



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31 AND SEPTEMBER 30, 2016
AND FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016 AND 2015**

The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended December 31 and September 30, 2016 and December 31, 2015 (the "Consolidated Financial Statements"). Such terms as "Rosneft", "Company" and "Group" in their different forms in this report mean Rosneft Oil Company and its consolidated subsidiaries, its equity share in associates and joint ventures. This report contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may materially differ from those discussed in such forward-looking statements as a result of various factors.

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

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

To convert tonnes to barrels a 7.404 ratio is used. To convert a thousand of cubic meters of gas to barrels of oil equivalent a 6.09 ratio is used. To convert Rospan gas condensate to barrels of oil equivalent a 8.3 ratio is used.

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Overview

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

Rosneft is one of the world's largest publicly traded companies in terms of proved hydrocarbon reserves and in terms of hydrocarbon production.

According to oil and marketable gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers, proved hydrocarbon reserves reached 38 billion boe per SEC classification and 46 billion boe per PRMS classification as of December 31, 2016¹ and amounted to 34 billion boe per SEC classification and 43 billion boe per PRMS classification as of December 31, 2015.

In 2016 crude oil and NGL production of the Company amounted to 210.05 mln tonnes. The production of natural and associated gas was 67.10 bcm in 2016. In 2016, excluding the acquisition of Bashneft assets (hereinafter, refer to "new acquired assets"), crude oil and NGL production was 204.60 mln tonnes and natural and associated gas production amounted to 66.92 bcm.

In 2016 crude oil processing amounted to 92.67 mln tonnes at the Company's refineries in Russia and abroad with current process utilizations. Excluding the acquisition of Bashneft assets in 2016 total crude oil processing volume at the Company's refineries in Russia was 87.47 mln tonnes. The remaining volumes of crude oil are mostly exported to Europe, Asia and the CIS.

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

Financial and operating highlights

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended</i>		<i>% change</i>
	<i>December 31, 2016</i>	<i>September 30, 2016</i>		<i>December 31,</i>		
				<i>2016</i>	<i>2015</i>	
Financial results, RUB billion						
Revenues and equity share in profits of associates and joint ventures	1,485	1,223	21.4%	4,988	5,150	(3.1)%
EBITDA	365	292	25.0%	1,278	1,245	2.7%
Net income attributable to Rosneft shareholders	52	26	100%	181	355	(49.0)%
Capital expenditures	234	167	40.1%	709	595	19.2%
Free cash flow	25	84	(70.2)%	302	744	(59.4)%
Net Debt	1,890	1,651	14.5%	1,890	1,694	11.6%
Operational results *						
Hydrocarbon production (th. boe per day)	5,831	5,217	11.8%	5,369	5,159	4.1%
Crude oil and NGL production (th. barrels per day)	4,655	4,151	12.1%	4,252	4,116	3.3%
Gas production (th. boe per day)	1,176	1,066	10.3%	1,117	1,043	7.1%
Hydrocarbon production (th. boe per day)**	5,831	5,660	3.0%	5,701	5,574	2.3%
Production of petroleum products and petrochemical products in Russia (mln tonnes)	25.83	20.94	23.4%	84.75	82.91	2.2%
Production of petroleum products and petrochemical products outside Russia (mln tonnes)	3.43	3.44	(0.3)%	13.46	12.45	8.1%

* Including acquired new assets.

** Pro Forma (including Bashneft starting from January 1, 2015), only for purpose of presentation.

For reference only: Financial highlights in USD terms*

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended</i>		<i>% change</i>
	<i>December 31, 2016</i>	<i>September 30, 2016</i>		<i>December 31,</i>		
				<i>2016</i>	<i>2015</i>	
Financial results, USD billion						
Revenues and equity share in profits of associates and joint ventures	24.1	19.4	24.2%	77.2	86.9	(11.2)%
EBITDA	5.8	4.5	28.9%	19.3	20.8	(7.2)%
Net income attributable to Rosneft shareholders	0.8	0.4	100%	2.8	6.1	(54.1)%
Capital expenditures	3.7	2.6	42.3%	10.7	9.7	10.3%
Free cash flow	0.4	1.3	(69.2)%	4.5	12.2	(63.1)%
Net debt	31.2	26.1	19.5%	31.2	23.2	34.5%

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

Significant events in the fourth quarter of 2016

Rosneft closed the deal of Targin Oilfield Services Company purchase

Rosneft completed the deal with AFK Systema to acquire 100% of Targin shares. The price of the transaction will amount up to RUB 4.1 bln. The deal will increase the Company's active rig fleet by 19%, and the number of well servicing and workover crews by 30%.

Rosneft and BP conclude restructuring of the refining Joint Venture Ruhr Oel GmbH in Germany

Rosneft and BP announce the completion of the deal to restructure the refining and petrochemical Joint Venture Ruhr Oel GmbH (ROG) in Germany with effect from January 1, 2017. As a result of the JV restructuring Rosneft becomes a direct holder and increases its shareholding in the Bayernoil refinery from 12.5% to 25%; the MiRO refinery - from 12% to 24%; and the PCK refinery – from 35.42% to 54.17%. In exchange, BP consolidates 100% of the equity of the Gelsenkirchen refinery and the solvents production facility DHC Solvent Chemie.

Rosneft to acquire a share in the Biggest Gas Field in the Mediterranean Sea

In December Company and Eni made an agreement for the acquisition of 30% in the concession agreement for the development of the Zohr gas field (with the option to acquire additional 5%) and a 15% share in the project's operator.

Rosneft sold 19.5% stake to foreign investors

In December 2016 a 19.5 percent stake in the company was sold to the international investor's consortium.

Rosneft and Beijing Gas sign binding documents for the sale of 20% stake in Verkhnechonskneftegaz

In November 2016, the Company and Beijing Gas Group signed a legally binding share sale agreement relating to 20% shares in Verkhnechonskneftegaz. As of the issuing date of the Consolidated Financial Statements the parties have not yet received all necessary regulatory approvals to complete the transaction.

Rosneft forms an international consortium on the basis of Taas-Yuryah Neftegazodobycha

Rosneft and the consortium of Indian companies, comprised of Oil India Limited (leader of the consortium), Indian Oil Corporation Limited and Bharat Petro Resources Limited completed the transaction for the purchase of 29.9% of Taas-Yuryah Neftegazodobycha for consideration of RUB 73 billion.

Rosneft successfully completed the transaction to sell 23.9% shares in Vankorneft JSC to a Consortium of Indian Companies

Rosneft and a consortium of Indian companies, consisting of Oil India Limited (the leader of the consortium), Indian Oil Corporation Limited and Bharat Petro Resources Limited completed the transaction for the sale of 23.9% of Vankorneft JSC to the Indian companies. As of December 31, 2016, the Company received a base payment of RUB 106 billion. The agreement provides for the final settlement.

Rosneft successfully completed the transaction to sell 11% shares in Vankorneft JSC to ONGC Videsh Limited

On 28 October, 2016 Rosneft Oil Company and ONGC Videsh Limited completed the transaction for the sale of 11% of Vankorneft JSC to the Indian company. As of December 31, 2016, the Company received a base payment of RUB 49 billion. The agreement provides for the final settlement.

Rosneft closed the deal on acquisition of the government's stake in Bashneft

Under the Government of the Russian Federation Decree dated October 10, 2016 Rosneft carried out necessary corporate actions to prepare for and execute the acquisition of the Government's stake in Bashneft Public Joint Stock Company representing 50.0755% of its charter capital.

On October 12, 2016, the Company closed the deal for the acquisition of the government's stake in Bashneft Oil Company. Consideration transferred totalled RUB 329.69 billion.

Rosneft acquired a 49% stake in Essar Oil Limited

On October 15, 2016 the Company acquired a 49% share interest in Essar Oil Limited (hereinafter - "EOL") from Essar Energy Holdings Limited and its affiliates. As a result of this transaction, the Company acquired share in the refinery and the related infrastructure located in Vadinar, India. EOL's business also includes a network of Essar branded retail outlets across India.

Subsequent events

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

In January 2017 the Company sold a 12% share in charter capital of Saras S.p.A to institutional investors. The transaction price amounted to EUR 175 mln (RUB 11 bln at the official CBR exchange rate at the date of transaction).

Macroeconomic factors affecting results of operations

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

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

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

Changes in Crude Oil, Petroleum Product and Gas Prices

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

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

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

	<i>For 3 months ended</i>		<i>change</i>	<i>For 12 months ended</i>		<i>change</i>
	<i>December 31, 2016</i>	<i>September 30, 2016</i>		<i>December 31,</i>		
				<i>2016</i>	<i>2015</i>	
World market	(USD per barrel)		%	(USD per barrel)		%
Brent (dated)	49.5	45.8	8.0%	43.7	52.4	(16.5)%
Urals (average Med and NWE)	48.3	44.0	9.7%	42.1	51.4	(18.2)%
Urals (FOB Primorsk)	46.1	42.6	8.2%	40.1	49.1	(18.2)%
Urals (FOB Novorossysk)	46.8	43.3	7.9%	41.0	50.3	(18.6)%
Dubai	48.4	43.2	12.0%	41.3	50.9	(18.8)%
	(USD per tonne)		%	(USD per tonne)		%
Naphtha (av. FOB/CIF Med)	427	370	15.3%	372	441	(15.5)%
Naphtha (av. FOB Rotterdam/CIF NWE)	439	380	15.6%	384	459	(16.5)%
Naphtha (CFR Japan)	450	389	15.7%	399	489	(18.4)%
Fuel oil (av. FOB/CIF Med)	265	232	14.2%	210	261	(19.7)%
Fuel oil (av. FOB Rotterdam/CIF NWE)	262	225	16.5%	204	253	(19.3)%
High sulphur fuel oil 180 cst (FOB Singapore)	296	247	20.0%	231	293	(21.3)%
Gasoil (av. FOB/CIF Med)	449	403	11.5%	391	486	(19.6)%
Gasoil (av. FOB Rotterdam/CIF NWE)	451	406	11.1%	393	491	(20.0)%
Gasoil(FOB Singapore)	443	399	11.1%	383	477	(19.7)%
	(th. RUB per barrel)		%	(th. RUB per barrel)		%
Brent (dated)	3.12	2.96	5.4%	2.93	3.19	(8.2)%
Urals (average Med and NWE)	3.05	2.85	7.0%	2.82	3.14	(10.0)%
Urals (FOB Primorsk)	2.91	2.75	5.6%	2.69	2.99	(10.1)%
Urals (FOB Novorossysk)	2.95	2.80	5.3%	2.75	3.07	(10.4)%
Dubai	3.05	2.79	9.3%	2.77	3.10	(10.7)%
	(th. RUB per tonne)		%	(th. RUB per tonne)		%
Naphtha (av. FOB/CIF Med)	26.9	23.9	12.5%	25.0	26.9	(7.1)%
Naphtha (av. FOB Rotterdam/CIF NWE)	27.7	24.5	12.8%	25.7	28.0	(8.1)%
Naphtha (CFR Japan)	28.4	25.1	12.9%	26.7	29.8	(10.3)%
Fuel oil (av. FOB/CIF Med)	16.7	15.0	11.5%	14.1	15.9	(11.7)%
Fuel oil (av. FOB Rotterdam/CIF NWE)	16.5	14.6	13.7%	13.7	15.4	(11.2)%
High sulphur fuel oil 180 cst (FOB Singapore)	18.7	16.0	17.1%	15.5	17.9	(13.5)%
Gasoil (av. FOB/CIF Med)	28.3	26.0	8.8%	26.2	29.6	(11.5)%
Gasoil (av. FOB Rotterdam/CIF NWE)	28.5	26.2	8.5%	26.3	29.9	(12.0)%
Gasoil(FOB Singapore)	27.9	25.8	8.4%	25.7	29.1	(11.7)%
Russian market (net of VAT, including excise tax)	(th. RUB per tonne)		%	(th. RUB per tonne)		%
Crude oil	13.2	12.1	8.7%	12.2	12.8	(0.5)%
Fuel oil	8.9	7.0	26.0%	6.3	7.2	(11.6)%
Summer diesel	28.5	28.2	1.0%	27.5	28.0	(1.6)%
Winter diesel	31.9	29.7	7.5%	29.1	29.9	(2.7)%
Jet fuel	28.1	25.3	11.3%	25.1	26.9	(6.5)%
High octane gasoline	33.3	34.8	(4.3)%	33.0	31.2	6.0%
Low octane gasoline	30.8	31.3	(1.6)%	30.0	28.4	5.4%

Sources: average prices were calculated from unrounded data of analytical agencies.

The difference between price movements denominated in USD and those denominated in RUB is explained by nominal RUB appreciation against USD by 2.5% in the fourth quarter of 2016 compared with the third quarter of 2016 and nominal RUB depreciation against USD by 9.1% in the twelve months of 2016 compared with the same period of 2015.

The Russian Government regulates the price of the gas sold in Russia by Gazprom and its affiliates which is considered as the benchmark for domestic gas market. Starting from July 1, 2015 regulated gas tariff for sale to all customers group, which is set by the FAS increased by 7.5%. Starting from July 1, 2016 regulated gas tariff for sale to residents increased by 2% (there was no indexation for the rest customers groups). The regulated price has affected, and is likely to continue to affect, the pricing of Rosneft gas sales. Rosneft's average domestic gas sales price (net of VAT) was RUB 3.32 thousand and RUB 3.11 thousand per th. cubic meters in the fourth and in the third quarters of 2016, respectively; and RUB 3.24 thousand and RUB 3.17 thousand per th. cubic meters in 2016 and 2015, respectively.

USD/RUB and EUR/RUB Exchange Rates and Inflation

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

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

	<i>For 3 months ended</i>		<i>For 12 months ended December 31,</i>	
	December 31, 2016	September 30, 2016	2016	2015
Consumer price index (CPI) for the period*	1.3%	0.7%	5.4%	12.9%
Average RUB/USD exchange rate for the period**	63.07	64.62	67.03	60.96
RUB/USD exchange rate at the end of the period	60.66	63.16	60.66	72.88
Average RUB/EUR exchange rate for the period	68.13	72.15	74.23	67.78
RUB/EUR exchange rate at the end of the period	63.81	70.88	63.81	79.70

Source: Central Bank of Russian Federation.

*Producer price index amounted to 4.0% y-o-y at the end of December 2016.

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

Taxation

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

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended December 31,</i>		<i>% change</i>
	December 31, 2015	September 30, 2015		2016	2015	
Mineral extraction tax						
Crude oil (RUB per tonne)	6,776	6,098	11.1%	5,777	6,312	(8.5)%
Export customs duty for crude oil						
Crude oil (US\$ per tonne)	91.7	88.8	3.3%	75.7	120.3	(37.1)%
Crude oil (RUB per tonne)	5,781	5,736	0.8%	5,076	7,334	(30.8)%
Crude oil (RUB per barrel)	781	775	0.8%	686	991	(30.8)%
Export customs duty for petroleum products						
Gasoline (RUB per tonne)	3,523	3,496	0.8%	3,093	5,718	(45.9)%
Naphtha (RUB per tonne)	4,101	4,069	0.8%	3,601	6,231	(42.2)%
Light and middle distillates (RUB per tonne)	2,308	2,292	0.7%	2,028	3,517	(42.3)%
Liquid fuels (fuel oil) (RUB per tonne)	4,738	4,701	0.8%	4,160	5,571	(25.3)%

*Calculated based on unrounded data.

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

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

Excise on petroleum products	2015	Since January 1 through March 31, 2016	Since April 1,	2017	2018
			through December 31, 2016		
High octane gasoline (RUB per tonne)					
High octane gasoline non-compliant with euro-5 (RUB per tonne)	7,300	10,500	13,100	13,100	13,100
High octane gasoline euro-5 (RUB per tonne)	5,530	7,530	10,130	10,130	10,535
Naphtha (RUB per tonne)	11,300	10,500	13,100	13,100	13,100
Diesel (RUB per tonne)	3,450	4,150	5,293	6,800	7,072
Lubricants (RUB per tonne)	6,500	6,000	6,000	5,400	5,400
Benzol, paraxylene, ortoxylyene (RUB per tonne)	2,300	3,000	3,000	2,800	2,800
Middle distillates (RUB per tonne)	-	4,150	5,293	7,800	8,112

In accordance with new amendments of Federal law 401-FZ, the producer is able to apply an increased coefficient to excise duty deduction of 1.74 in 2017 depending on certain type of the oil product subject to excise duty.

Effective tax burden of the Company was 44.7% and 44.2% in the fourth and third quarters of 2016, respectively.

The mineral extraction tax and the export customs duty accounted for approximately 34.5% and 36.5% of Rosneft's total revenues in the fourth and third quarters of 2016, respectively, and also approximately 33.4% and 39.1% of Rosneft's total revenues in 2016 and 2015. Tax withdrawing share in the financial results excluding forex and one off effects was up to 86% in the twelve months of 2016.

Mineral Extraction Tax (MET)

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

Starting from **January 1, 2017** the mineral extraction tax rate will be calculated by multiplying the tax rate of **RUB 919** (in 2015 – RUB 766, in 2016 – **RUB 857**) by the adjustment ratio of $((P - 15) \times \text{Exchange rate} / 261)$, where "P" is the average Urals price per barrel and "Exchange rate" is the average RUB/USD exchange rate established by the Central Bank of Russia in the respective month and minus the factor which characterizes crude oil production at a particular oil field, "Dm". The coefficient "Dm" is calculated using base rate (**starting 2016 – RUB 559**, in 2015 – RUB 530) and factors which characterize the degree of depletion of a particular field, reserves of a particular field, the degree of difficulty of extraction and region of production and oil properties. Starting from January 2017, additional MET withdrawals are introduced: + RUB/tonne 306 in 2017 (RUB/tonne - 357 in 2018, RUB/tonne - 428 in 2019).

In 2016 the Company applied reduced and zero MET tax rates at certain fields:

Tax relieves in 2016	Applicable in the Company
Zero rates	Oil fields with hard to recover reserves, including bazhenov, abalak, khadum, domanic formations
Reduced MET by coefficient "Dm", which characterizes crude oil production at a particular oil field	Oil fields located: <ul style="list-style-type: none"> In Irkutsk region, the republic of Sakha (Yakutia) and Krasnoyarsk territory which is applicable for the first 25 million tonnes of production On the territory of the Nenets Autonomous district, Yamalo-nenets Autonomous district – for the first 15 million tonnes of production Okhotsk sea fields subject to zero mineral extraction tax rate which is applicable for the first 30 million tonnes of production Oil fields with reserve depletion rate of over 80%. Oil fields with the volume of initial recoverable reserves being less than 5 million tonnes. Oil fields with high-viscosity crude oil (in-situ viscosity more than 200 mPas and less than 10 000 mPas)
Special tax regime for offshore projects in the Russian Federation	The offshore projects are categorized into one of four groups depending on its complexity and specify MET rates for each project group ranging from 5% to 30% of hydrocarbon prices (natural gas projects of 3 and 4 groups of difficulty – 1.3% and 1.0% respectively).
Special tax regime exempting the Company from paying mineral extraction tax.	Exploration projects in the Sakhalin-1 psa.

MET rate calculation for natural gas and gas condensate

MET rate for natural gas

In the fourth and in the third quarters of 2016, average extraction tax for natural gas was RUB 534 and RUB 531 per th. cubic meters, respectively. In the twelve months of 2016 and 2015 average extraction tax for natural gas was RUB 535 and RUB 520 per th. cubic meters, respectively.

MET rate for gas condensate

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

Significant volume of gas condensate produced at Rospan fields is subject to mineral extraction gas condensate tax rate, which amounted to RUB 3,111 and RUB 2,970 per tonne in the fourth and third quarters of 2016 respectively, and RUB 3,026 per tonne and RUB 2,331 per tonne in the twelve months of 2016 and 2015, respectively.

In accordance with Tax Code of Russian Federation since July 1, 2014, a calculation formula is determined for MET rate for natural gas and gas condensate. In line with this formula base rate for gas condensate is RUB 42 per 1 tonne and for natural gas – RUB 35 per 1 th.cubic metres. Base rates are multiplied by basic rate of standard fuel unit and reduced coefficient which estimates the difficulty level of natural gas and (or) gas condensate production. Starting from January 1 until December 31, 2016 mineral extraction gas condensate tax rate is adjusted by the multiplying coefficient 5.5; starting from January 1 until December 31, 2015 – 4.4; starting from January 1, 2017 - 6.5.

Reduced coefficient in 2016	Applicable in the Company
0.5	License areas: Rospan and Russko-Rechenskoe licensed fields and also at fields of Krasnodar and Stavropol regions
0.64	License areas: Kynsko-Chaselskoye fields and at a number of fields of Sibneftegaz, and also at Nenets Autonomous District, the Chechen republic and Krasnodar region
0.1	License areas: Irkutsk region, in Krasnoyarsk region and in region of Far East or the sea of Okhotsk
0.21	License areas: Turon deposits reserves of the Kharampurskoye field
0.5-1	Fields with reserve depletion rate of over 70%.

Export Customs Duty on Crude Oil

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

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

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

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

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

Export customs duty on crude oil export to CIS

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

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

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

Export Customs Duty on Petroleum Products

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

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

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

Type of petroleum product	Marginal export customs duty (% of the marginal export customs duty for crude oil) for the period		
	January 1 - December 31, 2015	January 1- December 31, 2016	Since January 1, 2017
Light and middle distillates (excluding: naphtha and gasoline), benzene, toluene, xylenes, lubricants, diesel	48	40	30
Naphtha	85	71	55
Gasoline	78	61	30
Fuel oil, bitumen oil, other dark oil products	76	82	100

In 2016 and 2015 calculation of the export duty rate for petroleum products is based on the above marginal rates for each type of petroleum product.

Changes in Transport Tariffs of Pipeline and Railway Monopolies

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

The FAS¹ has the authority to set Transneft’s base tariffs for transportation of crude oil and petroleum products in Russia, which include a dispatch tariff, a pumping tariff, loading, charge-discharge, transshipment and other tariffs. Tariffs for railroad transportation are also regulated by the FAS. The tariffs are set in roubles and are not linked to the exchange rate.

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

The FAS sets tariffs for gas pipeline transportation. The tariff includes two parts. The first part of tariff is fixed for “input and output” facilities and mostly depends on the remoteness of facilities. The second part of the tariff depends on gas transportation by Gazprom in the gas supply system and actual distance of gas transmission in a gas pipeline. Tariffs are set in roubles.

¹The FAS - the Federal Antimonopoly Service.

Recent changes of Transneft transportation tariffs

Crude oil

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

Starting from January 1, 2016 Transnet tariffs for oil pipeline transportation increased up to 5.76%. Some changes to special export tariffs were also applied. In particular, special export tariff for crude oil transportation from the fields of Western Siberia to the ports of Primorsk and Ust-Luga was cancelled. Alternately, special export tariff was applied to crude oil transportation from stations “Aprelskaya”, “Vatiegan”, “Pur-Pe” to the ports of Primorsk and Ust-Luga.

Petroleum products

In the fourth quarter of 2016 dispatching tariffs on routes “Ryazan NPK – Primorsk Port” and “PSP Ilukste – Ventspils Port” were decreased from RUB 731.47 per tonne to RUB 331 per tonne – transportation cost reduction of rouble component by RUB 40 per tonne for the mentioned directions. VAT was canceled for petroleum product pipeline transportation through Belarus.

Starting from January 1, 2016 Transneft increased export transportation tariffs for petroleum products by 12% in most directions. Particularly, export transportation tariff increased up to 16% in the direction of “Ryazan NPK – Primorsk Port”.

Recent changes in railroad transportation tariffs

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

Starting from January 1, 2016 indexation of railroad tariffs, fees and charges was 9% compared to 2015. Multiplying factor 1.074, which was applied to domestic railroad tariffs for transportation of diesel from September 16, 2015, was cancelled from January 1, 2016.

The table sets forth the Rosneft’s average transportation tariffs applied to major transportation routes in the fourth and third quarters of 2016 excluding transshipment:

	<i>For 3 months ended</i>		<i>Changes%</i>
	<i>December 31, 2016</i>	<i>September 30, 2016</i>	
	<i>th. RUB/tonne</i>		
CRUDE OIL			
Domestic			
<i>Pipeline</i>			
Orenburgneft (Pokrovka) – Novokuibyshevsk refinery	0.14	0.14	–
RN-Uvatneftegas (Demyanskoe) – Ryazan NPK	1.19	1.19	–
Bashneft (Aleksandrovkoe) – ANHK	1.03	1.03	–
RN-Nyaganneftegas (Krasnoleninsk) – Tuapse refinery	1.60	1.60	–
Export			
<i>Pipeline</i>			
Yuganskneftegaz (Nizhneartovsk) – Ust-Luga	1.86	1.86	–
Vankorneft (Purpe) – China	2.37	2.37	–
Yuganskneftegaz (Karkateevy) - Primorsk Port	1.81	1.81	–
Verkhnechonskneftegaz (Talakan) – Kozmino	2.37	2.37	–
Uvatneftegaz (Demyanskoe) – China via Kazakhstan	1.96	2.08	(6.0)%
Yuganskneftegaz (Karkateevy) - Poland	1.85	1.85	–
Yuganskneftegaz (Yuzhny Balyk) – Mozyr refinery	1.62	1.62	–
PETROLEUM PRODUCTS (EXPORT)			
Railroad			
Angarsk refinery – Nakhodka Port	5.95	5.95	–
Komsomolsk refinery – Nakhodka Port	2.32	2.32	–
Saratov refinery – Tuapse Port	2.32	2.32	–
Samara refineries – Novorossiysk Port	2.65	2.65	–
Achinsk refinery – Taman Port	6.34	6.34	–
Ryazan refinery – Ust-Luga Port	2.24	2.24	–
YANOS – Ust-Luga Port	1.82	1.82	–
Nizhneartovsk refinery – Tuapse Port	3.48	3.48	–

Source: Transneft, RZD, Rosneft. % change was calculated based on unrounded data

Rosneft operates proprietary transportation and transshipment facilities. This allows the optimization of Company's logistics (netbacks). These facilities include: the Arkhangelsk, De-Kastri, Tuapse and Nakhodka export terminals, the Okha – Komsomolsk-on-Amur pipeline, Vankor-Purpe pipeline and the Caspian Pipeline Consortium ("CPC").

Business Segments and Intersegment sales

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

Operating Segments

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

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

Intersegment Sales

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

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

Financial performance for the three months ended December 31, 2016 and September 30, 2016, for the twelve months ended December 31, 2016 and 2015 (Consolidated statement of profit or loss)

in RUB billions

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended December 31,</i>		<i>% change</i>
	<i>December 31, 2016</i>	<i>September 30, 2016</i>		<i>2016</i>	<i>2015</i>	
Revenues and equity share in profits of associates and joint ventures						
Oil, gas, petroleum products and petrochemicals sales	1,456	1,204	20.9%	4,887	5,071	(3.6)%
Support services and other revenues	19	18	5.6%	75	70	7.1%
Equity share in profits of associates and joint ventures	10	1	>100%	26	9	>100%
Total revenues and equity share in profits of associates and joint ventures	1,485	1,223	21.4%	4,988	5,150	(3.1)%
Costs and expenses						
Production and operating expenses	167	132	26.5%	559	575	(2.8)%
Cost of purchased oil, gas, petroleum products and refining costs	196	139	41.0%	614	530	15.8%
General and administrative expenses	38	31	22.6%	129	130	(0.8)%
Pipeline tariffs and transportation costs	155	138	12.3%	575	542	6.1%
Exploration expenses	4	3	33.3%	14	13	7.7%
Depreciation, depletion and amortization	133	120	10.8%	482	450	7.1%
Taxes other than income tax	400	336	19.0%	1,296	1,277	1.5%
Export customs duty	199	184	8.2%	657	925	(29.0)%
Total costs and expenses	1,292	1,083	19.3%	4,326	4,442	(2.6)%
Operating income	193	140	37.9%	662	708	(6.5)%
Finance income	33	17	94.1%	91	55	65.5%
Finance expenses	(52)	(45)	15.6%	(193)	(269)	(28.3)%
Other income	43	5	>100%	50	75	(33.3)%
Other expenses	(38)	(16)	>100%	(76)	(72)	(5.6)%
Foreign exchange differences	(15)	(14)	7.1%	(70)	86	-
Cash flow hedges reclassified to profit or loss	(36)	(37)	(2.7)%	(147)	(123)	19.5%
Income before income tax	128	50	>100%	317	460	(31.0)%
Income tax expense	(62)	(20)	>100%	(116)	(104)	11.5%
Net income	66	30	>100%	201	356	(43.5)%
Net income attributable to						
- Rosneft shareholders	52	26	>100%	181	355	(49.0)%
- non-controlling interests	14	4	>100%	20	1	>100%

Upstream Operating Results

The segment includes Rosneft Group companies that provide operating services, the independent enterprises that produce oil, gas and gas condensate in Russia and abroad, the joint ventures and exploration units in Russia and abroad, oil service companies. The segment includes revenues generated by the transfer of oil, gas and NGL to downstream segment for subsequent sales to third parties and all operating costs associated with production and exploration, and also revenues and costs of oil service companies that provide services to the Group companies. The results set in the table below include the acquisition of Bashneft assets in October 2016.

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended December 31,</i>		<i>% change</i>
	<i>December 31, 2016</i>	<i>September 30, 2016</i>		<i>2016</i>	<i>2015</i>	
Operational results						
Hydrocarbon production (th. boe per day)	5,831	5,217	11.8%	5,369	5,159	4.1%
Crude oil and NGL production (th. barrels per day)	4,655	4,151	12.1%	4,252	4,116	3.3%
Gas production (th. boe per day)	1,176	1,066	10.3%	1,117	1,043	7.1%
Hydrocarbon production (mln boe) ¹	497.7	444.7	11.9%	1,822.3	1,744.9	4.4%
Hydrocarbon production (th. boe per day) ²	5,831	5,660	3.0%	5,701	5,574	2.3%
Financial results, RUB billions						
EBITDA	324	261	24.1%	1,172	1,044	12.3%
Capital expenditures ³	185	149	24.2%	608	456	33.3%
Upstream operating expenses	89.4	72.9	22.6%	302.9	277.6	9.1%
Indicators per boe						
EBITDA, RUB/boe	651	587	10.9%	643	598	7.5%
Capital expenditures, RUB/boe	372	335	11.0%	334	261	28.0%
Upstream operating expenses, RUB/boe	180	164	9.8%	166	159	4.4%
Upstream operating expenses, USD/boe ⁴	2.8	2.5	12.0%	2.5	2.6	(3.8)%

¹Excluding associates and joint ventures.

²Pro Forma (including Bashneft starting from January 2015), only for purpose of presentation.

³Ref. to "Capital expenditures".

⁴Calculated using monthly RUB/USD exchange rates for the reporting periods.

Upstream EBITDA

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended December 31,</i>		<i>% change</i>
	<i>December 31, 2016</i>	<i>September 30, 2016</i>		<i>2016</i>	<i>2015</i>	
Revenues and equity share in profits of associates and joint ventures	675	602	12.1%	2,470	2,487	(0.7)%
<i>Including equity share in profits of associates and joint ventures</i>	<i>7</i>	<i>–</i>	<i>>100%</i>	<i>17</i>	<i>2</i>	<i>>100%</i>
Expenses net of depreciation	416	373	11.5%	1,458	1,530	(4.7)%
<i>including</i>						
Upstream operating expenses ¹	77	73	6.3%	291	278	4.8%
General and administrative expenses	14	14	–	53	49	8.2%
Hydrocarbon procurement costs ²	5	3	66.7%	25	17	47.1%
Pipeline tariffs and transportation costs and other costs ³	9	4	>100%	31	34	(8.8)%
Exploration expenses	3	3	–	13	13	–
Taxes other than income tax	308	276	11.6%	1,045	1,139	(8.3)%
<i>Effect of prepayments offsetting</i>	<i>39</i>	<i>32</i>	<i>21.9%</i>	<i>134</i>	<i>87</i>	<i>54.0%</i>
Acquisition of Bashneft assets	26	–	–	26	–	–
EBITDA	324	261	24.1%	1,172	1,044	12.3%

¹Percentage is calculated from unrounded data.

²See section "Cost of Purchased Oil, Gas and Petroleum Products and Refining Costs and others". Since September 2016 cost of purchase and related transportation expenses have been transferred to Downstream segment.

³Other costs include the estimation of ecological reserves revision of RUB 4.3 billion in the fourth quarter of 2016, RUB 0.4 billion in the third quarter of 2016, and in the amount of RUB 5.4 billion and RUB 1.1 billion in 2016 and 2015, respectively.

Operating indicators

Production of Crude Oil and NGL

Rosneft has main fully consolidated production and development enterprises, which produce crude oil in Western Siberia, Eastern Siberia, Timan Pechora, Central Russia, southern part of European Russia and the Russian Far East. The Company also has a 20% stake in the Sakhalin-1 project and a 50% stake in JSC “Tomskneft” VNK, both accounted for using proportionate consolidation method. In addition, Rosneft participates in major production joint ventures accounted for using the equity method: Udmurtneft – 49.54% and Slavneft – 49.94%. The Company also participates in international projects in Vietnam, Venezuela and Canada. In October 2016 the Company acquired production assets of Bashneft.

The following table sets forth Rosneft’s crude oil and NGL production including the effect from the consolidation of new assets (Bashneft) into group production:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended December 31,</i>		<i>% change</i>
	December 31, 2016	September 30, 2016		2016	2015	
	<i>(million of barrels)</i>			<i>(million of barrels)</i>		
Yuganskneftegaz (Western Siberia)	119.6	120.1	(0.4)%	471.4	462.1	2.0%
Projects of the Vankor group (Eastern Siberia)	44.4	40.4	9.9%	164.0	162.9	0.7%
Samotlorneftegaz (Western Siberia)	36.5	37.2	(1.9)%	148.4	155.1	(4.3)%
Orenburgneft (Central Russia)	30.8	30.8	–	122.9	134.0	(8.3)%
Samaraneftegaz (Central Russia)	23.7	23.4	1.3%	92.7	89.6	3.5%
RN-Uvatneftegaz (Western Siberia)	21.4	21.8	(1.8)%	86.0	81.9	5.0%
Verkhnechonskneftegaz (Eastern Siberia)	16.2	16.1	0.6%	64.4	64.0	0.6%
Varyeganneftegaz (Western Siberia)	11.6	11.5	0.9%	45.9	46.5	(1.3)%
RN-Nyaganneftegaz (Western Siberia)	11.1	11.1	–	43.8	44.8	(2.2)%
Purneftegaz (Western Siberia)	9.9	9.9	–	39.3	41.1	(4.4)%
Tomskneft (Western Siberia)	9.2	9.4	(2.1)%	36.1	36.7	(1.6)%
Severnaya Neft (Timan Pechora)	6.2	6.5	(4.6)%	24.9	21.2	17.5%
Northern tip of Chayvo (Far East)	4.1	3.5	17.1%	16.8	14.3	17.5%
Sakhalin-1 (Far East)						
(net of royalty and government share)	3.0	2.4	25.0%	11.9	11.0	8.2%
Taas-Yuryah (Eastern Siberia)	2.1	2.0	5.0%	8.1	6.8	19.1%
Bashneft-Dobycha (Central Russia)	31.4	–	–	31.4	–	–
Bashneft-Polyus (Timan Pechora) ¹	4.5	–	–	4.5	–	–
Sorovskneft (Western Siberia)	4.4	–	–	4.4	–	–
Other	10.0	9.3	7.5%	37.1	34.4	7.8%
Crude oil and NGL production by fully and proportionately consolidated enterprises	400.1	355.4	12.6%	1,454.0	1,406.4	3.4%
Slavneft (Western and Eastern Siberia)	13.8	13.9	(0.7)%	55.5	57.2	(3.0)%
Udmurtneft (Central Russia)	5.8	5.8	–	23.2	23.6	(1.7)%
Polar Lights (Timan Pechora) ²	–	–	–	–	1.3	(100.0)%
Other	8.6	6.8	26.5%	23.7	13.7	73.0%
Total share in production of associates and JV	28.2	26.5	6.4%	102.4	95.8	6.9%
Total crude oil and NGL production	428.3	381.9	12.1%	1,556.4	1,502.2	3.6%
Daily crude oil and NGL production (th. barrels per day)	4,655	4,151	12.1%	4,252	4,116	3.3%
Daily crude oil and NGL production (th. barrels per day)³	4,655	4,583	1.6%	4,575	4,520	1.2%

¹Refers to 100% consolidated share in production;

²The share was sold in December 2015.

³ Pro Forma (including Bashneft starting from January 2015), only for purpose of presentation..

In the fourth quarter of 2016 crude oil and NGL production was 428.3 mln barrels. Net of the effect of acquisition of new assets in the fourth quarter of 2016 the production increased by 6.1 mln barrels compared to 381.9 mln barrels in the third quarter of 2016. Oil production growth was mainly caused by increased production at the fields of Suzun group, by commissioning at fields of the Eastern Messoyakha group and by production growth at the fields of the Northern tip of Chayvo and Sakhalin-1 after planned maintenance in the third quarter of 2016.

Excluding the effect of acquisition of Bashneft assets in 2016, the Company’s production increased up to 0.9% (1,516.1 mln bbl) compared to 1,502.2 mln barrels in 2015. The increase was driven by consistent improvement in production at the fields of Yuganskneftegaz, Severnaya Neft, Samaraneftegaz and other assets due to increased drilling development, application of new technologies and start of commissioning of new wells in 2015, completion of testing of new infrastructure at the Suzun fields, commissioning at fields of the Eastern Messoyakha group.

In 2016, the Company increased its production drilling by 35% compared with 2015. The share of in-house services in the total drilling footage consistently exceeds 50%. The growth of new wells put into operation exceeded 43% up to 2.6 thousand of units with app. 32% share of horizontal wells in comparison with the twelve months of 2015.

Production of Gas

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

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2016	September 30, 2016		2016	2015	
	bcm			bcm		
Sibneftegas (Western Siberia)	3.16	2.90	9.0%	12.14	11.76	3.2%
Projects of the Vankor group (Eastern Siberia) ²	2.23	2.12	5.2%	8.70	8.71	(0.1)%
Rospan International (Western Siberia)	1.67	1.65	1.2%	6.22	4.24	46.7%
Purneftegaz (Western Siberia)	1.52	1.49	2.0%	6.11	5.53	10.5%
Samotlorneftegaz (Western Siberia)	1.51	1.47	2.7%	5.94	5.82	2.1%
Yuganskneftegaz (Western Siberia)	1.17	1.14	2.6%	4.60	4.58	0.4%
Varyeganneftegaz (Western Siberia)	0.92	0.88	4.5%	3.40	3.10	9.7%
Krasnodarneftegaz (Southern Russia)	0.76	0.67	13.4%	2.91	2.75	5.8%
Orenburgneft (Central Russia)	0.55	0.53	3.8%	2.32	2.79	(16.8)%
Northern tip of Chayvo (Far East)	0.90	0.55	63.6%	2.44	0.72	>100%
RN-Nyaganneftegaz (Western Siberia)	0.42	0.41	2.4%	1.59	1.54	3.2%
Tomskneft (Western Siberia)	0.26	0.22	18.2%	0.90	0.92	(2.2)%
Samaraneftegaz (Central Russia)	0.12	0.12	–	0.48	0.43	11.6%
Sakhalin-1 (Far East)						
(net of royalty and government share)	0.14	0.04	>100%	0.38	0.43	(11.6)%
Severnaya Neft (Timan Pechora)	0.06	0.05	20.0%	0.23	0.24	(4.2)%
Bashneft-Dobycha (Central Russia)	0.13	–	–	0.13	–	–
Bashneft-Polyus (Timan Pechora)	0.02	–	–	0.02	–	–
Sorovskneft (Western Siberia)	0.03	–	–	0.03	–	–
Other	0.46	0.43	7.0%	1.94	2.03	(4.4)%
Total gas production by fully and proportionately consolidated enterprises	16.03	14.67	9.3%	60.48	55.59	8.8%
Purgaz (Western Siberia)	1.49	1.20	24.2%	5.75	6.23	(7.7)%
Slavneft (Western and Eastern Siberia)	0.11	0.12	(8.3)%	0.47	0.46	2.2%
Other	0.14	0.11	27.3%	0.40	0.26	53.8%
Total share in production of associates and JV	1.74	1.43	21.7%	6.62	6.95	(4.7)%
Total gas production	17.77	16.10	10.4%	67.10	62.54	7.3%
Natural gas	8.11	7.28	11.4%	30.99	29.67	4.4%
Associated gas	9.66	8.82	9.5%	36.11	32.87	9.9%
Daily gas production (mcm per day)	193.2	175.0	10.4%	183.3	171.3	7.0%
Daily gas production (mcm per day)³	193.2	176.8	9.3%	184.8	173.1	6.8%

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

² Including gas injection to maintain reservoir pressure.

³ Pro Forma (including Bashneft starting from January 2015), only for purpose of presentation..

In 2016 gas production was 67.10 bcm¹. Gas production growth was mainly driven by the start-up of the second stage of Novy-Urengoy gas processing plant at Rospan in the fourth quarter of 2015, by launch of the three wells at the Northern tip of Chayvo on Sakhalin island in 2015 and in 2016, by commissioning of gas processing plant at Purneftegaz's Barsukovsky field in December 2015 and the project development at the Khadiryakhinskoe field in Sibneftegaz.

In the fourth quarter of 2016 gas production was 17.77 bcm². Gas production growth compared with the third quarter of 2016 was mainly due to increased gas production at the fields of Sibneftegaz, Purneftegaz and the Northern Tip of Chaivo after planned maintenance in the third quarter of 2016 and due to seasonal increase in demand in autumn-winter period.

The level of utilization of associated petroleum gas ("APG") increased up to 90.0% in the twelve months of 2016 compared to 87.9% in the same period of 2015.

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 7 billion in the fourth quarter of 2016 due to positive dynamics of JV income.

The equity share in financial results of upstream associates and joint ventures was RUB 17 billion and RUB 2 billion of profit in 2016 and 2015, respectively.

¹ Excluding the effect from the acquisition of Bashneft assets gas production in 2016 was 66.92 bcm.

² Excluding the effect from the acquisition of Bashneft assets gas production in the fourth quarter of 2016 was 17.59 bcm.

Upstream production and operating expenses

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

Upstream production and operating expenses amounted to RUB 89.4 billion (or 180 RUB/boe) in the fourth quarter of 2016. Net of the effect of acquisition of new assets upstream production and operating expenses were RUB 77.5 billion (170 RUB/boe or increase by 3.7%) and increased by 6.3% in the fourth quarter of 2016 compared with RUB 72.9 billion the third quarter of 2016. The increase was mainly due to scheduled increase in workovers and growth of electricity tariffs.

Excluding the effect of acquisition of new assets in the twelve months of 2016, upstream production and operating expenses increased by 4.8% and amounted to RUB 291.0 billion (or 163 RUB/boe, an increase by 2.5% per boe) compared to RUB 277.6 billion (159 RUB/boe) in the twelve months of 2015 that is mainly due to the growth of electricity expenses compensated by decrease in workovers and power-generation facilities maintenance expenses.

Exploration Expenses

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

In the fourth quarter of 2016 exploration expenses amounted to RUB 4 billion. Excluding the effect of acquisition of Bashneft assets exploration expenses did not change in comparison with the third quarter of 2016 and amounted to RUB 3 billion. Excluding the effect of acquisition of new assets exploration expenses amounted to RUB 13 billion in 2016 and remained at the level of 2015.

Mineral extraction tax

The amount of mineral extraction tax was RUB 313 billion in the fourth quarter of 2016 compared to RUB 262 billion in the third quarter of 2016. Excluding the effect of acquisition of Bashneft assets, the growth of MET expense amounted to RUB 286 billion mainly due to MET rate growth by 11.1% for the period.

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

	<i>For 3 months ended</i>		<i>change</i> %	<i>For 12 months ended December 31,</i>		<i>change</i> %
	December 31, 2016	September 30, 2016		2016	2015	
	(thousand RUB per tonne, except %)					
Average enacted oil mineral extraction tax rate	6.78	6.10	11.1%	5.78	6.31	(8.4)%
Actual mineral extraction tax expense per tonne of oil produced	5.72	5.41	5.7%	5.06	5.69	(11.1)%
Actual mineral extraction tax expense per tonne of oil equivalent produced*	4.74	4.40	7.7%	4.15	4.62	(10.2)%
	(RUB per thousand cubic metres, except %)					
Average actual gas extraction tax rate	534	531	0.6%	535	520	2.9%

*Including consolidated oil and gas volumes.

The actual mineral extraction tax rate is lower than generally established tax rates for the analyzed periods primarily due to tax exemptions which are active in the form of reduced rates at particular fields, zero rates and reduced extraction tax rate by “Dm” coefficient which characterizes complexity of crude oil production at a particular oil field according to the Russian tax legislation (See section: “Mineral extraction tax”).

Downstream Operating Results

The segment includes Group companies that provide services for oil and gas processing, petrochemical production in Russia and abroad, joint ventures, sales units of oil, gas and petroleum products to counterparties in Russia and abroad. The segment includes revenue generated from the sale of oil, gas, petrochemical products and petroleum products to third parties, and all operating costs associated with processing, trading and logistics. The results set in the table below include the acquisition of Bashneft assets in October 2016.

	For 3 months ended			For 12 months ended		
	December, 31 2016	September 30, 2016	% change	December 31, 2016	2015	% change
Operational results, mln tonne						
Crude oil processing at refineries	30.37	24.83	22.3%	100.26	96.90	3.5%
<i>Processing at Company's own refineries in Russia</i>	25.01	19.61	27.5%	79.95	77.07	3.7%
<i>Processing at Company's own refineries outside Russia</i>	3.25	3.28	(0.9)%	12.72	10.80	17.8%
<i>Processing at Associates' refineries</i>	2.11	1.94	8.8%	7.59	9.03	(15.9)%
Financial results, RUB billion						
EBITDA	51	43	18.6%	150	256	(41.4)%
Capital expenditures of refineries*	31	13	>100%	65	108	(39.8)%
Operating expenses of processing in Russia	31.91	18.68	70.8%	88.32	77.08	14.6%
Operating expenses of processing outside Russia	7.41	6.84	8.3%	31.42	28.48	10.3%
Indicators per tonne of the output**						
EBITDA, RUB per tonne	1,805	1,879	(3.9)%	1,619	2,913	(44.4)%
Capital expenditure of refineries, RUB per tonne	1,097	568	93.1%	701	1,229	(43.0)%
Operating expenses for processing in Russia, RUB per tonne	1,277	953	34.0%	1,105	1,000	10.5%
Operating expenses for processing outside Russia, RUB per tonne	2,277	2,089	9.0%	2,469	2,638	(6.4)%

*Refer to "Capital expenditures".

**Calculated from unrounded data.

Downstream EBITDA

	For 3 months ended			For 12 months ended		
	December 31, 2016	September 30, 2016	% change	December 31, 2016	2015	% change
	RUB billion			RUB billion		
Revenues and equity share in profits of associates and joint ventures	1,324	1,237	7.0%	4,844	5,152	(6.0)%
<i>Including equity share in profits of associates and joint ventures</i>	3	1	>100%	8	6	33.3%
Expenses net of depreciation including	1,275	1,194	6.8%	4,696	4,896	(4.1)%
Operating expenses at refineries, cost of additives and materials procured for processing	38	37	2.7%	153	160	(4.4)%
Operating expenses of retail companies	11	11	–	43	42	2.4%
Cost of purchased oil, gas, petroleum products and refining costs including intersegment turnover	846	754	12.2%	3,063	3,031	1.1%
Administrative expenses including doubtful debt allowances	10	8	25.0%	34	47	(27.7)%
Pipeline tariffs and transportation costs and other costs	139	136	2.2%	547	524	4.4%
Taxes other than income tax	53	59	(10.2)%	208	124	67.7%
Export customs duty	183	184	(0.5)%	641	925	(30.7)%
Effect from intragroup balance change and others	(5)	5	–	7	14	(50.0)%
Amendments to costs 2015-2014	–	–	–	–	29	–
Effect of acquisition of new assets	2	–	–	2	–	–
EBITDA*	51	43	18.6%	150	256	(41.4)%

*Calculated from unrounded data.

Operating indicators

Petroleum Product Output

Rosneft processes produced and procured crude oil at its refineries: the Tuapse refinery on the Black Sea coast in the South of Russia, the Komsomolsk refinery in the Russian Far East, the Achinsk and Angarsk refineries in Eastern Siberia, the Kuibyshev, Novokuibyshevsk and Syzran refineries in the Samara region, the Saratov refinery and the Ryazan refinery (the European part of Russia) and others. Rosneft also owns processing crude oil in Belarus, and until 31 December 2016 the Company owned production capacity at four Ruhr Oel GmbH (ROG) refineries in Germany. Starting from March 2015 the Novokuibyshevsk petrochemical refinery results are included in petroleum product output volumes as well as acquired additional share in PCK Raffinerie GmbH starting from December 2015. At the end of December 2016 the Company completed the restructuring of foreign refining assets of Ruhr Oel GmbH in Germany. Starting from October 2016 crude oil processing at Bashneft refineries is incorporated in the oil processing of Rosneft group.

The following table sets forth Rosneft's crude oil processing and petroleum product output volumes including the effect of acquisition of new Bashneft assets in October 2016:

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended December 31,</i>		<i>% change</i>
	<i>December 31, 2016</i>	<i>September 30, 2016</i>		<i>2016</i>	<i>2015</i>	
	<i>mln of tonnes</i>			<i>mln of tonnes</i>		
Crude oil processing at refineries in Russia ¹	22.23	21.55	3.2%	82.65	84.70	(2.4)%
Effect of acquisition of new assets	4.82	–	–	4.82	–	–
Crude oil processing at refineries outside Russia <i>including crude oil processing at Ruhr Oel GmbH (ROG)^{2,3}</i>	3.32	3.28	1.2%	12.79	12.20	4.8%
<i>including crude oil processing in Belarus</i>	3.25	3.28	(0.9)%	12.72	10.80	17.8%
	0.07	–	–	0.07	1.40	(95.0)%
Total Group crude oil processing	30.37	24.83	22.3%	100.26	96.90	3.5%
Petroleum product output:						
High octane gasoline	2.99	2.97	0.7%	11.55	11.10	4.1%
Low octane gasoline	0.03	0.04	(25.0)%	0.13	0.16	(18.8)%
Naphtha	1.58	1.51	4.6%	5.79	5.58	3.8%
Diesel	6.88	6.70	2.7%	25.65	26.26	(2.3)%
Fuel oil	5.95	5.26	13.1%	21.98	26.62	(17.4)%
Jet fuel	0.72	0.93	(22.6)%	3.04	3.12	(2.6)%
Petrochemicals	0.24	0.18	33.3%	0.69	0.95	(27.4)%
Other	3.13	3.35	(6.6)%	11.61	9.12	27.3%
Product output at Rosneft's refineries in Russia	21.52	20.94	2.8%	80.44	82.91	(3.0)%
Effect of acquisition of new assets	4.31	–	100.0%	4.31	–	100.0%
Product output at refineries outside Russia <i>including crude oil output at Ruhr Oel GmbH (ROG)</i>	3.43	3.44	(0.3)%	13.46	12.45	8.1%
<i>including product output in Belarus</i>	3.37	3.44	(2.0)%	13.40	11.15	20.2%
	0.06	–	–	0.06	1.30	(95.4)%
Total Group product output	29.26	24.38	20.0%	98.21	95.36	3.0%

¹Including processing at YaNOS refinery

²Excluding additives obtained for processing

³Including share in PCK Raffinerie GmbH.

In the fourth quarter of 2016 Rosneft's total refinery throughput in Russia net of the effect of acquisition of new assets amounted to 22.23 mln tonnes, an increase of 3.2% compared to the third quarter of 2016. This is mainly due to the optimization of utilization rate at refineries in terms of the price changes.

In the twelve months of 2016 crude oil processing volume net of the effect of acquisition of new assets was 2.4% lower compared with the twelve months of 2015. In terms of negative price effect of 2016, the refinery utilisation rate was strongly managed to obtain maximum effectiveness from crude oil processing.

In the fourth quarter of 2016, processing volume at the German refineries slightly decreased compared to the third quarter of 2016 due to scheduled turnarounds. The processing volume at the German refineries in the twelve months of 2016 increased by 17.8% compared with the same period of 2015 due to the acquisition of additional share in PCK Raffinerie GmbH in November 2015.

Financial indicators

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

In the fourth quarter of 2016 revenues and equity share in profits of associates and joint ventures amounted to RUB 1,485 billion. Revenues and equity share in profits of associates and joint ventures net of the effect of acquisition of Bashneft assets amounted to RUB 1,317 billion in comparison with RUB 1,223 billion in the third quarter of 2016. Increase in revenues in the fourth quarter of 2016 is mainly due to market price growth.

In 2016, revenues and equity share in profits of associates and joint ventures amounted to RUB 4,988 billion. Net of the effect of the acquisition of Bashneft assets, the revenues amounted to RUB 4,820 billion in comparison with RUB 5,150 billion in 2015.

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

	For 3 months ended					For 12 months ended December 31,				
	December 31, 2016		September 30, 2016		% change	2016		2015		% change
	% of revenue		% of revenue			% of revenue		% of revenue		
RUB billion, except %										
Crude oil										
International Sales to non-CIS	568	38.3%	490	40.0%	15.9%	1,977	39.6%	2,111	40.9%	(6.3)%
Europe and other directions	335	22.6%	280	22.8%	19.6%	1,128	22.6%	1,232	23.8%	(8.4)%
Asia	233	15.7%	210	17.2%	11.0%	849	17.0%	879	17.1%	(3.4)%
International sales to CIS	23	1.5%	22	1.8%	4.5%	118	2.4%	135	2.6%	(12.6)%
Domestic sales	24	1.6%	18	1.5%	33.3%	82	1.6%	79	1.5%	3.8%
Total crude oil	615	41.4%	530	43.3%	16.0%	2,177	43.6%	2,325	45.0%	(6.4)%
Gas	60	4.0%	46	3.8%	30.4%	214	4.3%	188	3.7%	13.8%
Petroleum products										
International Sales to non-CIS	404	27.3%	318	26.0%	27.0%	1,309	26.3%	1,426	27.8%	(8.2)%
Europe and other directions	307	20.8%	236	19.3%	30.1%	984	19.8%	1,099	21.5%	(10.5)%
Asia	97	6.5%	82	6.7%	18.3%	325	6.5%	327	6.3%	(0.6)%
International Sales to CIS	27	1.8%	20	1.6%	35.0%	65	1.3%	64	1.2%	1.6%
Domestic sales	297	20.0%	251	20.5%	18.3%	963	19.3%	875	17.0%	10.1%
Wholesale	177	11.9%	142	11.6%	24.6%	545	10.9%	475	9.2%	14.7%
Retail	120	8.1%	109	8.9%	10.1%	418	8.4%	400	7.8%	4.5%
Sales of bunker fuel to end-users	11	0.7%	12	1.0%	(8.3)%	36	0.7%	52	1.0%	(30.8)%
Total petroleum products	739	49.8%	601	49.1%	23.0%	2,373	47.6%	2,417	47.0%	(1.8)%
Sales of LNG	2	0.1%	–	–	–	3	0.1%	–	–	–
Petrochemical products	40	2.7%	27	2.2%	48.1%	120	2.4%	115	2.2%	4.3%
International sales	28	1.9%	21	1.7%	33.3%	96	1.9%	95	1.8%	1.1%
Domestic sales	12	0.8%	6	0.5%	100.0%	24	0.5%	20	0.4%	20.0%
<i>Amendments to sales 2015-2014¹</i>	–	–	–	–	–	–	–	26	0.5%	–
Sales of petroleum products, petrochemicals and LNG	781	52.6%	628	51.3%	24.4%	2,496	50.1%	2,558	49.7%	(2.4)%
Support services and other revenues	19	1.3%	18	1.5%	5.6%	75	1.5%	70	1.4%	7.1%
Equity share in profits of associates and joint ventures	10	0.7%	1	0.1%	>100%	26	0.5%	9	0.2%	>100%
Total revenues and equity share in profits of associates and joint ventures	1,485	100.0%	1,223	100.0%	21.4%	4,988	100.0%	5,150	100.0%	(3.1)%

* Under IFRS consolidated financial statements.

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

¹Amendments to sales and costs 2015-2014 are disclosed on gross basis with net impact of RUB (3.2) billion for the reporting period. In view of updating of invoices issued previously necessary amendments were made in the accounting records

Sales Volumes

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

	<i>For 3 months ended</i>					<i>For 12 months ended December 31,</i>				
	December 31, 2016		September 30, 2016		<i>% change</i>	2016		2015		<i>% change</i>
	mln bbl	% of total volume	mln bbl	% of total volume		mln bbl	% of total volume	mln bbl	% of total volume	
Crude oil										
International Sales to non-CIS	208.1	45.9%	188.1	47.6%	10.6%	791.5	47.9%	741.1	47.3%	6.8%
Europe and other directions	125.9	27.8%	111.1	28.1%	13.3%	472.4	28.5%	447.2	28.6%	5.6%
Asia	82.2	18.1%	77.0	19.5%	6.8%	319.1	19.4%	293.9	18.7%	8.6%
International Sales to CIS	10.3	2.3%	11.9	3.0%	(13.4)%	59.2	3.6%	66.6	4.2%	(11.1)%
Domestic	11.8	2.6%	9.7	2.4%	21.6%	42.2	2.6%	40.0	2.5%	5.5%
Total crude oil	230.2	50.8%	209.7	53.0%	9.8%	892.9	54.1%	847.7	54.0%	5.3%
Crude oil	mln tonnes		mln tonnes			mln tonnes		mln tonnes		
International Sales to non-CIS	28.1	45.9%	25.4	47.6%	10.6%	106.9	47.9%	100.1	47.3%	6.8%
Europe and other directions	17.0	27.8%	15.0	28.1%	13.3%	63.8	28.5%	60.4	28.6%	5.6%
Asia	11.1	18.1%	10.4	19.5%	6.7%	43.1	19.4%	39.7	18.7%	8.6%
International Sales to CIS	1.4	2.3%	1.6	3.0%	(12.5)%	8.0	3.6%	9.0	4.2%	(11.1)%
Domestic sales	1.6	2.6%	1.3	2.4%	23.1%	5.7	2.6%	5.4	2.5%	5.5%
Total crude oil	31.1	50.8%	28.3	53.0%	9.9%	120.6	54.1%	114.5	54.0%	5.3%
Petroleum products										
International Sales to non-CIS	17.3	28.3%	14.5	27.1%	19.3%	61.1	27.4%	59.5	28.2%	2.7%
Europe and other directions	12.7	20.8%	10.8	20.2%	17.6%	45.9	20.6%	46.3	22.0%	(0.9)%
Asia	4.6	7.5%	3.7	6.9%	24.3%	15.2	6.8%	13.2	6.2%	15.2%
International Sales to CIS	1.0	1.6%	0.9	1.7%	11.1%	2.6	1.2%	2.0	0.9%	30.0%
Domestic sales	10.1	16.5%	8.2	15.4%	23.2%	32.8	14.7%	29.7	14.0%	10.4%
Wholesale	7.0	11.4%	5.4	10.2%	29.6%	21.9	9.8%	18.8	8.9%	16.5%
Retail	3.1	5.1%	2.8	5.2%	10.7%	10.9	4.9%	10.9	5.1%	0.0%
Sales of bunker fuel to end-users	0.5	0.8%	0.7	1.3%	(28.6)%	1.9	0.9%	3.0	1.4%	(36.7)%
Total petroleum products	28.9	47.2%	24.3	45.5%	18.9%	98.4	44.2%	94.2	44.5%	4.5%
Sales of LNG	0.1	0.2%	–	–	–	0.2	0.1%	–	–	–
Petrochemical products	1.1	1.8%	0.8	1.5%	37.5%	3.5	1.6%	3.2	1.5%	9.4%
International sales	0.7	1.1%	0.5	0.9%	40.0%	2.4	1.1%	2.2	1.0%	9.1%
Domestic sales	0.4	0.7%	0.3	0.6%	33.3%	1.1	0.5%	1.0	0.5%	10.0%
Total crude oil and products, LNG	61.2	100.0%	53.4	100.0%	14.6%	222.5	100.0%	211.9	100.0%	5.0%
Gas	bcm		bcm			bcm		bcm		
Sales Volumes	18.03		14.57		23.7%	65.00		58.68		10.8%

Average Sales Prices

The following table sets forth Rosneft's average export and domestic prices of crude oil, gas, petroleum products and petrochemical products (the average sales prices may differ from official market prices provided by specialized agencies due to different quality of products and sales terms)¹:

	<i>For 3 months ended</i>				<i>% change</i>	<i>For 12 months ended December 31,</i>				<i>% change</i>
	December 31, 2016		September 30, 2016			2016		2015		
	<i>(thRUB/ barrel)</i>	<i>(thRUB/ tonne)</i>	<i>(thRUB/ barrel)</i>	<i>(thRUB/ tonne)</i>		<i>(thRUB/ barrel)</i>	<i>(thRUB/ tonne)</i>	<i>(thRUB/ barrel)</i>	<i>(thRUB/ tonne)</i>	
Average prices on foreign markets										
Crude oil, non-CIS	2.93	21.7	2.76	20.5	5.9%	2.68	19.9	3.01	22.3	(10.8)%
Europe and other directions ²	2.84	21.1	2.71	20.1	5.0%	2.61	19.3	2.96	21.9	(11.9)%
Asia ²	3.07	22.7	2.85	21.1	7.6%	2.81	20.8	3.14	23.3	(10.7)%
Crude oil, CIS	2.14	15.8	1.97	14.6	8.2%	1.98	14.7	2.01	14.9	(1.3)%
Petroleum products, non- CIS		23.8		21.8	9.2%		21.6		24.0	(10.0)%
Europe and other directions		24.5		21.7	12.9%		21.6		23.8	(9.2)%
Asia		21.9		22.1	(0.9)%		21.7		24.8	(12.5)%
Petroleum products, CIS		25.6		24.1	6.2%		24.8		32.5	(23.7)%
Sales of LNG		20.2		–	–		20.0		–	–
Petrochemical products		38.5		39.1	(1.5)%		39.3		42.8	(8.2)%
Average domestic prices										
Crude oil	2.1	15.4	1.89	14.0	10.0%	1.94	14.4	2.00	14.8	(2.7)%
Petroleum products		29.4		30.5	(3.6)%		29.4		29.5	(0.3)%
Wholesale		25.4		26.2	(3.1)%		24.9		25.3	(1.6)%
Retail		38.3		38.9	(1.5)%		38.3		36.7	4.4%
Gas (the RUB./th. cubic meter) ³		3.32		3.11	6.8%		3.24		3.17	2.2%
Petrochemical products ⁴		29.2		20.2	44.6% ⁴		22.3		19.3	15.5%
Sales of bunker fuel to end-users		20.2		18.4	9.8%		18.5		17.1	8.2%

¹Average price is calculated from unrounded figures.

²Price excludes revenues under prepaid long-term crude oil supply contracts and revenues from crude oil sales to Transneft (RUB 26 billion and RUB 22 billion, in the fourth and in the third quarters of 2016; RUB 97 billion and RUB 75 billion in the twelve months of 2016 and 2015, respectively).

³Including gas sales outside Russian Federation average gas prices were 3.37 th.RUB./th. cubic meter in the 4th quarter of 2016 and 3.16 th.RUB./th. cubic meter in the third quarter of 2016 and 3.30 th.RUB./th. cubic meter in the twelve months of 2016 and 3.20 th.RUB./th. cubic meter in the twelve months of 2015.

⁴Product structure of Bashneft assets integrated in the 4th quarter 2016 influenced price growth.

International Crude Oil Sales to non-CIS

Revenues from international crude oil sales to non-CIS countries in the fourth quarter of 2016 amounted to RUB 568 billion. In the fourth quarter of 2016, net of the effect of acquisition of new assets the revenues increased up to RUB 524 billion compared to RUB 490 billion in the third quarter of 2016. Revenue increase was due to upturn in sales volumes by 5.9% (favourable impact on revenue of RUB 30 billion) and was accompanied by increase in sales volume by 2.0% or RUB 12 billion.

In the twelve months of 2016 revenues from international crude oil sales to non-CIS countries net of the effect of acquisition of new assets decreased by 8.4% and amounted to RUB 1,933 billion compared with the same period of 2015. Average sales price downturn by 10.8% (negative impact on revenue of RUB 242 billion) was partially offset by increase in sales volume by 4.6% (favourable impact on revenue of RUB 102 billion).

International Crude Oil Sales to CIS

Revenue from sales of crude oil to CIS in the fourth quarter of 2016 amounted to RUB 23 billion. In the fourth quarter of 2016, net of the effect of acquisition of new assets the revenues decreased to RUB 21 billion compared to RUB 22 billion in the third quarter of 2016. The decrease was mainly caused by decline of sales volume by 19.3% (negative impact on revenue of RUB 4 billion) which was partially offset by growth of average sales price of 8.2% (favourable impact on revenues of RUB 3 billion).

In the twelve months of 2016 revenues from international crude oil sales to CIS countries, net of the effect of acquisition of new assets, amounted to RUB 116 billion.

Domestic Sales of Crude Oil

Revenues from domestic sales of crude oil in the fourth quarter of 2016 amounted RUB 24 billion.

In the fourth quarter of 2016 revenues from domestic sales of crude oil net of the effect of acquisition of new assets amounted to RUB 22 billion, which is 22.2% higher than in the third quarter of 2016, mainly due to volume growth of 14.4% (favorable impact on revenue of RUB 3 billion) and average sales upturn up to 9.3% (favorable impact on revenue of RUB 1 billion).

In the twelve months of 2016 revenues from domestic crude oil sales, net of the effect of acquisition of new assets amounted RUB 80 billion that were 1.3% higher in comparison with the same period of 2015, which was mainly attributable to growth of crude oil sales volumes by 3.8% (favorable effect on revenues RUB 3 billion) and was partially offset by average sales price downturn by 3.4% (negative impact on revenue RUB 2 billion).

International Petroleum Product Sales to Non-CIS

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold to non-CIS countries in the fourth and third quarters of 2016*:

	<i>For 3 months ended</i>						<i>% change</i>		
	December 31, 2016			September 30, 2016			RUB billion	mln of tonnes	Average price th.RUB/tonne
	RUB billion	mln of tonnes	Average price th.RUB/tonne	RUB billion	mln of tonnes	Average price th.RUB/tonne			
High octane gasoline	4	0.1	34.2	3	0.1	33.6	33.3%	–	1.8%
Naphtha	39	1.4	27.2	39	1.6	24.7	0.0%	(12.5)%	10.1%
Diesel (Gasoil)	80	3.0	26.7	74	3.1	24.6	8.1%	(3.2)%	8.5%
Fuel oil	116	6.8	17.9	96	5.9	16.6	20.8%	15.3%	7.8%
Other	3	0.1	27.8	4	0.1	22.2	(25.0)%	0.0%	25.2%
Effect of acquisition of new assets	37	1.5	–	–	–	–	–	–	–
Petroleum products exported to non-CIS	279	12.9	22.1	216	10.8	20.2	29.2%	19.4%	9.4%
Petroleum products sold from ROG refineries	93	3.0	31.4	84	2.8	29.8	10.7%	7.1%	5.4%
Petroleum products bought and sold outside Russia	32	1.4	22.4	18	0.9	21.0	77.8%	55.6%	6.7%
Trading of petroleum products outside Russia	125	4.4	28.5	102	3.7	27.7	22.5%	18.9%	2.9%
Total	404	17.3	23.8	318	14.5	21.8	27.0%	19.3%	9.2%

*Average price is calculated from unrounded figures.

Revenues from the international sales of petroleum products to non-CIS countries were RUB 404 billion in the fourth quarter of 2016.

Revenues from the international sales of petroleum products to non-CIS countries, net of the effect of acquisition of new assets, were RUB 367 billion in comparison with RUB 318 billion in the third quarter of 2016, which is 15.4% higher due to the upturn of average price by 9.2% (positive impact on revenues of RUB 24 billion), accompanied by increase in sales volumes by 9.0% (favourable impact on revenues of RUB 24 billion).

Increase in sales of petroleum product purchased and sold outside Russia up to 77.8% was due to an increase in trading activity of the foreign division of the Company.

The table below sets forth Rosneft's revenues, volume and average price per tonne of petroleum products sold to non-CIS countries in the twelve months of 2016 and 2015*:

	For 12 months ended December 31,						% change		
	2016			2015			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	13	0.4	33.4	17	0.5	36.5	(23.5)%	(20.0)%	(8.5)%
Naphtha	146	5.7	25.4	151	5.5	27.6	(3.3)%	3.6%	(8.0)%
Diesel (Gasoil)	307	12.6	24.4	432	14.8	29.1	(28.9)%	(14.9)%	(16.2)%
Fuel oil	374	24.9	15.3	475	26.9	17.6	(21.3)%	(7.4)%	(13.1)%
Other	17	0.7	23.5	25	1.0	25.7	(32.0)%	(30.0)%	(8.6)%
Effect of acquisition of new assets	37	1.5	–	–	–	–	–	–	–
Petroleum products exported to non-CIS	894	45.8	19.7	1,100	48.7	22.6	(18.7)%	(6.0)%	(12.8)%
Petroleum products sold from ROG refineries	328	11.1	29.6	278	9.1	30.6	18.0%	22.0%	(3.3)%
Petroleum product purchased and sold outside Russia	87	4.2	20.9	48	1.7	28.9	81.3%	>100%	(27.7)%
Trading of petroleum products outside Russia	415	15.3	27.2	326	10.8	30.4	27.3%	41.7%	(10.5)%
Total	1,309	61.1	21.6	1,426	59.5	24.0	(8.2)%	2.7%	(10.0)%

*Average price is calculated from unrounded figures.

In the twelve months of 2016 revenues from sales of petroleum products to non-CIS countries amounted to RUB 1,309 billion that were 8.2% lower than in the same period of 2015.

Net of the effect of acquisition of new assets revenues from sales of petroleum products to non-CIS countries were 10.8 % lower compared with the same period of 2015 and amounted to RUB 1,272 billion mainly due to average price downturn by 10.0% (unfavourable impact on revenues of RUB 157 billion).

Increase in sales of petroleum product purchased and sold outside Russia up to 81.3% due to an increase in trading activity of the foreign division of the Company.

International Petroleum Product Sales to CIS

Revenues from sales of petroleum products to CIS countries were RUB 27 billion in the fourth quarter of 2016. Net of the effect of acquisition of new assets, revenues from sales of petroleum products to CIS countries were 25.0% higher compared with the third quarter of 2016 mainly due to average price upturn by 6.6% (favourable effect on revenues of RUB 2 billion) and was accompanied by slightly increase in sales volumes (favourable impact on revenues of RUB 3 billion).

Net of the effect of acquisition of new assets, revenues from sales of petroleum products to CIS countries in the twelve months of 2016 were RUB 63 billion or 1.6% (RUB 1 billion) lower than in the same period of 2015 due to average price downturn by 23.7% (negative impact on revenues of RUB 20 billion), that was partially offset by increase in petroleum products sales volumes by 25.0% (favourable effect on revenues of RUB 19 billion).

Domestic Sales of Petroleum Products

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

	For 3 months ended						% change		
	December 31, 2016			September 30, 2016			RUB billion	mln of tonnes	Average price th.RUB/tonne
	RUB billion	mln of tonnes	Average price th.RUB/tonne	RUB billion	mln of tonnes	Average price th.RUB/tonne			
High octane gasoline	110	2.9	38.7	122	3.1	39.5	(9.8)%	(6.5)%	(2.0)%
Diesel (Gasoil)	77	2.4	32.3	87	2.8	31.2	(11.5)%	(14.3)%	3.5%
Fuel oil	6	0.5	11.0	2	0.2	7.8	>100.0%	>100.0%	41.0%
Jet fuel	22	0.7	29.3	25	0.9	28.2	(12.0)%	(22.2)%	3.9%
Other	14	1.0	14.1	15	1.2	12.4	(6.7)%	(16.7)%	13.7%
Effect of the acquisition of new assets	68	2.6	–	–	–	–	–	–	–
Total	297	10.1	29.4	251	8.2	30.5	18.3%	23.2%	(3.6)%

*Average price is calculated from unrounded figures.

Revenues from sales of petroleum products on the domestic market were RUB 297 billion in the fourth quarter of 2016.

Net of the effect of acquisition of new assets, revenues from sales of petroleum products on the domestic market were RUB 229 billion, or by 8.8% lower, compared with the third quarter of 2016, which was mainly due to decrease in petroleum products sales volume of 8.5% (unfavourable effect on revenue of RUB 23 billion), partially offset by 0.3% upturn of average sales price (positive effect on revenue of RUB 1 billion).

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold in Russian the twelve months of 2016 and 2015*:

	For 12 months ended December 31,						% change		
	2016			2015			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	444	11.7	38.1	423	11.6	36.4	5.0%	0.9%	4.7%
Diesel (Gasoil)	306	10.0	30.7	297	9.6	31.0	3.0%	4.2%	(1.0)%
Fuel oil	12	1.6	7.3	14	1.7	8.0	(14.3)%	(5.9)%	(8.8)%
Jet fuel	85	3.0	27.9	94	3.2	29.2	(9.6)%	(6.3)%	(4.5)%
Other	48	3.9	12.5	47	3.6	13.4	2.1%	8.3%	(6.7)%
Effect of the acquisition of new assets	68	2.6	—	—	—	—	—	—	—
Total	963	32.8	29.4	875	29.7	29.5	10.1%	10.4%	(0.3)%

*Average price is calculated from unrounded figures.

Net of the effect of acquisition of new assets revenues from sales of petroleum products on the domestic market in the twelve months of 2016 were 2.3% higher compared to the same period of 2015 and amounted RUB 895 billion. The increase was due to sales volume growth of 1.7% (favourable effect on revenue of RUB 15 billion) and average sales price growth of 0.7% (favourable effect on revenue of RUB 5 billion).

Sales of LNG

Since May 2016, the Company supplies LNG under a contract with the Egyptian Natural Gas Holding Company, concluded in August of 2015. Sales volumes for year 2016 amounted to 0.174 mln tonnes (RUB 3 billion).

Sales of bunker fuel

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

Revenues from sales of bunker fuel in the fourth quarter of 2016 were RUB 11 billion, and decrease by 9.1% in comparison with the third quarter of 2016, which is mainly attributed to decrease in sales volumes by 28.6% (negative impact on revenue of RUB 3 billion) due to seasonal factor and was partially offset by growth of average sales price by 9.8% (positive impact on revenue of RUB 2 billion).

Revenues from sales of bunker fuel in the twelve months of 2016 decreased by 30.8% or RUB 16 billion in comparison with the same period of 2015 due to decrease in sales volumes by 36.7% (negative effect on revenue of RUB 19 billion), considering the fact that the redirection of resources from exports in favor of bunkering took place in 2015 and was partially offset by average sales price upturn by 8.2% or RUB 3 billion.

Petrochemical Product Sales

Revenues from sales of petrochemical products in the fourth quarter of 2016 amounted to RUB 40 billion (1.1 mln tonnes).

Petrochemical product sales volumes from Ruhr Oel GmbH (ROG) amounted to 0.46 mln tonnes in the fourth quarter of 2016 that is lower by 0.6%¹ in comparison with the third quarter of 2016.

Petrochemical product sales volumes in the twelve months of 2016 from Ruhr Oil GmbH (ROG) slightly decreased by 2.0% (calculated from unrounded figures) and amounted to 1.90 mln tonnes compared with the same period of 2015.

Gas Sales

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

¹Calculated based on unrounded data.

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

	<i>For 3 months ended</i>			<i>For 12 months ended</i>		
	<i>December 31, 2016</i>	<i>September 30, 2016</i>	<i>% change</i>	<i>December 31, 2016</i>	<i>December 31, 2015</i>	<i>% change</i>
	<i>(RUB billion)</i>			<i>(RUB billion)</i>		
Revenue						
In the Russian Federation	59.4	44.7	32.9%	208.0	184.0	13.0%
Outside the Russian Federation	1.4	1.3	7.7%	6.4	3.8	68.4%
Total	60.8	46.0	32.2%	214.4	187.8	14.2%
Sales volumes	(bcm)			(bcm)		
In the Russian Federation	17.86	14.40	24.0%	64.19	58.03	10.6%
Outside the Russian Federation	0.17	0.17	—	0.81	0.65	24.6%
Total	18.03	14.57	23.7%	65.00	58.68	10.8%
Average price	(th. RUB/th. of cubic metres)			(th. RUB/th. of cubic metres)		
In the Russian Federation	3.32	3.11	6.8%	3.24	3.17	2.2%
Outside the Russian Federation	8.07	7.36	9.6%	7.82	5.88	33.0%
Total	3.37	3.16	6.6%	3.30	3.20	3.1%

*Average price is calculated from unrounded figures.

In the fourth quarter of 2016 revenues from gas sales increased in comparison with the third quarter of 2016 and amounted to RUB 59.4 billion due to average price downturn in Russia, mainly attributable to growth of gas sales volume by 24.0% due to seasonal factor.

Gas volumes growth of 10.8% (positive effect on revenue of RUB 20 billion) in the twelve months of 2016 compared with the same period 2015 and average price upturn of 3.1% (positive impact on revenues of RUB 6 billion) contributed to gas sales growth by 14.2% compared with the same period of 2015.

Volumes of gas sales outside the Russian Federation increased by 24.6% in the twelve months of 2016 compared with the same period of 2015, which is caused by the expansion of contract portfolio of trading division of company's subsidiary RTSA.

In the twelve months of 2016 the volume of gas sales on the gas exchange amounted to 2,482.6 bcm or 15% share in the total volume of gas sales on the gas exchange for this period.

Support Services and Other Revenues

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

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

	<i>For 3 months ended</i>				<i>% change</i>	<i>For 12 months ended December 31,</i>				<i>% change</i>
	<i>December 31, 2016</i>		<i>September 30, 2016</i>			<i>2016</i>		<i>2015</i>		
	<i>% of total revenue</i>		<i>% of total revenue</i>		<i>billion RUB, except %</i>	<i>% of total revenue</i>		<i>% of total revenue</i>		
Drilling services	0.7	3.6%	0.5	2.9%		40.0%	2.9	3.9%	9.5	13.6%
Sales of materials	6.7	34.2%	7.0	40.0%	(4.3)%	25.4	33.8%	21.8	31.1%	16.5%
Repairs and maintenance services	0.7	3.6%	0.6	3.4%	16.7%	3.0	4.0%	2.7	3.9%	11.1%
Rent services	1.5	7.7%	1.4	8.0%	7.1%	5.3	7.0%	3.7	5.3%	43.2%
Construction services	0.1	0.5%	—	—	—	0.2	0.3%	0.3	0.4%	(33.3)%
Transport services	3.0	15.3%	3.3	18.9%	(9.1)%	14.8	19.7%	12.8	18.3%	15.6%
Electric power sales and transmission	2.6	13.3%	1.4	8.0%	85.7%	7.8	10.4%	7.3	10.4%	6.8%
Other revenues	4.3	21.8%	3.3	18.8%	30.3%	15.8	20.9%	11.9	17.0%	32.8%
Total	19.6	100.0%	17.5	100.0%	12.0%	75.2	100.0%	70.0	100.0%	7.4%

Support services and other revenues were RUB 19.6 billion in the fourth quarter of 2016.

Net of the effect of acquisition of new assets support services and other revenues amounted to RUB 16.6 billion or 5.1% lower in comparison with the third quarter of 2016.

Support services and other revenues net of the effect of acquisition of new assets in the twelve months of 2016 increased by 3.1% compared with the same period of 2015.

Equity share in profits of downstream associates and joint ventures

The equity share in net financial results (profits) of downstream associates and joint ventures amounted to RUB 3 billion and RUB 1 billion in the fourth and in the third quarters of 2016¹. The equity share in net financial results of downstream associates and joint ventures was RUB 8 billion in the twelve months of 2016 and RUB 6 billion in 2015.

Downstream production and operating cost

Downstream operating expenses include*:

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2016	September 30, 2016		2016	2015	
	billion RUB, except %					
Operating expenses at refineries in Russia	21.1	18.7	12.8%	77.5	77.1	0.5%
Operating expenses at refineries and cost of additives and materials procured for processing outside Russia	16.2	18.2	(11.0)%	75.1	82.3	(8.7)%
Operating expenses of retail companies	11.4	11.3	(0.9)%	43.5	41.7	4.3%
Effect of the acquisition of new assets	11.9	–	–	11.9	–	–
Downstream operating expenses	60.6	48.2	25.7%	208.0	201.1	3.4%
Intragroup inventory effect and others	(5.6)	4.8	–	6.0	15.4	(61.0)%
Amendments to costs 2015-2014	–	–	–	–	28.7	–
Total Downstream Operating expenses**	55	53	3.8%	214	245	(22.2)%

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

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

Operating expenses of refineries and retail companies net of the effect of acquisition of new assets increased insignificantly by 1.0% compared with the third quarter of 2016 and amounted to RUB 48.7 billion.

In twelve months of 2016 operating expenses of refineries and retail companies were RUB 196.1 billion, net of the effect of new assets, and decreased by 2.5% compared with the same period of 2015.

Operating expenses at Company’s refineries

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

	For 3 months ended		% change	For 12 months ended December 31,		% change
	December 31, 2016	September 30, 2016		2016	2015	
Operating expenses at refineries in Russia (RUB billion)	21.07	18.68	12.8%	77.48	77.08	0.5%
The effect of acquisition of new assets	10.84	–	–	10.84	–	–
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne) ¹	1,072	978	9.6%	1,055	1,018	3.6%
Operating expenses per tonne of crude oil throughput (RUB per tonne) ¹	1,042	953	9.3%	1,031	1,000	3.1%
Operating expenses at refineries outside Russia (RUB billion)*	7.41	6.84	8.3%	31.42	28.48	10.3%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	2,197	1,995	10.1%	2,345	2,556	(8.3)%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	2,277	2,089	9.0%	2,469	2,638	(6.4)%
Total operating expenses at Rosneft’s refineries (RUB billion)	39.32	25.52	54.1%	119.74	105.56	13.4%

¹The indicators are net of the effect of the acquisition of new assets (Bashneft)

*Refineries outside Russia also procured the additives and materials for processing: in the fourth quarter of 2016 (net of the effect of acquisition) – RUB 8.8 billion, in the third quarter of 2016 – RUB 11.4 billion, in the twelve months of 2016 and 2015 – RUB 43.7 billion and RUB 53.8 billion, respectively.

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

Operating expenses of Rosneft's refineries in Russia amounted to RUR 31.91 billion in the fourth quarter of 2016.

Excluding the effect of acquisition of new assets operating expenses amounted to RUB 21.07 billion and increased by 12.8% compared with the third quarter of 2016. The increase is mainly due to planned increase in turnaround expenses and increased volumes of crude oil processing.

In the twelve months of 2016 operating expenses of Rosneft's refineries in Russia, net of the effect of acquisition of new assets (RUB 77.48 billion), increased by 0.5% compared with the same period of 2015 mainly due to increased electricity tariffs and indexation of wages and were compensated by decreased purchases of additives.

Operating expenses of Rosneft's refineries outside Russia increased in the fourth quarter of 2016 by 8.3% in comparison with the third quarter of 2016 due to increase in planned turnaround expenses. In the twelve months of 2016 operating expenses of Rosneft's refineries outside Russia increased by 10.3% compared with the same period of 2015 mainly due to RUB/EUR depreciation by 8.7% and due to expenses growth caused by acquisition of additional share in refineries in Germany.

In the fourth quarter of 2016 operating costs per tonne of crude oil throughput of Rosneft's refineries in Russia, net of the effect of acquisition of new assets, increased by 9.3% compared with the third quarter of 2016 and amounted to RUB 1,042 per tonne. The increase was mostly due to increase in turnaround expenses. The increase of 3.1% in operating costs per tonne, net of the effect of acquisition of new assets, in the twelve months of 2016 compared with the same period of 2015 was due to increased electricity tariffs and indexation of wages.

Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia were RUB 2,277 per tonne in the fourth quarter of 2016 which is an increase of 9.0% compared with the third quarter of 2016.

Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia decreased by 6.4% up to RUB 2,469 per tonne in the twelve months of 2016 compared with the same period of 2015.

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

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

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended December 31,</i>		<i>% change</i>
	<i>December 31, 2016</i>	<i>September 30, 2016</i>		<i>2016</i>	<i>2015</i>	
Crude oil and gas procurement						
Cost of crude oil and gas procured (RUB billion)**	139	105	32.4%	454	416	9.1%
<i>including Domestic market</i>	65	45	44.4%	206	187	10.2%
<i>International market</i>	74	60	23.3%	248	229	8.3%
Volume of crude oil procured (millions of barrels)	54.2	45.0	20.4%	191.9	169.8	13.0%
<i>including Domestic market</i>	28.0	23.6	18.6%	99.7	98.2	1.5%
<i>International market</i>	26.2	21.4	22.4%	92.2	71.6	28.8%
Volume of gas procured (bcm)	5.17	2.28	>100%	15.77	11.45	37.7%
LNG procurement						
Cost of LNG (RUB billion)	2	–	100%	3	–	100%
Volume of LNG procured (millions of tonnes)	0.11	–	100%	0.17	–	100%
Petroleum products procurement						
Cost of petroleum products procured (RUB billion)***	41	26	57.7%	121	80	51.3%
Volume of petroleum products procured (millions of tonnes)	1.64	1.06	54.7%	5.13	2.52	>100%
Crude oil, gas and petroleum products refining services						
Cost of refining of crude oil under processing agreements (RUB billion)	7.2	7.8	(7.7)%	28.7	34.2	(16.1)%
Volumes of crude oil and petroleum products, refined under processing agreements (millions of tonnes)	2.2	2.2	–	8.8	10.4	(15.4)%
Volumes of refining of gas under processing agreements (bcm)	2.6	2.7	(3.7)%	10.3	11.2	(8.0)%
Petroleum products for blending procurement****						
Cost of petroleum products procured for blending (RUB billion)	6.1	7.2	(15.3)%	25.8	29.8	(13.4)%
<i>Including intercompany purchases</i>	6.0	7.0	(14.3)%	25.2	29.8	(15.4)%
Inventory revaluation written-off	7	–	–	7	–	–
Total cost of procured oil, gas and petroleum products and refining costs (RUB billion)	196	139	41.0%	614	530	15.8%

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

** Including cost of Upstream segment in the amount of RUB 5 billion, RUB 4 billion in the fourth and in the third quarters of 2016, also RUB 25 billion and RUB 17 billion in 2016 and 2015, respectively.

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

**** Cost of materials for blending at the retail companies was reclassified from "Operating expenses of retail companies". The comparative periods were adjusted accordingly.

Crude oil and Gas procurement

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

Crude oil and gas procurement costs were RUB 139 billion and RUB 454 billion in the fourth quarter and 2016 respectively. Net of new assets acquisition the crude oil and gas procurement cost was RUB 131 billion and RUB 446 billion in the fourth quarter and 2016 respectively. Organic growth by 24.8% is mainly attributable to increased seasonal consumption.

The structure of crude oil purchases, net of the effect of acquisition of new assets, is provided in the table below:

	For 3 months ended			For 12 months ended		
	December 31, 2016	September 30, 2016	% change	December 31, 2016	2015	% change
	mln barrels			mln barrels		
International market	26.2	21.4	22.4%	92.2	71.6	28.8%
Udmurteft	6.2	7.0	(11.4)%	25.2	25.8	(2.3)%
Slavneft	12.4	14.2	(12.7)%	51.8	58.0	(10.7)%
Effect from new assets acquisition	4.7	—	—	4.7	—	—
Others	4.7	2.4	95.8%	18.0	14.4	25.0%
Total	54.2	45.0	20.4%	191.9	169.8	13.0%

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

The volume of swaps was 6.6 mln barrels, 8.5 mln barrels in the fourth and third quarters of 2016. In 2016 and 2015 the volumes of swaps were 30.6 mln barrels and 12.8 mln barrels, respectively.

Petroleum products procurement

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

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

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

	For 3 months ended						% change		
	December 31, 2016			September 30, 2016					
	RUB billion	mln tonnes	th. RUB/tonne	RUB billion	mln tonnes	th. RUB/tonne	RUB billion	mln tonnes	th. RUB/tonne
Petroleum products procurement in Russia	6	0.16		6	0.22				(27.3)%
High octane gasoline	1	0.03	38.3	1	0.04	37.6	—	—	(25.0)%
Diesel	3	0.07	34.5	3	0.09	33.5	—	—	(22.2)%
Jet fuel	0	0.01	25.6	0	0.01	25.0	—	—	2.4%
Others	1	0.05	25.9	2	0.08	23.1	(50.0)%	(37.5)%	12.1%
Effect of the acquisition of new assets	1	0.00	—	—	—	—	—	—	—
Petroleum products and petrochemicals procured outside Russia	35	1.48	23.7	20	0.84	21.7	75.0%	76.2%	9.2%
<i>Including petroleum products procurement</i>	<i>32</i>	<i>1.42</i>	<i>22.2</i>	<i>18</i>	<i>0.84</i>	<i>20.9</i>	<i>77.8%</i>	<i>69.0%</i>	<i>6.2%</i>
Total	41	1.64	24.7	26	1.06	23.2	57.7%	54.7%	6.5%

Calculated based on unrounded numbers.

The volume of petroleum products procured in Russia, net of the effect of acquisition of new assets in the fourth quarter of 2016 decreased (-0.06 mln tonnes) in comparison with the third quarter of 2016. Procurement of petroleum products outside Russia meets the contractual obligations under long-term agreements for sales of petroleum products.

The table below sets forth Rosneft's costs, volumes and average prices per tonne of petroleum products procured from third parties in 2016 and 2015:

	<i>For 12 months ended December 31,</i>						<i>% change</i>		
	2016			2015			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>	24	0.79		29	0.82		(17.2)%	(3.7)%	
High octane gasoline	6	0.17	35.3	10	0.30	35.7	(40.0)%	(43.3)%	(1.1)%
Diesel	10	0.31	33.5	11	0.31	32.5	(9.1)%	–	3.1%
Jet fuel	0	0.02	26.2	3	0.10	28.4	(100)%	(80.0)%	(7.7)%
Others	7	0.29	24.8	5	0.11	25.4	40.0%	>100%	(2.4)%
Effect of the acquisition of new assets	1	0.00	–	–	–	–	–	–	–
<i>Petroleum products and petrochemicals procured outside Russia</i>	97	4.34	23.7	51	1.70	29.6	90.2%	>100%	(19.9)%
<i>Including petroleum products procurement</i>	87	4.18	19.1	49	1.65	29.6	77.6%	>100%	(35.5)%
Total	121	5.13	23.1	80	2.52	31.0	51.3%	>100%	(25.5)%

*Calculated based on unrounded numbers.

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

Volume of petroleum products procured in Russia, net of the effect of acquisition of new assets decreased (-0.03 mln tonnes) in 2016 compared with the same period of 2015 due to demand satisfaction by own resources.

Petroleum products and petrochemicals procurement outside Russia

Petroleum products and petrochemicals procured outside Russia amounted to RUB 35 billion (1.48 mln tonnes) in the fourth quarter of 2016. Procurement of petroleum products outside Russia meets the contractual obligation under long-term agreements for sales of petroleum products.

Petroleum products procured outside Russia, net of the effect of acquisition of new assets, in 2016 amounted to RUB 97 billion (4.34 mln tonnes) in comparison with RUB 51 billion (1.70 mln tonnes) in 2015 which was caused by increase in sales under long-term contracts.

Crude oil and gas processing, petroleum products processing

Starting from April 2014, associated petroleum gas sales to Sibur Holding and purchases of dry stripped gas from “Sibur” are presented on a net basis in the Company’s financial statements in processing costs. Processing costs was RUB 3.72 billion and RUB 4.21 billion in the fourth and third quarters of 2016. In 2016 and 2015 processing costs were RUB 15.01 billion and RUB 15.99 billion, respectively.

Pipeline Tariffs and Transportation Costs

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

In the fourth quarter of 2016 Rosneft's transportation costs amounted to RUB 155 billion. Transportation costs, net of the effect of acquisition of new assets, increased by 5.1% and amounted to RUB 145 billion compared with the third quarter of 2016. The growth in transportation costs was mainly due to an increased share of crude oil and petroleum products export and volume of gas transportation via gas pipeline system.

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

	For 3 months ended								% change		
	December 31, 2016				September 30, 2016						
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume	Cost	Cost per tonne
CRUDE OIL											
International sales											
Pipeline	26.7	97.8%	52.9	1.98	26.5	98.1%	51.8	1.95	0.8%	2.1%	1.5%
Railroad and mixed	0.6	2.2%	1.9	3.18	0.5	1.9%	1.7	3.24	20.0%	11.8%	(1.9)%
<i>Effect of the acquisition of new assets</i>	-	-	2.6	-	-	-	-	-	-	-	-
Transportation to refineries											
Pipeline**	23.1		17.4	0.76	22.4		18.5	0.83	3.1%	(5.9)%	(8.4)%
Railroad and mixed	2.4		8.1	3.45	2.5		8.9	3.57	(4.0)%	(9.0)%	(3.4)%
<i>Effect of the acquisition of new assets</i>	-		0.6	-	-		-	-	-	-	-
PETROLEUM PRODUCTS											
International sales											
Pipeline	1.0	5.7%	1.9	1.99	0.8	4.9%	1.9	2.35	25.0%	0.0%	(15.3)%
Railroad and mixed	13.9	78.5%	31.5	2.28	12.6	77.3%	29.6	2.35	10.3%	6.4%	(3.0)%
Pipeline and FCA***	2.8	15.8%			2.9	17.8%			(3.4)%		
<i>Effect of the acquisition of new assets</i>	-	-	4.6		-	-	-	-	-	-	-
GAS											
Pipeline****	bcm		RUB/bcm		bcm		RUB/bcm				
Pipeline****	12.2		12.8	1.05	10.6		12.1	1.14	15.1%	5.8%	(7.9)%
Other transportation expenses*****			21				13			61.5%	
Total	70.5		155		68.2		138		3.4%	12.3%	

* Calculated based on unrounded data.

** Including crude oil purchased on international market, which was directed to Ruhr Oel GmbH.

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

**** Part of gas volumes was dispatched on terms under which Rosneft does not bear transportation expenses. In the fourth and third quarters of 2016 these volumes amounted to 5.8 bcm and 4.0 bcm respectively.

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

Crude oil pipeline transportation cost per tonne of international sales in the fourth quarter of 2016, net of the effect of acquisition of new assets, remained practically unchanged and amounted to RUB 1.98 thousand.

The decrease in crude oil railroad and mixed transportation cost per tonne of international sales, net of the effect of acquisition of new assets, was 1.9% due to change in logistic structure in the fourth quarter 2016 and decreasing of share of expensive routes.

Crude oil pipeline transportation cost per tonne of supplies to refineries, net of the effect of acquisition of new assets, decreased by 8.4% in the fourth quarter of 2016 compared to the third quarter of 2016 which was caused by change in structure of transportation routes.

Crude oil railroad and mixed transportation cost per tonne of supplies to refineries, net of the effect of acquisition of new assets, in the fourth quarter of 2016 decreased by 3.4% compared with the third quarter of 2016 due to change in structure of transportation routes.

The decrease in pipeline cost per tonne of petroleum product international sales (net of the effect of acquisition of new assets) by 15.3% in the fourth quarter of 2016 compared with the previous quarter was mainly due to positive impact of RUB strengthening on USD denominated component of tariff.

Railroad and mixed transportation cost per tonne of petroleum product international sales (net of the effect of acquisition of new assets) decreased by 3.0% in the fourth quarter of 2016 compared to the third quarter of 2016 due to change in transportation routes and the late termination of river navigation period.

Gas transportation costs decrease by 7.9% in the fourth quarter of 2016 compared to the third quarter of 2016 resulted from decrease in average transportation distance to final consumers. In the fourth quarter of 2016 indexation of gas transportation tariffs was not carried out.

The table below sets forth comparison for costs per tonne of crude oil and petroleum products transported by pipeline, railway and mixed transportation and gas transportation costs via gas pipeline system in the twelve months of 2016 and 2015:

	For 12 months ended December 31,								% change		
	2016				2015						
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume	Cost	Cost per tonne
CRUDE OIL											
International sales											
Pipeline	109.9	97.5%	214.2	1.95	103.8	95.1%	185.4	1.79	5.9%	15.5%	8.9%
Railroad and mixed	2.8	2.5%	9.8	3.41	5.3	4.9%	17.7	3.28	(47.2)%	(44.6)%	4.0%
Effect of the acquisition of new assets	-	-	2.6	-	-	-	-	-	-	-	-
Transportation to refineries											
Pipeline**	87.0		66.8	0.77	90.0		73.3	0.82	(3.3)%	(8.9)%	(6.1)%
Railroad and mixed	8.4		29.1	3.53	6.5		26.3	4.04	29.2%	10.6%	(12.6)%
Effect of the acquisition of new assets	-		0.6	-	-		-	-	-	-	-
PETROLEUM PRODUCTS											
International sales											
Pipeline	3.8	5.8%	10.3	2.69	4.1	6.2%	11.4	2.79	(7.3)%	(9.6)%	(3.6)%
Railroad and mixed	52.1	79.2%	131.1	2.52	52.2	79.5%	140.6	2.69	(0.2)%	(6.8)%	(6.3)%
Pipeline and FCA***	9.9	15.0%			9.4	14.3%			5.3%		
Effect of the acquisition of new assets	-	-	4.6	-	-	-	-	-	-	-	-
GAS											
	bcm		RUB/bcm		bcm		RUB/bcm				
Pipeline****	44.7		48.2	1.08	41.1		42.2	1.03	8.8%	14.2%	4.9%
Other transportation expenses*****			58				45			28.9%	
Total	273.9		575		271.3		542		1.0%	6.1%	

* Calculated based on unrounded data.

** Including crude oil purchased on international market, which was directed to Ruhr Oel GmbH (ROG).

*** Rosneft exported part of petroleum products in the twelve months of 2016 and 2015 through its own export terminal in Tuapse on FCA terms, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

**** Part of gas volumes was dispatched on terms where Rosneft does not bear transportation expenses. In the twelve months of 2016 and 2015 these volumes amounted to 20.3 bcm, 17.6 bcm respectively.

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

The change in transportation costs per tonne of products sold (for crude oil and petroleum products) in the twelve months of 2016 compared with the same period of 2015 mainly resulted from tariffs indexation and change in transportation routes.

Excise tax

In the fourth quarter of 2016 excise tax was RUB 61 billion, including additional costs related to processing outside Russian Federation in the amount of RUB 6 billion, in comparison with RUB 52 billion in the third quarter of 2016. Excise tax, net of the effect of acquisition of new assets and additional costs related to processing outside Russian Federation, amounted to RUB 43 billion in the fourth quarter of 2016 in comparison with RUB 47 billion in the third quarter of 2016.

Excises tax in 2016 was RUB 197 billion (including additional costs related to processing outside Russian Federation in the amount of RUB 26 billion). Excises tax, net of the effect of acquisition of new assets and additional costs related to processing outside Russian Federation, in 2016 increased to RUB 159 billion in comparison with RUB 103 billion the same period of 2015 mainly due to increased excise tax rate for petroleum products.

General and administrative expenses were RUB 129 billion in 2016. General and administrative expenses in 2016, net of the effect of acquisition of new assets and one-off doubtful debt provision accruals, was RUB 123 billion compared with RUB 117 billion (RUB 130 billion including doubtful debt provision accruals) in 2015. Annual increase by 5.1% compared with the same period of 2015 that is in line with inflation level for the period. Control over administrative expenses remains one of the main directions of Company policy.

Depreciation, Depletion and Amortization

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

In the fourth quarter of 2016, DDA amounted to RUB 133 billion. Net of the effect of acquisition of new assets DDA decreased by 3.3% compared with the third quarter of 2016 and amounted to RUB 116 billion. Decline was due to recognition of interim evaluation of proved developed reserves at certain fields.

In 2016 DDA was RUB 482 billion. In 2016 DDA, net of the effect of acquisition of new assets, amounted to RUB 465 billion, that is by 3.3% higher than in the same period of 2015 and caused by increase in putting fixed assets into operations with the application of reduced depletion rate for oil infrastructure at certain greenfields. New depletion rate estimated on the results of DeGolyer and MacNaughton report on oil and marketable gas reserve will be applicable from January 1, 2017.

Taxes Other than Income Tax

Taxes other than income tax include the mineral extraction tax, the excise tax, the property tax and other taxes. The basis for calculation of mineral extraction tax is described under “Macroeconomic Factors Affecting Results of Operations – Mineral Extraction Tax” above.

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

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended December 31,</i>		<i>% change</i>
	<i>December 31, 2016</i>	<i>September 30, 2016</i>		<i>2016</i>	<i>2015</i>	
Mineral extraction tax	313	262	19.5%	1,007	1,091	(7.7)%
Excise tax	61	52	17.3%	197	103	91.3%
Social security tax	13	12	8.3%	50	47	6.4%
Property tax	11	8	37.5%	36	31	16.1%
Other taxes, interest, penalties and other payments to budget	2	2	–	6	5	20.0%
Total taxes other than income tax	400	336	19.0%	1,296	1,277	1.5%

Taxes other than income tax, net of the effect of acquisition of new assets, were RUB 359 billion and increased by 6.8% in the fourth quarter of 2016, compared to RUB 336 billion in the third quarter of 2016 due to mineral extraction tax expenses growth.

In 2016 taxes other than income tax, net of the effect of acquisition of new assets decreased by 1.7% in comparison with the same period of 2015 mainly due to decrease in mineral extraction tax base rate (by 8.5% in RUB terms).

Finance Income and Expenses

Finance income and expenses include interest received on deposits, deposit certificates and loans issued, interest paid on loans and borrowings received, results from changes in fair value of financial assets measured at fair value, results from operations with derivative financial instruments, increase in provision due to the unwinding of discount, results from disposal of financial assets and other finance income and expenses.

In the fourth quarter of 2016, net finance expenses amounted to RUB 19 billion. Net of the effect of acquisition of new assets, net financial expenses decreased to RUB 15 billion compared to RUB 28 billion in the third quarter of 2016 due to the positive result from fair value measurement of derivative financial instruments and RUB appreciation against USD.

In 2016 net finance expenses were RUB 102 billion. Net of the effect of acquisition of new assets, net financial expenses decreased by 54.2% to RUB 98 billion compared to RUB 214 billion in the same period of 2015 that was mainly due to the settlement of derivative financial instruments in 2015 opened during 2012-2014.

Other Income and Other Expenses

In the fourth quarter of 2016 other income was RUB 43 billion. Net of the effect of acquisition of new assets, other income was RUB 36 billion compared to RUB 5 billion in the third quarter of 2016.

The increase was due to positive effect from the restructuring of Ruhr Oel GmbH. In 2016 and 2015 other income was RUB 50 billion and RUB 75 billion, respectively.

In the fourth quarter of 2016 other expenses amounted to RUB 38 billion. Net of the effect of acquisition of new assets, other expenses were RUB 34 billion compared to RUB 16 billion in the previous quarter.

Other expenses include effect of fixed assets disposal in the course of operating activities and other expenses. In the fourth quarter of 2016 other expenses include the effect from decline in market value of some assets.

In 2016 and 2015 other expense were RUB 76 billion (RUB 72 billion - net of the effect of acquisition of new assets) and RUB 72 billion, respectively.

Foreign Exchange Differences

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

In the fourth and in the third quarters of 2016 foreign exchange loss recognized in profit and loss statement was RUB 15 billion and RUB 14 billion, respectively.

The effect from capitalization of the foreign exchange differences on capital loans to fund capital expenditures amounted to RUB 0 billion and RUB 51 billion in the twelve months of 2016 and 2015, respectively.

Cash flow hedges reclassified to profit or loss

Cash flow hedges reclassified to profit or loss recognized in the consolidated statement of profit or loss in the fourth quarter of 2016 was RUB 36 billion and RUB 37 billion in the third quarter of 2016.

In 2016 and 2015 cash flow hedges reclassified to profit or loss recognized in the consolidated statement of profit or loss amounted to RUB 147 billion and RUB 123 billion, respectively.

Income Tax

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

	<i>For 3 months ended</i>		<i>For 12 months ended December 31</i>	
	December 31, 2016	September 30, 2016	2016	2015
Effective rate of income tax (IFRS)	35.2 ¹ %	18.0%	24.6 ¹ %	21.1%

¹ Excluding one-off recognition of income tax of RUB 38 billion accrued on disposal of shares in subsidiaries in 2016 (in the fourth quarter of 2016: RUB 17 billion).

The Company applies the provisions of IAS 12 "Income taxes" to determine effective tax rate. Increase in effective tax rate in 2016 is mainly due to growth of non-deductible expenses for income tax purposes and due to growth of tax on intra-group dividends.

In accordance with Statement of comprehensive income, income tax expense was RUB 62 billion, and RUB 20 billion in the fourth and in the third quarters of 2016, respectively. Income tax was RUB 116 billion and RUB 104 billion in the twelve months of 2016 and 2015, respectively.

Net Income

Net income amounted to RUB 66 billion (RUB 52 billion attributable to Rosneft's shareholders) in the fourth quarter of 2016 compared with the net income of RUB 30 billion in the third quarter of 2016 (RUB 26 billion attributable to Rosneft's shareholders). Net profit upturn was mostly driven by increase in operating profit due to positive price dynamics and positive effect from export duties lag.

Net income amounted to RUB 201 billion (RUB 181 billion attributable to Rosneft's shareholders) in the twelve months of 2016 compared to RUB 356 billion (RUB 355 billion attributable to Rosneft's shareholders) in 2015.

Liquidity and Capital Resources

Cash Flows

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

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended December 31,</i>		<i>% change</i>
	<i>December 31, 2016</i>	<i>September 30, 2016</i>		<i>2016</i>	<i>2015</i>	
	RUB billion			RUB billion		
Net cash provided by operating activities	102	172	(40.7)%	632	2 195	(71.2)%
Net cash (used in) investing activities	(939)	(44)	>100%	(973)	(813)	19.7%
Net cash (used in) financing activities	847	(126)	>100%	692	(1 091)	>100%

Net cash provided by operating activities

Net cash provided by operating activities amounted to RUB 102 billion in the fourth quarter of 2016 compared to RUB 172 billion in the third quarter of 2016.

Operating cash flow includes operations with trading securities as part of the Company's efforts to manage cash resources (net inflow was RUB 0 billion in the fourth quarter of 2016, RUB 1 billion in the third quarter of 2016, respectively).

Net cash provided by operating activity adjusted for the above mentioned operations amounted to RUB 102 billion in the fourth quarter of 2016 (adjusted for operations with trading securities in the amount of RUB 0 billion), RUB 171 billion in the third quarter of 2016 (adjusted for operations with trading securities in the amount of RUB 1 billion).

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

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended December 31,</i>		<i>% change</i>
	<i>December 31, 2016</i>	<i>September 30, 2016</i>		<i>2016</i>	<i>2015</i>	
	RUB billion			RUB billion		
Net cash provided by operating activity	102	172	(40.7)%	632	2,195	(71.2)%
<i>Effect from operations with trading securities</i>	–	(1)	–	(4)	(5)	(20.0)%
Adjusted net cash provided by operating activity	102	171	(40.4)%	628	2,190	(71.3)%
<i>Offsetting of prepayments received under long term supply contracts at average ex.rate</i>	94	80	17.5%	288	176	63.6%
<i>Receipt of prepayments under long term supply contracts</i>	–	–	–	–	(1,027)	–
<i>Financing under future suppliers</i>	63	–	100%	95	–	–
Adjusted net cash provided by operating activity	259	251	3.2%	1,011	1,339	(24.5)%

In the fourth quarter of 2016 adjusted operating cash flow was RUB 259 billion. Net of the effect of acquisition of new assets, adjusted operating cash flow amounted to RUB 278 billion compared with RUB 251 billion in the third quarter of 2016. Stability in operating cash flow was mainly caused by strengthening of internal control of operating flows in terms of price growth in the fourth quarter and scheduled advance payments.

In 2016 and 2015 adjusted operating cash flow, excluding the effect of acquisition of new assets, was RUB 1,030 billion and RUB 1,339 billion, respectively.

Net cash used in investing activities

Net cash used in the investing activities was RUB 939 billion in the fourth quarter of 2016.

Net cash used in the investing activities was RUB 964 billion in the fourth quarter of 2016, excluding the effect of acquisition of new assets, compared to RUB 44 billion used in the investing activities in the third quarter of 2016. In the fourth quarter of 2016 planned growth of investing activity was due to acquisition of Bashneft assets (RUB 330 billion), payments for participation interest in JV, long-term cash deposits in Russian banks and planned capital expenditures.

Net cash used in investing activities in the twelve months of 2016 was RUB 998 billion, net of the effect of acquisition of new assets, and net cash used in investing activities in the twelve months of 2015 was RUB 813 billion.

Net cash used in financing activities

Net cash used in financing activities was RUB 848 billion in the fourth quarter of 2016, excluding the effect of acquisition of new assets, compared to RUB 126 billion used in the financing activities in the third quarter of 2016. In the fourth quarter of 2016 the Company raised long-term and short-term ruble funds. Effect from raising ruble funds was partially compensated by planned repayment of foreign currency loans and by proceeds from sales of shares in subsidiaries (RUB 308 billion in 2016).

Net cash used in financing activities in the twelve months of 2016 was RUB 693 billion, excluding the effect of acquisition of new assets, and RUB 1,091 billion in 2015, respectively. The change of net cash used in financing activities was due to effect from raising long-term and short-term funds for the Company's investment projects.

Capital Expenditures

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

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended December 31,</i>		<i>% change</i>
	<i>December 31, 2016</i>	<i>September 30, 2016</i>		<i>2016</i>	<i>2015</i>	
Yuganskneftegaz	44	44	–	158	111	42.3%
Vankorneft	6	6	–	30	32	(6.3)%
Orenburgneft	9	7	28.6%	29	29	–
Samotlorneftegaz	14	11	27.3%	44	32	37.5%
Projects on Sakhalin	6	5	20.0%	30	37	(18.9)%
Uvatneftegaz	7	5	40.0%	26	27	(3.7)%
Verkhnechonskneftegaz	4	5	(20.0)%	17	16	6.3%
Purneftegaz	6	5	20.0%	19	16	18.8%
Rospan International	15	9	66.7%	42	23	82.6%
Samaraneftegaz	7	6	16.7%	24	22	9.1%
Varyoganneftegaz	6	4	50.0%	18	13	38.5%
VSNKGK	6	5	20.0%	21	17	23.5%
Tomskneft VNK	1	2	(50.0)%	7	6	16.7%
Nyaganneftegaz	5	2	>100%	12	9	33.3%
Severnaya Neft	5	3	66.7%	14	11	27.3%
Suzun	9	8	12.5%	33	15	>100%
Taas-Yuryah Neftegazodobycha	7	6	16.7%	22	13	69.2%
Sibneftegaz	1	2	(50.0)%	5	5	–
Tumenneftegaz	3	3	–	10	4	>100%
Other	16	11	45.5%	42	29	44.8%
Government grants	(5)	–	–	(8)	(11)	(27.3)%
Effect of acquisition of new assets	13	–	–	13	–	–
Total upstream segment	185	149	24.2%	608	456	33.3%
Tuapse refinery	6	2	>100%	11	19	(42.1)%
Kuibyshev refinery	5	2	>100%	10	16	(37.5)%
Novokuibyshevsk refinery	3	2	50.0%	8	11	(27.3)%
Syzran refinery	1	1	–	5	12	(58.3)%
Angarsk refinery	2	1	100.0%	5	10	(50.0)%
Achinsk refinery	2	1	100.0%	4	10	(60.0)%
Ryazan refinery	2	–	>100%	4	6	(33.3)%
Komsomolsk refinery	–	1	(100.0)%	2	6	(66.7)%
Saratovsky refinery	–	1	(100.0)%	1	1	–
Other refineries	5	2	>100%	10	17	(41.2)%
Marketing Business Units and others	10	4	>100%	20	16	25.0%
Effect of acquisition of new assets	5	–	–	5	–	–
Total downstream segment	41	17	>100%	85	124	(31.5)%
Other activities	7	1	>100%	15	15	–
Effect of acquisition of new assets	1	–	–	1	–	–
Total other activities	8	1	>100%	16	15	6.7%
Total capital expenditures	234	167	40.1%	709	595	19.2%
Acquisition of licenses	8	1	>100%	24	14	71.4%
Return of auction advances	–	(8)	–	(13)	(13)	–

In the fourth quarter of 2016 total capital expenditures amounted to RUB 234 billion. Capital expenses, excluding the effect of acquisition of new assets, were RUB 215 billion (increase by 28.7%) compared with RUB 167 billion in the third quarter of 2016.

The increase in total capital expenditures, net of the effect of acquisition of new assets, in the twelve months of 2016 in comparison with the same period of 2015 was due to the expansion of the drilling program and planned growth of investment in the development of new fields.

In the fourth quarter of 2016 upstream capital expenditures, excluding the effect of acquisition of new assets, amounted to RUB 172 billion (increase by 15.4%) in comparison with RUB 149 billion in the third quarter of 2016. In the twelve months of 2016 upstream capital expenditures, excluding the effect of new acquisition of new assets, were RUB 595 billion and RUB 456 billion in the twelve months of 2016 and 2015, respectively. Organic growth of upstream capital expenses by 30.5% is mainly due to increased development drilling (+ 35% to the same period of 2015) and increased rate of launches of new projects.

In the fourth quarter of 2016 downstream capital expenditures were RUB 41 billion. Net of the effect of acquisition of new assets, downstream capital expenditures amounted to RUB 36 billion in the fourth quarter 2016, including capital expenditures of investment tariffs, in comparison with RUB 17 billion in the third quarter of 2016. Downstream capital expenditures, excluding the effect of acquisition of new assets, in the twelve months of 2016 and 2015 were RUB 80 billion and RUB 124 billion, respectively.

In the fourth quarter of 2016 capital expenditures of refineries, net of the effect of acquisition of new assets, amounted to RUB 26 billion compared to RUB 13 billion in the third quarter of 2016. In the twelve months of 2016 capital expenditures of refineries were RUB 60 billion, excluding the effect of acquisition of new assets, and amounted to RUB 108 billion in twelve months of 2015, respectively.

The capital expenditures of refineries in 2016 were mainly focused on the financing of refinery modernization program and also on the maintaining of current capacities of refineries in Russia, and also on the financing of construction works on Eastern petrochemical company.

Capital expenditures of other activities related to scheduled purchases of transport and other equipment net of the effect of acquisition of new assets were RUB 7 billion in the fourth quarter and RUB 1 billion in the third quarter of 2016, respectively.

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

The license acquisition costs in the third quarter of 2016 amounted to RUB 1 billion and referred to acquisition of new licenses for research, exploration and production at sites in the Samara region, the Khanty-Mansiysky and the Sakha Republic (Yakutia). In the third quarter of 2016 the Company also returned the advance in the amount of RUB 8 billion issued in the previous quarter for the participation in auctions.

In the twelve months of 2016 the license acquisition costs were RUB 24 billion and referred to the advances issued for the participation in auction aimed at acquiring new licenses for research, exploration and production at blocks located in Sakha Republic (Yakutia), Krasnoyarsk region, Samara region, the Khanty-Mansiysky and the Yamal-Nenets Autonomous districts. In the same period the Company received cash from the repayment of advances issued in previous periods in the amount of RUB 13 billion for the participation in auctions.

In the twelve months of 2015 the license acquisition costs were RUB 14 billion and referred to the advances issued for the participation in auctions aimed at acquiring new licenses for research, exploration and production at blocks located in Eastern and Western Siberian region and Samara region. In the same period the Company received cash from the repayment of advances issued in previous periods in the amount of RUB 13 billion for the participation in the auction.¹

Debt Obligations

Rosneft net debt amounts to RUB 1,890 billion as of December 31, 2016. Rosneft net debt, net of the effect of acquisition of new assets, amounts to RUB 1,774 billion as of December 31, 2016 compared to RUB 1,651 billion as of September 30, 2016.

Rosneft's total loans and borrowings and other financial liabilities was RUB 3,585 billion as of December 31, 2016. Rosneft's total loans and borrowings and other financial liabilities, net of the effect of acquisition of new assets, was RUB 3,464 billion compared to RUB 2,927 billion as of September 30, 2016. The increase in total debt was mainly attributable to the raising of rouble funds, which was partially compensated by foreign exchange effect and scheduled payments of debt nominated in the foreign currency.

¹ Starting from 2015 all cash receipts from the repayment of advances issued for the participation in the auctions which were called off or were won by other participants are recorded in line "Acquisition of licenses and auction advances" of Consolidated statement of cash flows.

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

As of December 31, 2016, September 30, 2016 and December 31, 2015: 24.7%, 32.6% and 34.8%, respectively, of Rosneft's loans and borrowings were secured by crude oil export contracts (excluding exports to the CIS).

As of December 31, 2016, September 30, 2016 and December 31, 2015 pledged oil exports constituted 4.4%, 4.5% and 4.8%, respectively, of the total crude oil export sales for the analyzed period (excluding exports to the CIS).

The net debt calculation is disclosed in the following table:

As of the date	December 31, 2016	September 30, 2016	December 31, 2015
	RUB billion		
Short-term loans and borrowings and other financial liabilities	1,671	947	1,040
Long-term loans and borrowings and other financial liabilities	1,914	1,980	2,283
Total debt	3,585	2,927	3,323
Cash and cash equivalents	790	787	559
Other short-term financial assets and part of deposits	905*	489	1,070
Net debt	1,890	1,651	1,694

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

Key consolidated financial highlights (in RUB terms)

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

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2016	September 30, 2016	2016	2015
EBITDA margin	24.0%	23.3%	25.0%	23.8%
Net income attributable to Rosneft shareholders margin	3.5%	2.1%	3.6%	6.9%
Net debt to annualised EBITDA	1.38 ¹	1.39	1.38 ¹	1.36
Current ratio	0.83	1.17	0.83	1.32
			RUB / bbl	
EBITDA/bbl	912	822	879	885
Upstream capital expenditures/bbl	462	419	418	324
Upstream operating expenses/bbl	223	205	208	197
Free cash flow before interest/bbl	62	236	208	529
			RUB / boe	
EBITDA/boe	733	657	701	714
Upstream capital expenditures/boe	372	335	334	261
Upstream operating expenses/boe	180	164	166	159
Free cash flow before interest/boe	50	189	166	426

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

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

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

Upstream Measures^{*}

	For 3 months ended		For 12 months ended December, 31	
	December 31, 2016	September 30, 2016	2016	2015
Crude oil and NGL production (mln bbl)	400.1	355.4	1,454.0	1,406.4
Crude oil, NGL and gas production (mln boe)	497.7	444.7	1,822.3	1,744.9

^{*}Excluding share in production of associates and joint ventures.

Calculation of Free Cash Flow

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2016	September 30, 2016	2016	2015
			RUB billion	
Operating cash flow	102	172	632	2,195
Capital expenditures	(234)	(167)	(709)	(595)
Trading securities operations*	–	(1)	(4)	(5)
Received prepayments under long term supply contracts	–	–	–	(1,027)
Offsetting of prepayments under long term supply contracts ¹	94	80	288	176
Financing under future supplies	63	–	95	–
Free cash flow (RUB equivalent)	25	84	302	744

¹Estimated at average exchange rate for the period

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

¹Annualized, including EBITDA of PAO "ANK Bashneft" from January 1, 2016.

Calculation of EBITDA

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2016	September 30, 2016	2016	2015
	RUB billion			
Revenues and equity share in profits of associates and joint ventures	1,485	1,223	4,988	5,150
Effect of prepayments offsetting	39	32	134	87
Operating expenses	(1,292)	(1,083)	(4,326)	(4,442)
Depreciation, depletion and amortization	133	120	482	450
EBITDA	365	292	1,278	1,245

Calculation of EBITDA Margin

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2016	September 30, 2016	2016	2015
	RUB billion (except %)			
EBITDA	365	292	1,278	1,245
Revenues and equity share in profits of associates and joint ventures	1,485	1,223	4,988	5,150
Effect of prepayment offsetting	39	32	134	87
Adjusted revenues	1,524	1,255	5,122	5,237
EBITDA margin	24.0%	23.3%	25.0%	23.8%

Calculation of Net Income Margin attributable to Rosneft shareholders

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2016	September 30, 2016	2016	2015
	RUB billion (except %)			
Net income attributable to Rosneft shareholders	52	26	181	355
Revenues and equity share in profits of associates and joint ventures	1,485	1,223	4,988	5,150
Net income margin attributable to Rosneft shareholders	3.5%	2.1%	3.6%	6.9%

Calculation of Current ratio

As of the date	December 31, 2016	September 30, 2016	December 31, 2015
	RUB billion (except coefficients)		
Current assets	2,300	2,076	2,404
Current liabilities	2,773	1,776	1,817
Current ratio	0.83	1.17	1.32

Calculation of Capital Employed and Related Indicators

	For 12 months ended December 31,	
	2016	2015
	(RUB billion)	
Short-term loans, other liabilities and current portion of long-term debt	1,671	1,040
Long-term debt	1,914	2,283
Cash and cash equivalents	(790)	(559)
Short-term financial assets and part of long-term deposits	(905)	(1,070)
Net debt*	1,890	1,694
Shareholders' equity	3,309	2,886
Non-controlling interests in subsidiaries' earnings	417	43
Equity	3,726	2,929
Capital employed	5,616	4,623
Average equity, including non-controlling interests**	3,328	2,905
Average capital employed***	4,864	5,143

* The net debt estimation is set presented in "Debt obligations" section.

** Average equity including non-controlling interests is calculated as a simple average of the equity including non-controlling interests at the start and end of the given period.

*** Average capital employed is calculated as a simple average of the capital employed at the start and the end of the given period on a monthly basis.

Calculation of Return on Average Capital Employed (ROACE)

	<i>For 12 months ended December 31</i>	
	2016	2015
	(RUB billion, except %)	
Revenue and equity share in profits of associates and joint ventures	4,988	5,150
Total costs and expenses	(4,326)	(4,442)
Effect of prepayments offsetting	134	87
Income tax expense	(116)	(104)
Return used for calculation of ROACE	680	691
Average capital employed	4,864	5,143
ROACE	14.0%	13.4%

Calculation of Return on Average Equity (ROAE)

	<i>For 12 months ended December 31</i>	
	2016	2015
	(RUB billion, except %)	
Net income attributable to Rosneft shareholders	181	355
Average equity, including non-controlling interests	3,328	2,905
ROAE	5.4%	12.2%

Consolidated financial highlights (in USD terms)

Consolidated statement of profit or loss*

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2016	September 30, 2016	2016	2015
	USD billion			
Total revenues and equity share in profits of associates and joint ventures	24.1	19.4	77.2	86.9
Costs and expenses				
Production and operating expenses	2.7	2.0	8.4	9.4
Cost of purchased oil, gas, petroleum products and refining costs	3.1	2.2	9.3	8.8
General and administrative expenses	0.6	0.4	1.9	2.1
Pipeline tariffs and transportation costs	2.4	2.2	8.6	8.9
Exploration expenses	0.1	–	0.2	0.2
Depreciation, depletion and amortization	2.2	1.8	7.3	7.5
Taxes other than income tax	6.3	5.2	19.6	21.4
Export customs duty	3.1	2.9	9.9	15.3
Total costs and expenses	20.5	16.7	65.2	73.6
Operating income	3.6	2.7	12.0	13.3
Finance income	0.5	0.3	1.4	0.9
Finance expenses	(0.9)	(0.7)	(2.9)	(4.4)
Other income	0.7	0.1	0.8	1.2
Other expenses	(0.6)	(0.3)	(1.2)	(1.2)
Foreign exchange differences	(0.7)	(0.8)	(3.0)	0.1
Cash flow hedges reclassified to profit or loss	(0.6)	(0.5)	(2.2)	(2.0)
Income before income tax	2.0	0.8	4.9	7.9
Income tax	(1.0)	(0.3)	(1.8)	(1.8)
Net income	1.0	0.5	3.1	6.1
Net income attributable to Rosneft shareholders	0.8	0.4	2.8	6.1

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

Key consolidated financial highlights (in USD terms)

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

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2016	September 30, 2016	2016	2015
EBITDA margin	24.1%	23.2%	25.0%	23.9%
Net income margin	3.4%	2.1%	3.6%	7.0%
Net debt to annualised EBITDA	1.50 ¹	1.47	1.50	1.12
Current ratio	0.83	1.17	0.83	1.32
	USD/bbl*			
EBITDA/bbl	14.5	12.7	13.3	14.8
Upstream capital expenditures/bbl	7.3	6.5	6.3	5.3
Upstream operating expenses/bbl	3.5	3.2	3.1	3.2
Free cash flow/bbl	0.9	3.5	3.1	8.7
	USD/boe*			
EBITDA/boe	11.7	10.1	10.6	11.9
Upstream capital expenditures/boe	5.9	5.2	5.0	4.3
Upstream operating expenses/boe	2.8	2.5	2.5	2.6
Free cash flow/boe	0.8	2.8	2.5	7.0

*Calculated from unrounded data.

¹Annualised, including EBITDA of PAO “ANK Bashneft” from January 1, 2016.

Calculation of Free Cash Flow

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2016	September 30, 2016	2016	2015
	USD billion			
Operating cash flow	1.7	2.8	9.4	34.9
Capital expenditures	(3.7)	(2.6)	(10.7)	(9.7)
Trading securities operations	–	(0.1)	(0.1)	(0.1)
Received prepayments under long term supply contracts	–	–	–	(15.7)
Offsetting under prepayments under long term supply contracts	1.4	1.2	4.4	2.8
Financing under future supplies	1.0	–	1.5	–
Free cash flow	0.4	1.3	4.5	12.2

Calculation of EBITDA Margin

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2016	September 30, 2016	2016	2015
	USD billion (except %)			
Revenues and equity share in profits of associates and joint ventures	24.1	19.4	77.2	86.9
Operating expenses	(20.5)	(16.7)	(65.2)	(73.6)
Depreciation, depletion and amortization	2.2	1.8	7.3	7.5
EBITDA	5.8	4.5	19.3	20.8
Revenues and equity share in profits of associates and joint ventures	24.1	19.4	77.2	86.9
EBITDA margin	24.1%	23.2%	25.0%	23.9%

Calculation of Net Income Margin

	For 3 months ended		For 12 months ended December 31,	
	December 31, 2016	September 30, 2016	2016	2015
	USD billion (except %)			
Net income attributable to Rosneft's shareholders	0.8	0.4	2.8	6.1
Revenues and equity share in profits of associates and joint ventures	24.1	19.4	77.2	86.9
Net income margin	3.4%	2.1%	3.6%	7.0%

Calculation of Current ratio

As of the date	December 31, 2016	September 30, 2016	December 31, 2015
	USD billion (except coefficients)		
Current assets	37.9	32.9	33.0
Current liabilities	45.7	28.1	24.9
Current ratio	0.83	1.17	1.32

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

	2016	2015
	RUB/USD	
January	76.31	61.88
February	77.23	64.68
March	70.51	60.26
April	66.69	52.93
May	65.67	50.59
June	65.31	54.51
July	64.34	57.08
August	64.93	65.20
September	64.60	66.77
October	62.68	63.09
November	64.37	65.03
December	62.20	69.68