



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED  
SEPTEMBER 30, 2019 AND JUNE 30, 2019  
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**

## Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019

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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 September 30, 2019 and 2018, and June 30, 2019 (the "Interim Condensed Consolidated Financial Statements"). Such terms as "Rosneft", "Company" and "Group" in their different forms in this report mean PJSC Rosneft Oil Company and its consolidated subsidiaries, and its equity share in associates and joint ventures. This report contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may materially differ from those discussed in such forward-looking statements as a result of various factors.*

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

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

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

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## Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019

### Overview

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

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

For the nine months of 2019 the liquid hydrocarbons production of the Company amounted to 172.2 mln tonnes, the production of natural and associated gas was 49.73 bcm.

For the nine months of 2019, the Company's total crude oil processing amounted to 81.90 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 9 months ended September 30,		% change
	September 30, 2019	June 30, 2019		2019	2018	
<b>Financial results, RUB billion</b>						
Revenues and equity share in profits of associates and joint ventures	2,240	2,135	4.9%	6,452	6,073	6.2%
EBITDA	554	515	7.6%	1,617	1,593	1.5%
Net income attributable to Rosneft shareholders	225	194	16.0%	550	440**	25.0%
Capital expenditures	198	222	(10.8)%	634	679	(6.6)%
Free cash flow*	281	135	>100%	613	872	(29.7)%
<b>Operational results</b>						
Hydrocarbon production (th. boe per day)	5,740	5,710	0.5%	5,783	5,747	0.6%
Liquids production (th. barrels per day)	4,661	4,618	0.9%	4,674	4,633	0.9%
Gas production (th. boe per day)	1,079	1,092	(1.2)%	1,109	1,114	(0.4)%
Crude oil processing at refineries in Russia (th. tonnes per day)	296	251	17.9%	273	280	2.5%
Production of petroleum products and petrochemical products in Russia (mln tonnes)	26.31	22.09	19.1%	72.07	73.93	(2.5)%
Production of petroleum products and petrochemical products outside Russia (mln tonnes)	2.99	2.20	35.9%	7.69	9.09	(15.4)%

\*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 14 billion and interests paid of RUB 2 billion in the third quarter of 2019; offsetting of RUB 17 billion and interests paid of RUB 2 billion in the second quarter of 2019; offsetting of RUB 50 billion and interests paid of RUB 6 billion in the nine months of 2019 and offsetting of RUB 63 billion and interests paid of RUB 4 billion in the nine months of 2018.

\*\*Net income in 9M 2018 is adjusted due to revision of estimation of the assets purchased in 2018.

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2019	June 30, 2019		2019	2018	
<b>Financial results, USD billion*</b>						
Revenues and equity share in profits of associates and joint ventures	35.1	33.6	4.5%	100.6	100.6	–
EBITDA	8.5	8.0	6.3%	24.8	25.7	(3.5)%
Net income attributable to Rosneft shareholders	3.6	3.0	20.0%	8.5	7.3	16.4%
Capital expenditures	3.0	3.5	(14.3)%	9.7	11.1	(12.6)%
Free cash flow	4.4	2.0	>100%	9.4	13.9	(32.4)%

\*Calculated using average monthly exchange rates based on the Bank of Russia data for the reporting periods (Attachment 3).

## Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019

### Macroeconomic factors affecting results of operations

Main factors affecting Rosneft's results of operations are:

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

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

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

	For 3 months ended		Change	For 9 months ended		Change
	September 30, 2019	June 30, 2019		September 30, 2019	2018	
<b>World market</b>	<b>(USD per barrel)</b>		<b>%</b>	<b>(USD per barrel)</b>		<b>%</b>
Brent	61.9	68.8	(10.1)%	64.6	72.2	(10.4)%
Urals (average Med and NWE)	61.3	67.9	(9.7)%	64.1	70.7	(9.3)%
Urals (FOB Primorsk)	59.9	67.2	(10.9)%	62.9	69.4	(9.4)%
Urals (FOB Novorossiysk)	60.9	67.8	(10.2)%	63.3	69.7	(9.2)%
Dubai	61.2	67.4	(9.2)%	64.0	70.1	(8.7)%
	<b>(USD per tonne)</b>		<b>%</b>	<b>(USD per tonne)</b>		<b>%</b>
Naphtha (av. FOB/CIF Med)	464	511	(9.2)%	485	608	(20.3)%
Naphtha (av. FOB Rotterdam/CIF NWE)	475	525	(9.6)%	498	619	(19.5)%
Naphtha (CFR Japan)	494	541	(8.7)%	518	630	(17.8)%
Fuel oil (av. FOB/CIF Med)	325	386	(15.8)%	363	396	(8.4)%
Fuel oil (av. FOB Rotterdam/CIF NWE)	328	384	(14.7)%	362	390	(7.2)%
High sulphur fuel oil 180 cst (FOB Singapore)	394	413	(4.6)%	405	420	(3.7)%
Gasoil (av. FOB/CIF Med)	575	596	(3.4)%	583	633	(7.8)%
Gasoil (av. FOB Rotterdam/CIF NWE)	574	600	(4.3)%	585	630	(7.1)%
Gasoil (FOB Singapore)	559	581	(3.8)%	567	620	(8.6)%
	<b>(th. RUB per barrel)</b>		<b>%</b>	<b>(th. RUB per barrel)</b>		<b>%</b>
Brent	4.00	4.44	(10.0)%	4.21	4.43	(5.1)%
Urals (average Med and NWE)	3.96	4.38	(9.7)%	4.17	4.34	(3.9)%
Urals (FOB Primorsk)	3.87	4.34	(10.9)%	4.09	4.27	(4.0)%
Urals (FOB Novorossiysk)	3.93	4.38	(10.2)%	4.12	4.29	(3.9)%
Dubai	3.95	4.35	(9.2)%	4.17	4.31	(3.3)%
	<b>(th. RUB per tonne)</b>		<b>%</b>	<b>(th. RUB per tonne)</b>		<b>%</b>
Naphtha (av. FOB/CIF Med)	29.9	33.0	(9.2)%	31.5	37.4	(15.6)%
Naphtha (av. FOB Rotterdam/CIF NWE)	30.6	33.9	(9.6)%	32.4	38.0	(14.7)%
Naphtha (CFR Japan)	31.9	34.9	(8.7)%	33.7	38.7	(12.9)%
Fuel oil (av. FOB/CIF Med)	21.0	24.9	(15.8)%	23.6	24.3	(3.0)%
Fuel oil (av. FOB Rotterdam/CIF NWE)	21.2	24.8	(14.7)%	23.6	24.0	(1.7)%
High sulphur fuel oil 180 cst (FOB Singapore)	25.5	26.7	(4.6)%	26.3	25.8	2.0%
Gasoil (av. FOB/CIF Med)	37.2	38.5	(3.4)%	37.9	38.9	(2.4)%
Gasoil (av. FOB Rotterdam/CIF NWE)	37.1	38.7	(4.3)%	38.1	38.7	(1.6)%
Gasoil (FOB Singapore)	36.1	37.5	(3.8)%	36.9	38.1	(3.2)%
<b>Russian market (net of VAT, including excise tax)</b>	<b>(th. RUB per tonne)</b>		<b>%</b>	<b>(th. RUB per tonne)</b>		<b>%</b>
Crude oil	19.5	22.2	(12.1)%	20.8	20.9	(0.3)%
Fuel oil	13.6	15.5	(12.4)%	14.5	13.4	7.6%
Summer diesel	40.1	40.7	(1.5)%	39.8	38.6	3.1%
Winter diesel	42.9	40.8	5.0%	41.8	40.7	2.9%
Jet fuel	38.6	37.5	3.1%	37.8	36.9	2.4%
High octane gasoline	39.9	39.1	2.1%	37.8	39.5	(4.1)%

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

The difference between price movements denominated in USD and those denominated in RUB is due to nominal RUB depreciation against USD of 5.6% for the nine months of 2019 compared to the same period of 2018.

The Russian Government regulates the price of the gas sold in Russia by Gazprom and its affiliates, which is considered as the benchmark for the domestic gas market. The indexation of gas price intended for subsequent implementation to all consumer groups is 1.4% effecting from July 2019. The indexation in 2018 amounted to 3.4% (since July – in regard to consumer price, since August 21 – in regard to producer price).

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

The USD/RUB and EUR/RUB exchange rates and inflation in Russia affect Rosneft's results as most of the Company's revenues from sales of crude oil and petroleum products are denominated in USD and EUR, 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 9 months ended September 30,	
	September 30, 2019	June 30, 2019	2019	2018
Producer price index (PPI) y-o-y	(0.6)%	6.6%	5.8%	10.8%
Average RUB/USD exchange rate for the period*	64.57	64.56	65.08	61.44
RUB/USD exchange rate at the end of the period	64.42	63.08	64.42	65.59
Average RUB/EUR exchange rate for the period	71.83	72.52	73.16	73.29
RUB/EUR exchange rate at the end of the period	70.32	71.82	70.32	76.23

Source: the Central Bank of the Russian Federation.

\*See Average monthly RUB/USD exchange rates in the Attachment 3.

## Mineral Extraction Tax, Excess Profit Tax, 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 9 months ended September 30,		% change*
	September 30, 2019	June 30, 2019		2019	2018	
<b>Mineral extraction tax</b>						
Crude oil (RUB per tonne)	12,405	14,168	(12.4)%	13,173	12,441	5.9%
<b>Export customs duty for crude oil</b>						
Crude oil (USD per tonne)	95.1	104.1	(8.7)%	95.5	124.2	(23.1)%
Crude oil (RUB per tonne)	6,136	6,722	(8.7)%	6,209	7,654	(18.9)%
Crude oil (RUB per barrel)	829	908	(8.7)%	839	1,034	(18.9)%
<b>Export customs duty for petroleum products</b>						
Gasoline (RUB per tonne)	1,838	2,014	(8.7)%	1,860	2,294	(18.9)%
Naphtha (RUB per tonne)	3,370	3,695	(8.8)%	3,411	4,207	(18.9)%
Light and middle distillates (RUB per tonne)	1,838	2,014	(8.7)%	1,860	2,294	(18.9)%
Liquid fuels (fuel oil) (RUB per tonne)	6,136	6,722	(8.7)%	6,209	7,654	(18.9)%

\*Calculated based on unrounded data.

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

<sup>1</sup> See detailed description of taxation in the Attachment 1

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

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

The Company's tax burden on revenues was 52% for the nine months of 2019. The largest part of the tax burden (app. 85%) is formed by payments on MET and export duties.

The share of fiscal withdrawals in the Company's financial result (operating income before fiscal payments) amounted to 77% for the nine months of 2019.

### Changes in Transport Tariffs of Pipeline and Railway Monopolies

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

#### *Recent changes of Transneft transportation tariffs*

##### *Crude oil*

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

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

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

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



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Consolidated statement of profit or loss for the three months ended September 30, 2019 and June 30, 2019 and for the nine months ended September 30, 2019 and 2018, respectively.

in RUB billions

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2019	June 30, 2019		2019	2018	
<b>Revenues and equity share in profits of associates and joint ventures</b>						
Oil, gas, petroleum products and petrochemicals sales	2,197	2,085	5.4%	6,313	5,959	5.9%
Support services and other revenues	20	23	(13.0)%	64	58	10.3%
Equity share in profits of associates and joint ventures	23	27	(14.8)%	75	56	33.9%
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>2,240</b>	<b>2,135</b>	<b>4.9%</b>	<b>6,452</b>	<b>6,073</b>	<b>6.2%</b>
<b>Costs and expenses</b>						
Production and operating expenses	217	143	51.7%	522	446	17.0%
Cost of purchased oil, gas, petroleum products, goods for retail and refining costs	376	430	(12.6)%	1,122	828	35.5%
General and administrative expenses	32	46	(30.4)%	143	113	26.5%
Pipeline tariffs and transportation costs	207	154	34.4%	531	473	12.3%
Exploration expenses	3	3	–	7	7	–
Depreciation, depletion and amortization	172	164	4.9%	510	472	8.1%
Taxes other than income tax	669	664	0.8%	2,000	1,995	0.3%
Export customs duty	208	210	(1.0)%	599	744	(19.5)%
<b>Total costs and expenses</b>	<b>1,884</b>	<b>1,814</b>	<b>3.9%</b>	<b>5,432</b>	<b>5,078</b>	<b>7.0%</b>
<b>Operating income</b>	<b>356</b>	<b>321</b>	<b>10.9%</b>	<b>1,018</b>	<b>995</b>	<b>2.3%</b>
Finance income	36	37	(2.7)%	113	89	27.0%
Finance expenses	(56)	(56)	–	(176)	(217)	(18.9)%
Other income	3	1	>100%	7	48	(85.4)%
Other expenses	(14)	(15)	(6.7)%	(135)	(237)	(43.0)%
Foreign exchange differences	11	15	(26.7)%	41	100	(59.0)%
Cash flow hedges reclassified to profit or loss	(36)	(37)	(2.7)%	(109)	(109)	–
<b>Income before income tax</b>	<b>300</b>	<b>266</b>	<b>12.8%</b>	<b>759</b>	<b>669</b>	<b>13.5%</b>
Income tax expense	(50)	(46)	8.7%	(133)	(152)	(12.5)%
<b>Net income</b>	<b>250</b>	<b>220</b>	<b>13.6%</b>	<b>626</b>	<b>517</b>	<b>21.1%</b>
<b>Net income attributable to</b>						
- Rosneft shareholders	225	194	16.0%	550	440	25.0%
- non-controlling interests	25	26	(3.8)%	76	77	(1.3)%

## **Business Segments and Intersegment Sales**

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

### **Operating Segments**

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

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

### **Intersegment Sales**

Intercompany sales present operational activity of segments as if the segments operate separately from each other within the vertically integrated company using transfer prices for settlements between segments.

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

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### Upstream Operating Results

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2019	June 30, 2019		2019	2018	
<b>Operational results</b>						
Hydrocarbon production (th. boe per day)	5,740	5,710	0.5%	5,783	5,747	0.6%
Liquids production (th. barrels per day)	4,661	4,618	0.9%	4,674	4,633	0.9%
Gas production (th. boe per day)	1,079	1,092	(1.2)%	1,109	1,114	(0.4)%
Hydrocarbon production (mln boe)*	493.1	484.4	1.8%	1 471.3	1,457.2	1.0%
Hydrocarbon production (mln toe)	71.3	70.1	1.7%	213.1	211.8	0.6%
<b>Financial results, RUB billions</b>						
EBITDA	473	518	(8.7)%	1,522	1,515	0.5%
Capital expenditures**	183	204	(10.3)%	578	621	(6.9)%
Upstream operating expenses	101.8	98.5	3.4%	296.6	277.0	7.1%
<b>Indicators per boe</b>						
EBITDA, RUB/boe*	925	1,034	(10.5)%	996	1,003	(0.7)%
Capital expenditures, RUB/boe	371	421	(11.9)%	393	426	(7.7)%
Upstream operating expenses, RUB/boe	206	203	1.5%	202	190	6.3%
Upstream operating expenses, USD/boe***	3.2	3.2	–	3.1	3.1	–

\*Excluding effect of associates and joint ventures.

\*\*Ref. to "Capital expenditures".

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

### Upstream EBITDA

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2019	June 30, 2019		2019	2018	
<b>Revenues and equity share in profits of associates and joint ventures</b>	<b>1,152</b>	<b>1,250</b>	<b>(7.8)%</b>	<b>3,625</b>	<b>3,501</b>	<b>3.5%</b>
<i>Including equity share in profits of associates and joint ventures</i>	<i>17</i>	<i>17</i>	<i>–</i>	<i>57</i>	<i>53</i>	<i>7.5%</i>
<b>Expenses net of depreciation including</b>	<b>705</b>	<b>762</b>	<b>(7.5)%</b>	<b>2,192</b>	<b>2,112</b>	<b>3.8%</b>
Upstream operating expenses*	102	99	3.4%	297	277	7.1%
General and administrative expenses	15	18	(16.7)%	49	47	4.3%
Hydrocarbon procurement costs	3	9	(66.7)%	17	18	(5.6)%
Pipeline tariffs and transportation costs and other costs**	10	9	11.1%	29	25	16.0%
Exploration expenses	5	4	25.0%	11	10	10.0%
Taxes other than income tax	562	635	(11.5)%	1,793	1,735	3.3%
Effect of increase in stock of crude oil	8	(12)	–	(4)	–	–
<i>Effect of prepayments offsetting</i>	<i>26</i>	<i>30</i>	<i>(13.3)%</i>	<i>89</i>	<i>126</i>	<i>(29.4)%</i>
<b>EBITDA</b>	<b>473</b>	<b>518</b>	<b>(8.7)%</b>	<b>1,522</b>	<b>1,515</b>	<b>0.5%</b>

\*Percentage is calculated based on the unrounded data.

\*\*Other costs include revision of ecological reserves of RUB 0.2 billion in the third quarter of 2019 and RUB 0.2 billion in the second quarter of 2019, RUB 0.9 billion and RUB 1.6 billion in the nine months of 2019 and 2018, respectively.

## Operating indicators

### Production of liquid hydrocarbons

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

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2019	June 30, 2019		2019	2018	
	(million of barrels)			(million of barrels)		
RN-Yuganskneftegaz (Western Siberia)	128.2	126.9	1.0%	383.7	386.7	(0.8)%
Samotlorneftegaz (Western Siberia)	36.3	36.0	0.8%	107.8	107.5	0.3%
Projects of the Vankor group (Eastern Siberia)	34.2	33.5	2.1%	102.5	120.4	(14.9)%
Bashneft-Dobycha (Ural-Volga)	30.4	30.0	1.3%	90.4	90.6	(0.2)%
Orenburgneft (Ural-Volga)	26.9	26.6	1.1%	80.7	82.0	(1.6)%
Samaraneftegaz (Ural-Volga)	24.0	22.2	8.1%	69.4	65.8	5.5%
RN-Uvatneftegaz (Western Siberia)	19.6	18.5	5.9%	57.3	58.0	(1.2)%
Verkhnechonskneftegaz (Eastern Siberia)	14.6	14.0	4.3%	43.3	45.3	(4.4)%
RN-Nyaganneftegaz (Western Siberia)	12.9	12.7	1.6%	38.0	30.8	23.4%
Varyeganneftegaz (Western Siberia)	11.8	11.7	0.9%	35.0	32.4	8.0%
Vostsibneftegaz (Eastern Siberia)	7.8	8.1	(3.7)%	23.2	12.2	90.2%
Tomskneft (Western Siberia)	7.5	7.5	–	22.8	24.3	(6.2)%
Taas-Yuryakh (Far East)	7.7	7.2	6.9%	21.5	14.9	44.3%
RN-Purneftegaz (Western Siberia)	6.6	6.6	–	19.8	25.9	(23.6)%
Kondaneft (Western Siberia)	5.5	4.9	12.2%	15.1	7.4	>100%
RN-Severnaya Neft (Timan-Pechora)	5.0	4.9	2.0%	15.1	16.7	(9.6)%
Offshore projects (Far East)*	4.6	4.6	–	14.3	14.4	(0.7)%
Rospan International (Western Siberia)	2.7	2.9	(6.9)%	8.5	8.5	–
Sorovskneft (Western Siberia)	2.2	2.4	(8.3)%	7.2	8.5	(15.3)%
Kharampurneftegaz (Western Siberia)	2.2	2.3	(4.3)%	6.8	0.3	>100%
Bashneft-Polyus (Timan-Pechora)**	2.1	2.0	5.0%	6.1	6.1	–
Other	8.3	7.3	13.7%	23.0	18.9	21.7%
<b>Liquids production by fully and proportionately consolidated enterprises</b>	<b>401.1</b>	<b>392.8</b>	<b>2.1%</b>	<b>1,191.5</b>	<b>1,177.6</b>	<b>1.2%</b>
Slavneft (Western and Eastern Siberia)	13.4	12.5	7.2%	38.8	37.9	2.4%
Udmurtneft (Ural-Volga)	5.6	5.2	7.7%	16.3	16.7	(2.4)%
Messoyakhaneftegaz (Western Siberia)	5.3	4.8	10.4%	14.7	12.0	22.5%
Other	3.4	4.9	(30.6)%	14.7	20.5	(28.3)%
<b>Total share in production of associates and JV</b>	<b>27.7</b>	<b>27.4</b>	<b>1.1%</b>	<b>84.5</b>	<b>87.1</b>	<b>(3.0)%</b>
<b>Total liquids production</b>	<b>428.8</b>	<b>420.2</b>	<b>2.0%</b>	<b>1,276.0</b>	<b>1,264.7</b>	<b>0.9%</b>
<b>Daily liquids production (th. barrels per day)</b>	<b>4,661</b>	<b>4,618</b>	<b>0.9%</b>	<b>4,674</b>	<b>4,633</b>	<b>0.9%</b>

\*Net of royalty and government share.

\*\*Refers to 100% consolidated share in production.

In the third quarter of 2019, the average daily liquid hydrocarbons production amounted to 4.66 million barrels per day, having increased by 0.9% compared with the second quarter of 2019 mostly due to removing of limitations of oil intake by the pipeline system.

Compared with the nine months of 2018, liquid hydrocarbons production increased by 0.9% driven by active development of new major projects (Yurubcheno-Tokhomskeye, Srednebotuobinskoye, Kondinskoye, Russkoye, East-Messoyakhskaya fields) and production ramp-up at brownfields (Samaraneftegaz, RN-Nyaganneftegaz, Varyeganneftegaz).

For the nine months of 2019 development drilling footage amounted to 7.8 mln meters with in-house drilling share at least 50%. The number of new wells commissioned exceeded 2.2 thousand units.

## Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019

Commissioning of new horizontal wells increased by 4%, while its share in the total well stock increased to 56%, increasing by 10 p.p. year-to-year. The number of newly commissioned horizontal wells with multistage hydro fracturing reached 748 units year-to-year or 34% of the total new wells commissioned during nine months of 2019.

### Production of Gas

The table below sets forth Rosneft's used gas\* production:

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2019	June 30, 2019		2019	2018	
	bcm			bcm		
Sibneftegas (Western Siberia)	2.89	2.78	4.0%	8.53	9.07	(6.0)%
Rospan International (Western Siberia)	1.59	1.68	(5.4)%	4.93	4.94	(0.2)%
Projects of the Vankor group (Eastern Siberia)**	1.45	1.56	(7.1)%	4.69	5.53	(15.2)%
Samotlorneftegaz (Western Siberia)	1.42	1.48	(4.1)%	4.45	4.36	2.1%
RN-Yuganskneftegaz (Western Siberia)	1.23	1.11	10.8%	3.55	3.51	1.1%
RN-Purneftegaz (Western Siberia)	1.06	1.07	(0.9)%	3.22	4.11	(21.7)%
Zohr project (Egypt)***	1.09	1.02	6.9%	3.08	1.29	>100%
Varyeganneftegaz (Western Siberia)	1.01	0.99	2.0%	3.00	3.01	(0.3)%
RN-Nyaganneftegaz (Western Siberia)	0.53	0.55	(3.6)%	1.59	1.26	26.2%
Offshore projects (Far East)**,*	0.42	0.39	7.7%	1.52	2.41	(36.9)%
RN-Krasnodarneftegaz (Southern Russia)	0.42	0.45	(6.7)%	1.36	1.49	(8.7)%
Verkhnechonskneftegaz (Eastern Siberia)	0.33	0.30	10.0%	0.94	0.59	59.3%
Orenburgneft (Ural-Volga)	0.29	0.30	(3.3)%	0.89	1.04	(14.4)%
Kharampurneftegaz (Western Siberia)	0.24	0.23	4.3%	0.69	0.02	>100%
Tomskneft (Western Siberia)	0.21	0.23	(8.7)%	0.69	0.70	(1.4)%
Rosneft Vietnam B.V. (Vietnam)	0.20	0.20	–	0.61	0.62	(1.6)%
Samaraneftegaz (Ural-Volga)	0.13	0.12	8.3%	0.38	0.38	–
Bashneft-Dobycha (Ural-Volga)**	0.12	0.12	–	0.37	0.37	–
RN-Sakhalinmorneftegaz (Far East)	0.09	0.10	(10.0)%	0.29	0.27	7.4%
RN-Uvatneftegaz (Western Siberia)	0.06	0.07	(14.3)%	0.21	0.22	(4.5)%
RN-Severnaya Neft (Timan-Pechora)	0.04	0.04	–	0.12	0.14	(14.3)%
Other	0.29	0.26	11.5%	0.84	0.58	44.8%
<b>Total gas production by fully and proportionately consolidated enterprises</b>	<b>15.11</b>	<b>15.05</b>	<b>0.4%</b>	<b>45.95</b>	<b>45.91</b>	<b>0.1%</b>
Purgaz (Western Siberia)	1.03	1.08	(4.6)%	3.23	3.53	(8.5)%
Slavneft (Western and Eastern Siberia)	0.12	0.12	–	0.36	0.35	2.9%
Other	0.04	0.06	(33.3)%	0.19	0.16	18.8%
<b>Total share in production of associates and JV</b>	<b>1.19</b>	<b>1.26</b>	<b>(5.6)%</b>	<b>3.78</b>	<b>4.04</b>	<b>(6.4)%</b>
<b>Total gas production</b>	<b>16.30</b>	<b>16.31</b>	<b>(0.1)%</b>	<b>49.73</b>	<b>49.95</b>	<b>(0.4)%</b>
Natural gas	8.07	8.12	(0.6)%	24.55	24.01	2.2%
Associated gas	8.23	8.19	0.5%	25.18	25.94	(2.9)%
<b>Daily gas production (mcm per day)</b>	<b>177.2</b>	<b>179.2</b>	<b>(1.1)%</b>	<b>182.2</b>	<b>183.0</b>	<b>(0.4)%</b>

\* Production volume equals extracted volume minus flared volume and gas used for NGL production. Gross gas production amounted to 19.2 bcm in the third quarter of 2019 and 18.9 bcm for the second quarter of 2019; 57.2 bcm and 55.0 bcm for the nine months of 2019 and 2018, respectively.

\*\* Including gas injection to maintain reservoir pressure.

\*\*\* Net of royalty and government share.

Gas production for the nine months of 2019 amounted to 49.73 bcm, including 16.30 bcm in the third quarter of 2019, remaining flat approx. at the level of the nine months of 2018 and the second quarter of 2019 respectively.

### 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 57 billion and RUB 53 billion in the nine months of 2019 and 2018.

Considerable income growth in the nine months of 2019 compared with the same period of 2018 is mainly due to increased share in financial results of upstream associates and joint ventures (mainly, Udmurtneft).

## Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019

### 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 third quarter of 2019 compared with the second quarter of 2019 an increase in the upstream production and operating expenses of 3.4% to RUB 102.0 billion (an increase of 1.5% per boe) was mainly driven by additional costs of geotechnical works and seasonal increase in maintenance and repairs of ground infrastructure.

Upstream production and operating expenses per boe increased in nine months of 2019 by 6.3% (202 RUB/boe) compared with the same period of 2018. The upstream production and operating expenses growth is mainly due to higher electricity tariffs (+11.0%), increased maintenance costs, transport costs and wages expenses.

### 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 third and second quarters of 2019 were RUB 3 billion, respectively. In the nine months of 2019 and 2018 exploration expenses were RUB 7 billion, respectively.

### Mineral extraction tax (MET) and Excess profit tax

#### MET

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

	For 3 months ended		%	For 9 months ended September 30,		%
	September 30, 2019	June 30, 2019		2019	2018	
	(thousand RUB, except %)					
Average enacted mineral extraction tax rate (per tonne)	12.41	14.17	(12.4)%	13.17	12.44	5.9%
Actual mineral extraction tax expense per tonne of oil produced	9.49	11.20	(15.3)%	10.36	10.46	(1.0)%
Actual mineral extraction tax expense per tonne of oil equivalent produced*	7.79	9.16	(15.0)%	8.47	8.52	(0.6)%
	(RUB, except %)					
Actual gas extraction tax rate per thousand cubic meters	575	575	–	573	552	3.8%
Actual extraction tax rate on gas condensate per tonne**	5,233	5,663	(7.6)%	5,519***	4,343	27.1%

\*Including consolidated oil and gas volumes.

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

\*\*\*The actual MET rate on condensate in the first half of 2019 increased compared with the same period of 2018 which is mainly due to extraction tax rate increase by the amount of reduction in export customs duties on crude oil multiplied by 0.75.

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

#### Excess profit tax

Excess profit tax is enacted since January 1, 2019 and is used in certain Company's fields. The amount of excess profit tax is determined as the difference between estimated revenue and production, preparation and transportation costs by applying a rate of 50%. In the third and second quarters of 2019 excess profit tax expense was RUB 30 billion and RUB 19 billion, respectively.

<sup>1</sup> Net of intercompany turnover of RUB 2 billion and RUB 1 billion in the third and second quarters of 2019, respectively. In the nine months of 2019 net of intercompany turnover was RUB 4 billion.

## Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019

### Downstream Operating Results

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

The results are set in the table below:

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2019	June 30, 2019		2019	2018	
<b>Operational results, mln tonne</b>						
Crude oil processing at refineries	30.07	24.96	20.5%	81.90	85.51	(4.2)%
<i>Processing at Company's own refineries in Russia</i>	25.19	21.33	18.1%	69.07	70.62	(2.2)%
<i>Processing at Company's own refineries outside Russia</i>	2.77	2.09	32.5%	7.20	8.91	(19.2)%
<i>Processing at Associates' refineries*</i>	2.11	1.54	37.0%	5.63	5.98	(5.9)%
<b>Financial results, RUB billion</b>						
EBITDA	67	12	>100%	128	117	9.4%
Capital expenditures of refineries**	11	11	-	35	34	2.9%
Operating expenses of processing in Russia	35.7	33.6	6.3%	99.9	90.6	10.3%
Operating expenses of processing outside Russia	5.8	4.5	28.9%	16.9	19.7	(14.2)%
<b>Indicators per tonne of the output, RUB per tonne***</b>						
Capital expenditure of refineries	393	470	(16.4)%	455	428	6.3%
Operating expenses for processing in Russia	1,417	1,575	(10.0)%	1,446	1,283	12.7%
Operating expenses for processing outside Russia****	2,094	3,110	(32.7)%	2,625	2,211	18.7%

\*Excluding processing at Nayara

\*\*Refer to "Capital expenditures".

\*\*\*Calculated from unrounded data.

\*\*\*\*Excluding on-off effect of cost adjustment in the second quarter of 2019 relating to year 2018 of RUB 2 billion (USD 28.6 million).

### Downstream EBITDA

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2019	June 30, 2019		2019	2018	
	RUB billion			RUB billion		
<b>Revenues and equity share in profits of associates and joint ventures</b>	<b>2,233</b>	<b>2,124</b>	<b>5.1%</b>	<b>6,421</b>	<b>6,100</b>	<b>5.3%</b>
<i>Including equity share in profits of associates and joint ventures</i>	6	10	(40.0)%	16	2	>100%
<b>Expenses net of depreciation including</b>	<b>2,165</b>	<b>2,081</b>	<b>4.0%</b>	<b>6,284</b>	<b>6,023</b>	<b>4.3%</b>
Operating expenses of processing in Russia	36	33	9.1%	100	91	9.9%
Operating expenses of processing outside Russia, cost of additives	15	8	87.5%	35	40	(12.5)%
Operating expenses of retail entities	9.7	9.5	2.1%	28.3	27.9	1.4%
Cost of purchased oil, gas, petroleum products and refining costs including intersegment turnover	1,581	1,594	(0.8)%	4,721	4,344	8.7%
Administrative expenses, including loss allowance for expected credit losses	33*	17	94.1%	60	31	93.5%
Pipeline tariffs and transportation costs	205	154	33.1%	528	470	12.3%
Taxes other than income tax	77	55	40.0%	213	275	(22.5)%
Export customs duty	208	210	(1.0)%	599	744	(19.5)%
<b>EBITDA Downstream</b>	<b>68</b>	<b>43</b>	<b>58.1%</b>	<b>137</b>	<b>77</b>	<b>77.9%</b>
<i>Effect of intragroup inventory and others</i>	(1)	(31)	96.8%	(9)	40	-
<b>EBITDA</b>	<b>67</b>	<b>12</b>	<b>&gt;100%</b>	<b>128</b>	<b>117</b>	<b>9.4%</b>

\*Reclass of allowance for expected credit losses (RUB 27 bln accrued in the first quarter of 2019) from the Corporate segment.

## 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 9 months ended September 30,		%
	September 30,	June 30,		2019	2018	
	2019	2019		mln of tonnes		
Crude oil processing at refineries in Russia*	27.22	22.87	19.0%	74.59	76.55	(2.6)%
Crude oil processing at refineries outside Russia including crude oil processing in Germany**	2.85	2.09	36.4%	7.31	8.96	(18.4)%
including crude oil processing in Belarus	2.77	2.09	32.5%	7.20	8.91	(19.2)%
	0.08	–	–	0.11	0.05	>100%
<b>Total Group crude oil processing</b>	<b>30.07</b>	<b>24.96</b>	<b>20.5%</b>	<b>81.90</b>	<b>85.51</b>	<b>(4.2)%</b>
<b>Petroleum product output:</b>						
High octane gasoline	4.02	3.65	10.1%	11.49	11.18	2.8%
Low octane gasoline	0.01	0.01	–	0.03	0.07	(57.1)%
Naphtha	1.57	1.18	33.1%	4.04	4.72	(14.4)%
Diesel	8.82	7.46	18.2%	24.40	25.21	(3.2)%
Fuel oil	6.28	5.37	16.9%	17.47	17.69	(1.2)%
Jet fuel	1.01	0.83	21.7%	2.63	2.76	(4.7)%
Petrochemicals	0.30	0.39	(23.1)%	1.12	1.15	(2.6)%
Other	4.30	3.20	34.4%	10.88	11.15	(2.4)%
<b>Product output at Rosneft's refineries in Russia</b>	<b>26.31</b>	<b>22.09</b>	<b>19.1%</b>	<b>72.06</b>	<b>73.93</b>	<b>(2.5)%</b>
<b>Product output at refineries outside Russia</b>	<b>2.99</b>	<b>2.20</b>	<b>35.9%</b>	<b>7.69</b>	<b>9.09</b>	<b>(15.4)%</b>
including crude oil output in Germany	2.92	2.20	32.7%	7.59	9.05	(16.1)%
including product output in Belarus	0.7	–	100%	0.10	0.04	>100%
<b>Total Group product output</b>	<b>29.30</b>	<b>24.29</b>	<b>20.6%</b>	<b>79.75</b>	<b>83.02</b>	<b>(3.9)%</b>

\*Including processing at YANOS refinery.

\*\*Excluding additives received and other raw materials for processing.

Rosneft's total refinery throughput in Russia in the third quarter of 2019 amounted to 27.22 mln tonnes. The increase is caused by completion of scheduled turnarounds at large production capacity and production optimization in the context of the current petroleum products demand.

In the third quarter of 2019, processing at the refineries in Germany increased by 32,5% in comparison with the second quarter of 2019 and was mainly due to completion of scheduled turnarounds at PCK Raffinerie GmbH in the first half of 2019 and also, due to removing of limitation of oil delivery to the pipeline.

Reduction of processing of 19.2% for the nine months of 2019 in comparison with the nine months of 2018 was mainly due to production decrease in PCK Raffinerie GmbH in the context of limitation of oil intake by the pipeline system in May-June 2019, due to scheduled turnarounds at PCK Raffinerie GmbH in March-April 2019, and due to incomplete production capacity at Bayernoil Raffineriegesellschaft GmbH caused by an incident in September 2018.



## Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019

### Financial indicators

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

Increase in revenues in RUB terms in the third quarter of 2019 compared with the second quarter of 2019 is mainly due to growth of sales volumes of oil products considering oil price decrease (9.7% in RUB terms compared with the second quarter of 2019).

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

	For 3 months ended			For 9 months ended September 30,						
	September 30, 2019		June 30, 2019		% change	2019		2018		% change
	% of revenue	% of revenue	% of revenue	% of revenue		% of revenue	% of revenue			
<b>RUB billion, except %</b>										
<b>Crude oil</b>										
International Sales to non-CIS	953	42.5%	1,047	49.0%	(9.0)%	2,903	44.9%	2,489	40.9%	16.6%
Europe and other directions	439	19.6%	451	21.1%	(2.7)%	1,349	20.8%	1,233	20.2%	9.4%
Asia	514	22.9%	596	27.9%	(13.8)%	1,554	24.1%	1,256	20.7%	23.7%
International sales to CIS	53	2.4%	47	2.2%	12.8%	154	2.4%	154	2.5%	–
Domestic sales	34	1.5%	30	1.4%	13.3%	96	1.5%	95	1.6%	1.1%
<b>Total crude oil</b>	<b>1,040</b>	<b>46.4%</b>	<b>1,124</b>	<b>52.6%</b>	<b>(7.5)%</b>	<b>3,153</b>	<b>48.8%</b>	<b>2,738</b>	<b>45.0%</b>	<b>15.2%</b>
<b>Gas</b>	<b>61</b>	<b>2.7%</b>	<b>61</b>	<b>2.9%</b>	<b>–</b>	<b>191</b>	<b>3.0%</b>	<b>164</b>	<b>2.7%</b>	<b>16.5%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	584	26.1%	453	21.2%	28.9%	1,564	24.3%	1,732	28.5%	(9.7)%
Europe and other directions	450	20.1%	347	16.2%	29.7%	1,207	18.8%	1,309	21.5%	(7.8)%
Asia	134	6.0%	106	5.0%	26.4%	357	5.5%	423	7.0%	(15.6)%
International Sales to CIS	27	1.2%	37	1.7%	(27.0)%	97	1.5%	109	1.8%	(11.0)%
Domestic sales	436	19.5%	365	17.1%	19.5%	1,170	18.1%	1,078	17.8%	8.5%
Sales of bunker fuel to end-users	23	1.0%	23	1.1%	–	64	1.0%	61	1.0%	4.9%
<b>Total petroleum products</b>	<b>1,070</b>	<b>47.8%</b>	<b>878</b>	<b>41.1%</b>	<b>21.9%</b>	<b>2,895</b>	<b>44.9%</b>	<b>2,980</b>	<b>49.1%</b>	<b>(2.9)%</b>
<b>Petrochemical products</b>	<b>26</b>	<b>1.2%</b>	<b>22</b>	<b>1.0%</b>	<b>18.2%</b>	<b>74</b>	<b>1.1%</b>	<b>77</b>	<b>1.3%</b>	<b>(3.9)%</b>
International sales	16	0.8%	7	0.3%	>100%	35	0.5%	31	0.5%	12.9%
Domestic sales	10	0.4%	15	0.7%	(33.3)%	39	0.6%	46	0.8%	(15.2)%
<b>Sales of petroleum products petrochemicals</b>	<b>1,096</b>	<b>49.0%</b>	<b>900</b>	<b>42.1%</b>	<b>21.8%</b>	<b>2,969</b>	<b>46.0%</b>	<b>3,057</b>	<b>50.4%</b>	<b>(2.9)%</b>
<b>Support services and other revenues</b>	<b>20</b>	<b>0.9%</b>	<b>23</b>	<b>1.1%</b>	<b>(13.0)%</b>	<b>64</b>	<b>1.0%</b>	<b>58</b>	<b>1.0%</b>	<b>10.3%</b>
<b>Equity share in profits of associates and joint ventures</b>	<b>23</b>	<b>1.0%</b>	<b>27</b>	<b>1.3%</b>	<b>(14.8)%</b>	<b>75</b>	<b>1.2%</b>	<b>56</b>	<b>0.9%</b>	<b>33.9%</b>
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>2,240</b>	<b>100.0%</b>	<b>2,135</b>	<b>100.0%</b>	<b>4.9%</b>	<b>6,452</b>	<b>100.0%</b>	<b>6,073</b>	<b>100.0%</b>	<b>6.2%</b>

\* Under IFRS consolidated financial statements.

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

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**Sales Volumes**

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

	For 3 months ended					For 9 months ended September 30,				
	September 30, 2019		June 30, 2019		% change	2019		2018		% 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	260.6	50.1%	264.3	56.0%	(1.4)%	761.1	51.9%	622.7	46.0%	22.2%
Europe and other directions	117.7	22.6%	107.3	22.7%	9.7%	343.5	23.4%	303.6	22.4%	13.1%
Asia	142.9	27.5%	157.0	33.3%	(9.0)%	417.6	28.5%	319.1	23.6%	30.9%
International Sales to CIS	17.7	3.4%	14.1	3.0%	25.5%	48.1	3.3%	48.1	3.6%	–
Domestic	11.1	2.1%	8.9	1.9%	24.7%	30.4	2.1%	31.1	2.3%	(2.3)%
<b>Total crude oil</b>	<b>289.4</b>	<b>55.6%</b>	<b>287.3</b>	<b>60.9%</b>	<b>0.7%</b>	<b>839.6</b>	<b>57.3%</b>	<b>701.9</b>	<b>51.9%</b>	<b>19.6%</b>
	<b>mln tonnes</b>		<b>mln tonnes</b>			<b>mln tonnes</b>		<b>mln tonnes</b>		
International Sales to non-CIS	35.2	50.1%	35.7	56.0%	(1.4)%	102.8	51.9%	84.1	46.0%	22.2%
Europe and other directions	15.9	22.6%	14.5	22.7%	9.7%	46.4	23.4%	41.0	22.4%	13.1%
Asia	19.3	27.5%	21.2	33.3%	(9.0)%	56.4	28.5%	43.1	23.6%	30.9%
International Sales to CIS	2.4	3.4%	1.9	3.0%	25.5%	6.5	3.3%	6.5	3.6%	–
Domestic sales	1.5	2.1%	1.2	1.9%	24.7%	4.1	2.1%	4.2	2.3%	(2.3)%
<b>Total crude oil</b>	<b>39.1</b>	<b>55.6%</b>	<b>38.8</b>	<b>60.9%</b>	<b>0.7%</b>	<b>113.4</b>	<b>57.3%</b>	<b>94.8</b>	<b>51.9%</b>	<b>19.6%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	17.4	24.8%	12.8	20.1%	35.9%	46.1	23.3%	50.6	27.8%	(8.9)%
Europe and other directions	12.9	18.4%	9.6	15.1%	34.4%	34.4	17.4%	38.1	20.9%	(9.7)%
Asia	4.5	6.4%	3.2	5.0%	40.6%	11.7	5.9%	12.5	6.9%	(6.4)%
International Sales to CIS	0.9	1.3%	1.0	1.6%	(10.0)%	2.9	1.5%	3.0	1.6%	(3.3)%
Domestic sales	11.6	16.5%	9.5	14.9%	22.1%	31.1	15.7%	29.6	16.2%	5.1%
Sales of bunker fuel to end-users	0.8	1.1%	0.9	1.4%	(1.7)%	2.4	1.2%	2.3	1.3%	4.3%
<b>Total petroleum products</b>	<b>30.7</b>	<b>43.7%</b>	<b>24.2</b>	<b>38.0%</b>	<b>26.9%</b>	<b>82.5</b>	<b>41.7%</b>	<b>85.5</b>	<b>46.9%</b>	<b>(3.5)%</b>
<b>Petrochemical products</b>	<b>0.5</b>	<b>0.7%</b>	<b>0.7</b>	<b>1.1%</b>	<b>(18.3)%</b>	<b>1.9</b>	<b>1.0%</b>	<b>2.1</b>	<b>1.2%</b>	<b>(9.5)%</b>
International sales	0.2	0.3%	0.2	0.3%	0.0%	0.7	0.4%	0.8	0.5%	(12.5)%
Domestic sales	0.3	0.4%	0.5	0.8%	(13.4)%	1.2	0.6%	1.3	0.7%	(7.7)%
<b>Total crude oil and products, LNG</b>	<b>70.3</b>	<b>100.0%</b>	<b>63.7</b>	<b>100.0%</b>	<b>10.4%</b>	<b>197.8</b>	<b>100.0%</b>	<b>182.4</b>	<b>100.0%</b>	<b>8.4%</b>
	<b>bcm</b>		<b>bcm</b>			<b>bcm</b>		<b>bcm</b>		
<b>Gas sales volumes</b>	<b>15.05</b>		<b>15.55</b>		<b>(3.2)%</b>	<b>47.67</b>		<b>45.56</b>		<b>4.6%</b>

## Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019

### 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 9 months ended September 30,				% change
	September 30, 2019		June 30, 2019			2019		2018		
	th.RUB/ barrel	th.RUB/ tonne	th.RUB/ barrel	th.RUB/ tonne		th.RUB/ barrel	th.RUB/ tonne	th.RUB/ barrel	th.RUB/ tonne	
<b>Average prices on foreign markets</b>										
Crude oil, non-CIS	3.78	28.0	4.09	30.3	(7.6)%	3.94	29.2	4.22	31.2	(6.4)%
Europe and other directions**	3.75	27.7	4.20	31.1	(10.9)%	3.93	29.1	4.09	30.3	(4.0)%
Asia**	3.82	28.3	4.00	29.6	(4.4)%	3.95	29.3	4.35	32.2	(9.0)%
Crude oil, CIS	3.02	22.4	3.38	25.1	(10.8)%	3.22	23.8	3.19	23.6	0.8%
Petroleum products, non- CIS		33.7		35.6	(5.3)%		34.2		34.5	(0.9)%
Europe and other directions		34.9		36.3	(3.9)%		35.2		34.5	2.0%
Asia		30.1		33.5	(10.1)%		31.0		34.2	(9.4)%
Petroleum products, CIS		31.5		35.9	(12.3)%		34.0		36.1	(5.8)%
Petrochemical products		43.6		34.2	27.5%		45.3		38.2	18.6%
<b>Average domestic prices</b>										
Crude oil	2.98	22.1	3.27	24.2	(8.7)%	3.14	23.3	3.09	22.8	2.2%
Petroleum products		37.8		38.1	(0.8)%		37.6		36.4	3.3%
Gas (th. RUB./the cubic meter)***		3.28		3.27	0.3%		3.34		3.32	0.6%
Petrochemical products		35.4		34.9	1.4%		33.9		35.5	(4.5)%
<b>Sales of bunker fuel to end-users</b>		27.2		27.1	0.4%		26.6		26.5	0.4%

\*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 36 billion and RUB 38 billion in the third and second quarters of 2019, respectively; RUB 112 billion in the nine months of 2019 and 2018).

\*\*\*Including gas sales outside Russian Federation average gas prices were 4.03 th. RUB./th. cubic meter in the third quarter and 3.94 th. RUB./th. cubic meter in the second quarter of 2019; 4.01 RUB./th. cubic meter in the nine months of 2019 and 3.62 th. RUB./th. cubic meter in the nine months of 2018.

### International Crude Oil Sales to non-CIS

Revenue decrease in international crude oil sales to non-CIS countries in the third quarter of 2019 compared to the second quarter of 2019 was due to the downturn in average sales price of 7.3% (negative impact of RUB 75 billion) and was accompanied by sales volume by 1.4% (negative impact of RUB 18 billion).

Revenue growth of international crude oil sales to non-CIS countries in the nine months of 2019 compared with the same period of 2018 was due to the increase in sales volume by 22.2% (positive impact of RUB 579 billion) and was partially offset by the average sales price downturn by 6.4% (negative impact of RUB 200 billion).

### International Crude Oil Sales to CIS

Revenue growth in international crude oil sales to CIS countries in the third quarter of 2019 compared to the second quarter of 2019 was due to the upturn in sales volume by 25.5% (positive impact of RUB 14 billion) and was partially offset by the decrease in average sales price of 10.8% (negative impact of RUB 8 billion).

Revenue of international crude oil sales to CIS countries in the nine months of 2019 was the same as in the nine months of 2018.

### Domestic Sales of Crude Oil

Revenue increase in domestic sales of crude oil in the third quarter of 2019 compared with the second quarter of 2019 was due to the upturn in sales volume by 24.7% (positive impact of RUB 7 billion) and was partially offset by the decrease in average sales price of 8.7% (negative impact of RUB 3 billion).

Revenue upturn of domestic sales of crude oil in the nine months of 2019 compared with the same period of 2018 was due to the increase in average sales price of 2.2% (positive impact of RUB 3 billion) and was partially offset by the downturn in sales volume by 2.3% (negative impact of RUB 2 billion).

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*International Petroleum Product Sales to Non-CIS*

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

	For 3 months ended						% change		
	September 30, 2019			June 30, 2019			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	15	0.3	38.9	8	0.2	41.6	87.5%	50.0%	(6.5)%
Naphtha	49	1.5	31.6	26	0.8	31.9	88.5%	87.5%	(0.9)%
Diesel (Gasoil)	119	3.5	35.4	103	2.8	36.3	15.5%	25.0%	(2.5)%
Fuel oil	165	7.1	23.5	134	5.3	25.7	23.1%	34.0%	(8.6)%
Other	4	0.1	28.1	5	0.2	28.5	–	–	–
<b>Petroleum products exported to non-CIS</b>	<b>352</b>	<b>12.5</b>	<b>28.2</b>	<b>276</b>	<b>9.3</b>	<b>29.9</b>	<b>27.5%</b>	<b>34.4%</b>	<b>(5.7)%</b>
Petroleum products sold from German refineries	138	2.7	51.1	108	1.9	57.6	27.8%	42.1%	(11.3)%
Petroleum products bought and sold outside Russia	94	2.2	43.9	69	1.6	42.5	36.2%	37.5%	3.3%
<b>Trading of petroleum products outside Russia</b>	<b>232</b>	<b>4.9</b>	<b>47.9</b>	<b>177</b>	<b>3.5</b>	<b>50.9</b>	<b>31.1%</b>	<b>40.0%</b>	<b>(5.9)%</b>
<b>Total</b>	<b>584</b>	<b>17.4</b>	<b>33.7</b>	<b>453</b>	<b>12.8</b>	<b>35.6</b>	<b>28.9%</b>	<b>35.9%</b>	<b>(5.3)%</b>

\*Average price is calculated from unrounded figures.

Revenue increase in the international sales of petroleum products to non-CIS countries in the third quarter of 2019 compared to the second quarter of 2019 was due to the sales volume growth of 35.9% (positive impact of RUB 159 billion) and was partially offset by the downturn in average sales price of 5.3% (negative impact of RUB 33 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 nine months of 2019 and 2018\*:

	For 9 months ended September 30,						% change		
	2019			2018			RUB billion	million of tonnes	Average price th.RUB/tonne
	RUB billion	million of tonnes	Average price th.RUB/tonne	RUB billion	million of tonnes	Average Price th.RUB/tonne			
High octane gasoline	29	0.7	39.1	24	0.6	41.0	20.8%	16.7%	(4.6)%
Naphtha	118	3.7	31.5	171	4.6	37.4	(31.0)%	(19.6)%	(15.8)%
Diesel (Gasoil)	369	10.4	36.1	463	12.3	37.5	(20.3)%	(15.4)%	(3.7)%
Fuel oil	451	18.6	24.6	474	18.9	25.6	(4.9)%	(1.6)%	(3.9)%
Other	15	0.5	27.8	20	0.6	35.7	–	–	–
<b>Petroleum products exported to non-CIS</b>	<b>982</b>	<b>33.9</b>	<b>29.2</b>	<b>1,152</b>	<b>37.0</b>	<b>31.4</b>	<b>(14.8)%</b>	<b>(8.4)%</b>	<b>(7.0)%</b>
Petroleum products sold from German refineries	363	6.8	53.5	405	8.3	48.7	(10.4)%	(18.1)%	9.9%
Petroleum product purchased and sold outside Russia	219	5.4	41.3	175	5.3	33.3	25.1%	1.9%	24.0%
<b>Trading of petroleum products outside Russia</b>	<b>582</b>	<b>12.2</b>	<b>48.1</b>	<b>580</b>	<b>13.6</b>	<b>42.8</b>	<b>0.3%</b>	<b>(10.3)%</b>	<b>12.4%</b>
<b>Total</b>	<b>1,564</b>	<b>46.1</b>	<b>34.2</b>	<b>1,732</b>	<b>50.6</b>	<b>34.5</b>	<b>(9.7)%</b>	<b>(8.9)%</b>	<b>(0.9)%</b>

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

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Revenue decrease in sales of petroleum products to non-CIS countries in the nine months of 2019 compared with the same period of 2018 was attributable to the sales volume decrease of 8.9% (negative impact of RUB 157 billion) and the average price downturn of 0.9% (negative impact of RUB 13 billion).

### International Petroleum Product Sales to CIS

Revenue decrease in international sales of petroleum products to CIS countries in the third quarter of 2019 compared with the second quarter of 2019 was due to the sales volume downturn of 10.0% (negative impact of RUB 6 billion) and the average price decrease of 12.3% (decrease impact of RUB 4 billion).

Revenue decrease in international sales of petroleum products to CIS countries in the nine months of 2019 compared with the same period of 2018 was attributable to the average price downturn of 5.8% (negative impact of RUB 7 billion) and the sales volume decrease of 3.3% (negative impact of RUB 5 billion).

### Domestic Sales of Petroleum Products

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

	For 3 months ended						% change		
	September 30, 2019			June 30, 2019					
	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	173	3.9	44.3	150	3.4	44.0	15.3%	14.7%	0.7%
Diesel (Gasoil)	186	4.5	42.5	149	3.4	42.8	24.8%	32.4%	(0.7)%
Fuel oil	9	0.7	13.8	11	0.6	16.9	(18.2)%	16.7%	(18.3)%
Jet fuel	41	1.0	40.9	33	0.8	41.2	24.2%	25.0%	(0.7)%
Other	27	1.5	16.1	22	1.3	16.1	22.7%	15.4%	–
<b>Total</b>	<b>436</b>	<b>11.6</b>	<b>37.8</b>	<b>365</b>	<b>9.5</b>	<b>38.1</b>	<b>19.5%</b>	<b>22.1%</b>	<b>(0.8)%</b>

\*Average price is calculated from unrounded figures.

Revenue increase from sales of petroleum products on the domestic market in the third quarter of 2019 compared with the second quarter of 2019 was due to the growth in sales volume of 22.1% (positive impact of RUB 80 billion) and was partially offset by the downturn in average sales price of 0.8% (negative impact of RUB 9 billion).

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

	For 9 months ended September 30,						% change		
	2019			2018					
	RUB billion	million of tonnes	Average price th. RUB/tonne	RUB billion	million of tonnes	Average price th. RUB/tonne	RUB billion	million of tonnes	Average price th. RUB/tonne
High octane gasoline	474	11.0	43.1	458	10.6	43.0	3.5%	3.8%	0.2%
Diesel (Gasoil)	489	11.4	43.0	418	10.2	41.1	17.0%	11.8%	4.6%
Fuel oil	35	2.3	15.4	31	2.3	13.8	12.9%	–	11.6%
Jet fuel	107	2.6	41.1	109	2.6	41.3	(1.8)%	–	(0.5)%
Other	65	3.8	17.0	62	3.9	15.9	4.8%	(2.6)%	6.9%
<b>Total</b>	<b>1,170</b>	<b>31.1</b>	<b>37.6</b>	<b>1,078</b>	<b>29.6</b>	<b>36.4</b>	<b>8.5%</b>	<b>5.1%</b>	<b>3.3%</b>

\*Average price is calculated from unrounded figures.

Revenue increase from sales of petroleum products on the domestic market in the nine months of 2019 compared with the same period of 2018 was due to the growth in sales volume of 5.1% (positive impact of RUB 55 billion) and the increase in average sales price of 3.3% (positive impact of RUB 37 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 third quarter of 2019 were the same as in the second quarter of 2019 due to the upturn in average sales price of 0.4% (positive impact of RUB 3 billion) which was partially offset by the decrease in sales volume by 1.7% (negative impact of RUB 3 billion).

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Revenues from sales of bunker fuel in the nine months of 2019 compared with the same period of 2018 increased due to the growth of sales volume by 4.3% (positive impact of RUB 3 billion).

### Petrochemical Products Sales

Petrochemical products sales volumes from the German refineries amounted to 0.25 mln tonnes and 0.20 mln tonnes in the third and second quarters of 2019 respectively.

Revenues from international sales of petrochemical products in the third quarter of 2019 compared with the second quarter of 2019 increased due to the upturn in average sales price of 27.5% (positive impact of RUB 9 billion). Revenues from international sales of petrochemical products in the nine months of 2019 compared with the same period of 2018 increased due to the upturn in average sales price of 18.6% (positive impact of RUB 8 billion) which was partially offset by the sales volume decrease of 12.5% (negative impact of RUB 4 billion).

Revenues from domestic sales of petrochemical products in the third quarter of 2019 decreased due to the sales volume downturn of 13.4% (negative impact of RUB 6 billion) which was partially offset by the average sales price upturn of 1.4% (positive impact of RUB 1 billion). Revenues from domestic sales of petrochemical products in the nine months of 2019 compared with the same period of 2018 decreased due to the sales volume downturn of 7.7% (negative impact of RUB 4 billion) and the decrease in average sales price of 4.5% (negative impact of RUB 3 billion).

### Gas Sales

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September, 2019	June 30, 2019		2019	2018	
<b>Revenue</b>	<b>RUB billion</b>			<b>RUB billion</b>		
In the Russian Federation	45.2	46.9	(3.6)%	147.0	144.4	1.8%
Outside the Russian Federation	15.6	14.3	9.1%	44.3	19.9	>100%
<b>Total</b>	<b>60.8</b>	<b>61.2</b>	<b>(0.7)%</b>	<b>191.3</b>	<b>164.3</b>	<b>16.4%</b>
<b>Sales volumes</b>	<b>bcm</b>			<b>bcm</b>		
In the Russian Federation	13.77	14.35	(4.0)%	44.02	43.70	0.7%
Outside the Russian Federation	1.28	1.20	6.7%	3.65	1.86	96.2%
<b>Total</b>	<b>15.05</b>	<b>15.55</b>	<b>(3.2)%</b>	<b>47.67</b>	<b>45.56</b>	<b>4.6%</b>
<b>Average price</b>	<b>th. RUB/th. of cubic metres</b>			<b>th. RUB/th. of cubic metres</b>		
In the Russian Federation	3.28	3.27	0.3%	3.34	3.32	0.6%
Outside the Russian Federation	12.08	11.96	1.0%	12.12	10.73	13.0%
<b>Average price of the Company</b>	<b>4.03</b>	<b>3.94</b>	<b>2.3%</b>	<b>4.01</b>	<b>3.62</b>	<b>10.8%</b>

\*Average price is calculated from unrounded figures.

Gas sales in the Russian Federation in the third quarter of 2019 compared with the second quarter of 2019 decreased mainly due to sales volume downturn by 4.0%.

Gas sales in the Russian Federation in the nine months of 2019 compared with the same period of 2018 increased by 1.8% mainly due to the average sales price upturn of 0.6% (positive impact on revenues of RUB 1.1 billion) and gas sales volume increase of 0.7% (positive impact of RUB 1.5 billion). Significant growth of gas revenues outside Russia was driven mainly by the gas 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.

## Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019

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

	For 3 months ended					For 9 months ended September 30,				
	September 30, 2019		June 30, 2019		% change	2019		2018		% change
	% of total revenue		% of total revenue			% of total revenue		% of total revenue		
	billion RUB, except %									
Drilling services	0.7	3.5%	1.1	4.7%	(36.4)%	2.3	3.6%	2.0	3.4%	15.0%
Sales of materials	5.6	28.1%	8.7	37.2%	(35.6)%	21.3	33.2%	23.3	39.8%	(8.6)%
Repairs and maintenance services	0.8	4.0%	1.0	4.3%	(20.0)%	2.6	4.0%	2.0	3.4%	30.0%
Rent services	1.1	5.5%	1.3	5.6%	(15.4)%	3.7	5.8%	3.7	6.3%	–
Transport services	6.2	31.2%	5.0	21.4%	24.0%	16.0	24.9%	10.9	18.6%	46.8%
Electric power sales and transmission	2.3	11.6%	2.8	12.0%	(17.9)%	8.2	12.8%	7.6	13.0%	7.9%
Other revenues	3.2	16.1%	3.5	14.8%	(8.6)%	10.1	15.7%	9.0	15.5%	12.2%
<b>Total</b>	<b>19.9</b>	<b>100.0%</b>	<b>23.4</b>	<b>100.0%</b>	<b>(15.0)%</b>	<b>64.2</b>	<b>100.0%</b>	<b>58.5</b>	<b>100.0%</b>	<b>9.7%</b>

### Financial result of associates and joint ventures

Net financial results (profits) of downstream associates and joint ventures amounts to RUB 16 billion and RU 2 billion in the nine months of 2019 and 2018, respectively. An increase comparing to the year of 2018 is due to the income recognition related to Kurdistan project.

### Downstream production and operating costs

Downstream operating expenses include\*:

	For 3 months ended			% change	For 9 months ended September 30,		% change	
	September 30, 2019		June 30, 2019		2019			2018
	billion RUB, except %							
Operating expenses at refineries in Russia	35.7		33.6	6.3%	99.9	90.6	10.3%	
Operating expenses at refineries outside Russia	5.8		4.5	28.9%	16.9	19.7	(14.2)%	
Additives and materials for processing at refineries outside Russia	9.0		3.8	>100.0%	18.0	20.3	(11.3)%	
Operating expenses of retail entities including:	9.7		9.5	2.1%	28.3	27.9	1.4%	
<b>Downstream operating expenses</b>	<b>60.2</b>		<b>51.4</b>	<b>17.1%</b>	<b>163.1</b>	<b>158.5</b>	<b>2.9%</b>	

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

Operating expenses of refineries and retail entities in the third quarter of 2019 compared with the second quarter of 2019 increased by 17.1%. Increase in cost of additives and materials costs for processing at refineries outside Russia was to growth of crude oil processing due to termination of limitation of oil intake by the pipeline system.

The increase in the operating expenses of refineries and retail entities in the nine months of 2019 compared with the same period of 2018 was 2.9%. The increase in operating expenses at the refineries in Russia of 10.3% caused by growth of tariffs of natural monopolies and indexation of wages was compensated by decrease in expenses at the refineries outside Russia in the nine months of 2019.

**Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019**

**Operating expenses of Company's refineries**

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

	For 3 months ended		% change	For 9 months ended		% change
	September 30, 2019	June 30, 2019		September 30, 2019	2018	
<b>Operating expenses at refineries in Russia (RUB billion)</b>	<b>35.7</b>	<b>33.6</b>	<b>6.3%</b>	<b>99.90</b>	<b>90.6</b>	<b>10.3%</b>
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,465	1,633	(10.3)%	1,494	1,326	12.7%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,417	1,575	(10.0)%	1,446	1,283	12.7%
<b>Operating expenses at refineries outside Russia (RUB billion)*</b>	<b>5.8</b>	<b>4.5</b>	<b>28.9%</b>	<b>16.9</b>	<b>19.7</b>	<b>(14.2)%</b>
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,986	3,000	(33.8)%	2,490	2,177	14.4%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	2,094	3,110	(32.7)%	2,625	2,211	18.7%
<b>Total operating expenses at Rosneft's refineries (RUB billion)</b>	<b>41.5</b>	<b>38.1</b>	<b>8.9%</b>	<b>116.8</b>	<b>110.3</b>	<b>5.9%</b>

\*Refineries outside Russia also procured the additives and materials for processing: in the third quarter of 2019 – RUB 9.0 billion, in the second quarter of 2019 – RUB 3.8 billion, in the nine months of 2019 – RUB 18.0 billion; in the nine months of 2018 – RUB 20.3 billion.

Operating expenses of Rosneft's refineries in Russia in the third quarter of 2019 compared with the second quarter of 2019 increased by 6.3% to RUB 35.7 billion, mainly due to scheduled increase in turnarounds.

Operating expenses of Rosneft's refineries in Russia in the nine months of 2019 compared with the same period of 2018 increased by 10.3% (an increase of 12.7% per tonne) because of higher tariffs of monopolies and indexation of wages.

Operating expenses of Rosneft's refineries outside Russia were RUB 5.8 billion in the third quarter of 2019. The decrease of 10.8% of operating expenses of refineries outside Russia compared with RUB 6.5 billion (excluding on-off effect of cost revision of RUB 2.0 billion in June 2019) was driven by lower volumes of scheduled maintenance works in the third quarter of 2019.

The decrease in operating expenses of refineries outside Russia in the nine months of 2019 (excluding on-off effect of cost revision) compared the same period of 2018 was due to decrease in scheduled maintenance works volumes.



**Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019**

**Cost of Purchased Oil, Gas, Petroleum Products, Goods for retail and Refining Costs**

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

	For 3 months ended		% change	For 9 months ended		% change
	September 30, 2019	June 30, 2019		September 30, 2019	2018	
<b>Crude oil and gas procurement</b>						
Cost of crude oil and gas procured (RUB billion)**	<b>282</b>	<b>349</b>	<b>(19.2)%</b>	<b>878</b>	<b>610</b>	<b>44.0%</b>
<i>including Domestic market</i>	<i>94</i>	<i>109</i>	<i>(13.8)%</i>	<i>316</i>	<i>286</i>	<i>10.5%</i>
<i>International market</i>	<i>188</i>	<i>240</i>	<i>(21.7)%</i>	<i>562</i>	<i>324</i>	<i>73.5%</i>
Volume of crude oil procured (millions of barrels)	92.9	101.8	(8.7)%	264.6	167.0	58.4%
<i>including Domestic market</i>	<i>28.7</i>	<i>31.3</i>	<i>(8.3)%</i>	<i>92.4</i>	<i>85.9</i>	<i>7.6%</i>
<i>International market</i>	<i>64.2</i>	<i>70.5</i>	<i>(8.9)%</i>	<i>173.8</i>	<i>81.1</i>	<i>&gt;100%</i>
Volume of gas procured (bcm)	2.43	2.39	1.7%	8.83	8.86	(0.3)%
<b>Petroleum products procurement</b>						
Cost of petroleum products procured (RUB billion)***	<b>82</b>	<b>70</b>	<b>17.1%</b>	<b>209</b>	<b>185</b>	<b>13.0%</b>
Volume of petroleum products procured (millions of tonnes)	2.88	1.77	62.7%	7.94	5.91	34.3%
<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)	<b>8.1</b>	<b>6.9</b>	<b>17.4%</b>	<b>23.0</b>	<b>21.5</b>	<b>7.0%</b>
Volumes of crude oil and petroleum products produced under processing agreements (millions of tonnes)	2.0	1.7	17.6%	6.0	5.9	1.7%
Volumes of gas produced under processing agreements (bcm)	2.7	2.8	(3.6)%	8.4	8.0	5.0%
<b>Cost of purchase of goods for retail****</b>	<b>4.5</b>	<b>4.1</b>	<b>9.8%</b>	<b>12.0</b>	<b>11.9</b>	<b>0.8%</b>
<b>Cost of products procured for blending on retail entities (RUB billion)</b>	<b>10.6</b>	<b>11.7</b>	<b>(9.4)%</b>	<b>32.6</b>	<b>20.0</b>	<b>63.0%</b>
<i>Including intercompany purchases (RUB billion)</i>	<i>10.6</i>	<i>11.7</i>	<i>(9.4)%</i>	<i>32.6</i>	<i>20.0</i>	<i>63.0%</i>
<b>Total cost of procured oil, gas and petroleum products, goods for retail and refining costs (RUB billion)</b>	<b>376</b>	<b>430</b>	<b>(12.6)%</b>	<b>1,122</b>	<b>828</b>	<b>35.5%</b>

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

\*\* Including costs of Upstream segment in the amount of RUB 3 billion in the third quarter of 2019, RUB 17 billion in the nine months of 2019..

\*\*\* 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.

\*\*\*\*Reclassification of the cost of goods for retail from "operating expenses" was carried out in the third quarter 2019. Previous periods have been revised considering this effect.

## Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019

### Crude oil procurement

Rosneft purchases crude oil primarily from its associates to process at its own refineries or export.

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

	For 3 months ended		% change	For 9 months ended		% change
	September 30, 2019	June 30, 2019		September 30, 2019	2018	
	mln barrels			mln barrels		
International market	64.2	70.5	(8.9)%	173.9	81.1	>100%
Udmurtneft	6.7	7.4	(9.5)%	22.6	18.1	24.9%
Slavneft	13.6	12.9	5.4%	39.7	36.8	7.9%
Messoyahaneftgaz	5.3	4.8	10.4%	14.6	11.9	22.7%
Lukoil-Reservnefteproduct	–	–	–	–	0.6	(100)%
Others	3.1	6.2	(50.0)%	15.5	18.5	(16.2)%
<b>Total</b>	<b>92.9</b>	<b>101.8</b>	<b>(8.7)%</b>	<b>266.3</b>	<b>167.0</b>	<b>58.4%</b>

In the third quarter of 2019 volumes of the crude oil procured outside Russian Federation amounted to 64.2 mln barrels, which is 8.9% less compared to 70.5 mln barrels procured in the second quarter of 2019. The decrease was driven by the production increase at its own facilities and reduction in the requirements of additional procurement in the foreign market. The increase in the cost of purchasing oil outside the Russian Federation for nine months of 2019 was due to oil supply on account of previously issued long-term prepayments from Venezuela and procurements from Kurdistan.

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

The volume of swaps was 10.7 mln barrels and 9.9 mln barrels in the third and second quarters of 2019 respectively; 29.3 mln barrels for the nine months of 2018.

### Petroleum products procurement

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

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

	For 3 months ended						% change		
	September 30, 2019			June 30, 2019			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>0.58</b>		<b>6</b>	<b>0.15</b>		<b>16.7%</b>	<b>&gt;100%</b>	
High octane gasoline	3	0.23	39.2	3	0.07	46.5	–	>100%	(15.7)%
Diesel	3	0.26	34.7	3	0.07	45.2	–	>100%	(23.2)%
Others	1	0.09	37.5	0	0.01	39.1	>100%	>100%	(4.1)%
<b>Petroleum products procured outside Russia</b>	<b>75</b>	<b>2.30</b>	<b>37.2</b>	<b>64</b>	<b>1.62</b>	<b>39.8</b>	<b>17.2%</b>	<b>42.0%</b>	<b>(6.6)%</b>
<b>Total</b>	<b>82</b>	<b>2.88</b>		<b>70</b>	<b>1.77</b>		<b>17.1%</b>	<b>62.7%</b>	

\*Calculated based on unrounded data.

The increase in purchase cost of petroleum products procured outside Russia was driven by an increased trading activity under international projects.

**Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019**

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

	For 9 months ended September 30,						% change		
	2019			2018			RUB billion	mln tonnes	th. RUB/ tonne
	RUB billion	mln tonnes	th. RUB/ tonne*	RUB billion	mln tonnes	th. RUB/ tonne*			
<i>Petroleum products procurement in Russia</i>	<b>17</b>	<b>0.77</b>		<b>19</b>	<b>0.59</b>		<b>(11.5)%</b>	<b>30.5%</b>	
High octane gasoline	4	0.32	34.9	7	0.21	34.2	(42.9)%	52.4%	1.9%
Diesel	9	0.27	41.2	9	0.23	38.5	-	17.4%	7.0%
Others	4	0.18	20.0	3	0.15	19.8	33.3%	20.0%	2.5%
<i>Petroleum products and petrochemicals procured outside Russia</i>	<b>192</b>	<b>7.17</b>	<b>31.4</b>	<b>166</b>	<b>5.32</b>	<b>31.2</b>	<b>15.7%</b>	<b>34.8%</b>	<b>0.7%</b>
<b>Total</b>	<b>209</b>	<b>7.94</b>		<b>185</b>	<b>5.91</b>		<b>13.0%</b>	<b>34.3%</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.

*Crude oil and gas processing, petroleum products processing*

Associated petroleum gas sales to PJSC "Sibur" and purchases of dry stripped gas from PJSC "Sibur" are presented on a net basis in the Company's financial statements in processing costs in the amount of RUB 3.8 billion in the third quarter of 2019 and RUB 3.9 billion in the second quarter of 2019, respectively; RUB 10.7 billion and RUB 10.0 billion in the nine months of 2019 and 2018, respectively.

## Pipeline Tariffs and Transportation Costs

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

The increase in transportation costs by 34.4% in the third quarter of 2019 compared with the second quarter of 2019 was mainly caused by increase in export volumes of crude oil and petroleum products and other selling expenses.

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 third and second quarters of 2019:

	For 3 months ended								% change		
	September 30, 2019				June 30, 2019				Volume	Cost	Cost per tonne*
Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*				
<b>CRUDE OIL</b>											
<b><u>International sales</u></b>											
Pipeline	31.0	82.7%	70.0	2.26	28.7	76.3%	66.2	2.30	8.0%	5.9%	(1.7)%
Railroad and mixed	0.5	1.3%	1.8	3.57	0.5	1.3%	1.9	3.61	-	(5.3)%	(1.1)%
Pipeline and FCA	6.0	16.0%	9.1	1.52	8.4	22.4%			(28.6)%	>100%	>100%
<b><u>Transportation to refineries</u></b>											
Pipeline**	27.8		25.3	0.91	22.2		15.2	0.69	25.2%	66.4%	31.9%
Railroad and mixed	2.2		5.5	2.49	2.9		7.2	2.50	(24.1)%	(23.6)%	(0.4)%
<b>PETROLEUM PRODUCTS</b>											
<b><u>International sales</u></b>											
Pipeline	1.5	7.9%	3.4	2.32	1.5	10.1%	3.3	2.30	-	3.0%	0.9%
Railroad and mixed	10.3	54.4%	33.5	3.24	11.6	78.4%	30.6	2.63	(11.2)%	9.5%	23.2%
Pipeline and FCA	7.1	37.6%	7.2	1.01	1.7	11.5%			>100%	>100%	>100%
<b>GAS</b>											
Pipeline***	8.7		10.5	1.21	Bcm		RUB/Bcm				
					9.1		10.6	1.16	(4.4)%	(0.9)%	4.3%
<b>Other selling expenses</b>			22.0				-			>100%	
<b>Other transportation expenses****</b>			19.0				19.0			-	
<b>Total</b>	<b>86.5</b>		<b>207</b>		<b>77.5</b>		<b>154</b>		<b>11.5%</b>	<b>34.4%</b>	

\* Calculated based on unrounded data.

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

\*\*\* Part of gas volumes was dispatched on terms under which Rosneft does not bear transportation expenses.

\*\*\*\* 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 increased in the third quarter of 2019 to compare to second quarter of 2019 and amounted to RUB 2.26 thousand per tonne.

Crude oil pipeline transportation cost per tonne of supplies to refineries increased by 31.9% in the third quarter of 2019 compared to the second quarter of 2019 that was caused by change in structure of transportation routes.

The decrease in railroad and mixed transportation per tonne of petroleum products international sales by 23.2% in the third quarter of 2019 compared with the second quarter of 2019 was mainly due to change in structure of transportation routes.

In the nine months of 2019 indexation of gas transportation tariffs was not carried out.

Increase in other selling expenses was driven by higher trading activity if compared with previous periods.

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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 nine months of 2019 and 2018:

	For 9 months ended September 30,								% change		
	2019				2018				Volume	Cost	Cost per tonne*
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*			
<b>CRUDE OIL</b>											
<b><u>International sales</u></b>											
Pipeline	89.0	86.5%	201.5	2.26	83.4	92.0%	178.2	2.13	13.3%	19.1%	6.1%
Railroad and mixed	1.7	1.6%	6.1	3.60	1.6	1.8%	5.4	3.56	6.3%	13.0%	1.1%
Pipeline and FCA	18.5	16.9%	9.1	2.03	5.6	6.2%			>100%	>100%	>100%
<b><u>Transportation to refineries</u></b>											
Pipeline**	74.1		58.3	0.79	77.7		59.6	0.77	(4.6)%	(2.2)%	2.6%
Railroad and mixed	7.8		22.6	2.91	7.7		26.8	3.48	1.3%	(15.7)%	(16.4)%
<b>PETROLEUM PRODUCTS</b>											
<b><u>International sales</u></b>											
Pipeline	5.3	10.3%	12.9	2.45	6.2	11.0%	16.3	2.65	(14.5)%	(20.9)%	(7.5)%
Railroad and mixed	35.2	68.3%	102.7	2.91	40.1	71.0%	101.4	2.53	(12.2)%	1.3%	15.0%
Pipeline and FCA	11.0	21.4%	7.2	1.53	10.2	18.0%			7.8%	>100%	>100%
<b>GAS</b>											
Pipeline***	27.0		31.7	1.17	30.5		33.6	1.10	(11.5)%	(5.7)%	6.4%
Other selling expenses	–		22.0				–			>100%	
Other transportation expenses****			56.9				51.7			10.1%	
<b>Total</b>	<b>242.6</b>		<b>531</b>		<b>232.5</b>		<b>473</b>		<b>4.3%</b>	<b>12.2%</b>	

\*Calculated based on unrounded data.

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

\*\*\*Part of gas volumes was dispatched on terms where Rosneft does not bear transportation expenses.

\*\*\*\*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 nine months of 2019 compared with the same period of 2018 mainly resulted from tariffs indexation.

### Excise Taxes

Excise tax in the third quarter of 2019 was RUB 67 billion (including excise tax related to processing outside Russia in the amount of RUB 37 billion) compared with excise tax of RUB 48 billion in the second quarter of 2019 due to higher volumes of processing in and outside Russia.

For the nine months of 2019 excise tax was RUB 188 billion (including RUB 102 billion of excise tax related to processing outside Russia) compared to RUB 247 billion for the nine months of 2018. The decrease is caused by the introduction of “reverse excise tax” mechanism starting from 2019 (a deduction of accrued excise tax with a multiplying factor for crude oil sent for refining), partially offset by an increase in the excise taxes expense due to the increase in excise tax rates in 2019.

## Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019

### Export Customs Duties

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

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2019	June 30, 2019		2019	2018	
	<b>RUB billion, except %</b>					
Export customs duty for crude oil	153	161	(5.0)%	445	543	(18.0)%
Export customs duty for petroleum products	55	49	12.2%	154	201	(23.4)%
<b>Total export customs duty</b>	<b>208</b>	<b>210</b>	<b>(1.0)%</b>	<b>599</b>	<b>744</b>	<b>(19.5)%</b>

Export customs duty decrease in the third quarter of 2019 compared with the second quarter of 2019 was caused by lower Urals price. This effect was partially offset by crude oil and petroleum products exports growth.

Export customs duty decrease in the nine months of 2019 compared with the nine months of 2018 was mainly caused by lower export customs duty rates due to the changes in the Russian customs legislation effective January 1, 2019 (as part of the completion of the tax maneuver), and due to lower Urals prices.

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2019	June 30, 2019		2019	2018	
	<b>th. RUB per tonne, except %</b>					
Enacted export customs duty on crude oil	6.14	6.72	(8.7)%	6.21	7.65	(18.9)%
Actual customs duty on crude oil exports	5.61	6.30	(10.9)%	5.63	7.18	(21.6)%

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

### Operating results of segment “Corporate and others”

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2019	June 30, 2019		2019	2018	
<b>Financial results, RUB billion</b>						
EBITDA	14*	(15)	–	(33)	(39)	15.3%
Capital expenditures**	1	2	(50.0)%	8	11	(27.3)%

\*Reclass of allowance for expected credit losses (RUB 27 bln accrued in the first quarter of 2019) in the Downstream segment.

\*\*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 31.6 billion in the third quarter of 2019 and RUB 42.6 billion for the second quarter of 2019, respectively. For the nine months of 2019 and 2018, general and administrative expenses, net of the allowance for expected credit losses, were RUB 112 billion and RUB 113 billion, 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 third quarter of 2019 DDA amounted to RUB 172 billion increased by 4.9%, (increase is mainly related to oil equipment) if compared with the second quarter of 2019, ( DDA was RUB 164 billion).

For the nine months of 2019 the DDA was RUB 510 billion and increased by 7.5% if compared with the same period of 2018. Due to the recognition of right-of-use assets under the new IFRS 16 Leases additional depreciation charges were accrued since January 2019.

#### Taxes Other than Income Tax

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

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2019	June 30, 2019		2019	2018	
Mineral extraction tax	540	567	(4.8)%	1 654	1 661	(0.4)%
Excess profit tax*	30	19	57.9%	65	–	–
Excise tax	67	48	39.6%	188	247	(23.9)%
including accrued excise tax	125	106	17.9%	331	247	34.0%
including "reverse excise tax" from 2019	(58)	(58)	–	(143)	–	–
Social security tax	20	19	5.3%	57	50	14.0%
Property tax	10	9	11.1%	29	32	(9.4)%
Other taxes, interest, penalties and other payments to budget	2	2	–	7	5	40.0%
<b>Total taxes other than income tax</b>	<b>669</b>	<b>664</b>	<b>0.8%</b>	<b>2 000</b>	<b>1 995</b>	<b>0.3%</b>

\* Enacted starting from January 2019.

The taxes other than income tax for the third quarter of 2019 increased by 0.8% compared with the second quarter of 2019. Decrease in mineral extraction tax (considering lower enacted MET rate for the third quarter) was compensated by higher excise tax and excess profit tax due to the expansion of fields that have passed to the new tax regime.

In the third quarter of 2019 excise tax was RUB 125 billion (including excise tax related to processing outside Russia in the amount of RUB 37 billion) compared with excise tax of RUB 48 billion in the second quarter of 2019 due to higher volumes of processing in and outside Russia. In nine months of 2019 excise tax was RUB 331 billion (including excise tax related to processing outside Russia in the amount of RUB 102 billion) compared with excise tax of RUB 247 billion in nine months of 2018. The increase is due to the increase in excise rates in 2019 and the introduction of excise duties on crude oil from 2019. At the same time, the amount of excise deductions (including "reverse excise tax" on crude oil) amounted to RUB 143 billion.

## **Finance Income and Expenses**

In the third quarter of 2019, net finance expenses were RUB 20 billion compared with RUB 19 billion in the second quarter of 2019. For the nine months of 2019 and 2018 net finance expense were RUB 63 billion and RUB 128 billion, respectively. The change was caused mainly 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 third quarter of 2019, other income amounted to RUB 3 billion compared with RUB 1 billion for the second quarter of 2019. For the nine months of 2019 and 2018 other income was RUB 7 billion and RUB 48 billion, respectively.

Other expenses include assets impairment, effect of fixed assets disposal in the course of operating activities and other expenses. In the third quarter of 2019 other expenses were RUB 14 billion compared with RUB 15 billion for the second quarter of 2019. For the first quarter of 2019, the Company recognized impairment of Downstream assets in the amount RUB 80 billion, as the consequence of impact of the tax manoeuvre. For the nine months of 2019 other expenses were RUB 135 billion.

## **Foreign Exchange Differences**

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

The profit from foreign exchange effects was RUB 11 billion and RUB 15 billion in the third and second quarters of 2019, respectively. In the nine months of 2019 profit from foreign exchange effects was RUB 41 billion.

Capitalized exchange differences resulting from foreign currency borrowings used for capital construction projects and the acquisition of property, plants and equipment were RUB 17 billion for the nine months of 2019.

## **Cash flow hedges reclassified to profit or loss**

Cash flow hedges reclassified to profit or loss in the third and second quarters of 2019 were RUB 36 billion and RUB 37 billion, respectively. In the nine months of 2019 and 2018, cash flow hedges reclassified to profit or loss were RUB 109 billion.

## **Income Tax**

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

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2019	June 30, 2019	2019	2018
Effective rate of income tax (IFRS)	16.7%	17.3%	17.5%	22.7%

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 third quarter of 2019, the net income was RUB 250 billion (RUB 225 billion attributable to Rosneft shareholders) in comparison with RUB 220 billion (RUB 194 billion attributable to Rosneft shareholders) for the second quarter of 2019. Growth was mainly driven by higher operating income compared to the second quarter (+10.9%).

For the nine months of 2019, net income amounted to RUB 626 billion (RUB 550 billion attributable to Rosneft shareholders), including recognition of assets impairment in the first quarter of 2019. For the nine months of 2018, net income amounted to RUB 517 billion (RUB 440 billion attributable to Rosneft shareholders). Increase in the net income for the nine months of 2019 was driven by the positive dynamics of the Company's operating income and reduction of financial expenses



## 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		%	For 9 months ended		%
	September, 2019	June 30, 2019		September 30, 2019	2018	
	RUB billion			RUB billion		
Net cash provided by operating activities	306	214	43.0%	768	1,126	(31.8)%
Net cash used in investing activities	(158)	(165)	(4.2)%	(547)	(748)	(26.9)%
Net cash used in financing activities	(176)	(103)	70.9%	(809)	(283)	>100%

### Net cash provided by operating activities

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

	For 3 months ended		%	For 9 months ended		%
	September 30, 2019	June 30, 2019		September 30, 2019	2018	
	RUB billion			RUB billion		
<b>Net cash provided by operating activity</b>	<b>306</b>	<b>214</b>	<b>43.0%</b>	<b>768</b>	<b>1,126</b>	<b>(31.8)%</b>
<i>Offset of prepayments received under long term supply contracts at average ex.rate</i>	78	70	11.4%	234	192	21.9%
<i>Offset of other financial liabilities</i>	56	25	>100%	122	126	(3.2)%
<i>Interest expense for prepayments under long term oil and petroleum products supply contracts*</i>	16	19	(15.8)%	56	67	(16.4)%
<i>Financing against future deliveries under the long term oil and oil products supply contracts</i>	23	29	(20.7)%	67	40	67.5%
<b>Adjusted net cash provided by operating activity</b>	<b>479</b>	<b>357</b>	<b>34.2%</b>	<b>1,247</b>	<b>1,551</b>	<b>(19.6)%</b>

\*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 14 billion and interests paid of RUB 2 billion in the third quarter of 2019; offsetting of RUB 17 billion and interests paid of RUB 2 billion in the second quarter of 2019; offsetting of RUB 50 billion and interests paid of RUB 6 billion in the nine months of 2019 and offsetting of RUB 63 billion and interests paid of RUB 4 billion in the nine months of 2018.

The increase in operating cash flow in the third quarter of 2019 is mainly due to the Company's operating income increase and lower working capital.

### Net cash used in investing activities

In the third quarter of 2019 the Company's investing activity mainly referred to capital expenditures. The decrease in cash used in investing activity for the nine months of 2019 if compared to the same period of 2018 was due to repayment of short term financial assets in the third and second quarter of 2019 and lower capital expenditures.

### Net cash used in financing activities

For the nine months of 2019 net cash used in financing activities was mainly used for the scheduled repayment of loans and dividends paid to Rosneft shareholders in the amount of RUB 120 billion and non-controlling shareholders of RUB 74 billion. For the same period of 2018 dividends paid to Rosneft shareholders amounted to RUB 70 billion and non-controlling shareholders - RUB 35 billion.

**Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019**

**Capital Expenditures**

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

	For 3 months ended		% change	For 9 months ended		% change
	September 30, 2019	June 30, 2019		September 30, 2019	2018	
	RUB billion			RUB billion		
RN-Yuganskneftegaz	46	45	2.2%	137	163	(16.0)%
Vankor projects	16	16	–	48	52	(7.7)%
Samotlorneftegaz	13	17	(23.5)%	47	44	6.8%
Upstream projects (Zohr)	11	21	(47.6)%	43	31	38.7%
Rospan International	4	8	(50.0)%	18	25	(28.0)%
Orenburgneft	7	5	40.0%	20	24	(16.7)%
RN-Uvatneftegaz	5	5	–	16	20	(20.0)%
Samaraneftegaz	6	6	–	20	21	(4.8)%
Vostsibneftegaz	6	7	(14.3)%	21	22	(4.5)%
RN-Purneftegaz*	6	5	20.0%	15	17	(11.8)%
RN-Nyaganneftegaz	5	6	(16.7)%	16	17	(5.9)%
Kondaneft	7	10	(30.0)%	22	18	22.2%
Taas-Yuryakh Neftegazodobycha	4	5	(20.0)%	13	17	(23.5)%
Bashneft-Dobycha	6	5	20.0%	15	15	–
Tyumenneftegaz	4	4	–	12	16	(25.0)%
Varyoganneftegaz	5	5	–	15	13	15.4%
RN-Severnaya Neft	3	2	50.0%	10	13	(23.1)%
Kharampurneftegaz	3	4	(25.0)%	8	12	(33.3)%
Verkhnechonskneftegaz	4	5	(20.0)%	14	13	7.7%
Bashneft-Polyus	5	7	(28.6)%	16	11	45.5%
Upstream projects (Sakhalin-1)	3	4	(25.0)%	10	9	11.1%
Tomskneft VNK	2	1	100.0%	6	5	20.0%
Sibneftegaz	2	1	100.0%	5	3	66.7%
Sorovskneft	2	1	100.0%	5	4	25.0%
Other	10	11	(9.1)%	30	39	(23.1)%
Government grants	(2)	(2)	–	(4)	(3)	(33.3)%
<b>Total upstream segment</b>	<b>183</b>	<b>204</b>	<b>(10.3)%</b>	<b>578</b>	<b>621</b>	<b>(6.9)%</b>
Novokuibyshevsk refinery	2	2	–	5	5	–
Tuapse refinery	1	1	–	3	3	–
Kuibyshev refinery	1	1	–	2	2	–
-Syzran refinery	1	–	–	2	2	–
Ryazan refinery	1	–	–	2	3	(33.3)%
Komsomolsk refinery	2	1	100%	6	2	>100.0%
Angarsk refinery	2	–	–	3	3	–
Bashneft refineries	1	3	(66.7)%	6	2	>100.0%
Saratov refinery	1	–	–	1	1	–
Achinsk refinery	–	3	–	3	1	>100.0%
Other refineries	–	–	–	3	10	(70.0)%
Marketing Business Units and others	2	5	(40.0)%	12	13	–
<b>Total downstream segment</b>	<b>14</b>	<b>16</b>	<b>(12.5)%</b>	<b>48</b>	<b>47</b>	<b>2.1%</b>
<b>Total other activities</b>	<b>1</b>	<b>2</b>	<b>(50.0)%</b>	<b>8</b>	<b>11</b>	<b>(27.3)%</b>
<b>Total capital expenditures</b>	<b>198</b>	<b>222</b>	<b>(10.8)%</b>	<b>634</b>	<b>679</b>	<b>(6.6)%</b>
Acquisition of licenses	1	1	–	4	2	100.0%
Return of auction advances	–	–	–	–	–	–

*Including Sevkomneftegaz.*

## Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019

In the third quarter of 2019 total capital expenditures amounted to RUB 198 billion.

In the third quarter of 2019 upstream capital expenditures decreased to RUB 183 billion. Upstream capital expenditures for the nine months of 2019 amounted to RUB 578 billion, decrease by 6.9% compared with the same period of 2018 mainly due to the optimization of the operational drilling program in the context of the strategic initiative to increase the share of horizontal wells of higher efficiency at the Company's brownfields.

At the end of nine months of 2019 the number of new horizontal wells increased by 4% compared to the level of the end of September 2018, and their share in the total number increased by 10 p.p. year-on-year to 56% of the total number of new wells commissioned. At the same time, the production per horizontal well increased by 18% compared to the level of nine months of 2018 and exceeded 7 th. tons per well, which is more than 2 times higher than this indicator for directional wells.

In the third quarter of 2019 downstream capital expenditures were RUB 14 billion, including capital expenditures of investment tariffs, in comparison with RUB 16 billion in the second quarter of 2019.

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 4 billion for the nine months of 2019 referred to the acquisition of new licenses for research, exploration and production at Orenburg region, Irkutsk and Samara region, the Khanty-Mansi Autonomous area, Republic of Bashkortostan, Krasnoyarsk region.

### Financial liabilities and liquid funds

Financial liabilities and liquid funds detailed by currencies are set in the table below\*:

*currency in bln*

As of the date	September 30, 2019				June 30, 2019				September 30, 2018			
	USD	RUB	Euro	Other (RUB equivalent)	USD	RUB	Euro	Other (RUB equivalent)	USD	RUB	Euro	Other (RUB equivalent)
Financial liabilities	(26.7)	(1,909)	(2.9)	(0.6)	(26.8)	(1,826)	(3.5)	(0.7)	(27.4)	(2,029)	(2.5)	–
Liquid funds**	6.2	383	0.6	2.4	7.2	383	0.7	2.7	7.6	384	5.8	2.8
<b>Net financial liabilities</b>	<b>(20.5)</b>	<b>(1,526)</b>	<b>(2.3)</b>	<b>1.8</b>	<b>(19.6)</b>	<b>(1,443)</b>	<b>(2.8)</b>	<b>2.0</b>	<b>(19.8)</b>	<b>(1,645)</b>	<b>3.3</b>	<b>2.8</b>

\* Calculated based on unrounded data

\*\* 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 in the third quarter of 2019 and in the nine months of 2019**

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

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

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2019	June 30, 2019	2019	2018
EBITDA margin	24.4%	23.8%	24.7%	25.7%
Net income margin attributable to Rosneft shareholders	10.0%	9.1%	8.5%	7.2%
Current ratio	0.83	0.88	0.83	0.91
	<b>RUB / bbl</b>			
EBITDA/bbl*	1,324	1,242	1,294	1,305
Upstream capital expenditures/bbl	456	519	485	527
Upstream operating expenses/bbl	254	251	249	235
Free cash flow/bbl	701	344	514	740
	<b>RUB / boe</b>			
EBITDA/boe*	1,077	1,007	1,048	1,055
Upstream capital expenditures/boe	371	421	393	426
Upstream operating expenses/boe	206	203	202	190
Free cash flow/boe	570	280	417	598

\*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 9 months ended September 30,	
	September 30, 2019	June 30, 2019	2019	2018
Liquids production (mln bbl)	401.1	392.8	1,191.5	1,177.6
Hydrocarbon production (mln boe)	493.1	484.4	1,471.3	1,457.2

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

**Calculation of EBITDA**

	For 3 months ended		For 9 months ended September 30,	
	June 30, 2019	June 30, 2019	2019	2018
	<b>RUB billion</b>			
Revenues and equity share in profits of associates and joint ventures	2,240	2,135	6,452	6,073
Effect of prepayments offsetting	26	30	89	126
Costs and expenses	(1,884)	(1,814)	(5,434)	(5,078)
Depreciation, depletion and amortization	172	164	510	472
<b>EBITDA</b>	<b>554</b>	<b>515</b>	<b>1,617</b>	<b>1,593</b>

Management's discussion and analysis of financial condition and results of operations of Rosneft in the third quarter of 2019 and in the nine months of 2019

### Calculation of Free Cash Flow

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2019	June 30, 2019	2019	2018
	<b>RUB billion</b>			
Operating cash flow	306	214	768	1,126
Capital expenditures	(198)	(222)	(634)	(679)
Offset of prepayments under long-term supply agreements*	78	70	234	192
Offset of other financial liabilities	56	25	122	126
Interest expense on prepayments under long-term supply agreements**	16	19	56	67
Financing of future deliveries	23	29	67	40
<b>Free cash flow (RUB equivalent)</b>	<b>281</b>	<b>135</b>	<b>613</b>	<b>872</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 14 billion and interests paid of RUB 2 billion in the third quarter of 2019; offsetting of RUB 17 billion and interests paid of RUB 2 billion in the second quarter of 2019; offsetting of RUB 50 billion and interests paid of RUB 6 billion in the nine months of 2019 and offsetting of RUB 63 billion and interests paid of RUB 4 billion in the nine months of 2018.

### Calculation of EBITDA Margin

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2019	June 30, 2019	2019	2018
	<b>RUB billion (except %)</b>			
<b>EBITDA</b>	<b>554</b>	<b>515</b>	<b>1,617</b>	<b>1,593</b>
Revenues and equity share in profits of associates and joint ventures	2,240	2,135	6,452	6,073
Effect of prepayments offsetting	26	30	89	126
Adjusted revenues	2,266	2,165	6,541	6,199
<b>EBITDA margin</b>	<b>24.4%</b>	<b>23.8%</b>	<b>24.7%</b>	<b>25.7%</b>

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

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2019	June 30, 2019	2019	2018
	<b>RUB billion (except %)</b>			
<b>Net income attributable to Rosneft shareholders</b>	<b>225</b>	<b>194</b>	<b>550</b>	<b>440</b>
Revenues and equity share in profits of associates and joint ventures	2,240	2,135	6,452	6,073
<b>Net income margin</b>	<b>10.0%</b>	<b>9.1%</b>	<b>8.5%</b>	<b>7.2%</b>

### Calculation of Current ratio

As of the date	September 30, 2019	June 30, 2019	September 30, 2018
	<b>RUB billion (except ratios)</b>		
Current assets	2,461	2,537	2,603
Current liabilities	2,971	2,889	2,870
<b>Current ratio</b>	<b>0.83</b>	<b>0.88</b>	<b>0.91</b>

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Consolidated financial highlights (in USD terms)

Consolidated statement of profit or loss

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2019	June 30, 2019	2019	2018
	USD billion*			
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>35.1</b>	<b>33.6</b>	<b>100.6</b>	<b>100.6</b>
<b>Costs and expenses</b>				
Production and operating expenses	3.3	2.3	8.0	7.3
Cost of purchased oil, gas, petroleum products and refining costs	5.9	6.6	17.3	13.4
General and administrative expenses	0.5	0.7	2.2	1.8
Pipeline tariffs and transportation costs	3.2	2.4	8.2	7.7
Exploration expenses	–	0.1	0.1	0.1
Depreciation, depletion and amortization	2.6	2.6	7.8	7.7
Taxes other than income tax	10.5	10.2	30.8	32.5
Export customs duty	3.2	3.3	9.2	12.1
<b>Total costs and expenses</b>	<b>29.2</b>	<b>28.2</b>	<b>83.6</b>	<b>82.6</b>
<b>Operating income</b>	<b>5.9</b>	<b>5.4</b>	<b>17.0</b>	<b>18.0</b>
Finance income	0.5	0.6	1.7	1.4
Finance expenses	(0.9)	(0.8)	(2.7)	(3.5)
Other income	–	0.1	0.1	0.8
Other expenses	(0.1)	(0.4)	(2.1)	(3.6)
Foreign exchange differences	(0.2)	(0.2)	(0.7)	(0.3)
Cash flow hedges reclassified to profit or loss	(0.6)	(0.6)	(1.7)	(1.8)
<b>Income before income tax</b>	<b>4.6</b>	<b>4.1</b>	<b>11.6</b>	<b>11.0</b>
Income tax expense	(0.7)	(0.7)	(2.0)	(2.5)
<b>Net income</b>	<b>3.9</b>	<b>3.4</b>	<b>9.6</b>	<b>8.5</b>
<b>Net income attributable to Rosneft shareholders</b>	<b>3.6</b>	<b>3.0</b>	<b>8.5</b>	<b>7.3</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 9 months ended September 30,	
	September 30, 2019	June 30, 2019	2019	2018
EBITDA margin	24.2%	23.8%	24.7%	25.5%
Net income margin attributable to Rosneft shareholders	10.3%	8.9%	8.4%	7.3%
Current ratio	0.83	0.88	0.83	0.91
	USD/bbl*			
EBITDA/bbl	20.2	19.3	19.8	21.1
Upstream capital expenditures/bbl	7.1	8.0	7.5	8.6
Upstream operating expenses/bbl	3.9	3.9	3.8	3.8
Free cash flow/bbl	11.0	5.3	7.9	11.8
	USD/boe			
EBITDA/boe	16.4	15.7	16.0	17.0
Upstream capital expenditures/boe	5.8	6.5	6.0	7.0
Upstream operating expenses/boe	3.2	3.2	3.1	3.1
Free cash flow/boe	8.9	4.3	6.4	9.5

*Calculated from unrounded data.*

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### Calculation of Free Cash Flow

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2019	June 30, 2019	2019	2018
	USD billion			
Operating cash flow	4.7	3.2	11.7	18.2
Capital expenditures	(3.0)	(3.5)	(9.7)	(11.1)
Offset of prepayments under long-term supply agreements	1.2	1.1	3.6	3.0
Offset of other financial liabilities	0.9	0.4	1.9	2.0
Interest expense on prepayments under long-term supply contracts	0.3	0.3	0.9	1.2
Financing of future deliveries	0.3	0.5	1.0	0.6
<b>Free cash flow</b>	<b>4.4</b>	<b>2.0</b>	<b>9.4</b>	<b>13.9</b>

### Calculation of EBITDA Margin

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2019	June 30, 2019	2019	2018
	USD billion (except %)			
Revenues and equity share in profits of associates and joint ventures	35.1	33.6	100.6	100.6
Operating expenses	(29.2)	(28.2)	(83.6)	(82.6)
Depreciation, depletion and amortization	2.6	2.6	7.8	7.7
<b>EBITDA</b>	<b>8.5</b>	<b>8.0</b>	<b>24.8</b>	<b>25.7</b>
Revenues and equity share in profits of associates and joint ventures	35.1	33.6	100.6	100.6
<b>EBITDA margin</b>	<b>24.2%</b>	<b>23.8%</b>	<b>24.7%</b>	<b>25.5%</b>

### Calculation of Net Income Margin

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2019	June 30, 2019	2019	2018
	USD billion (except %)			
<b>Net income attributable to Rosneft shareholders</b>	<b>3.6</b>	<b>3.0</b>	<b>8.5</b>	<b>7.3</b>
Revenues and equity share in profits of associates and joint ventures	35.1	33.6	100.6	100.6
<b>Net income margin</b>	<b>10.3%</b>	<b>8.9%</b>	<b>8.4%</b>	<b>7.3%</b>

### Calculation of Current ratio

As of the date	September 30, 2019	June 30, 2019	September 30, 2018
	USD billion (except ratios)		
Current assets	38.2	40.2	39.7
Current liabilities	46.1	45.8	43.8
<b>Current ratio</b>	<b>0.83</b>	<b>0.88</b>	<b>0.91</b>

## Attachment 1: Taxation

### Mineral Extraction Tax (MET)

#### MET rate calculation for crude oil

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

In 2018 the mineral extraction tax rate was calculated as follows:

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

919 – the base tax rate in RUB per tonne;

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

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

$K_k$  – the additional term, increasing MET rate, in the amount of RUB 357 for 2018 (RUB 428 RUB for subsequent periods).

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

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

Where:

“P” – Urals price (see above);

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

“K” – the coefficient characterizing the period of time elapsed from the date of the start 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 the 8 <sup>th</sup> year of commercial production
3	1.0	Not applicable
4	0.5	before the end of the 1 <sup>st</sup> year of commercial production
	0.75	the 2 <sup>nd</sup> year of commercial production
	1.0	from the 3 <sup>rd</sup> year of commercial production

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

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



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

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

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

In line with the formula the base rate for gas condensate is RUB 42 per 1 tonne and for natural gas – RUB 35 per 1 th. cubic meters. The base rates are multiplied by a basic rate of standard fuel unit and reduced coefficient which estimates the difficulty level of natural gas and (or) gas condensate production. Starting from January 1, 2017 the tax rate for mineral extraction gas condensate is adjusted by the multiplying coefficient 6.5. Starting from 2019 the mineral extraction tax rate increased by the amount of reduction in export customs duties on crude oil multiplied by 0.75.

<b>Reducing coefficient in 2019</b>	<b>Applicable to the Company</b>
0.5	License areas: Rospan and Russko-Rechenskoe licensed fields and also at fields of Krasnodar and Stavropol regions
0.64	License areas: Kynsko-Chaselskoye fields and at a number of fields of Sibneftegaz, and also at Nenets Autonomous District, the Chechen republic and Krasnodar region
0.1	License areas: Irkutsk region, 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%.

### **Excess profit tax (Tax on additional income from hydrocarbons production)**

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

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

<b>Groups</b>	<b>Geographic location</b>	<b>Depletion as of 01.01.17</b>
<b>Greenfields of Eastern Siberia and other new regions of oil production</b>		
1	The Republic of Sakha, Irkutsk region, NAO, KHMAO, the Caspian Sea, The Yamal-Nenets Autonomous district, Krasnoyarsk region	Not exceeding 5%
2	The Republic of Sakha, Irkutsk region, NAO, KHMAO, the Caspian Sea, The Yamal-Nenets Autonomous district, Krasnoyarsk region	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.

## **Excise tax**

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

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

Starting from January 1<sup>st</sup> 2019 new excisable goods (oil raw material and dark bunker fuel) and new operations subject to excise taxation were introduced, with the possibility of applying the mechanism of “reverse excise” (deduction of the accrued excise tax with an increasing coefficient):

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

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

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

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

## **Export Customs Duty**

### ***Export Customs Duty on Crude Oil***

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

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

<i>Urals price (USD per tonne)</i>	<i>Export customs duty (USD per tonne)</i>
Below and including 109.5 (15 USD per barrel)	Export customs duty is not levied
From 109.5 to 146 including (15 to 20 USD per barrel)	35% of the difference between the average Urals price in USD per tonne and USD 109.5
From 146 to 182.5 including (20 to 25 USD per barrel)	USD 12.78 <i>plus</i> 45% of the difference between the average Urals price in USD per tonne and USD 146
From 182.5 (25 USD per barrel)	USD 29.2 <i>plus</i> 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 and are applied starting from the 1<sup>st</sup> day of the month, following the monitoring period.

The export custom duties, calculated for the sequent month, are reported through the official informational resources not later than 4 days before the enforcement.

By the Federal law N 268-FZ, dated September 30, 2013, introducing a special tax regime in respect of the projects on the continental shelf of the Russian Federation a full exemption of hydrocarbons produced at offshore fields from the export customs duties is provided. Mainly thus exemption relates to the fields which commercial production starting from January 1, 2016. Such an exemption is set for various terms depending on complexity of a field development project.

By the "Law on Customs Tariffs" the right to establish special formulas for export custom duties in relation to the crude oil produced on the new fields with profitability below the threshold. 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)\*. 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.

According to the Federal law of 19.07.2018 № 201-FZ "On amendments to articles 3.1 and 35 of the Law of the Russian Federation "On customs tariff", the export of oil produced in the subsoil areas that have passed on the tax on additional income from production of hydrocarbons (1,2 group), since January 1, 2019 is exempt from payment of export customs duties before the expiration of 7 years of industrial production, after the expiration of the exemption - standard duty rates.

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

1) Duty rate for crude oil is calculated as the product of the marginal rate and the adjusting factor, which reflects the gradual reduction of the export duty rate until zero in 2024.

2) The Government of the Russian Federation has the right to impose "protective" duties on crude oil (in an amount not exceeding the level of  $29.2 + 45\% \times (\text{the price of "Urals"})/t - \text{USD } 182.5 / t$ ) 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.

#### ***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.

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\* East-Messoyakh and Kuyumbinskoe fields are developed under the joint ventures projects

\*\* For the fields with excess profit tax applied from 01.01.2019, instead of applying the "preferential" rate, an exemption from payment of export customs duties is applied.

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

### **Export Customs Duty on Petroleum Products**

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

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

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

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

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

In 2018 and 2019, marginal export customs duties are set for estimation of customs duty, depending on the type of oil product. The Government of the Russian Federation additionally to the right to impose “protective” duties on crude oil (in an amount not exceeding the level of  $29.2 + 45\% \times (\text{the price of “Urals”}/t) - \text{USD } 182.5 / t$  with a significant change in oil prices and the price of oil above USD 182.5 per ton has the right to impose “protective” duties to the oil products. 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.

**Attachment 2: EBITDA by segment**

	<i>For 3 months ended September 30, 2019</i>				
	<b>Exploration and Production</b>	<b>Refining and distribution</b>	<b>Corporate segment</b>	<b>Intersegment</b>	<b>Consolidated P&amp;L</b>
<b>Total revenues and equity share in profits of associates and joint ventures</b>	1,154	2,233	45	(1,192)	2,240
<b>Total costs and expenses</b>	705	2,168	31	(1,192)	1,712
Effect of prepayments offsetting	26	–	–	–	26
<b>EBITDA</b>	<b>475</b>	<b>65</b>	<b>14</b>	<b>–</b>	<b>554</b>

	<i>For 3 months ended June 30, 2019</i>				
	<b>Exploration and Production</b>	<b>Refining and distribution</b>	<b>Corporate segment</b>	<b>Intersegment</b>	<b>Consolidated P&amp;L</b>
<b>Total revenues and equity share in profits of associates and joint ventures</b>	1,250	2,124	38	(1,277)	2,135
<b>Total costs and expenses</b>	762	2,112	53	(1,277)	1,650
Effect of prepayments offsetting	30	–	–	–	30
<b>EBITDA</b>	<b>518</b>	<b>12</b>	<b>(15)</b>	<b>–</b>	<b>515</b>

	<i>For 9 months ended September 30, 2019</i>				
	<b>Exploration and Production</b>	<b>Refining and distribution</b>	<b>Corporate segment</b>	<b>Intersegment</b>	<b>Consolidated P&amp;L</b>
<b>Total revenues and equity share in profits of associates and joint ventures</b>	3,627	6,421	119	(3,715)	6,452
<b>Total costs and expenses</b>	2,192	6,295	152	(3,715)	4,924
Effect of prepayments offsetting	89	–	–	–	89
<b>EBITDA</b>	<b>1,524</b>	<b>126</b>	<b>(33)</b>	<b>–</b>	<b>1,617</b>

**Attachment 3: Average monthly RUB/USD exchange rates, calculated using the Bank of Russia data**

	2019	2018
	RUB/USD	
January	67.35	56.79
February	65.86	56.81
March	65.15	57.03
April	64.62	60.46
May	64.82	62.21
June	64.23	62.71
July	63.20	62.88
August	65.53	66.12
September	64.99	67.66
October		65.89
November		66.24
December		67.31