66</b>	<b>23.1</b>	<b>71.6%</b>	<b>38.8%</b>	<b>33.3%</b>
<b>Total</b>	<b>225</b>	<b>7.24</b>		<b>146</b>	<b>5.67</b>		<b>54.1%</b>	<b>27.7%</b>	

\* 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.

Volume of petroleum products procured outside Russia increased in the twelve months of 2018 compared with the same period of 2017 due to growth of the Company's trading activity.

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

Procurement of petroleum products outside Russia meets the contractual obligations under long-term agreements on sales of petroleum products.

The increase in procurement of petroleum products and petrochemicals outside Russia in the twelve months of 2018 by 71.6% in comparison with the same period of 2017 was driven by average procurement price growth due to mix of crude oil products and the upturn of supply under the project in India (procurement from Nayara Energy Limited) in the twelve months 2018.

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

Starting from April 2014, associated petroleum gas sales to PJSC "Sibur" and purchases of dry stripped gas from PJSC "Sibur" are presented on a net basis in the Company's financial statements in processing costs in the amount of RUB 5.1 billion and RUB 4.1 billion in the fourth and third quarters of 2018, respectively, and RUB 15.3 billion and RUB 14.0 billion in the twelve months of 2018 and 2017, 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 2.5% in the fourth quarter of 2018 compared with the previous quarter was mainly caused by increase in share of high cost routes and increased share of railroads due to termination of the navigation.

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

	For 3 months ended								% change		
	December 31, 2018				September 30, 2018						
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume	Cost	Cost per tonne
<b>CRUDE OIL</b>											
<b><u>International sales</u></b>											
Pipeline	29.3	88.5%	63.5	2.17	28.3	91.9%	61.1	2.16	3.5%	3.9%	0.5%
Railroad and mixed	0.4	1.2%	1.6	3.85	0.5	1.6%	1.6	3.55	(20.0)%	–	8.5%
Pipeline and FCA**	3.4	10.3%			2.0	6.5%			70.0%		
<b><u>Transportation to refineries</u></b>											
Pipeline***	26.6		20.1	0.76	27.1		20.5	0.75	(1.8)%	(2.0)%	1.3%
Railroad and mixed	2.9		10.3	3.61	2.8		9.7	3.50	3.6%	6.2%	3.1%
<b>PETROLEUM PRODUCTS</b>											
<b><u>International sales</u></b>											
Pipeline	1.7	9.8%	4.5	2.65	2.2	11.5%	5.5	2.54	(22.7)%	(18.2)%	4.3%
Railroad and mixed	12.4	71.2%	33.9	2.72	13.4	70.2%	33.7	2.52	(7.5)%	0.6%	7.8%
Pipeline and FCA****	3.3	19.0%			3.5	18.3%			(5.7)%		
<b>GAS</b>											
Pipeline*****	bcm		RUB/bcm		bcm		RUB/bcm				
Pipeline*****	11.4		11.6	1.02	10.1		11.3	1.12	12.9%	2.7%	(8.9)%
<b>Other transportation expenses*****</b>			19.5				17.6			10.8%	
<b>Total</b>			<b>80</b>	<b>165</b>	<b>79.8</b>	<b>161</b>			<b>0.3%</b>	<b>2.5%</b>	

\* Calculated based on unrounded data.

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

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

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

\*\*\*\*\* Part of gas volumes was dispatched on terms under which Rosneft does not bear transportation expenses. In the fourth quarter of 2018 and in the third quarter of 2018 the volumes were 5.2 bcm and 4.4 bcm, respectively.

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

Crude oil pipeline transportation cost per tonne of international sales in the fourth quarter of 2018 remained practically unchanged to compare to third quarter and amounted to RUB 2.17 thousand per tonne.

Crude oil pipeline transportation cost per tonne of supplies to refineries increased by 1.3% in the fourth quarter of 2018 compared to the third quarter of 2018 that was caused by change in structure of transportation routes.

Crude oil railroad and mixed transportation cost per tonne of supplies to refineries in the fourth quarter of 2018 increased by 3.1% compared with the third quarter of 2018 due to change in transportation routes.

The increase in railroad and mixed transportation per tonne of petroleum products international sales by 7.8% in the fourth quarter of 2018 compared with the previous quarter was mainly due to change in transportation structure.

In the fourth and third quarters 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 twelve months of 2018 and 2017, respectively:

	For 12 months ended December 31,								% change		
	2018				2017						
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume	Cost	Cost per tonne
<b>CRUDE OIL</b>											
<b><u>International sales</u></b>											
Pipeline	112.8	91.2%	241.6	2.14	106.3	87.3%	215.5	2.03	6.1%	12.1%	5.4%
Railroad and mixed	1.9	1.5%	7.0	3.63	2.2	1.8%	7.3	3.33	(13.6)%	(4.1)%	9.0%
Pipeline and FCA**	9.0	7.3%			13.3	10.9%			(32.3)%		
<b><u>Transportation to refineries</u></b>											
Pipeline***	104.4		79.6	0.76	102.5		75.8	0.74	1.9%	5.0%	2.7%
Railroad and mixed	10.6		37.0	3.51	10.2		34.3	3.36	3.9%	7.9%	4.5%
<b>PETROLEUM PRODUCTS</b>											
<b><u>International sales</u></b>											
Pipeline	7.8	10.6%	20.8	2.67	8.0	11.2%	22.1	2.76	(2.5)%	(5.9)%	(3.4)%
Railroad and mixed	52.4	71.1%	135.3	2.58	52.1	73.0%	127.9	2.46	0.6%	5.8%	4.9%
Pipeline and FCA****	13.5	18.3%			11.3	15.8%			19.5%		
<b>GAS</b>											
Pipeline*****	bcm		RUB/bcm		bcm		RUB/bcm				
Pipeline*****	41.9		45.1	1.08	43.1		50.8	1.18	(2.8)%	(11.2)%	(8.5)%
<b>Other transportation expenses</b>			71.6				63			13.7%	
<b>Total</b>	<b>312.4</b>		<b>638</b>		<b>305.9</b>		<b>596</b>		<b>2.1%</b>	<b>7.0%</b>	

\*Calculated based on unrounded data.

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

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

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

\*\*\*\*\*Part of gas volumes was dispatched on terms where Rosneft does not bear transportation expenses. These volumes amounted to 20.1 bcm and 20.9 bcm in the twelve months of 2018 and 2017, respectively.

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

The change in transportation costs per tonne of products sold (for crude oil and petroleum products) for the twelve months of 2018 compared with the same period of 2017 mainly resulted from tariffs indexation.

### Excise Taxes

Excise tax in the fourth quarter of 2018 was RUB 80 billion (including excise tax related to processing outside Russia in the amount of RUB 28 billion) compared with excise tax of RUB 77 billion in the third quarter of 2018, caused by higher volumes of production in the fourth quarter of 2018.

Excise tax in the twelve months of 2018 was RUB 327 billion compared to RUB 326 billion in 2017, respectively.

## 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, 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 12 months ended December 31,		% change
	December 31, 2018	September 30, 2018		2018	2017	
	<b>RUB billion, except %</b>					
Export customs duty for crude oil	234	209	12.0%	777	480	61.9%
Export customs duty for petroleum products	83	80	3.8%	284	178	59.6%
<b>Total export customs duty</b>	<b>317</b>	<b>289</b>	<b>9.7%</b>	<b>1,061</b>	<b>658</b>	<b>61.2%</b>

Export customs duty growth in the fourth quarter of 2018 compared with the third quarter of 2018 was caused by higher export customs duty rates due to the adverse duty lag effect (due to decreasing Urals price) and RUB depreciation.

In the twelve months of 2018 compared with the same period of 2017 a significant increase in export customs duty expenses was mainly driven by higher customs duty rates due to the Urals price rise (+31% in USD terms) and RUB depreciation.

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

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2018	September 30, 2018		2018	2017	
	<b>th. RUB per tonne, except %</b>					
Enacted export customs duty on crude oil	9.40	8.83	6.4%	8.09	5.06	60.0%
Actual customs duty on crude oil exports	8.89	8.27	7.5%	7.63	4.87	56.7%

The deviation of average actual export customs duty from the enacted one is caused by irregular monthly export volumes, which are subject to different export customs duty, and by application of special formulas of calculation of the export customs duty rates ("preferential" rates) according to provisions of Art. 3.1 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 12 months ended December 31,		% change
	December 31, 2018	September 30, 2018		2018	2017	
<b>Financial results. RUB billion</b>						
EBITDA	(21)	(15)	(40.0)%	(60)	(74)	18.9%
Capital expenditures*	8	4	100.0%	19	37	(48.6)%

\*Refer to "Capital expenditures".



## Separate indicators of the consolidated financial statements

### Costs and Expenses

#### General and Administrative Expenses

General and administrative expenses include wages, salaries and social benefits (except for wages and social benefits of technical staff of production and refining entities), banking commissions, third-party fees for professional services, insurance expenses (except for insurance of oil and gas production and refining entities), maintenance of social infrastructure, lease expenses, 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 163 billion in the twelve months of 2018 and RUB 158 billion – in the twelve months of 2017, respectively.

#### Depreciation, Depletion and Amortization

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

In the fourth quarter of 2018 DDA was RUB 163 billion and did not change compared with the third quarter of 2018. The DDA grew in the twelve months of 2018 compared to the same period of 2017 due to the acquisition of new assets in 2017 and production growth at some assets.

#### Taxes Other than Income Tax

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

The following table sets forth Rosneft's taxes other than income tax for the periods analysed (in RUB billion):

	For 3 months ended		%	For 12 months ended		%
	December 31, 2018	September 30, 2018		December 31, 2018	2017	
Mineral extraction tax	597	640	(6.7)%	2,258	1,488	51.7%
Excise tax	80	77	3.9%	327	326	0.3%
Social security tax	17	16	6.3%	67	61	9.8%
Property tax	10	10	–	42	38	10.5%
Other taxes, interest, penalties and other payments to budget	2	2	–	7	6	16.7%
<b>Total taxes other than income tax</b>	<b>706</b>	<b>745</b>	<b>(5.2)%</b>	<b>2,701</b>	<b>1,919</b>	<b>40.8%</b>

Taxes other than income tax in the fourth quarter of 2018 compared with the third quarter of 2018 reduced by 5.2% caused by decrease in the mineral extraction tax expense by 6.7%.

In the twelve months of 2018 compared with the same period of 2017, taxes other than income tax increased by 40.8% mainly due MET base rate growth.

#### Finance Income and Expenses

In the fourth quarter of 2018, net finance expenses were RUB 40 billion compared with RUB 51 billion in the third quarter of 2018. In the twelve months of 2018, net finance expenses increased to RUB 168 billion compared with RUB 118 billion in the twelve months of 2017. The changes were 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 fourth quarter of 2018, other income amounted to RUB 1 billion compared to RUB 21 billion in the third quarter of 2018 due to the recognition of the gain on bargain purchase and other income in the third quarter of 2018. In the twelve months of 2018 and 2017 the amount of other income amounted to RUB 49 billion and RUB 110 billion, respectively. One-off income of RUB 100 billion was recognized in the Profit or loss statement in the fourth quarter of 2017 as a result of the achieved out-of-court settlement with AFK "Sistema".



## Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

Other expenses include assets impairment, effect of fixed assets disposal in the course of operating activities and other expenses. In the fourth quarter of 2018, other expenses increased up to RUB 57 billion compared to RUB 150 billion in the third quarter of 2018, including the recognition of goodwill impairment of RUB 133 billion in the segment "Refining and distribution".

In the twelve months of 2018 other expenses amounted to RUB 294 billion and RUB 75 billion in the twelve months of 2017. The growth of other expenses was mainly caused by recognition of impairment of goodwill in the segment "Refining and distribution" and other assets.

### 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.

Foreign exchange effects in the fourth quarter of 2018 was profit in the amount of RUB 7 billion and RUB 27 billion in the third quarter of 2018 that was due to negative effect of RUB revaluation of assets nominated in EUR proceeding from the dynamics of exchange rates.

Capitalized exchange differences resulting from foreign currency borrowings used for capital construction projects and the acquisition of property, plants and equipment were RUB 44 billion in the twelve months of 2018 and RUB 27 billion in the twelve months of 2017.

### Cash flow hedges reclassified to profit or loss

Cash flow hedges reclassified to profit or loss recognized in the consolidated statement of profit or loss in the fourth and third quarters of 2018 were RUB 37 billion and RUB 36 billion, respectively. In the twelve months of 2018 and 2017, cash flow hedges reclassified to profit or loss recognized in the consolidated statement of profit or loss were RUB 146 billion and RUB 146 billion, respectively.

### Income Tax

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

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2018	September 30, 2018	2018	2017
Effective rate of income tax (IFRS)	19.0%	24.0%	22.0%	24.8%

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 fourth quarter of 2018, the net income was RUB 132 billion (RUB 109 billion attributable to Rosneft shareholders) in comparison with RUB 177 billion (RUB 142 billion attributable to Rosneft shareholders) the third quarter of 2018. Reduction is mainly caused by the negative dynamic of operating income (-31.5% to the third quarter of 2018) and lower positive effect of forex and other income.

In the twelve months of 2018 and 2017, the net income amounted to RUB 649 billion (RUB 549 billion attributable to Rosneft shareholders) and RUB 297 billion (RUB 222 billion attributable to Rosneft shareholders), respectively. Increased net income, including non-cash effect of goodwill impairment, is mainly driven by positive FX impact and one-off gain from recognizing net income from the share acquisition in upstream JV with a foreign partner and recognition of fair value of previously held interest in JV.

## Liquidity and Capital Resources

### Cash Flows

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

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2018	September 30, 2018		2018	2017	
	RUB billion			RUB billion		
Net cash received from operating activities	376	507	(25.8)%	1,502	337	>100%
Net cash used in investing activities	(51)	(178)	(71.3)%	(799)	(1,162)	(31.2)%
Net cash (used in)/received from financing activities	55	(193)	–	(228)	381	–

### 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 12 months ended December 31,		% change
	December 31, 2018	September 30, 2018		2018	2017	
	RUB billion			RUB billion		
<b>Net cash provided by operating activity</b>	<b>376</b>	<b>507</b>	<b>(25.8)%</b>	<b>1,502</b>	<b>337</b>	<b>&gt;100%</b>
<i>Offset of prepayments received under long term supply contracts at average ex.rate</i>	48	110	(56.4)%	240	437	(45.1)%
<i>Offset of other financial liabilities<sup>2</sup></i>	38	55	(30.9)%	164	105	56.2%
<i>Interest expense for prepayments under long term supply contracts<sup>1</sup></i>	24	24	–	91	81	12.3%
<i>Financing of future deliveries</i>	32	40	(20.0)%	72	207	(65.2)%
<b>Adjusted net cash provided by operating activity</b>	<b>518</b>	<b>736</b>	<b>(29.6)%</b>	<b>2,069</b>	<b>1,167</b>	<b>77.3%</b>

<sup>1</sup>Interest 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 22 billion and interests paid of RUB 2 billion in the fourth quarter of 2018; offsetting of RUB 23 billion and interests paid of RUB 1 billion in the third quarter of 2018; offsetting of RUB 85 billion and interests paid of RUB 6 billion in the twelve months of 2018 and offsetting of RUB 71 billion and interests paid of RUB 10 billion in the twelve months of 2017, respectively.

<sup>2</sup>Other financial liabilities are offset by deliveries.

The decrease in operating cash flow in the fourth quarter of 2018 is mainly associated with reduction of EBITDA.

### Net cash used in investing activities

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

In the twelve months of 2018 compared with the same period of 2017 decline in investing activity was mainly due to a significant acquisition of new assets, interests in associates and joint ventures in 2017.

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

In the twelve months of 2018, net cash used in financing activities was mainly used for the scheduled repayment of loans and dividend repayments of RUB 225 billion to the Company's shareholders and RUB 65 billion to non-controlling shareholders.

In the twelve months of 2017, net cash received from financial activities was RUB 381 billion by attracting long-term and short-term ruble funds, which was partially compensated by dividend repayments of RUB 104 billion to the Company's shareholders and RUB 38 billion to non-controlling shareholders.

## Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

### Capital Expenditures

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

	For 3 months ended		%	For 12 months ended		%
	December 31, 2018	September 30, 2018		December 31, 2018	2017	
	RUB billion			RUB billion		
RN-Yuganskneftegaz	50	51	(2.0)%	213	207	2.9%
Vankor projects	19	18	5.6%	71	62	14.5%
Samotlorneftegaz	18	16	12.5%	62	50	24.0%
Upstream projects (Zohr)	15	14	7.1%	46	12	>100%
Rospan International	8	8	–	33	50	(34.0)%
Orenburgneft	8	8	–	32	34	(5.9)%
RN-Uvatneftegaz	9	8	12.5%	29	26	11.5%
Samaraneftegaz	7	6	16.7%	28	31	(9.7)%
Vostsibneftegaz	5	7	(28.6)%	27	23	17.4%
RN-Purneftegaz*	7	7	–	24	24	–
RN-Nyaganneftegaz	7	6	16.7%	24	19	26.3%
Kondaneft	6	5	20.0%	24	17	41.2%
Taas-Yuryakh Neftegazodobycha	6	5	20.0%	23	37	(37.8)%
Bashneft-Dobycha	7	6	16.7%	22	24	(8.3)%
Tyumenneftegaz	5	5	–	21	23	(8.7)%
Varyoganneftegaz	6	4	50.0%	19	19	–
RN-Severnaya Neft	4	4	–	17	14	21.4%
Kharampurneftegaz	9	2	>100%	16	–	–
Verkhnechonskneftegaz	2	4	(50.0)%	15	19	(21.1)%
Bashneft-Polyus	4	4	–	15	20	(25.0)%
Upstream projects (Sakhalin-1)	3	3	–	12	11	9.1%
Tomskneft VNK	3	2	50.0%	8	8	–
Sibneftegaz	2	1	100.0%	5	4	25.0%
Sorovskneft	1	1	–	5	7	(28.6)%
Other	15	14	7.1%	59	65	(9.2)%
Government grants	(7)	(3)	>100%	(10)	(8)	25.0%
<b>Total upstream segment</b>	<b>219</b>	<b>206</b>	<b>6.3%</b>	<b>840</b>	<b>798</b>	<b>5.3%</b>
Novokuibyshevsk refinery	1	2	(50.0)%	6	6	–
Tuapse refinery	2	1	100.0%	5	10	(50.0)%
Kuibyshev refinery	2	–	–	4	7	(42.9)%
Syzran refinery	2	1	100.0%	4	3	33.3%
Ryazan refinery	1	1	–	4	5	(20.0)%
Komsomolsk refinery	2	1	100.0%	4	2	100.0%
Angarsk refinery	–	1	(100.0)%	3	5	(40.0)%
Bashneft refineries	1	–	–	3	8	(62.5)%
Saratov refinery	1	–	–	2	2	–
Achinsk refinery	–	–	–	1	3	(66.7)%
Other refineries	9	6	50.0%	19	14	37.5%
Marketing Business Units and others	9	4	>100%	22	22	–
<b>Total downstream segment</b>	<b>30</b>	<b>17</b>	<b>76.5%</b>	<b>77</b>	<b>87</b>	<b>(11.5)%</b>
<b>Total other activities</b>	<b>8</b>	<b>4</b>	<b>100.0%</b>	<b>19</b>	<b>37</b>	<b>(48.6)%</b>
<b>Total capital expenditures</b>	<b>257</b>	<b>227</b>	<b>13.2%</b>	<b>936</b>	<b>922</b>	<b>1.5%</b>
Acquisition of licenses	1	–	–	3	42	(92.9)%
Return of auction advances	–	–	–	–	(8)	(100.0)%

\*Including Sevkomneftegaz.

In the fourth quarter of 2018 total capital expenditures amounted to RUB 257 billion (increase by 13.2%) compared with RUB 227 billion in the third quarter of 2018. In the twelve months of 2018 and 2017 total capital expenditures were RUB 936 billion and RUB 922 billion, respectively (increase by 1.5%).

## Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

In the fourth quarter of 2018 upstream capital expenditures slightly changed compared to the level of the third quarter and amounted to RUB 219 billion in comparison with RUB 206 billion in the third quarter of 2018. In the twelve months of 2018 upstream capital expenditures were RUB 840 billion (increase by 5.3%) in comparison with RUB 798 billion in the same period of 2017. Upstream capital expenditures are mainly directed to the increasing volumes of construction objects and construction of oil and development of new projects.

In the fourth quarter of 2018 downstream capital expenditures were RUB 30 billion, including capital expenditures of investment tariffs, in comparison with RUB 17 billion in the third quarter of 2018. In the twelve months of 2018 downstream capital expenditures were RUB 77 billion.

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 3 billion in the twelve months of 2018 referred to the acquisition of new licenses for research, exploration and production at Samara region, Republic of Bashkortostan and the Khanty-Mansi Autonomous area.

### Financial liabilities and liquid funds

Financial liabilities detailed by currencies and liquid funds are set in the table below<sup>1</sup>:

*currency in bln*

As of the date	December 31, 2018				September 30, 2018				December 31, 2017			
	USD	RUB	Euro	Other (RUB equivalent)	USD	RUB	Euro	Other (RUB equivalent)	USD	RUB	Euro	Other (RUB equivalent)
Financial liabilities	(26.7)	(2,227)	(3.9)	–	(27.4)	(2,029)	(2.5)	–	(30.1)	(2,028)	(3.6)	–
Liquid funds <sup>2</sup>	9.3	417	5.9	4.2	7.6	384	5.8	2.8	6.5	377	5.4	2
<b>Net financial liabilities</b>	<b>(17.4)</b>	<b>(1,810)</b>	<b>2.0</b>	<b>4.2</b>	<b>(19.8)</b>	<b>(1,645)</b>	<b>3.3</b>	<b>2.8</b>	<b>(23.6)</b>	<b>(1,651)</b>	<b>1.8</b>	<b>2</b>

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

<sup>2</sup>Include cash and cash equivalents, short-term financial assets and part of bank deposits

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

## Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

### Key consolidated financial highlights (in RUB terms)

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

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2018	September 30, 2018	2018	2017
EBITDA margin	22.2%	27.4%	24.8%	22.6%
Net income margin attributable to Rosneft shareholders	5.0%	6.2%	6.7%	3.7%
Current ratio	1.05	0.91	1.05	0.60
	<b>RUB / bbl</b>			
EBITDA*/bbl	1,127	1,531	1,259	862
Upstream capital expenditures/bbl	534	509	529	512
Upstream operating expenses/bbl	254	238	240	230
Free cash flow/bbl	637	1,259	714	157
	<b>RUB / boe</b>			
EBITDA*/boe	911	1,242	1,018	693
Upstream capital expenditures/boe	432	413	428	412
Upstream operating expenses/boe	205	193	194	185
Free cash flow/boe	515	1,021	577	126

\*The 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 Measures*\*

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2018	September 30, 2018	2018	2017
Crude oil and NGL production (mln bbl)	410.0	404.4	1,587.6	1,558.2
Crude oil, NGL and gas production (mln boe)	507.1	498.4	1,964.3	1,938.0

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

#### Calculation of EBITDA

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2018	September 30, 2018	2018	2017
	<b>RUB billion</b>			
Revenues and equity share in profits of associates and joint ventures	2,165	2,286	8,238	6,011
Effect of prepayments offsetting	36	58	162	193
Costs and expenses	(1,876)	(1,864)	(6,954)	(5,390)
Depreciation, depletion and amortization	163	163	635	586
<b>EBITDA</b>	<b>488</b>	<b>643</b>	<b>2,081</b>	<b>1,400</b>

**Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018**

**Calculation of Free Cash Flow**

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2018	September 30, 2018	2018	2017
	<b>RUB billion</b>			
Operating cash flow	376	507	1,502	337
Capital expenditures	(257)	(227)	(936)	(922)
Offset of prepayments under long-term supply agreements*	48	110	240	437
Offset of other financial liabilities	38	55	164	105
Interest expense on prepayments under long-term supply agreements**	24	24	91	81
Financing of future deliveries	32	40	72	207
<b>Free cash flow (RUB equivalent)</b>	<b>261</b>	<b>509</b>	<b>1,133</b>	<b>245</b>

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

\*\* 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 22 billion and interests paid of RUB 2 billion in the fourth quarter of 2018; the offsetting of RUB 23 billion and interests paid of RUB 1 billion in the third quarter of 2018; the offsetting of RUB 85 billion and interests paid of RUB 6 billion in the twelve months of 2018 and offsetting of RUB 71 billion and interests paid of RUB 10 billion in the twelve months of 2017.

**Calculation of EBITDA Margin**

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2018	September 30, 2018	2018	2017
	<b>RUB billion (except %)</b>			
<b>EBITDA</b>	<b>488</b>	<b>643</b>	<b>2,081</b>	<b>1,400</b>
Revenues and equity share in profits of associates and joint ventures	2,165	2,286	8,238	6,011
Effect of prepayments offsetting	36	58	162	193
Adjusted revenues	2,201	2,344	8,400	6,204
<b>EBITDA margin</b>	<b>22.2%</b>	<b>27.4%</b>	<b>24.8%</b>	<b>22.6%</b>

**Calculation of Net Income Margin attributable to Rosneft shareholders**

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2018	September 30, 2018	2018	2017
	<b>RUB billion (except %)</b>			
<b>Net income attributable to Rosneft shareholders</b>	<b>109</b>	<b>142</b>	<b>549</b>	<b>222</b>
Revenues and equity share in profits of associates and joint ventures	2,165	2,286	8,238	6,011
<b>Net income margin</b>	<b>5.0%</b>	<b>6.2%</b>	<b>6.7%</b>	<b>3.7%</b>

**Calculation of Current ratio**

As of the date	December 31, 2018	September 30, 2018	December 31, 2017
	<b>RUB billion (except ratios)</b>		
Current assets	3,022	2,603	2,292
Current liabilities	2,874	2,870	3,836
<b>Current ratio</b>	<b>1.05</b>	<b>0.91</b>	<b>0.60</b>

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

	For 12 months ended December 31,	
	2018	2017
	(RUB billion, except %)	
Revenue and equity share in profits of associates and joint ventures	8,238	6,011
Total costs and expenses	(6,954)	(5,390)
Effect of prepayments offsetting	162	193
Income tax expense	(183)	(98)
<b>Return used for the calculation of ROACE</b>	<b>1,263</b>	<b>716</b>
Average capital employed	7,272	6,212
<b>ROACE</b>	<b>17.4%</b>	<b>11.5%</b>

### Calculation of Return on Average Equity (ROAE)

	For 12 months ended December 31,	
	2018	2017
	(RUB billion, except %)	
Net income attributable to Rosneft shareholders	549	222
Average equity, including non-controlling interests	4,462	3,970
<b>ROAE</b>	<b>12.3%</b>	<b>5.6%</b>

Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

Consolidated financial highlights (in USD terms)

Consolidated statement of profit or loss\*

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2018	September 30, 2018	2018	2017
	USD billion			
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>33.1</b>	<b>35.8</b>	<b>133.7</b>	<b>106.4</b>
<b>Costs and expenses</b>				
Production and operating expenses	2.7	2.6	10.2	10.4
Cost of purchased oil, gas, petroleum products and refining costs	4.3	4.5	17.5	14.3
General and administrative expenses	0.8	0.5	2.6	2.9
Pipeline tariffs and transportation costs	2.5	2.4	10.2	10.2
Exploration expenses	0.1	–	0.2	0.3
Depreciation, depletion and amortization	2.5	2.5	10.2	10.0
Taxes other than income tax	10.6	11.6	43.1	33.0
Export customs duty	4.7	4.4	16.8	11.3
<b>Total costs and expenses</b>	<b>28.2</b>	<b>28.5</b>	<b>110.8</b>	<b>92.4</b>
<b>Operating income</b>	<b>4.9</b>	<b>7.3</b>	<b>22.9</b>	<b>14.0</b>
Finance income	0.5	0.4	1.9	1.8
Finance expenses	(1.1)	(1.2)	(4.6)	(3.9)
Other income	–	0.3	0.8	1.9
Other expenses	(0.9)	(2.1)	(4.5)	(1.3)
Foreign exchange differences	(0.4)	(0.4)	(0.7)	(3.3)
Cash flow hedges reclassified to profit or loss	(0.5)	(0.6)	(2.3)	(2.5)
<b>Income before income tax</b>	<b>2.5</b>	<b>3.7</b>	<b>13.5</b>	<b>6.7</b>
Income tax expense	(0.5)	(0.9)	(3.0)	(1.6)
<b>Net income</b>	<b>2.0</b>	<b>2.8</b>	<b>10.5</b>	<b>5.1</b>
<b>Net income attributable to Rosneft shareholders</b>	<b>1.6</b>	<b>2.3</b>	<b>8.9</b>	<b>3.8</b>

\* 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 12 months ended December 31,	
	December 31, 2018	September 30, 2018	2018	2017
EBITDA margin	22.4%	27.4%	24.8%	22.6%
Net income margin attributable to Rosneft shareholders	4.8%	6.4%	6.7%	3.6%
Current ratio	1.05	0.91	1.05	0.60
	USD/bbl*			
EBITDA/bbl	17.1	23.2	20.0	14.8
Upstream capital expenditures/bbl	8.0	7.8	8.5	8.8
Upstream operating expenses/bbl	3.8	3.6	3.8	3.9
Free cash flow/bbl	9.6	19.2	11.3	2.6
	USD/boe			
EBITDA/boe	13.8	18.9	16.2	11.9
Upstream capital expenditures/boe	6.5	6.3	6.8	7.1
Upstream operating expenses/boe	3.1	2.9	3.1	3.2
Free cash flow/boe	7.8	15.6	9.1	2.1

\* Calculated from unrounded data.



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**Calculation of Free Cash Flow**

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2018	September 30, 2018	2018	2017
	USD billion			
Operating cash flow	5.7	7.8	23.9	5.6
Capital expenditures	(3.9)	(3.5)	(15.0)	(15.8)
Offset of prepayments under long-term supply agreements	0.7	1.6	3.7	7.5
Offset of other financial liabilities	0.6	0.8	2.6	1.8
Interest expense on prepayments under long-term supply contracts	0.4	0.5	1.6	1.4
Financing of future deliveries	0.5	0.6	1.1	3.6
<b>Free cash flow</b>	<b>4.0</b>	<b>7.8</b>	<b>17.9</b>	<b>4.1</b>

**Calculation of EBITDA Margin**

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2018	September 30, 2018	2018	2017
	USD billion (except %)			
Revenues and equity share in profits of associates and joint ventures	33.1	35.8	133.7	106.4
Operating expenses	(28.2)	(28.5)	(110.8)	(92.4)
Depreciation, depletion and amortization	2.5	2.5	10.2	10.0
<b>EBITDA</b>	<b>7.4</b>	<b>9.8</b>	<b>33.1</b>	<b>24.0</b>
Revenues and equity share in profits of associates and joint ventures	33.1	35.8	133.7	106.4
<b>EBITDA margin</b>	<b>22.4%</b>	<b>27.4%</b>	<b>24.8%</b>	<b>22.6%</b>

**Calculation of Net Income Margin**

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2018	September 30, 2018	2018	2017
	USD billion (except %)			
Net income attributable to Rosneft shareholders	1.6	2.3	8.9	3.8
Revenues and equity share in profits of associates and joint ventures	33.1	35.8	133.7	106.4
<b>Net income margin</b>	<b>4.8%</b>	<b>6.4%</b>	<b>6.7%</b>	<b>3.6%</b>

**Calculation of Current ratio**

As of the date	December 31, 2018	September 30, 2018	December 31, 2017
	USD billion (except ratios)		
Current assets	43.5	39.7	39.8
Current liabilities	41.4	43.8	66.6
<b>Current ratio</b>	<b>1.05</b>	<b>0.91</b>	<b>0.60</b>

## Attachment 1: Taxation

### Mineral Extraction Tax (MET)

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 2017 and 2018 the mineral extraction tax rate is calculated by multiplying the tax rate of RUB 919 per tonne by the adjustment ratio of  $((P - 15) \times \text{Exchange rate} / 261)$ , where “P” is the average Urals price per barrel in USD and “Exchange rate” is the average RUB/USD exchange rate established by the Central Bank of Russia in the respective month and minus the factor which characterizes crude oil production at a particular oil field, “Dm”<sup>1</sup>.

In accordance with the legislation tax relieves are applicable to certain fields. In 2018 the Company applied different tax relieves and special tax treatment of crude oil MET:

Tax relieves in 2018	Applicable in the Company
Zero rates	Oil fields with hard to recover reserves, including bazhenov, abalak, khadum, domanic formations
MET reduced by “Dm” coefficient, which characterizes crude oil production at a particular oil field	Oil fields located: <ul style="list-style-type: none"> <li>In Irkutsk region, the Republic of Sakha (Yakutia) and Krasnoyarsk Territory which is applicable for the first 25 million tonnes of production</li> <li>On the territory of the Nenets Autonomous district, Yamalo-Nenets Autonomous district – for the first 15 million tonnes of production</li> <li>Okhotsk sea fields subject to zero mineral extraction tax rate which is applicable for the first 30 million tonnes of production</li> </ul> Oil fields with reserve depletion rate of over 80%. Oil fields with the volume of initial recoverable reserves being less than 5 million tonnes. Oil fields with high-viscosity crude oil (in-situ viscosity more than 200 mPas and less than 10 000 mPas)
Tax deduction	At production from oil fields located in the region of the Republic of Bashkortostan 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 (total amount of the deduction in 2018 was RUB 35 billion)
Special tax regime for offshore projects in the Russian Federation	The offshore projects are categorized into one of four groups depending on its complexity and specify MET rates for each project group ranging from 5% to 30% of hydrocarbon prices
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. Mineral extraction gas condensate tax rate is applied in case of separate purification of gas condensate.

In line with the formula base rate for gas condensate is RUB 42 per 1 tonne and for natural gas – RUB 35 per 1 th. cubic metres. Base rates are multiplied by basic rate of standard fuel unit and reduced coefficient which estimates the difficulty level of natural gas and (or) gas condensate production. Starting from January 1, 2017 the tax rate for mineral extraction gas condensate is adjusted by the multiplying coefficient 6.5.

<sup>1</sup> The coefficient “Dm” is calculated using base rate and factors which characterize the degree of depletion of a particular field, reserves of a particular field, the degree of difficulty of extraction and region of production and oil properties. Starting from January 2017, additional MET withdrawals are introduced for the period of 2017-2021: + 306 RUB/tonne in 2017 (357 RUB/tonne in 2018, 428 RUB/tonne in 2019-2021).

## Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

Reducing coefficient in 2018	Applicable in the Company
0.5	License areas: Rosspan 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%.

### New changes in the Tax code from 2019

On July 19, 2018 Federal Law No. 199-FZ "On amending parts one and two of the Tax Code of the Russian Federation" was adopted. It provides for the introduction of the tax on additional income from production of hydrocarbons from January 1, 2019. The tax will be charged at the rate of 50% of the oil revenues calculated as the difference between the estimated revenue and costs (losses). The new tax regime requires maintaining the MET but with a reduced rate and keeping export duties with exemption from their payment for a certain period for new fields in Eastern Siberia (groups 1-2).

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

Groups	Geographic location	Proficiency as of 01.01.17
<b>Greenfields of Eastern Siberia</b>		
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.
<b>Brownfields of Western Siberia</b>		
3	KHMAO, 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.
<b>Greenfields of Western Siberia</b>		
4	KHMAO, YANAO, Komi Republic, Tyumen region	Not exceeding 5%. List of fields is determined by the Law.

For the fields that will pay the tax on additional income from hydrocarbon production, the MET rate will be calculated as:  $(P - 15) \times 7.3 \times 0.5 \times "K" \times "Exchange\ rate" - "Export\ duty" \times "Exchange\ rate"$ ,

Where:

"P" – Urals price;

"Export duty" (further in the text);

"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 <sup>th</sup> year of commercial production
	0.8	the 7 <sup>th</sup> year of commercial production
	1.0	from 8 year
4	0.5	before the end of the 1 <sup>st</sup> year of industrial production
	0.75	the 2 <sup>nd</sup> year of industrial production
	1.0	from the 3 <sup>rd</sup> year of industrial production

The Federal law of 03.08.2018 No. 301-FZ "On amendments to part two of the Tax code of the Russian Federation" (subject to statements of provisions of the Federal law of 27.11.2018 № 424-FZ) provides for amendments to the procedure for the MET. The procedure for determining MET rate on oil has been adjusted:

- new terms have been added to the formula for calculating MET rate for oil since 2019, increasing the amount of MET in connection with the reduction of export customs duties and the introduction of "reverse excise duty" in case of crude oil raw materials refining operations ( $K_{man} \times S_{vn}$  and Cabd);

- for 2021 the “additional term” to MET rate in the amount of 428 RUB/t (the coefficient of Kk reducing the indicator characterizing features of oil production (Dm) and increasing thereby the rate of MET) is prolonged;

The procedure for determining MET rate on gas condensate is adjusted - from 2019, MET rate is increased by the amount of reduction of export customs duties multiplied by 0.75.

A tax deduction and the procedure for determining it have been introduced for deposits in respect of which export duty exemptions are applied. This 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).

### **Excise duties**

Taxpayers of an excise on oil products in the territory of the Russian Federation are producers of oil products. 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 the deductions to excises on particular types of oil products in the cases provided by the legislation.

#### ***New changes in the Tax code from 2019***

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.

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

- for oil raw materials (for the organizations-owners of crude oil raw materials 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 internal sea waters and continental shelf of the Russian Federation, etc.).

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

- arrangements for obtaining a special certificate, required for the application of “reverse excise”;
- the approach for calculating the excise rate on oil raw materials (based on market oil prices, forex rates and the number and types of oil products);
- 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 from 01.01.2022 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 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.

For the period from 2019 to 2021 excise rates are set for excise goods, including gasoline (non-compliant to class 5 and compliant to class 5), diesel, motor oils for diesel and (or) injector engines, jet fuel, medium distillates. Also the law introduces the new procedure for determining the excise tax rate on straight-run gasoline, gasoline, paraxylene, orthoxylene, excise tax rate on dark marine fuel.

### **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.

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

<i>Urals price (USD per tonne)</i>	<i>Export customs duty (USD per tonne)</i>
Below and including 109.5 (15 USD per barrel)	Export customs duty is not levied
Above 109.5 to 146 including..... (15 to 20 USD per barrel)	35% of the difference between the average Urals price in USD per tonne and USD 109.5
Above 146 to 182.5 including ..... (20 to 25 USD per barrel)	USD 12.78 plus 45% of the difference between the average Urals price in USD per tonne and USD 146
Above 182.5 (25 USD per barrel) .....	USD 29.2 plus 30% of the difference between the average Urals price in USD per tonne and USD 182.5

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 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)<sup>1</sup>. 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.

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

## Management's discussion and analysis of financial condition and results of operations of Rosneft for the fourth quarter of 2018 and twelve months of 2018

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 2017, marginal export customs duties are set for estimation of customs duty, depending on the type of oil product.

### *New changes from 2019*

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), will be exempt from 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" introduces the following amendments to the procedure for calculating export duties on oil and oil products.

- 1) Duty rate for crude oil will be 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**

	2018	2017
	RUB/USD	
January	56.79	59.96
February	56.81	58.40
March	57.03	58.11
April	60.46	56.43
May	62.21	57.17
June	62.71	57.83
July	62.88	59.67
August	66.12	59.65
September	67.66	57.70
October	65.89	57.73
November	66.24	58.92
December	67.31	58.59