



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014
AND FOR THE THREE MONTHS ENDED DECEMBER 31, 2014**

*The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended March 31, 2015, December 31, 2014 and March 31, 2014 (the "**Interim Condensed Consolidated Financial Statements**"). Such terms as "**Rosneft**", "**Company**" and "**Group**" in their different forms in this report mean Rosneft Oil Company and its consolidated subsidiaries, its equity share in associates and joint ventures. This report contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may materially differ from those discussed in such forward-looking statements as a result of various factors.*

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

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

To convert tonnes to barrels a 7.404 ratio is used. To convert thousands 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 gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers, as of December 31, 2014 proved hydrocarbon reserves amounted:

Classification	Proved reserves volume	Replacement coefficient, %
SEC	34 bln boe	154%
PRMS (1P)*	43 bln boe	174%

*including crude oil and NGL – 30.8 billion barrels and marketable gas – 2,018 billion cubic meters

Rosneft's hydrocarbon production amounts to 5.2 million boe per day; the output of natural and associated gas is 15.80 billion cubic meters in the first quarter of 2015.

Domestic crude oil processing amounts to 0.22 million tonnes per day (average for the first quarter of 2015) at Company's own refineries. Current utilization of the refining capacities is close to maximum adjusted for planned turnarounds. The remaining volumes of crude oil are mostly exported to Europe, Asia and CIS countries. Rosneft also holds a 50% stake in Ruhr Oel GmbH (ROG) where the Company processes both own and procured crude oil. Rosneft also processes crude oil, gas and petroleum products at external refineries (which are outside the Group).

Financial and operating highlights

	For 3 months ended		% change	For 3 months ended		% change
	March 31, 2015	December 31, 2014		March 31, 2015	March 31, 2014	
Financial results, RUB billion						
Revenues and equity share in profits of associates and joint ventures	1,288	1,311	(1.8)%	1,288	1,375	(6.3)%
EBITDA	265	188	41.0%	265	289	(8.3)%
Net income ²	56	89	(37.1)%	56	43 ¹	30.2%
Capital expenditures	128	163	(21.5)%	128	104	23.1%
Adjusted free cash flow*	130	192	(32.3)%	130	121	7.4%
Net Debt	2,529	2,467	2.5%	2,529	1,623	55.8%
Operational results						
Hydrocarbon production (th. boe per day)	5,200	5,200	–	5,200	5,092	2.1%
Crude oil and NGL production (th. barrels per day)	4,131	4,150	(0.5)%	4,131	4,199	(1.6)%
Gas production (th. boe per day)	1,069	1,050	1.8%	1,069	893	19.7%
Production of petroleum products in Russia (mln tonnes)	21.03	22.22	(5.4)%	21.03	20.80	1.1%
Production of petroleum products outside Russia (mln tonnes)	2.60	3.43	(24.2)%	2.60	3.21	(19.0)%

*Excluding the effect of operations with trading securities and one-off effect from prepayments under long-term supply oil agreements

¹Excluding gain from the sale of LLC "Yugragazpererabotka" of RUB 45 billion (net result) (USD 1.3 billion at average March 2014 exchange rate).

For reference only: Financial highlights in USD terms*

	For 3 months ended		% change	For 3 months ended		% change
	March 31, 2015	December 31, 2014		March 31, 2015	March 31, 2014	
Financial results, RUB billion						
Revenues and equity share in profits of associates and joint ventures	21.0	28.2	(25.5)%	21.0	39.3	(46.6)%
EBITDA	4.5	4.3	4.7%	4.5	8.3	(45.8)%
Net income	1.0	2.0	(50.0)%	1.0	1.1	(9.1)%
Capital expenditures	2.0	3.5	(42.9)%	2.0	2.9	(31.0)%
Adjusted free cash flow	2.5	4.2	(40.5)%	2.5	3.5	(28.6)%
Net Debt	43.3	43.8	(1.1)%	43.3	45.5	(4.8)%

*Calculated using average monthly exchange rates of Bank of Russia for the reporting periods (Appendix 1)

² Management of foreign exchange risk in terms of high Russian rouble fluctuation

In accordance with IAS 39, *Financial instruments: recognition and measurement* the Company applies hedge accounting in the financial statements to account for the effects of a natural hedge between a portion of its export revenues and liabilities denominated in U.S. dollars, effective from October 1, 2014.

A portion of future monthly export revenues expected to be received in U.S. dollars over the following five years is designated as a hedged item. Debt liabilities of the Company in U.S. dollars to third parties are designated as hedging instruments. The nominal amounts of the hedged item and the hedging instruments are equal. To the extent that a change in foreign currency rate impacts the hedging instrument, the effects are recognized in other comprehensive income/(loss). Upon completion of the hedged transaction the related exchange differences temporarily held within equity are released to profit and loss for the period within revenue.

In the first quarter of 2015 foreign exchange differences on cash flow hedges are recognized in “Other comprehensive loss” in the amount of RUB 70 billion. Upon the completion of the hedged transaction the related exchange differences temporarily held within equity are recognized in the consolidated profit or loss statement for the period within the “Revenue” in the amount of RUB 33 billion (reclassification to profits and loss). Total foreign exchange cash flow hedge before income tax was recognized in the amount of RUB 37 billion in “Other comprehensive loss”. Total foreign exchange cash flow hedge, net of tax was recognized in “Other comprehensive loss” in the amount of RUB 30 billion.

Significant events in the first quarter of 2015

Rosneft completes SANORS purchase transaction

In March 2015 Rosneft completed the transaction on purchase of 100% of shares of Novokuibyshevsk Petrochemical Company (SANORS group). This transaction will allow Rosneft to develop its own line of import substitution as well as meeting growing domestic demand for key polymers and other chemical products, viable commercially in the Russian market regarding their quality and technological characteristics.

Rosneft early repays a loan arranged for TNK-BP acquisition

Rosneft repaid a loan obtained to finance the acquisition of TNK-BP in the amount of USD 7.2 billion with interests in February 2015.

On the dispute settlement with Yukos group of companies

Rosneft and a group of its subsidiaries including Samaraneftegaz, Tomskneft and Angarsk Petrochemical Company reached a dispute disposition agreement with Yukos group companies, as well as with individuals controlling these companies. In accordance with the conditions of the agreement the sides withdraw all mutual claims, stop all legal and other disputes, and are obliged not to lay claims on each other in the future due to the bankruptcy and dissolution of Yukos. The agreement does not envisage any monetary or other payments from Rosneft or its subsidiaries.

On March 31, 2015 the parties completed the deal and signed all the necessary documents regarding the recall of all legal arguments being carried on in Russia and jurisdictions of other countries.

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 of 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 (Russian pipeline monopoly) 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 Russian 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 is different for different types of petroleum products.

The table below sets forth the average crude oil and petroleum product 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>For 3 months ended</i>		
	March 31, 2015	December 31, 2014	% change	March 31, 2015	March 31, 2014	% change
World market	(USD per barrel)			(USD per barrel)		
Brent (dated)	53.8	76.2	(29.4)%	53.8	108.2	(50.2)%
Urals (average Med and NWE)	52.8	75.3	(29.8)%	52.8	106.5	(50.4)%
Urals (FOB Primorsk)	50.5	73.3	(31.1)%	50.5	105.2	(52.0)%
Urals (FOB Novorossysk)	51.6	73.8	(30.1)%	51.6	105.7	(51.2)%
Dubai	51.8	74.4	(30.4)%	51.8	104.4	(50.4)%
	(USD per tonne)			(USD per tonne)		
Naphtha (av. FOB/CIF Med)	443	587	(24.4)%	443	893	(50.4)%
Naphtha (av. FOB Rotterdam/CIF NWE)	465	609	(23.6)%	465	913	(49.1)%
Naphtha (CFR Japan)	493	637	(22.7)%	493	935	(47.3)%
Fuel oil (av. FOB/CIF Med)	281	406	(30.7)%	281	579	(51.5)%
Fuel oil (av. FOB Rotterdam/CIF NWE)	272	396	(31.2)%	272	569	(52.2)%
High sulphur fuel oil 180 cst (FOB Singapore)	317	437	(27.4)%	317	610	(48.0)%
Gasoil (av. FOB/CIF Med)	508	675	(24.7)%	508	909	(44.1)%
Gasoil (av. FOB/Rotterdam/CIF NWE)	516	680	(24.1)%	516	914	(43.5)%
Gasoil (FOB Singapore)	501	665	(24.8)%	501	904	(44.4)%
	(th. RUB per barrel)			(th. RUB per barrel)		
Brent (dated)	3.35	3.62	(7.4)%	3.35	3.78	(11.5)%
Urals (average Med and NWE)	3.28	3.57	(8.0)%	3.28	3.72	(11.8)%
Urals (FOB Primorsk)	3.14	3.48	(9.6)%	3.14	3.68	(14.6)%
Urals (FOB Novorossysk)	3.21	3.50	(8.3)%	3.21	3.70	(13.2)%
Dubai	3.22	3.53	(8.7)%	3.22	3.65	(11.8)%
	(th. RUB per tonne)			(th. RUB per tonne)		
Naphtha (av. FOB/CIF Med)	27.6	27.8	(0.9)%	27.6	31.2	(11.8)%
Naphtha (av. FOB Rotterdam/CIF NWE)	28.9	28.9	0.2%	28.9	31.9	(9.4)%
Naphtha (CFR Japan)	30.6	30.2	1.4%	30.6	32.7	(6.2)%
Fuel oil (av. FOB/CIF Med)	17.5	19.2	(9.1)%	17.5	20.3	(13.7)%
Fuel oil (av. FOB Rotterdam/CIF NWE)	16.9	18.8	(9.8)%	16.9	19.9	(14.9)%
High sulphur fuel oil 180 cst (FOB Singapore)	19.7	20.7	(4.8)%	19.7	21.3	(7.5)%
Gasoil (av. FOB/CIF Med)	31.6	32.0	(1.3)%	31.6	31.8	(0.6)%
Gasoil (av. FOB Rotterdam/CIF NWE)	32.1	32.3	(0.5)%	32.1	32.0	0.5%
Gasoil (FOB Singapore)	31.1	31.6	(1.4)%	31.1	31.6	(1.5)%
Russian market	(th. RUB per tonne)			(th. RUB per tonne)		
(net of VAT, including excise tax)						
Crude oil	12.9	10.9	17.5%	12.9	11.7	10.3%
Fuel oil	7.6	8.3	(8.1)%	7.6	8.6	(11.8)%
Summer diesel	26.7	25.8	3.2%	26.7	26.0	2.7%
Winter diesel	28.3	30.2	(6.0)%	28.3	28.4	(0.1)%
Jet fuel	24.5	26.0	(5.5)%	24.5	25.3	(3.1)%
High octane gasoline	28.2	32.2	(12.4)%	28.2	28.4	(0.7)%
Low octane gasoline	26.4	29.6	(10.8)%	26.4	25.7	2.5%

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

The difference between price movements denominated in USD and those denominated in RUB is explained by nominal RUB depreciation against USD by 31.1% in the first quarter of 2015 compared to the fourth quarter of 2014 and nominal RUB depreciation against USD by 77.9% in the first quarter of 2014.

The Russian Government regulates the price of the gas sold in Russia by Gazprom. While the regulated price is expected to continue to rise to a level closer to parity with export netbacks, it is currently still significantly below this level.

The regulated price has affected, and is likely to continue to affect, the pricing of Rosneft gas sales. Rosneft's average gas sales price (net of VAT) was RUB 3.18 thousand per thousand cubic meters, RUB 3.10 thousand per thousand cubic meters and RUB 2.86 thousand per cubic meters in the first quarter of 2015, in the fourth quarter of 2014 and in the first quarter of 2014, respectively.

USD/RUB and EUR/RUB Exchange Rates and Inflation

The USD/RUB and EUR/RUB exchange rates and inflation in Russian Federation 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. Thus, the depreciation of the rouble positively affects Rosneft's operating income, while rouble appreciation has a negative effect.

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

	<i>For 3 months ended</i>		
	March 31, 2015	December 31, 2014	March 31, 2014
Rouble inflation (CPI) for the period	7.4%	5.1%	2.3%
Average RUB/USD exchange rate for the period*	62.19	47.42	34.96
RUB/USD exchange rate at the end of the period	58.46	56.26	35.69
Average RUB/EUR exchange rate for the period	70.43	59.20	47.95
RUB/EUR exchange rate at the end of the period	63.37	68.34	49.05

Source: Central Bank of Russian Federation.

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

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 3 months ended</i>		<i>% change</i>
	March 31, 2015	December 31, 2014		March 31, 2015	March 31, 2014	
Mineral extraction tax *						
Crude oil (RUB per tonne)	6,834	5,265	29.8%	6,834	6,078	12.4%
Export customs duty for crude oil						
Crude oil (USD per tonne)	130.2	312.9	(58.4)%	130.2	390.7	(66.7)%
Crude oil (RUB per tonne)	8,097	14,840	(45.4)%	8,097	13,659	(40.7)%
Crude oil (RUB per barrel)	1,094	2,004	(45.4)%	1,094	1,855	(41.0)%
Export customs duty for petroleum products						
Gasoline (RUB per tonne)	6,313	13,355	(52.7)%	6,313	12,291	(48.6)%
Naphtha (RUB per tonne)	6,879	13,355	(48.5)%	6,879	12,291	(44.0)%
Light and middle distillates (RUB per tonne)	3,881	9,793	(60.4)%	3,881	9,013	(56.9)%
Diesel (RUB per tonne)	3,881	9,643	(59.8)%	3,881	8,924	(56.5)%
Liquid fuels (fuel oil) (RUB per tonne)	6,152	9,793	(37.2)%	6,152	9,013	(31.7)%

*Starting from July 1, 2014 mineral extraction tax on gas and gas condensate is estimated for each oil field separately depending on the production complexity at each oil field.

Federal law 366-FZ of November 24, 2014 "On amendments to Part Two of the Tax Code and Other Legislative Acts of the Russian Federation" enables three-year staged reduction of oil export duties and petroleum export duties depending on type of the petroleum products and simultaneous increase in oil mineral extraction tax rate and gas condensate.

In accordance with Tax legislation the excise tax rates on the petroleum products are differentiated in line with quality requirements to petroleum products:

Excise on petroleum products	2015	2016	From January 1, 2017
High octane gasoline (RUB per tonne)			
High octane gasoline non-compliant with euro-3,4,5 (RUB per tonne)	7,300	7,530	5,830
High octane gasoline euro-3 (RUB per tonne)	7,300	7,530	5,830
High octane gasoline euro-4 (RUB per tonne)	7,300	7,530	5,830
High octane gasoline euro-5 (RUB per tonne)	5,530	7,530	5,830
Naphtha (RUB per tonne)	11,300	10,500	9,700
Diesel (RUB per tonne)	3,450	4,150	3,950
Lubricants (RUB per tonne)	6,500	6,000	5,400

In accordance with Federal law 366-FZ the producer is able to apply an increased coefficient to excise duty deduction (from 1.37 to 3.4 depending on type of the oil product subject to exercise duty and deduction period). This rule is applied only to the petrochemical products produced from naphtha, benzole, paraxylene and ortoxylyene. In 2015, the Company plans to exercise its right to apply increased coefficient to excise duty deduction.

Rosneft pays a significant portion of taxes from revenues, as set out in the following table:

	<i>For 3 months ended</i>		
	March 31, 2015	December 31, 2014	March 31, 2014
Total revenues	1,288	1,311	1 375
Total taxes*	616	764	738
Effective tax burden, %	47.8%	58.3%	53.7%

* Including export customs duty, mineral extraction tax, excise tax, income tax and other taxes.

The mineral extraction tax and the export customs duty accounted for approximately 42.9%, 49.5% and 48.0% of Rosneft's total revenues in the first quarter of 2015, in the fourth quarter of 2014 and in the first quarter of 2014, respectively.

Mineral Extraction Tax

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, 2015** the mineral extraction tax rate will be calculated by multiplying the tax rate of **RUB 766 (in 2016 – RUB 857, in 2017 – RUB 919)** 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 (in 2015 – **RUB 530**, starting from 2016 – **RUB 559**) and factors which characterize the degree of depletion of a particular field, reserves of a particular field, the degree of difficulty of extraction and region of production and oil properties.

In 2015 the Company applied reduced and zero MET tax rates at certain fields:

Tax relives in 2015	Applicable in the Company
Reduced rates	Crude oil from deposits with permeability of less than 2×10^{-3} square micrometres and tyumen formation
Zero rates	Oil fields with hard to recover reserves, including bazhenov, abalak, khadam, 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 are subject to zero mineral extraction tax rate 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 exempting the Company from paying mineral extraction tax.	Exploration projects in the Sakhalin-1 psa.

On September 30, 2013 the amendments to tax law specifying tax regime for offshore projects in Russian Federation were approved. Following new tax amendments the offshore projects are categorised into one of four groups depending on its complexity and specifies 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).

Changes in MET rate calculation for natural gas and gas condensate

Starting from July 1, 2014 new formula is applied to MET rate calculation on natural gas and gas condensate.

In accordance with Tax Code of Russian Federation, base rate of MET for gas condensate is RUB 42 per 1 tonne and for natural gas – RUB 35 per 1 thousand cubic metres. Base rates are multiplied by basic rate of standard fuel unit and coefficient of degree of the complexity to recover natural gas and gas condensate.

Starting from the second half of 2014 the reduced coefficient was applied:

- at rate of 0.5 and 0.64 applicable to gas deposits with specific depth characteristics at Rospan and Russko-Rechenskoe licensed fields, and Kynsko-Chaselskoye fields and at a number of fields of Sibneftegaz respectively;
- at rate of 0.1 applicable to reserves disposed in Irkutsk region, in Krasnoyarsk region and in region of Far East or the sea of Okhotsk;
- at rate of 0.21 applicable to Turon deposits reserves of the Kharampurskoye field;
- at rate of 0.5-1 applicable to gas produced at the fields with reserve depletion rate of over 70%.

In the first quarter of 2015 average extraction tax for natural gas was 498 per th. cubic meters. In the fourth quarter of 2014 average extraction tax for natural gas was 484 per th. cubic meters. Until July 2014 the mineral extraction rate for gas condensate was fixed and amounted to RUB 471 per th. cubic meters.

Mineral extraction gas condensate tax rate

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 amounts to 2,273* per tonne in the first quarter of 2015, RUB 493 per tonne in the fourth quarter of 2014 and RUB 647 per tonne was till July 2014, respectively.

* In accordance with amendments to Tax legislation starting from January 1 until December 31, 2015 mineral extraction gas condensate tax rate is adjusted by the multiplying coefficient 4.4;
starting from January 1 until December 31, 2016 mineral extraction gas condensate tax rate will be adjusted by the multiplying coefficient 5.5;
starting from January 1 until December 31, 2017 mineral extraction gas condensate tax rate will be adjusted by the multiplying coefficient 6.5.

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 <i>plus</i> 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 <i>plus</i> 42% of the difference between the average Urals price in USD per tonne and USD 182.5 (since January 1 through December 31, 2015) USD 29.2 <i>plus</i> 36% 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 <i>plus</i> 30% of the difference between the average Urals price in USD per tonne and USD 182.5 (since January 1, 2017)

The marginal export duty rate for crude oil has been decreasing: starting from January 2015 – to 42%, from January 2016 – to 36% and from January 2017 – to 30%.

The export customs duty is changed every month and the duty for the next month is based on the average Urals price 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 will start from January 1, 2016. Such an exemption is set for various terms depending on complexity of a field development project.

In accordance with Federal law of May 21, 1993 № 5003-1 the Government of the Russian Federation is entitled to establish special formulas for calculating the rates of export customs duties on crude oil in respect of:

- high-viscous oil for a 10 years period starting from the date of application of the reduced export duty rate, but not later than January 1, 2023.

The table below sets forth the calculation of the marginal export customs duty for high-viscous oil:

Marginal export customs duty rate for high-viscous oil (USD per tonne)
10% of USD 29.2 per tonne and 57% of the difference between the average Urals price in USD per tonne and USD 182.5 (since January 1 through December 31, 2015)
10% of USD 29.2 per tonne and 55% of the difference between the average Urals price in USD per tonne and USD 182.5 (since January 1, 2016)
Calculated negative marginal export customs duty rate equals 0 (export customs duty is not levied)

- crude oil with special physical and chemical characteristics produced at certain oil fields located in Irkutsk, Krasnoyarsk regions, Sakha (Yakutia), Nenets Autonomous District, on shores and off shores.

The table below sets forth the calculation of the marginal export customs duty for such oil:

Marginal export customs duty rate for crude oil with special physical and chemical characteristics produced at certain crude oil fields (USD per tonne)
42% of the difference between the average Urals price in USD per tonne and USD 182.5 deducting 14% of the average Urals price in USD per tonne and USD 56.57 (since January 1 through December 31, 2015)
36% of the difference between the average Urals price in USD per tonne and USD 182.5 deducting 14% of the average Urals price in USD per tonne and USD 56.57 (since January 1 through December 31, 2016)
30% of the difference between the average Urals price in USD per tonne and USD 182.5 deducting 14% of the average Urals price in USD per tonne and USD 56.57 (since January 1, 2017)
Calculated negative marginal export customs duty rate equals 0 (export customs duty is not levied)

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. No new amendments were introduced in 2015 in respect of regime of export customs duty on crude oil export to CIS.

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 2014 export duty rate for light and dark petroleum products were 65% and 66% of crude oil duty rate, export duty rate for diesel was 65% of crude oil duty rate and export duty for naphtha and gasoline was 90% of crude oil export duty.

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		
	Since January 1 through December 31, 2015	Since January 1 through 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

Starting from January 1, 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 OJSC “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 Federal Tariff Service (“FTS”), a governmental body regulating natural monopolies, sets 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 FTS. The tariffs are set in roubles and are not linked to the exchange rate.

The FTS sets tariffs for each separate route of the pipeline networks depending on the length of the 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 FTS sets regularly tariffs for gas pipeline transportation. The tariff includes two parts. First part of tariff is fixed for “input and output” facilities and mostly depends on the remoteness of facilities. The second part of tariff depends on gas transportation by Gazprom in gas supply system and actual distance of gas transmission in gas pipeline. Tariffs are set in roubles and are not linked directly to the exchange rate.

Recent changes of Transneft transportation tariffs

Petroleum products

Starting from February 1, 2015 Transneft increased transportation tariffs for petroleum products by 10%.

Crude oil

Starting from February 1, 2015 Transneft increased transit tariffs for crude oil transportation via Belarus by 9.7%. Starting from January 1, 2015 Transneft tariffs for oil pipeline transportation increased up to 6.5%, and for oil transportation via ESPO in the eastern direction – up to 7.5% compared to 2014.

Recent changes in railroad transportation tariffs

Starting from January, 2015 multiplying factor 1.134 was applied to export tariffs for transportation of stable natural gasoline and gas condensate via land border crossings, export tariffs for transportation of diesel and export tariffs for transportation of petroleum products (except diesel) via port stations of Kaliningrad railway.

Starting from January 1, 2015 multiplying factor 1.125 on railroad tariffs for transportation of diesel was cancelled. Starting from January 1, 2015 indexation of railroad tariffs, fees and charges was 10%.

The table sets forth the Rosneft's average transportation tariffs applied to major transportation routes in 2015 excluding transshipment:

	<i>For 3 months ended</i>
	March 31, 2015
	th. RUB/tonne
CRUDE OIL	
Domestic	
Pipeline	
Orenburgneft (Pokrovka) – Novokuibyshevsk refinery	0.14
Nyaganneftegaz (Krasnoleninsk) – Tuapse refinery	1.54
Samotlorneftegaz – Angarsk refinery	1.52
Yuganskneftegaz (Karkateevy) – Ryazan NPK	1.23
Export	
Pipeline	
Vankorneft (Purpe) – China	2.35
Verkhnechonskneftegaz (Talakan) – Kozmino	2.24
Yuganskneftegaz (Karkateevy) – Germany	1.73
Uvatneftegaz (Demyanskoe) – China via Kazakhstan	1.40
Yuganskneftegaz (Karkateevy) – Primorsk Port/ Ust-Luga Port	1.70
Yuganskneftegaz (Yuzhny Balyk) – Poland	1.71
Yuganskneftegaz (Karkateevy) – Novorossiysk Port	1.72
PETROLIUM PRODUCTS (EXPORT)	
Railroad	
Diesel	
Angarsk refinery – Nakhodka Port	5.27
Komsomolsk refinery – Nakhodka Port	2.07
Saratov refinery – Novorossiysk Port	1.95
Fuel oil	
Samara refineries – Novorossiysk Port	2.43
Achinsk refinery – Taman Port	5.82
Ryazan refinery – Ust-Luga Port	2.05
Yanos – Ust-Luga Port	1.67
Naphtha	
Samara refineries – Tuapse Port	2.57
Achinsk refinery – Arkhangelsk Port	5.14
Komsomolsk refinery – Nakhodka Port	2.08
Nizhnevartovsky refinery – Tuapse Port	3.19

Source: *Transneft, RZD, Rosneft.*

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"). Rosneft owns a stake of 51% in joint venture "Rosneft Shell Caspian Ventures Ltd" (Cyprus) which has a 7.5% stake at 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, the Gudautsky area in the Black Sea territorial waters of Abkhazia, 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 oil service Group companies; and
- *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 activities.

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 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 wholesale and retail distribution in Russia.

Intercompany sales present operational activity of segments as if the segments operate separately from each other within the vertically integrated company by using of transfer prices for settlements between segments. For the estimation of upstream revenues within vertical 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. As the result segments use the price established at oil gathering facility (point of sales) where Upstream dispatches the oil to Downstream.

**Financial performance by segments for the periods: First quarter of 2015 and Fourth quarter of 2014
(Consolidated statement of profit or loss in RUB billions)**

	Upstream		Downstream		Corporate		Total	
	Quarter I, 2015	Quarter IV, 2014	Quarter I, 2015	Quarter IV, 2014	Quarter I, 2015	Quarter IV, 2014	Quarter I, 2015	Quarter IV, 2014
Revenues and equity share in profits/(losses) of associates and joint ventures								
Oil, gas, petroleum products and petrochemicals sales	–	–	1,267	1,304	–	–	1,267	1,304
Support services and other revenues	–	–	–	–	19	20	19	20
Equity share in profits/(losses) of associates and joint ventures	3	(13)	(1)	–	–	–	2	(13)
<i>Intersegment revenues</i>	<i>612</i>	<i>443</i>	–	–	–	–	–	–
Total revenues and equity share in profits/(losses) of associates and joint ventures	615	430	1,266	1,304	19	20	1,288	1,311
Costs and expenses								
Production and operating expenses	68	75	48	45	10	11	126	131
Cost of purchased oil, gas, petroleum products and refining costs	6	5	117	127	–	–	123	132
<i>Intersegment turnover</i>	–	–	<i>612</i>	<i>443</i>	–	–	–	–
General and administrative expenses	7	5	5	7	15	18	27	30
Pipeline tariffs and transportation costs	7	6	137	117	–	–	144	123
Exploration expenses	2	6	–	–	–	–	2	6
Depreciation, depletion and amortization	98	113	21	20	2	1	121	134
Taxes other than income tax	298	233	36	39	4	4	338	276
Export customs duty	–	–	263	425	–	–	263	425
Total costs and expenses	486	443	1,239	1,223	31	34	1,144	1,257
Operating income	129	(13)	27	81	(12)	(14)	144	54
Finance income	–	–	–	–	15	9	15	9
Finance expenses	–	–	–	–	(103)	(107)	(103)	(107)
Other income	–	–	–	–	9	–	9	–
Other expenses	–	–	–	–	(11)	(18)	(11)	(18)
Foreign exchange differences	–	–	–	–	17	214	17	214
Income before income tax	129	(13)	27	81	(85)	84	71	152
Income tax expense	(26)	2	(5)	(17)	16	(48)	(15)	(63)
Net income	103	(11)	22	64	(69)	36	56	89
EBITDA	227	100	48	101	(10)	(13)	265	188

**Financial performance by segments for the periods: First quarters of 2015 and 2014, respectively
(Consolidated statement of profit or loss in RUB billions)**

	Upstream		Downstream		Corporate		Total	
	Quarter I, 2015	Quarter I, 2014	Quarter I, 2015	Quarter I, 2014	Quarter I, 2015	Quarter I, 2014	Quarter I, 2015	Quarter I, 2014
Revenues and equity share in profits/(losses) of associates and joint ventures								
Oil, gas, petroleum products and petrochemicals sales	–	–	1,267	1,361	–	–	1,267	1,361
Support services and other revenues	–	–	–	–	19	16	19	16
Equity share in profits/(losses) of associates and joint ventures	3	(1)	(1)	(1)	–	–	2	(2)
<i>Intersegment revenues</i>	<i>612</i>	<i>570</i>	–	–	–	–	–	–
Total revenues and equity share in profits/(losses) of associates and joint ventures	615	569	1,266	1,360	19	16	1,288	1,375
Costs and expenses								
Production and operating expenses	68	55	48	36	10	7	126	98
Cost of purchased oil, gas, petroleum products and refining costs	6	5	117	119	–	–	123	124
<i>Intersegment turnover</i>	–	–	<i>612</i>	<i>570</i>	–	–	–	–
General and administrative expenses	7	8	5	4	15	15	27	27
Pipeline tariffs and transportation costs	7	6	137	111	–	–	144	117
Exploration expenses	2	4	–	–	–	–	2	4
Depreciation, depletion and amortization	98	86	21	17	2	2	121	105
Taxes other than income tax	298	256	36	42	4	3	338	301
Export customs duty	–	–	263	415	–	–	263	415
Total costs and expenses	486	420	1,239	1,314	31	27	1,144	1,191
Operating income	129	149	27	46	(12)	(11)	144	184
Finance income	–	–	–	–	15	6	15	6
Finance expenses	–	–	–	–	(103)	(41)	(103)	(41)
Other income	–	–	–	–	9	58	9	58
Other expenses	–	–	–	–	(11)	(13)	(11)	(13)
Foreign exchange differences	–	–	–	–	17	(84)	17	(84)
Income before income tax	129	149	27	46	(85)	(85)	71	110
Income tax expense	(26)	(30)	(5)	(9)	16	17	(15)	(22)
Net income	103	119	22	37	(69)	(68)	56	88
EBITDA	227	235	48	63	(10)	(9)	265	289

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. 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.

	<i>For 3 months ended</i>			<i>For 3 months ended</i>		
	March 31, 2015	December 31, 2014	<i>% change</i>	March 31, 2015	March 31, 2014	<i>% change</i>
<u>Operating results</u>						
Hydrocarbon production (th. boe per day)	5,200	5,200	–	5,200	5,092	2.1%
Crude oil and NGL production (th. barrels per day)	4,131	4,150	(0.5)%	4,131	4,199	(1.6)%
Gas production (th.boe per day)	1,069	1,050	1.8%	1,069	893	19.7%
Hydrocarbon production (mln boe) ¹	432.4	441.9	(2.1)%	432.4	422.4	2.4%
<u>Financial results, RUB billion</u>						
EBITDA	227	100	>100%	227	235	(3.4)%
Capital expenditures ²	96	99	(3.0)%	96	75	28.0%
Upstream operating expenses ³	68.0	71.7	(5.2)%	68.0	55.4	22.7%
<u>Indicators per boe</u>						
EBITDA, RUB/boe	525	226	>100%	525	556	(5.6)%
Capital expenditures, RUB/boe	222	224	(0.9)%	222	178	24.7%
Upstream operating expenses, RUB/boe	157	162	(3.1)%	157	131	19.8%
Upstream operating expenses, USD/boe*	2.5	3.4	(26.5)%	2.5	3.7	(32.4)%

*Estimation is made using monthly exchange rate for the reporting periods (Appendix I)

¹ Excluding associates and JV

² Refer to "Capital expenditures"

³ Excluding one-off effect of ecological reserve estimation in the amount of RUB 0.2 billion in the first quarter of 2015 and RUB 3.2 billion in the fourth quarter of 2014

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%, Polar Lights – 50.0% and Slavneft – 49.94%. The Company also participates in international projects in Vietnam and Venezuela.

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

	<i>For 3 months ended</i>			<i>% change</i>	<i>For 3 months ended</i>			<i>% change</i>
	<i>March 31, 2015</i>	<i>December 31, 2014</i>			<i>March 31, 2015</i>	<i>March 31, 2014</i>		
	<i>million of barrels</i>				<i>million of barrels</i>			
Yuganskneftegaz (Western Siberia)	114.8	119.1	(3.6)%		114.8	119.1	(3.6)%	
Samaraneftegaz (Central Russia)	21.5	21.7	(0.9)%		21.5	20.9	2.9%	
Purneftegaz (Western Siberia)	10.2	11.0	(7.3)%		10.2	11.2	(8.9)%	
Vankorneft (Eastern Siberia)	40.2	41.0	(2.0)%		40.2	40.2	–	
Severnaya Neft (Timan Pechora)	5.1	5.3	(3.8)%		5.1	5.3	(3.8)%	
Sakhalin-1 (Far East)								
(net of royalty and government share)	2.6	2.5	4.0%		2.6	2.5	4.0%	
Tomskneft (Western Siberia)	9.2	9.5	(3.2)%		9.2	9.0	2.2%	
Samotlorneftegas (Western Siberia)	39.0	40.6	(3.9)%		39.0	41.1	(5.1)%	
Orenburgneft (Central Russia)	33.9	36.0	(5.8)%		33.9	36.5	(7.1)%	
Verkhnechonskneftegaz (Eastern Siberia)	15.9	16.0	(0.6)%		15.9	14.5	9.7%	
RN-Uvatneftegaz (Western Siberia)	18.9	18.8	0.5%		18.9	17.7	6.8%	
Varyeganneftegaz (Western Siberia)	11.5	11.8	(2.5)%		11.5	12.8	(10.2)%	
RN-Nyaganneftegaz (Western Siberia)	11.2	11.5	(2.6)%		11.2	11.8	(5.1)%	
Taas-Yuryakh (Eastern Siberia)	1.6	1.7	(5.9)%		1.6	1.6	–	
RN-Shelf Dalniy Vostok (Far East)	3.3	2.1	57.1%		3.3	–	–	
Other	9.0	8.7	3.4%		9.0	9.1	(1.1)%	
Crude oil and NGL production by fully and proportionately consolidated enterprises	347.9	357.3	(2.6)%		347.9	353.3	(1.5)%	
Udmurtneft (Central Russia)	5.8	6.0	(3.3)%		5.8	5.8	–	
Polar Lights (Timan Pechora)	0.4	0.3	33.3%		0.4	0.4	–	
Slavneft	14.3	14.8	(3.4)%		14.3	14.9	(4.0)%	
Other	3.4	3.4	–		3.4	3.5	(2.9)%	
Total share in production of associates and JV	23.9	24.5	(2.4)%		23.9	24.6	(2.8)%	
Total crude oil and NGL production	371.8	381.8	(2.6)%		371.8	377.9	(1.6)%	
Daily crude oil production (th. barrels per day)	4,131	4,150	(0.5)%		4,131	4,199	(1.6)%	

In the first quarter of 2015 actual daily crude oil and NGL production amounted to 4,131 th. barrels per day compared to 4,150 th. barrels per day in the fourth quarter of 2014. Decrease in production at Brownfields: Yuganskneftegaz, Orenburgneft and Purneftegaz was partly compensated by growth of daily crude oil production at Verkhnechonskneftegaz, RN-Uvatneftegaz and RN-Shelf Dalniy Vostok. Oil production at the Northern tip of Chayvo, which started at the end of 2014, demonstrates a 61% growth in daily production (or 57% volume growth).

Decrease in daily crude oil and NGL production in the first quarter of 2015 compared to the first quarter of 2014 was partially due to the sale of Yugragazpererabotka’s stake.

In condition of negative macroeconomic environment the Company is aimed at restraining the decline in daily crude oil production rate at Brownfields through the development of its own drilling business and the implementation of wellworks program throughout the year.

Production of Gas

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

	For 3 months ended		%	For 3 months ended		%
	March 31, 2015	December 31, 2014		March 31, 2015	March 31, 2014	
	<i>bcm</i>			<i>bcm</i>		
NGK ITERA (Western Siberia)	2.90	2.80	3.6%	2.90	2.73	6.2%
Purneftegaz (Western Siberia)	1.30	1.32	(1.5)%	1.30	1.09	19.3%
Yuganskneftegaz (Western Siberia)	1.12	1.20	(6.7)%	1.12	1.05	6.7%
Krasnodarneftegaz (Southern Russia)	0.82	0.85	(3.5)%	0.82	0.79	3.8%
Samaraneftegaz (Central Russia)	0.10	0.10	–	0.10	0.09	11.1%
Severnaya Neft (Timan Pechora)	0.06	0.06	–	0.06	0.06	–
Vankorneft (Eastern Siberia) ¹	2.24	2.13	5.2%	2.24	0.45	>100%
Sakhalin-1 (Far East) (net of royalty and government share)	0.14	0.14	–	0.14	0.13	7.7%
Tomskneft (Western Siberia)	0.25	0.25	–	0.25	0.20	25.0%
Samotlorneftegaz (Western Siberia)	1.44	1.56	(7.7)%	1.44	1.38	4.3%
Rospan International (Western Siberia)	1.01	1.03	(1.9)%	1.01	1.00	1.0%
Orenburgneft (Central Russia)	0.69	0.73	(5.5)%	0.69	0.76	(9.2)%
Varyeganneftegaz (Western Siberia)	0.78	0.81	(3.7)%	0.78	0.74	5.4%
RN-Nyaganneftegaz (Western Siberia)	0.39	0.38	2.6%	0.39	0.35	11.4%
RN-Shelf Dalniy Vostok (Far East)	0.10	0.05	100.0%	0.10	–	–
Other	0.54	0.48	12.5%	0.54	0.52	3.8%
Total gas production by fully and proportionately consolidated enterprises	13.88	13.89	(0.1)%	13.88	11.34	22.4%
Purgaz (NGK ITERA)	1.73	1.80	(3.9)%	1.73	1.71	1.2%
Slavneft	0.11	0.11	–	0.11	0.09	22.2%
Other	0.08	0.06	33.3%	0.08	0.06	33.3%
Total share in production of associates and JV	1.92	1.97	(2.5)%	1.92	1.86	3.2%
Total gas production	15.80	15.86	(0.4)%	15.80	13.20	19.7%
Natural gas	7.78	7.79	(0.1)%	7.78	7.14	9.0%
Associated gas	8.02	8.07	(0.6)%	8.02	6.06	32.3%
Daily gas production (mcm per day)	175.6	172.4	1.8%	175.6	146.7	19.7%

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

¹ Including gas injection to maintain reservoir pressure

In the first quarter of 2015 daily gas production increased by 1.8% compared to the fourth quarter of 2014 and amounted to 175.6 mcm. In the first quarter of 2015 Company's gas production increased by 19.7% compared to the first quarter of 2014.

Positive gas production dynamics was reached at fields of Vankorneft, Purneftegaz and Sibneftegaz. The growth of gas production at Vankorneft is mainly connected with commissioning of the external gas transportation system in the second quarter of 2014. Increase in gas production at Purneftegaz was mainly due to effective implementing the well intervention program at Komsomolskoe, Gubkinskoe and Kharampurskoe fields. Increased gas production at Sibneftegaz was determined by launch of gas production at Khadyryakhinskoe license area in December 2014.

The Company is consistently raising the level of utilization of associated petroleum gas, which increased up to 87.4% in the first quarter of 2015 mainly due to increased gas supply to the unified gas supply system from Vankor field. In the first quarter of 2015 the level of flared volumes was 11.4%. The strategic objective of the Company is to reach accompanying petroleum gas burning level less than 5%.

Financial indicators

Equity share in net financial results (profits/(losses)) of upstream associates and joint ventures

The equity share in profits of upstream associates and joint ventures amounted to RUB 3 billion in the first quarter of 2015 in comparison with the losses in the amount of RUB 13 billion in the fourth quarter of 2014 mainly due to the effect of rouble appreciation in February–March of 2015 on the financial results of some joint ventures. In the first quarter of 2014 the equity share in financial results amounted to RUB 1 billion of losses.¹

¹ The equity share in net financial results (profits/(losses)) of downstream associates and joint ventures see in the section "Downstream operating results".

Upstream production and operating cost

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's consolidated exploration and production units.

Upstream production and operating expenses amounted to RUB 68.0 billion (or 157 RUB/boe) and decreased by 5.2% (or 3.1% per boe) in the first quarter of 2015 compared with the fourth quarter of 2014 due to seasonal decrease in operating expenses, decrease in wellworks and simultaneous extension of drilling program.

Upstream production and operating expenses increased by 22.7% (or 19.8% per boe) in the first quarter of 2015 compared with RUB 55.4 billion (131 RUB/boe) the first quarter of 2014 due to the increased electricity tariffs and increased wellworks. In the first quarter of 2014 the number of maintenance and repairs was reduced due to unfavourable weather conditions.

Gas procurement

In the first quarter of 2015 gas procurement that refers to the resale on domestic and international markets slightly increased to RUB 6 billion¹ compared to RUB 5 billion in the fourth quarter of 2014 due to increase in purchase price. In the first quarter of 2014 gas procurement was RUB 5 billion.

¹ See disclosure of oil and gas procurement in the section "Cost of Purchased Oil, Gas and Petroleum Products and Refining Costs".

Exploration Expenses

Exploration expenses mainly relate to exploratory drilling, seismic and other geological and geophysical works. Exploratory drilling costs are generally capitalised 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 first quarter of 2015 exploration expenses decreased to RUB 2 billion in comparison with RUB 6 billion in the fourth quarter of 2014. The volume of geological and seismic works on Company's license areas increased in the first quarter of 2015. The decreasing dynamic of exploration expenses is mainly explained by the capitalization of 3D geological and seismic works starting from 2015.

Mineral extraction tax

The amount of mineral extraction tax was RUB 289 billion in the first quarter of 2015 compared with RUB 224 billion in the fourth quarter of 2014. The increase in mineral extraction tax was mainly due to increased base rate established by amendments to Tax legislation.

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

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 3 months ended</i>		<i>% change</i>
	<i>March 31, 2015</i>	<i>December 31, 2014</i>		<i>March 31, 2015</i>	<i>March 31, 2014</i>	
	<i>(thousand RUB per tonne, except %)</i>					
Average enacted oil mineral extraction tax rate	6.83	5.26	29.8%	6.83	6.08	12.4%
Actual mineral extraction tax expense per tonne of oil equivalent produced*	4.97	3.81	30.4%	4.97	4.38	13.5%
	<i>(RUB per thousand cubic metres, except %)</i>					
Average actual extraction gas tax rate	498	484	2.9%	498	471	5.7%

*Including consolidated oil and gas volumes.

The actual mineral extraction tax rate is lower than generally established tax rates for the analysed periods primarily due 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.

	<i>For 3 months ended</i>			<i>For 3 months ended</i>		
	March 31, 2015	December 31, 2014	<i>% change</i>	March 31, 2015	March 31, 2014	<i>% change</i>
Operational results						
Crude oil processing at refineries, mln. tn	24.34	26.25	(7.3)%	24.34	24.87	(2.1)%
<i>Processing at Company's own refineries in Russia, mln.tn</i>	19.77	20.75	(4.7)%	19.77	19.74	0.2%
<i>Processing at Company's own refineries outside Russia, mln.tn</i>	2.64	2.80	(5.7)%	2.64	2.65	(0.4)%
<i>Processing at Associate's refineries</i>	1.93	2.70	(28.5)%	1.93	2.48	(22.2)%
Financial results, RUB billion						
EBITDA	48	101	(52.5)%	48	63	(23.8)%
Capital expenditures ¹	28	60	(53.3)%	28	24	16.7%
Operating expenses for processing in Russia	17.77	20.33	(12.6)%	17.77	14.96	18.8%
Operating expenses for processing outside Russia	6.27	6.37	(1.6)%	6.27	4.00	56.8%
Indicators per tonne of the output²						
EBITDA, RUB per tonne	2,142	4,289	(50.1)%	2,142	2,814	(23.9)%
Capital expenditure, RUB per tonne	1,249	2,548	(51.0)%	1,249	1,072	16.5%
Operating expenses for processing in Russia, RUB per tonne	899	980	(8.3)%	899	758	18.6%
Operating expenses for processing outside Russia, RUB per tonne	2,371	2,276	4.2%	2,371	1,509	57.1%

¹ Refer to "Capital expenditures".

² 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 (European part of Russia) and others. Rosneft also owns production capacity at four Ruhr Oel GmbH (ROG) refineries in Germany and processes of crude oil in Belarus. In 2015 the Company acquired the Novokuibyshevsk petrochemical refinery (the Company of “Sanors” group located in Samara region). The refinery production capacity enables processing of 1.7 mln tonnes of hydrocarbon crude p.a. to produce competitive petrochemical products in terms of quality and technology concept on the Russian market.

The following table sets forth Rosneft’s crude oil processing and petroleum product output volumes.

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 3 months ended</i>		<i>% change</i>
	March 31, 2015	December 31, 2014		March 31, 2015	March 31, 2014	
	mln of tonnes			mln of tonnes		
Crude oil processing at Rosneft’s refineries in Russia ¹	21.67 ²	22.78	(4.9)%	21.67 ²	21.58	0.4%
Crude oil processing at refineries outside Russia	2.67	3.47	(23.1)%	2.67	3.29	(18.8)%
<i>including crude oil processing at Ruhr Oel GmbH (ROG)</i>	2.64	2.80	(5.7)%	2.64	2.65	(0.4)%
<i>including crude oil processing in Belarus</i>	0.03	0.67	(95.5)%	0.03	0.64	(95.3)%
Total group crude oil processing	24.34	26.25	(7.3)%	24.34	24.87	(2.1)%
Petroleum product output:						
High octane gasoline	2.90	2.86	1.4%	2.90	2.86	1.4%
Low octane gasoline	0.03	0.08	(62.5)%	0.03	0.04	(25.0)%
Naphtha	1.36	1.55	(12.3)%	1.36	1.32	3.0%
Diesel	6.99	7.04	(0.7)%	6.99	6.79	2.9%
Fuel oil	7.05	7.50	(6.0)%	7.05	7.11	(0.8)%
Jet fuel	0.65	0.90	(27.8)%	0.65	0.73	(11.0)%
Petrochemicals	0.20	0.21	(4.8)%	0.20	0.20	–
Other ³	1.85	2.08	(11.1)%	1.85	1.75	5.7%
Product output at Rosneft’s own refineries in Russia	21.03	22.22	(5.4)%	21.03	20.80	1.1%
Product output at refineries outside Russia	2.60	3.43	(24.2)%	2.60	3.21	(19.0)%
<i>including crude oil output at Ruhr Oel GmbH (ROG)</i>	2.57	2.81	(8.5)%	2.57	2.62	(1.9)%
<i>including product output in Belarus</i>	0.03	0.62	(95.2)%	0.03	0.59	(94.9)%
Total group product output	23.63	25.65	(7.9)%	23.63	24.01	(1.6)%

¹Including processing at Yanos refinery.

²Including SANORS processing from the acquisition date (March 13,2015)

³Including production of petroleum products at gas refineries.

In the first quarter of 2015 Rosneft’s total refinery throughput amounts to 21.67 mln tonnes, lower by 4.9% compared with the fourth quarter of 2014. The decrease in the refinery throughput inside Russia was due to decreased processing margin resulted from change in tax legislation in oil sector and re-allocation of resources to more marginal export channels. The main decrease in production utilization capacity was at Ryazan, Angarsk and Kuibyshev refineries. In the first quarter of 2014 the refinery throughput inside Russia was 21.58 mln tonnes.

In the first quarter of 2015 processing volume at German refineries decreased by 5.7% compared to the fourth quarter of 2014 due to scheduled turnarounds in February and March of 2015. Processing volume at German refineries in the first quarter of 2015 was approximately the same compared with the first quarter of 2014.

Financial indicators

Revenues and equity share in profits/(losses) of associates and joint ventures¹

In the first quarter of 2015 revenues and equity share in profits/(losses) of associates and joint ventures amounted to RUB 1,288 billion in comparison with RUB 1,311 billion in the fourth quarter of 2014. The decrease in sales was accompanied by worldwide decline of crude oil and petroleum products prices, compensated by increase in international crude oil sales volume.

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

	<i>For 3 months ended</i>					<i>For 3 months ended</i>				
	March 31, 2015		December 31, 2014		% change	March 31, 2015		March 31, 2014		% change
	% of revenue	% of revenue	% of revenue	% of revenue		% of revenue	% of revenue			
	billion RUB except %									
Crude oil										
International Sales to non-CIS	535	41.4%	540	41.2%	(0.9)%	535	41.4%	628	45.5%	(14.8)%
Europe and other directions	313	24.2%	337	25.7%	(7.1)%	313	24.2%	412	29.8%	(24.0)%
Asia	222	17.2%	203	15.5%	9.4%	222	17.2%	216	15.7%	2.8%
International sales to CIS	38	3.0%	20	1.5%	90.0%	38	3.0%	27	2.0%	40.7%
Domestic sales	24	1.9%	25	1.9%	(4.0)%	24	1.9%	33	2.4%	(27.3)%
Total crude oil	597	46.3%	585	44.6%	2.1%	597	46.3%	688	49.9%	(13.2)%
Gas	51	4.0%	50	3.8%	2.0%	51	4.0%	41	3.0%	24.4%
Petroleum products										
International Sales to non-CIS	419	32.5%	377	28.8%	11.1%	419	32.5%	366	26.7%	14.5%
Europe and other directions	317	24.6%	293	22.4%	8.2%	317	24.6%	279	20.4%	13.6%
Asia	102	7.9%	84	6.4%	21.4%	102	7.9%	87	6.3%	17.2%
International Sales to CIS	11	0.9%	21	1.6%	(47.6)%	11	0.9%	25	1.8%	(56.0)%
Domestic sales	191	14.8%	232	17.7%	(17.7)%	191	14.8%	197	14.3%	(3.0)%
Wholesale	104	8.0%	127	9.7%	(18.1)%	104	8.0%	111	8.0%	(6.3)%
Retail	87	6.8%	105	8.0%	(17.1)%	87	6.8%	86	6.3%	1.2%
Sales of bunker fuel to end-users	6	0.5%	17	1.3%	(64.7)%	6	0.5%	15	1.1%	(60.0)%
Total petroleum products	627	48.7%	647	49.4%	(3.1)%	627	48.7%	603	43.9%	4.0%
Petrochemical products	25	1.9%	22	1.7%	13.6%	25	1.9%	29	2.1%	(13.8)%
International sales	20	1.5%	17	1.3%	17.6%	20	1.5%	25	1.8%	(20.0)%
Domestic sales	5	0.4%	5	0.4%	0.0%	5	0.4%	4	0.3%	25.0%
Support services and other revenues	19	1.5%	20	1.5%	(5.0)%	19	1.5%	16	1.2%	18.8%
Equity share in profits/(losses) of associates and joint ventures	2	0.2%	(13)	(1.0)%	>100.0%	2	0.2%	(2)	(0.1)%	>100.0%
Effect from hedge operations	(33)	(2.6)%	–	–	–	(33)	(2.6)%	–	–	–
Total revenues and equity share in profits/(losses) of associates and joint ventures	1,288	100.0%	1,311	100.0%	(1.8)%	1,288	100.0%	1,375	100.0%	(6.3)%

¹ Under IFRS consolidated financial statements.

² The difference between percentages presented in the above table and other section is a result of rounding

Sales Volumes

The table below analyses crude oil, gas, petroleum and petrochemical product sales volumes¹:

	<i>For 3 months ended</i>					<i>For 3 months ended</i>				
	March 31, 2015		December 31, 2014		% change	March 31, 2015		March 31, 2014		% change
	mln bbl	% of total volume	mln bbl	% of total volume		mln bbl	% of total volume	mln bbl	% of total volume	
Crude oil										
International Sales to non-CIS	177.7	45.5%	161.4	42.8%	10.1%	177.7	45.5%	174.8	45.7%	1.7%
Europe and other directions	107.4	27.5%	98.5	26.1%	9.0%	107.4	27.5%	113.3	29.6%	(5.2)%
Asia	70.3	18.0%	62.9	16.7%	11.8%	70.3	18.0%	61.5	16.1%	14.3%
International Sales to CIS	18.5	4.7%	14.9	3.9%	24.2%	18.5	4.7%	14.1	3.7%	31.2%
Domestic	11.8	3.0%	17.1	4.5%	(31.0)%	11.8	3.0%	18.5	4.8%	(36.2)%
Total crude oil	208.0	53.2%	193.4	51.2%	7.5%	208.0	53.2%	207.4	54.2%	0.3%
Crude oil	mln tonnes		mln tonnes			mln tonnes		mln tonnes		
International Sales to non-CIS	24.0	45.5%	21.8	42.8%	10.1%	24.0	45.5%	23.6	45.7%	1.7%
Europe and other directions	14.5	27.5%	13.3	26.1%	9.0%	14.5	27.5%	15.3	29.6%	(5.2)%
Asia	9.5	18.0%	8.5	16.7%	11.8%	9.5	18.0%	8.3	16.1%	14.3%
International Sales to CIS	2.5	4.7%	2.0	3.9%	24.2%	2.5	4.7%	1.9	3.7%	31.2%
Domestic sales	1.6	3.0%	2.3	4.5%	(31.0)%	1.6	3.0%	2.5	4.8%	(36.2)%
Total crude oil	28.1	53.2%	26.1	51.2%	7.5%	28.1	53.2%	28.0	54.2%	0.3%
Petroleum products										
International Sales to non-CIS	16.3	30.8%	14.5	28.3%	12.4%	16.3	30.8%	13.3	25.8%	22.6%
Europe and other directions	12.5	23.6%	11.4	22.2%	9.6%	12.5	23.6%	10.2	19.8%	22.5%
Asia	3.8	7.2%	3.1	6.1%	22.6%	3.8	7.2%	3.1	6.0%	22.6%
International Sales to CIS	0.3	0.6%	0.6	1.2%	(50.0)%	0.3	0.6%	1.0	1.9%	(70.0)%
Domestic sales	7.0	13.3%	8.2	16.1%	(14.6)%	7.0	13.3%	7.7	14.9%	(9.1)%
Wholesale	4.5	8.6%	5.3	10.4%	(15.1)%	4.5	8.6%	5.2	10.1%	(13.5)%
Retail	2.5	4.7%	2.9	5.7%	(13.8)%	2.5	4.7%	2.5	4.8%	0.0%
Sales of bunker fuel to end-users	0.3	0.6%	1.0	2.0%	(70.0)%	0.3	0.6%	0.8	1.5%	(62.5)%
Total petroleum products	23.9	45.3%	24.3	47.6%	(1.6)%	23.9	45.3%	22.8	44.1%	4.8%
Petrochemical products	0.8	1.5%	0.6	1.2%	33.3%	0.8	1.5%	0.9	1.7%	(11.1)%
International sales	0.5	0.9%	0.4	0.8%	25.0%	0.5	0.9%	0.6	1.1%	(16.7)%
Domestic sales	0.3	0.6%	0.2	0.4%	50.0%	0.3	0.6%	0.3	0.6%	0.0%
Total crude oil and products	52.8	100.0%	51.0	100.0%	3.5%	52.8	100.0%	51.7	100.0%	2.1%
Gas	bcm		bcm			bcm		bcm		
Sales Volumes	15.93		16.07		(0.9)%	15.93		14.44		10.3%

¹ To convert tonnes to barrels a 7.404 ratio is used in 2014 and 2015, respectively.

Crude oil and petroleum products sales

Average Crude Oil and Petroleum Product Sales Prices

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

	<i>For 3 months ended</i>					<i>For 3 months ended</i>				
	March 31, 2015		December 31, 2014		% change	March 31, 2015		March 31, 2014		% change
	<i>(th.RUB/ barrel)</i>	<i>(th.RUB/ tonne)</i>	<i>(th.RUB/ barrel)</i>	<i>(th.RUB/ tonne)</i>		<i>(th.RUB/ barrel)</i>	<i>(th.RUB/ tonne)</i>	<i>(th.RUB/ barrel)</i>	<i>(th.RUB/ tonne)</i>	
Average prices on foreign markets*										
Crude oil, non-CIS	3.02	22.3	3.32	24.6	(9.3)%	3.02	22.3	3.61	26.6	(16.2)%
Europe and other directions	2.92**	21.6**	3.39	25.1	(13.9)%	2.92**	21.6**	3.66	27.0	(20.0)%
Asia	3.16**	23.4**	3.21	23.7	(1.3)%	3.16**	23.4**	3.51	25.9	(9.7)%
Crude oil, CIS	2.05	15.2	1.38	10.2	49.0%	2.05	15.2	1.92	14.1	7.8%
Petroleum products, non- CIS		25.7		25.9	(0.8)%		25.7		27.5	(6.5)%
Europe and other directions		25.4		25.6	(0.8)%		25.4		27.2	(6.6)%
Asia		26.6		27.1	(1.8)%		26.6		28.4	(6.3)%
Petroleum products, CIS		38.5		37.2	3.5%		38.5		23.9	61.1%
Average domestic prices										
Crude oil	2.04	15.1	1.51	11.2	34.8%	2.04	15.1	1.82	13.4	12.7%
Petroleum products		27.4		28.3	(3.2)%		27.4		25.4	7.9%
Wholesale		22.9		24.0	(4.6)%		22.9		21.2	8.0%
Retail		35.6		36.0	(1.1)%		35.6		34.0	4.7%
Gas (th.RUB./th. cubic meter)***		3.15		3.09	1.9%		3.15		2.85	10.5%
Sales of bunker fuel to end-users		17.8		18.2	(2.2)%		17.8		17.9	(0.6)%
Petrochemical products		32.3		33.6	(3.9)%		32.3		32.1	0.6%
International sales		44.0		43.7	0.7%		44.0		39.4	11.7%
Domestic sales		14.8		19.0	(22.1)%		14.8		14.5	2.1%

*Average price is calculated from unrounded figures.

**Price includes the effect of offsetting of prepayments under long-term agreements received in prior periods. (Historical exchange rate of 2013 is used for offsetting of prepayments). Excluding revenues under prepaid long-term crude oil supply contracts and revenues from crude oil sales to Transneft (RUB 25 billion in the first quarter of 2015) the average sales price on the Asian markets was RUB 3.33 thousand per barrel in the first quarter of 2015 compared to RUB 3.55 thousand per barrel in the fourth quarter of 2014. Average price on European markets was RUB 3.12 thousand per barrel in the first quarter of 2015.

*** Including gas sales outside Russian Federation average gas prices were 3.18 th.RUB./th. cubic meter in the first quarter 2015, 3.10 th.RUB./th. cubic meter in the fourth quarter 2014 and 2.86 th.RUB./th. cubic meter in the first quarter 2014.

International Crude Oil Sales to non-CIS

Revenues from international crude oil sales to non-CIS countries in the first quarter of 2015 amounted to RUB 535 billion compared to RUB 540 billion in the fourth quarter of 2014. Revenue increase by RUB 54 billion was due to increased sales volumes by 10.1% accompanied by 9.3% downturn of average crude oil price (negative effect on revenue of RUB 59 billion). The increase in export sales volumes was due to re-allocation of resources resulting from the monitoring of economic efficiency of trading channels.

In the first quarter of 2015 revenues from international crude oil sales to non-CIS countries decreased by 14.8% or RUB 93 billion compared with the first quarter of 2014 due to significant change of worldwide crude oil price.

The deviation between crude oil sales prices on the Asian markets and average world market prices in the region (Dubai) in the first quarter of 2015 was due to regular delivery of 6 million tonnes (44.42 million barrels) of crude oil per year to Transneft under the contract signed in 2009. These volumes are sold to Transneft for further delivery to China, under the basis of equal profitability with Company's direct export to China. These volumes are included in total Company's international crude oil sales to non-CIS, at a price that is free from export custom duty.

Scheduled settlement of prepayments under long-term supply agreements started in 2015. Offsetting of prepayments on the above mentioned contracts was RUB 21 billion in the first quarter of 2015.

International Crude Oil Sales to CIS

Revenue from sales of crude oil to CIS in the first quarter of 2015 increased by 90.0% compared to the fourth quarter of 2014 and amounted to RUB 38 billion. The increase in average sales price by 49.0% (positive effect of RUB 13 billion) was accompanied by crude oil sales volumes upturn of 24.2% (favourable impact on revenues of RUB 5 billion). The increase in sales volumes was due to obtaining additional schedule of crude oil exports to Belarus.

In the first quarter of 2015 revenues from international crude oil sales to CIS countries increased by 40.7% in comparison with the first quarter of 2014, which was mainly attributable to increased crude oil sales volume.

Domestic Sales of Crude Oil

Revenue from domestic sales of crude oil in the first quarter of 2015 decreased by 4.0% compared to the fourth quarter 2014 and amounted to RUB 24 billion mainly due to downturn of crude oil sales volume by 31.0% (negative impact on revenues of RUB 8 billion). The decrease was partially offset by growth of average sales price by 34.8% (favorable effect on revenue of RUB 7 billion).

In the first quarter of 2015 revenues from domestic crude oil sales dropped by 27.3% in comparison with the first quarter of 2014, which was mainly attributable to downturn of crude oil sales volumes.

International Petroleum Product Sales to Non-CIS

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold to non-CIS countries in the first quarter of 2015 and in the fourth quarter of 2014*:

	<i>For 3 months ended</i>						<i>% change</i>		
	March 31, 2015			December 31, 2014			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	36.2	3	0.1	41.7	33.3%	0.0%	(13.2)%
Low octane gasoline	1	0.0	34.7	1	0.0	41.5	0.0%	–	(16.4)%
Naphtha	26	0.9	29.1	29	1.0	28.3	(10.3)%	(10.0)%	2.8%
Diesel (Gasoil)	142	4.5	31.6	124	4.0	31.0	14.5%	12.5%	1.9%
Fuel oil	147	7.7	19.2	127	6.3	20.2	15.7%	22.2%	(5.0)%
Jet fuel	0	0.0	32.7	0	0.0	44.5	–	–	(26.5)%
Other	19	0.7	25.6	14	0.5	28.2	35.7%	40.0%	(9.2)%
Total petroleum products exported to non-CIS	339	13.9	24.3	298	11.9	25.0	13.8%	16.8%	(2.8)%
<i>Petroleum products sold from ROG refineries</i>	70	2.1	33.5	74	2.5	30.1	(5.4)%	(16.0)%	11.3%
<i>Petroleum products bought and sold outside Russia</i>	10	0.3	34.5	5	0.1	31.9	100.0%	>100.0%	8.2%
Total	419	16.3	25.7	377	14.5	25.9	11.1%	12.4%	(0.8)%

*average price is calculated from unrounded figures.

Revenues from the international sales of petroleum products to non-CIS countries were RUB 419 billion in the first quarter of 2015, which is 11.1% higher compared to the fourth quarter of 2014. The increase was mainly due to the change in structure of resources allocation basing on the efficiency of trading channels in condition of low market price and due to increased sales volumes under long term sales contracts outside Russia.

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold to non-CIS countries in the first quarters of 2015 and 2014:

	<i>For 3 months ended</i>						<i>% change</i>		
	March 31, 2015			March 31, 2014			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	4	0.1	36.2	9	0.3	32.4	(55.6)%	(66.7)%	11.7%
Low octane gasoline	1	0.0	34.7	1	0.0	34.6	0.0%	–	0.3%
Naphtha	26	0.9	29.1	28	0.9	32.0	(7.1)%	0.0%	(9.1)%
Diesel (Gasoil)	142	4.5	31.6	118	3.7	31.9	20.3%	21.6%	(0.9)%
Fuel oil	147	7.7	19.2	126	5.7	22.0	16.7%	35.1%	(12.7)%
Jet fuel	0	0.0	32.7	0	0.0	38.8	–	–	(15.7)%
Other	19	0.7	25.6	16	0.5	31.0	18.8%	40.0%	(17.4)%
Total petroleum products exported to non-CIS	339	13.9	24.3	298	11.1	26.8	13.8%	25.2%	(9.3)%
<i>Petroleum products sold from ROG refineries</i>	70	2.1	33.5	64	2.1	30.8	9.4%	0.0%	8.8%
<i>Petroleum products bought and sold outside Russia</i>	10	0.3	34.5	4	0.1	31.9	>100.0%	>100.0%	8.2%
Total	419	16.3	25.7	366	13.3	27.5	14.5%	22.6%	(6.5)%

*average price is calculated from unrounded figures.

In the first quarter of 2015 revenues from sales of petroleum products to non-CIS countries were 14.5% higher compared to the first quarter of 2014. Increase in sales volumes by 22.6% (favourable impact on revenues of RUB 83 billion) was partially offset by downturn of average price by 6.5% (negative impact on revenues of RUB 30 billion).

International Petroleum Product Sales to CIS

Revenues from sales of petroleum products to CIS countries were RUB 11 billion in the first quarter of 2015, which is 47.6% lower compared to the fourth quarter of 2014. A 50.0% reduction of petroleum products sales volumes (unfavourable impact on revenues of RUB 11 billion) was partially offset by an increase in average prices by 3.5% (positive impact on revenues of RUB 1 billion).

Revenues from sales of petroleum products to CIS countries in the first quarter of 2015 were 56.0% or RUB 14 billion lower than in the first quarter of 2014 due to petroleum product sales volume decrease by 70.0% (negative effect on revenue of RUB 18 billion) which was partially offset by growth of average price by 61.1% (positive effect on revenue of RUB 4 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 Russia in the first quarter of 2015 and fourth quarter of 2014*:

	<i>For 3 months ended</i>						<i>% change</i>		
	March 31, 2015			December 31, 2014			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	93	2.7	33.9	110	3.1	36.4	(15.5)%	(12.9)%	(6.9)%
Low octane gasoline	1	0.0	31.6	1	0.0	33.5	0.0%	–	(5.7)%
Diesel (Gasoil)	64	2.2	29.8	74	2.4	30.7	(13.5)%	(8.3)%	(2.9)%
Fuel oil	4	0.5	7.9	8	0.8	10.3	(50.0)%	(37.5)%	(23.3)%
Jet fuel	19	0.7	27.5	26	0.9	28.3	(26.9)%	(22.2)%	(2.8)%
Other	10	0.9	11.9	13	1.0	12.9	(23.1)%	(10.0)%	(7.8)%
Total	191	7.0	27.4	232	8.2	28.3	(17.7)%	(14.6)%	(3.2)%

*average price is calculated from unrounded figures.

Revenues from sales of petroleum products on the domestic market were RUB 191 billion in the first quarter of 2015, which is 17.7% lower compared to the fourth quarter of 2014. The decrease mainly resulted from revised monitoring of efficiency of trading channels. A 14.6% reduction in sales volumes in the first quarter 2015 (negative effect RUB of 34 billion) was accompanied by a relatively low price.

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold in Russia in the first quarter of 2015 and 2014, respectively*:

	<i>For 3 months ended</i>						<i>% change</i>		
	March 31, 2015			March 31, 2014			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	93	2.7	33.9	89	2.7	32.1	4.5%	0.0%	5.6%
Low octane gasoline	1	0.0	31.6	1	0.0	28.1	0.0%	–	12.5%
Diesel (Gasoil)	64	2.2	29.8	69	2.3	30.0	(7.2)%	(4.3)%	(0.7)%
Fuel oil	4	0.5	7.9	5	0.6	9.3	(20.0)%	(16.7)%	(15.1)%
Jet fuel	19	0.7	27.5	19	0.7	28.1	0.0%	0.0%	(2.1)%
Other	10	0.9	11.9	14	1.4	10.0	(28.6)%	(35.7)%	19.0%
Total	191	7.0	27.4	197	7.7	25.4	(3.0)%	(9.1)%	7.9%

*average price is calculated from unrounded figures.

Revenues from sales of petroleum products on the domestic market in the first quarter of 2015 were 3.0% lower than in the first quarter of 2014 and amounted to RUB 191 billion. The decrease was due to decline in sales volumes by 9.1% that was partially offset by rouble depreciation.

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 were RUB 6 billion in the first quarter of 2015. A decrease of 64.7% and 60.0% compared to the fourth and the first quarter of 2014, respectively, was a result of redirection of fuel oil volumes to export due to decreased export duties following changing in the tax assessment in oil sector effective from January 1, 2015.

Petrochemical Product Sales

Revenues from sales of petrochemical products in the first quarter of 2015 were RUB 25 billion. The increase was 13.6% or RUB 3 billion compared to the fourth quarter of 2014. An increase in sales volume of 33.3% (favorable impact on revenues of RUB 6 billion) was offset by average sales price downturn by 3.9% (negative impact on revenue of RUB 3 billion).

Sales volumes of petrochemical product from Ruhr Oel GmbH (ROG) in the first quarter of 2015 in comparison to the fourth quarter of 2014 remained approximately unchanged and amounted to 0.4 mln tonnes.

Sales volumes of petrochemical product from Ruhr Oel GmbH (ROG) in the first quarter of 2015 in comparison to the first quarter of 2014 decreased due to the change in the structure of manufactured products.

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 is currently implementing gas program aimed at extension of long-term contracts portfolio and effective diversification of distribution channels.

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

	<i>For 3 months ended</i>			<i>% change</i>	<i>For 3 months ended</i>		
	March 31, 2015	December 31, 2014			March 31, 2015	March 31, 2014	<i>% change</i>
	(RUB billion)				(RUB billion)		
Revenue							
Western Siberia and Ural region	26.7	28.5	(6.3)%		26.7	27.2	(1.8)%
South Russia	2.9	3.0	(3.3)%		2.9	2.7	7.4%
Far East	0.9	0.6	50.0%		0.9	0.5	80.0%
European part of Russia	19.0	17.2	10.5%		19.0	10.3	84.5%
Outside Russian Federation	1.2	0.6	100.0%		1.2	0.6	100.0%
Total	50.7	49.9	1.6%		50.7	41.3	22.8%
Sales volumes	(bcm)				(bcm)		
Western Siberia and Ural region	9.16	9.80	(6.5)%		9.16	10.15	(9.8)%
South Russia	0.85	0.88	(3.4)%		0.85	0.82	3.7%
Far East	0.21	0.19	10.5%		0.21	0.18	16.7%
European part of Russia	5.52	5.07	8.9%		5.52	3.11	77.5%
Outside Russian Federation	0.19	0.13	46.2%		0.19	0.18	5.6%
Total	15.93	16.07	(0.9)%		15.93	14.44	10.3%
Average price	(th. RUB/th. of cubic metres)				(th. RUB/th. of cubic metres)		
Western Siberia and Ural region	2.92	2.90	0.7%		2.92	2.68	9.0%
South Russia	3.44	3.39	1.5%		3.44	3.35	2.7%
Far East	4.15	3.13	32.6%		4.15	2.55	62.7%
European part of Russia	3.44	3.41	0.9%		3.44	3.30	4.2%
Outside Russian Federation	5.98	4.68	27.8%		5.98	3.36	78.0%
Total	3.18	3.10	2.6%		3.18	2.86	11.2%

*average price is calculated from unrounded figures.

In the first quarter of 2015 revenues from gas sales increased in comparison with the fourth quarter of 2014 and amounted to RUB 50.7 billion. An increase in average price by 2.6% (positive impact on revenues of RUB 1 billion) was offset by slight decrease in sales volumes in the first quarter of 2015. Slight decrease in volumes compared to the fourth quarter of 2014 was due to sales of accumulated gas resources of prior periods in the fourth quarter of 2014.

A growth of sales volume by 10.3% (favorable impact of RUB 4 billion) in the first quarter of 2015 compared to the first quarter of 2014 was due to increased sales under new contracts concluded in 2014 which was accompanied by increase in average price by 11.2% (positive impact on revenues of RUB 5 billion).

Since October 2014 the Company participates in the natural gas exchange trading at the St. Petersburg international commodity exchange. At the closing of trading sessions the Company supplied 367.4 mln cubic metres of gas to end-customers in the first quarter of 2015 and 24 mln cubic metres in the fourth quarter 2014, respectively.

Support Services and Other Revenues

Rosneft owns service companies which render drilling, construction, repair 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 3 months ended</i>			<i>Change</i>		
	March 31, 2015		December 31, 2014		March 31, 2015		March 31, 2014			
	% of total revenue	% of total revenue	% of total revenue		% of total revenue	%	% of total revenue		% of total revenue	%
	billion RUB ,except %									
Drilling services	3.0	15.7%	3.0	14.9%	0.0%	3.0	15.7%	0.9	5.7%	>100.0%
Sales of materials	5.3	27.8%	5.3	26.4%	0.0%	5.3	27.8%	4.6	29.3%	15.2%
Repairs and maintenance services	0.8	4.2%	1.5	7.5%	(46.7)%	0.8	4.2%	0.5	3.2%	60.0%
Rent services	1.0	5.2%	0.9	4.5%	11.1%	1.0	5.2%	1.0	6.4%	0.0%
Construction services	0.1	0.5%	0.2	1.0%	(50.0)%	0.1	0.5%	0.1	0.6%	0.0%
Transport services	3.9	20.5%	2.6	12.9%	50.0%	3.9	20.5%	2.5	15.9%	56.0%
Electric power sales and transmission	2.3	12.0%	3.0	14.9%	(23.3)%	2.3	12.0%	2.6	16.6%	(11.5)%
Other revenues	2.7	14.1%	3.6	17.9%	(25.0)%	2.7	14.1%	3.5	22.3%	(22.9)%
Total	19.1	100.0%	20.1	100.0%	(5.0)%	19.1	100.0%	15.7	100.0%	21.7%

Support services and other revenues were 5.0% lower in the first quarter of 2015 compared to the fourth quarter of 2014 due to the seasonal factor (decreased revenue from repairs and maintenance services), and decreased revenue from electric power sales and transmission due to the increased internal use.

Support services and other revenues were 21.7% higher in the first quarter of 2015 compared to the first quarter of 2014 due to acquisition of drilling assets in the second quarter of 2014.

Adjustment of revenue hedging

In accordance with IAS 39, *Financial instruments: recognition and measurement* the Company applies hedge accounting in the financial statements to account for the effects of a natural hedge between a portion of its export revenues and liabilities denominated in U.S. dollars, effective from October 1, 2014¹. A portion of future monthly export revenues expected to be received in U.S. dollars over the following five years is designated as a hedged item. Debt liabilities of the Company in U.S. dollars to third parties are designated as hedging instruments. The nominal amounts of the hedged item and the hedging instruments are equal. To the extent that a change in foreign currency rate impacts the hedging instrument, the effects are recognized in other comprehensive income/(loss).

Upon completion of the hedged transaction the related exchange differences temporarily held within equity are released to profit or loss for the period within revenue.

The deferred effect of hedged operations was recognized in the amount of RUB 33 billion in the revenues in the first quarter of 2015.

Equity share in net financial results ((losses)/profits) of downstream associates and joint ventures

The equity share in net financial results (losses) of downstream associates and joint ventures amounted to RUB 1 billion and remained unchanged in the first quarter of 2015 compared to the first quarter of 2014.²

¹ Refer to "Management of foreign exchange risk in terms of high Russian rouble fluctuation" section on page 6.

² The equity share in net financial results (profits/(losses)) of Upstream associates and joint ventures see in the section "Upstream operating results".

Downstream production and operating cost

Downstream operating expenses include:

	For 3 months ended		%	For 3 months ended		%
	March 31, 2015	December 31, 2014		change	March 31, 2015	
Operating expenses at refineries in Russia	17.8	20.3	(12.6)%	17.8	15.0	18.8%
Operating expenses at refineries outside Russia	6.3	6.4	(1.6)%	6.3	4.0	56.8%
Cost of additives and materials procured for ROG processing	8.6	12.8	(32.8)%	8.6	8.3	3.6%
Operating expenses of sales companies	14.5	17.5	(17.1)%	14.5	9.7	49.5%
Intragroup inventory effect and others	0.8	(12.0)	>100%	0.8	(1.0)	>100%
Total Downstream Operating expenses	48.0	45.0	6.7%	48.0	36.0	33.3%

Downstream operating expenses increased by 6.7% in the first quarter of 2015 compared with the fourth quarter of 2014 and amounted to RUB 48.0 billion mainly due to increased sales of intragroup inventories.

Operating expenses at Company's refineries

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

	For 3 months ended		%	For 3 months ended		%
	March 31, 2015	December 31, 2014		change	March 31, 2015	
Operating expenses at refineries in Russia (RUB billion)	17.77	20.33	(12.6)%	17.77	14.96	18.8%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	923	1,001	(7.8)%	923	784	17.7%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	899	980	(8.3)%	899	758	18.6%
Operating expenses at refineries outside Russia (RUB billion)*	6.27	6.37	(1.6)%	6.27	4.00	56.8%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	2,437	2,270	7.4%	2,437	1,527	59.6%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	2,371	2,276	4.2%	2,371	1,509	57.1%
Total operating expenses at Rosneft's refineries (RUB billion)	24.04	26.70	(10.0)%	24.04	18.96	26.8%

*Refineries outside Russia also procured the additives and materials for processing: in the first quarter of 2015 – RUB 8.6 billion, in the fourth quarter of 2014 – RUB 12.8 billion, in the first quarter of 2014 – RUB 8.3 billion.

Operating expenses of Rosneft's refineries were RUB 24.04 billion in the first quarter of 2015, which is a decrease of 10.0% compared with the fourth quarter of 2014. In the first quarter of 2014 operating expenses were RUB 18.96 billion.

Operating expenses of Rosneft's refineries in Russia were RUB 17.77 billion in the first quarter of 2015 and decreased by 12.6% compared with the fourth quarter of 2014. The decrease resulted from decrease in turnaround expenses. Operating expenses of Rosneft's refineries in Russia increased by 18.8% in the first quarter of 2015 compared with the first quarter of 2014 due to increased expenses for raw materials (additives) resulted from increase in production of ecological fuel of EURO -4 level and increased electricity tariffs.

Operating expenses of Rosneft's refineries outside of Russia decreased in the first quarter of 2015 by 1.6% in comparison with the fourth quarter of 2014 due to lower production volumes in the current period. The increase in operating expenses of Rosneft's refineries outside of Russia was 56.8% in comparison with the first quarter of 2014 due to RUB depreciation which had negative impact on operating expenses denominated in EUR currency at Rosneft's units outside Russia.

Operating costs per tonne of crude oil throughput of Rosneft's refineries outside Russia are higher than operating expenses of Rosneft's refineries in Russia due to more wide range of produced petroleum products and specifically petrochemicals, and also higher Nelson index (more complicated technological production process).

Operating costs per tonne of crude oil throughput of Rosneft's refineries in Russia in the first quarter of 2015 decreased by 8.3% compared with the fourth quarter of 2014 and amounted to RUB 899 per tonne. The decrease was mainly due to lower turnaround expenses. The increase in the first quarter of 2015 was 18.6% in comparison with the first quarter of 2014 due to increased material supply and electricity tariffs.

Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia were 2,371 RUB per tonne in the first quarter of 2015 which is an increase of 4.2% compared with the fourth quarter of 2014. The increase in operating expenses per tonne of crude oil throughput was mainly due to RUB depreciation which had negative impact on operating expenses denominated in EUR currency at Rosneft's units outside Russia.

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

The following table shows Rosneft's crude oil, gas and petroleum products procurement costs and volumes and third-party refining costs¹:

	For 3 months ended			%	For 3 months ended		
	March 31, 2015	December 31, 2014	change		March 31, 2015	March 31, 2014	change
Crude oil procurement							
Cost of crude oil procured (RUB billion)	95	106	(10.4)%	95	100	(5.0)%	
<i>including Domestic market</i>	40	35	14.3%	40	35	14.3%	
<i>International market</i>	55	71	(22.5)%	55	65	(15.4)%	
Volume of crude oil procured (million of barrels)	40.6	45.9	(11.5)%	40.6	38.5	5.5%	
<i>including Domestic market</i>	23.5	27.7	(15.2)%	23.5	21.4	9.8%	
<i>International market</i>	17.1	18.2	(6.0)%	17.1	16.9	1.2%	
Gas procurement²							
Cost of gas procured (RUB billion)	6.5	6.3	3.2%	6.5	9.3	(30.1)%	
Volume of gas procured (bcm)	3.81	3.88	(1.8)%	3.81	4.70	(18.9)%	
Petroleum products procurement							
Cost of petroleum product procured (RUB billion)*	14	12	16.7%	14	10	40.0%	
Volume of petroleum product procured (million of tonnes)	0.42	0.36	16.7%	0.42	0.37	13.5%	
Crude oil, gas and petroleum products refining services							
Cost of refining of crude oil under processing agreements (RUB billion)	7.4	8.2	(9.8)%	7.4	5.1	45.1%	
Volumes of crude oil refined under processing agreements (million of tonnes)	0.1	0.8	(87.5)%	0.1	0.7	(85.7)%	
Volumes of refining of gas under processing agreements (bcm)	2.9	3.1	(6.5)%	2.9	1.2	>100%	
Volumes of refining of petroleum products under processing agreements (million of tonnes)	2.1	2.0	5.0%	2.1	2.1	–	
Total cost of procured oil, gas and petroleum products and refining costs (RUB billion)	123	132	(6.8)%	123	124	(0.8)%	

*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.

¹Cost of purchases under IFRS consolidated financial statements.

²Included cost of Upstream segment in the amount of RUB 6 billion, RUB 5 billion and RUB 5 billion in the first quarter of 2015, in the fourth quarter of 2014 and in the first quarter of 2014 respectively and cost of Downstream segment in the amount of RUB 0.5 billion, RUB 0.3 billion and RUB 4.3 billion in the first quarter of 2015, in the fourth quarter of 2014 and in the first quarter of 2014 respectively.

Crude oil procurement

Rosneft purchases crude oil primarily from its associates to process it at own refineries and also to export. Rosneft procures crude oil on the international market to supply it to Ruhr Oel GmbH (ROG) refineries.

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

	For 3 months ended			%	For 3 months ended		
	March 31, 2015	December 31, 2014	change		March 31, 2015	March 31, 2014	change
	mln barrels				mln barrels		
International market	17.1	18.2	(6.0)%	17.1	16.9	1.2%	
Udmurtneft	6.4	7.4	(13.5)%	6.4	5.3	20.8%	
Slavneft	14.3	18.0	(20.6)%	14.3	12.6	13.5%	
Others	2.8	2.3	21.7%	2.8	3.7	(24.3)%	
Total	40.6	45.9	(11.5)%	40.6	38.5	5.5%	

Rosneft performs oil swap 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 comprehensive income.

The volume of swap was 1.8 mln barrels and 1.8 mln barrels in the first quarter of 2015 and in the fourth quarter of 2014, 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 foreign markets.

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

<i>Petroleum products procurement in Russia</i>	<i>For 3 months ended</i>						<i>% change</i>		
	March 31, 2015			December 31, 2014			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	1	0.04	34.5	3	0.08	34.1	(66.7)%	(50.0)%	1.2%
Diesel	2	0.06	30.3	2	0.07	30.8	-	(14.3)%	(1.6)%
Fuel oil	0	0.00	12.2	0	0.01	13.4	-	(100.0)%	(9.0)%
Jet fuel	0	0.00	25.2	1	0.03	28.1	(100.0)%	(100.0)%	(10.3)%
Other	1	0.02	23.5	1	0.02	24.6	-	-	(4.5)%
<i>Petroleum products procured outside Russia</i>	10	0.30	33.9	5	0.15	31.9	100.0%	>100%	6.3%
Total	14	0.42	34.5	12	0.36	32.8	16.7%	16.7%	5.2%

The volume of petroleum product procured in the first quarter of 2015 increased by 16.7% compared with the fourth quarter of 2014. Increased procurement of petroleum products outside Russia was due to increased sales of petroleum products under long-term agreements.

<i>Petroleum products procurement in Russia</i>	<i>For 3 months ended</i>						<i>% change</i>		
	March 31, 2015			March 31, 2014			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	1	0.04	34.5	1	0.04	31.3	-	-	10.2%
Diesel	2	0.06	30.3	3	0.10	28.3	(33.3)%	(40.0)%	7.1%
Fuel oil	0	0.00	12.2	1	0.07	13.0	(100.0)%	(100.0)%	(6.2)%
Jet fuel	0	0.00	25.2	1	0.02	27.3	(100.0)%	(100.0)%	(7.7)%
Other	1	0.02	23.5	0	0.01	29.6	-	100.0%	(20.6)%
<i>Petroleum products procured outside Russia</i>	10	0.30	33.9	4	0.13	31.8	>100%	>100%	6.6%
Total	14	0.42	34.5	10	0.37	27.0	40.0%	13.5%	27.8%

The petroleum product volume procured increased by 13.5% in the first quarter of 2015 compared to the first quarter of 2014.

Average purchase prices may be different from average sale prices depending on different regional structure of purchases (mix structure) and sales and difference in quality of the petroleum products.

Petroleum products procurement outside Russia

Petroleum products procured outside Russia amounted to RUB 10 billion (0.30 million tonnes) in the first quarter of 2015. Increased procurement of petroleum products outside Russia is due to increased sales of petroleum products under long-term agreements.

Gas procurement and 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 in the amount of RUB 3.63 billion in the first quarter of 2015 and RUB 3.82 billion in the fourth quarter of 2014.

Gas purchases amounted to RUB 6.5 billion in the first quarter of 2015, an increase of 3.2% compared with the fourth quarter of 2014 which was due to increased purchase price. Gas purchases in the first quarter of 2015 decreased by 30.1% compared with the first quarter of 2014 due to the fulfilment of market demand by own resources.

Crude oil and gas processing expenses decreased in the first quarter of 2015 in comparison with the fourth quarter of 2014 by 9.8% due to temporary cease of processing at Mozyr refinery under processing agreement in the first quarter of 2015 with negative macroeconomic factors. Crude oil and gas processing expenses increased by 45.1% compared with the first quarter of 2014 due to increased market demand.

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 first quarter of 2015 Rosneft's transportation costs increased by 17.1% and amounted to RUB 144 billion compared to the fourth quarter of 2014. The growth in transportation costs was mainly due to increase in tariffs of natural monopolies.

The table below sets forth comparison on quarter-on-quarter basis for costs per tonne of crude oil and petroleum products transported by pipeline, railroad and mixed transportation and gas transportation costs via gas pipeline system:

	For 3 months ended								% change		
	March 31, 2015				December 31, 2014				Volume	Cost	Cost per tonne
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t			
CRUDE OIL											
<u>International sales</u>											
Pipeline	25.0	94.3%	44.2	1.78	22.7	95.4%	37.0	1.63	10.1%	19.5%	9.2%
Railroad and mixed	1.5	5.7%	5.5	3.46	1.1	4.6%	3.4	2.83	36.4%	61.8%	22.3%
<u>Transportation to refineries</u>											
Pipeline ¹	22.5		18.8	0.84	24.6		19.0	0.77	(8.5)%	(1.1)%	9.1%
Railroad and mixed	1.5		6.8	4.43	1.7		7.0	4.00	(11.8)%	(2.9)%	10.8%
PETROLEUM PRODUCTS											
<u>International sales</u>											
Pipeline	1.4	8.1%	3.6	2.64	1.4	8.7%	3.5	2.55	0.0%	2.9%	3.5%
Railroad and mixed	13.5	78.0%	42.1	3.11	12.8	79.0%	32.4	2.53	5.5%	29.9%	22.9%
Pipeline and FCA ²	2.4	13.9%			2.0	12.3%			20.0%		
GAS											
Pipeline ³	bcm		11.1	11.2	bcm		11.0	10.8	0.9%	3.7%	
Other transportation expenses ⁴											
			12					10	20.0%		
Total	67.8		144		66.3		123		2.3%	17.1%	

¹ Including crude oil purchased on international market, which was directed to Ruhr Oel GmbH (ROG).

² Rosneft exported part of petroleum products in the first quarter of 2015 and in the fourth quarter of 2014 through its own pipeline in the town of Tuapse, and on FCA terms, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

³ Part of gas volumes was dispatched on terms where Rosneft does not bear transportation expenses. In the first quarter of 2015 and fourth quarter of 2014 these volumes amounted to 4.9 bcm and 5.0 bcm respectively.

⁴ Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farm and road transportation from tank farms to fuel filling station.

Crude oil pipeline transportation cost per tonne of international sales in the first quarter of 2015 increased by 9.2% in comparison with the fourth quarter of 2014 which was due to AK Transneft tariffs growth.

The increase in crude oil railroad and mixed transportation cost per tonne of international sales was 22.3% due to indexation of railroad tariffs and effect of dollar component of the transportation tariff.

Crude oil pipeline transportation cost per tonne of supplies to refineries increased by 9.1% in the first quarter of 2015 compared to the fourth quarter of 2014 which was due tariffs indexation.

Crude oil railroad and mixed transportation cost per tonne of supplies to refineries in the first quarter of 2015 increased by 10.8% compared to the fourth quarter of 2014 due to railroad tariffs indexation and change in transportation structure.

The increase in pipeline cost per tonne of petroleum product international sales was 3.5% in the first quarter of 2015 compared to the previous quarter mainly due to change in logistic structure and growth of transportation tariffs of separate directions.

Railroad and mixed transportation cost per tonne of petroleum product international sales increased by 22.9% in the first quarter of 2015 compared to the fourth quarter of 2014 due to railroad tariffs indexation and change in logistic structure.

Increased gas transportation costs by 3.7% in the first quarter of 2015 compared to the first quarter of 2014 resulted from increased gas sales volume and increased transportation volumes to new end-customers in regions with the remote location from main gas production complex. In 2014 and in the first quarter of 2015 indexation of gas transportation tariffs was not carried out.

The table below sets forth comparison for costs per tonne of crude oil and petroleum products transported by pipeline, railway and mixed transportation and gas transportation costs via gas pipeline system in the first quarters of 2015 and 2014:

	<i>For 3 months ended</i>								<i>% change</i>		
	March 31, 2015				March 31, 2014				Volume	Cost	Cost per tonne
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t			
CRUDE OIL											
<u>International sales</u>											
Pipeline	25.0	94.3%	44.2	1.78	23.9	93.7%	38.3	1.60	4.6%	15.4%	11.3%
Railroad and mixed	1.5	5.7%	5.5	3.46	1.6	6.3%	4.1	2.55	(6.3)%	34.1%	35.7%
<u>Transportation to refineries</u>											
Pipeline ¹	22.5		18.8	0.84	23.2		19.0	0.82	(3.0)%	(1.1)%	2.4%
Railroad and mixed	1.5		6.8	4.43	1.6		6.9	4.28	(6.3)%	(1.4)%	3.5%
PETROLEUM PRODUCTS											
<u>International sales</u>											
Pipeline	1.4	8.1%	3.6	2.64	1.0	6.4%	2.2	2.18	40.0%	63.6%	21.1%
Railroad and mixed	13.5	78.0%	42.1	3.11	13.0	83.3%	30.6	2.35	3.8%	37.6%	32.3%
Pipeline and FCA ²	2.4	13.9%			1.6	10.3%			50.0%		
GAS	bcm				bcm						
Pipeline ³	11.1		11.2		8.9		7.7		24.7%	45.5%	
Other transportation expenses ⁴			12				8			50.0%	
Total	67.8		144		65.9		117		2.9%	23.1%	

¹ Including crude oil purchased on international market, which was directed to Ruhr Oel GmbH (ROG).

² Rosneft exported part of petroleum products in the first quarter of 2015 and in the first quarter of 2014 through its own pipeline in the town of Tuapse, and on FCA terms, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

³ Part of gas volumes was dispatched on terms where Rosneft does not bear transportation expenses. In the first quarter of 2015 and fourth quarter of 2014 these volumes amounted to 4.9 bcm and 5.6 bcm respectively.

⁴ 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 increase in transportation costs per tonne of products sold (for crude oil and petroleum products) almost for every type of transport in the first quarter of 2015 compared with the first quarter of 2014 mainly resulted from tariffs indexation, change in transportation structure.

Excise tax

In the first quarter of 2015 excise tax was RUB 27 billion in comparison with RUB 34 billion in the fourth quarter of 2014. Decrease was due to decrease in sales of petroleum products subject to exercise duties. In the first quarter of 2014 excise tax was RUB 35 billion.

Export Customs Duty

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

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

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 3 months ended</i>		<i>% change</i>
	<i>March 31, 2015</i>	<i>December 31, 2014</i>		<i>March 31, 2015</i>	<i>March 31, 2014</i>	
	RUB billion, except %					
Export customs duty for crude oil	185	300	(38.3)%	185	302	(38.7)%
Export customs duty for petroleum products	78	125	(37.6)%	78	113	(31.0)%
Total export customs duties	263	425	(38.1)%	263	415	(36.6)%

Export customs duty decrease of 38.1% in the first quarter of 2015 compared to the fourth quarter of 2014 was due to lower export duty rates partially offset by an increase in crude oil export volumes. Decrease in export customs duty in the first quarter of 2015 compared to the first quarter of 2014 mainly resulted from the decreased export duty rates due to the latest amendments to the tax legislation and decrease in oil prices.

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

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 3 months ended</i>		<i>% change</i>
	<i>March 31, 2015</i>	<i>December 31, 2014</i>		<i>March 31, 2015</i>	<i>March 31, 2014</i>	
	(thousand RUB per tonne, except %)					
Average Urals price	24.29	26.43	(8.1)%	24.29	27.54	(11.8)%
Average enacted export customs duty	8.10	14.84	(45.4)%	8.10	13.66	(40.7)%
Hypothetical export customs duty ¹	7.13	11.37	(37.3)%	7.13	13.30	(46.4)%
Average customs duty on crude oil exports to non-CIS countries subject to regular rate	8.23	14.71	(44.1)%	8.23	13.69	(39.9)%

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

The actual average customs duty on exports subject to regular duty deviates from the enacted export customs duty due to different monthly export volumes and due to part of oil exports being realized under FCA terms.

Operating results of segment "Corporate and others"

Segment includes the Group companies that provide corporate services, as well as banks and other.

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 3 months ended</i>		<i>% change</i>
	<i>March 31, 2015</i>	<i>December 31, 2014</i>		<i>March 31, 2015</i>	<i>March 31, 2014</i>	
Financial results, RUB billion						
EBITDA	(10)	(13)	23.1%	(10)	(9)	(11.1)%
Operating cost	10	11	(9.1)%	10	7	42.9%
Capital expenditures ¹	2	–	–	2	4	(50.0)%

¹ Refers to "Capital expenditures".

Operating cost of the segment "Corporate"

Production and operating expenses related to the segment "Corporate" decreased by 9.1% in the first quarter of 2015 compared to the fourth quarter of 2014 due to lower volumes of construction and repairs and maintenance services, electric power sales and transmission and other revenues.

Production and operating expenses related to the segment "Corporate" in the first quarter of 2014 was RUB 7 billion.

Separate indicators of the consolidated financial statement

Costs and Expenses

General and Administrative Expenses

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

Other income and other expenses

In the first quarter of 2015 other income was RUB 9 billion and includes written off of liabilities referred to legal proceeding which was settled out completely. In the first quarter of 2014 other income was RUB 58 billion, and includes income from the sale of a 49% stake of LLC Yugragazpererabotka (RUB 56 billion).

In the first quarter of 2015 other expenses amounted to RUB 11 billion compared to RUB 18 billion in the fourth quarter of 2014. Other expenses mainly include expenses on liquidation of fixed assets in the course of operating activities and other expenses. In the first quarter of 2014 other expenses were RUB 13 billion.

Foreign Exchange (Loss)/Gain

Foreign exchange effect is mostly attributed to monthly revaluation of assets and liabilities denominated in foreign currency at the exchange rate at the end of the period. Changes were mainly related to revaluation of assets and liabilities denominated in foreign currency as a result of the significant depreciation of the RUB against the USD in the first quarter of 2015.

In accordance with IAS 39, *Financial instruments: recognition and measurement* the Company applies hedge accounting in the financial statements to account for the effects of a natural hedge between a portion of its export revenues and liabilities denominated in U.S. dollars, effective on October 1, 2014¹. A portion of future monthly export revenues expected to be received in U.S. dollars over the following five years is designated as a hedged item. Debt liabilities of the Company in U.S. dollars to third parties are designated as hedging instruments. The nominal amounts of the hedged item and the hedging instruments are equal. To the extent that a change in foreign currency rate impacts the hedging instrument, the effects are recognized in other comprehensive income/(loss). Upon completion of the hedged transaction the related exchange differences temporarily held within equity are released to profit or loss for the period within revenue.

In the first quarter of 2015 foreign exchange gain recognized in profit and loss statement amounted to RUB 17 billion.

The effect from capitalization of the foreign exchange differences on capital loans to fund capital expenditures amounted to RUB 16 billion in the first quarter of 2015.

In the first quarter of 2014 foreign exchange loss was RUB 84 billion. In the first quarter of 2014 in accordance with effective IFRS accounting policies separate effect of capitalization of foreign exchange differences from foreign currency loans taken out to fund capital expenditures was not calculated.

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>		
	March 31, 2015	December 31, 2014	March 31, 2014
Effective income tax rate under IFRS	21.1%	20.4 ¹ %	20.0%

¹ Excluding tax dividend in the amount of RUB 32 billion.

The Company applies the provisions of IAS 12 "Income taxes" to determine effective tax rate.

In accordance with Statement of comprehensive income, income tax expense was RUB 15 billion, RUB 63 billion and RUB 22 billion in the first quarter of 2015, fourth quarter of 2014 and in the first quarter of 2014, respectively. In the first quarter of 2015 the decrease in income tax was due to lower tax base compared to the same period of 2014.

Net Income

Net income amounted to RUB 56 billion in the first quarter of 2015 compared to the net income of RUB 89 billion in the fourth quarter of 2014. In the first quarter of 2015 net income includes all operating and financial effects mentioned above and net effect of foreign exchange cash flow hedges in the amount of RUB 30 billion recognized in "Other comprehensive loss".

Net income amounted to RUB 88 billion in the first quarter of 2014. Excluding net effect of RUB 45 billion from the sale of a 49% stake of LLC Yugragazpererabotka net income was RUB 43 billion in the first quarter of 2014.

¹ See p. 6 "Management on foreign exchange risk in terms of high russian rouble fluctuation

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 3 months ended</i>		<i>% change</i>
	March 31, 2015	December 31, 2014		March 31, 2015	March 31, 2014	
	RUB billion		times	RUB billion		times
Net cash provided by operating activities	238	358	0.66	238	658	0.36
Net cash provided by/(used in) investing activities	12	(123)	–	12	(345)	–
Net cash used in financing activities	(349)	(185)	1.89	(349)	(404)	0.86

Net cash provided by operating activities

Net cash provided by operating activities amounted to RUB 238 billion in the first quarter of 2015 compared to RUB 358 billion in the fourth quarter of 2014 and to RUB 658 billion in the first quarter of 2014.

Operating cash flow includes operations with trading securities as part of the Company's efforts to manage cash resources (net inflow of RUB 1 billion in the first quarter of 2015, net inflow of RUB 3 billion in the fourth quarter of 2014 and net inflow of RUB 2 billion in the first quarter of 2014).

Net cash provided by operating activity adjusted for the above operations amounted to RUB 237 billion in the first quarter of 2015 (adjusted for operations with trading securities in the amount of RUB 1 billion), RUB 355 billion in the fourth quarter of 2014 (adjusted for operations with trading securities in the amount of RUB 3 billion) and RUB 656 billion in the first quarter of 2014 (adjusted for operations with trading securities in the amount of RUB 2 billion).

Net cash provided by operating activity through the presented periods is given in the table below:

	<i>For 3 months ended</i>		<i>change</i>	<i>For 3 months ended</i>		<i>% change</i>
	March 31, 2015	December 31, 2014		March 31, 2015	March 31, 2014	
	RUB billion		times	RUB billion		times
Net cash provided by operating activity	238	358	0.66	238	658	0.36
<i>Effect from operation with trading securities</i>	(1)	(3)	0.33	(1)	(2)	0.50
Adjusted net cash provided by operating activity	237	355	0.67	237	656	0.36
<i>Offsetting of/(receipt of) prepayments under long term supply contracts¹</i>	21	–	–	21	(431)	–
Adjusted net cash provided by operating activity before change in working capital	258	355	0.73	258	225	1.15

¹Settlement of prepayments received in prior periods under long-term supply contracts started in 2015. In prior periods one off prepayments received under long-term contracts were adjusted with the purpose to estimate operating cash flow on a straight line basis.

In the first quarter of 2015 adjusted operating cash flow was affected by change of working capital and dividend tax payment accrued in previous period. In the first quarter of 2014 adjusted operating cash flow was RUB 225 billion.

Despite unfavorable macroeconomic environment the Company continues to generate a positive cash flow in the first quarter of 2015 through effective working capital management.

Net cash provided by/(used in) investing activities

Net cash provided by investing activities was RUB 12 billion in the first quarter of 2015 compared to RUB 123 billion used in investing activities in the fourth quarter of 2014. The increase in cash provided by investing activities was due to decrease in acquisition of financial assets and other financing, decreased capital expenditures and license acquisition expenses compared to the fourth quarter of 2014.

Net cash used in investing activities in the first quarter of 2014 is significantly higher than the result of the current period due to acquisition of short-term financial assets.

Net cash used in financing activities

Net cash used in financing activities was RUB 349 billion in the first quarter of 2015 compared to RUB 185 billion of net cash used in financing activities in the fourth quarter of 2014. The increase in cash used in financing activities was mainly due to scheduled loans repayment and settlement of other derivative (financial) liabilities. Net cash used in financing activities in the first quarter of 2014 was RUB 404 billion, that was also the result of loan repayment drawn down for the acquisition of new assets.

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 3 months ended</i>		
	<i>March 31, 2015</i>	<i>December 31, 2014</i>			<i>March 31, 2015</i>	<i>March 31, 2014</i>	<i>% change</i>
			RUB billion, except %				
Yuganskneftegaz	23	25	(8.0)%	23	19	21.1%	
Vankorneft	7	12	(41.7)%	7	10	(30.0)%	
Orenburgneft	8	7	14.3%	8	6	33.3%	
Samotlorneftegaz	9	7	28.6%	9	5	80.0%	
Projects on Sakhalin	5	1	>100%	5	7	(28.6)%	
Uvatneftegaz	4	6	(33.3)%	4	5	(20.0)%	
Verkhnechonskneftegaz	5	4	25.0%	5	3	66.7%	
Purneftegaz	3	5	(40.0)%	3	2	50.0%	
Rospan International	5	5	–	5	4	25.0%	
Samaraneftegaz	4	5	(20.0)%	4	3	33.3%	
Varyoganneftegaz	3	3	–	3	3	–	
VSNGK	4	5	(20.0)%	4	–	>100%	
Tomskneft VNK	2	2	–	2	1	100.0%	
Nyaganneftegaz	2	2	–	2	1	100.0%	
Severnaya Neft	1	2	(50.0)%	1	2	(50.0)%	
Other	12	13	(7.7)%	12	4	>100%	
Government grants	(1)	(5)	(80.0)%	(1)	–	–	
Total upstream segment	96	99	(3.0)%	96	75	28.0%	
Tuapse refinery	8	25	(68.0)%	8	5	60.0%	
Kuibyshev refinery	1	7	(85.7)%	1	3	(66.7)%	
Novokuibyshevsk refinery	3	4	(25.0)%	3	3	–	
Syzran refinery	3	3	–	3	3	–	
Angarsk refinery	2	4	(50.0)%	2	2	–	
Achinsk refinery	4	5	(20.0)%	4	2	100.0%	
Ryazan refinery	2	2	–	2	1	100.0%	
Komsomolsk refinery	2	2	–	2	2	–	
Saratov refinery	–	1	(100)%	–	–	–	
Other refineries	3	7	(57.1)%	3	3	–	
Marketing Business Units and others	2	4	(50.0)%	2	1	100.0%	
Total downstream segment	30	64	(53.1)%	30	25	20.0%	
Other activities	2	–	>100%	2	4	(50.0)%	
Total capital expenditures	128	163	(21.5)%	128	104	23.1%	
Acquisition of licenses	5	20	(75.0)%	5	2	>100%	
Return of auction advances	(8)	–	–	(8)	–	–	

In the first quarter of 2015 total capital expenditures amounted to RUB 128 billion. The decrease by 21.5% compared with the fourth quarter of 2014 was due to a seasonal factor. The growth of capital expenditures in the first quarter of 2015 compared with the first quarter of 2014 was caused by the planned revision of construction volumes.

In the first quarter of 2015 upstream capital expenditures amounted to RUB 96 billion. A slight decrease (3.0%) compared with the fourth quarter of 2014 was due to the financing of carrying volumes from the previous quarter with high level of activity. In the first quarter of 2014 upstream capital expenditures amounted to RUB 75 billion. A significant increase in capital expenditures of 28.0% compared to the first quarter of 2014 was due to increased level of supply of drilling services and due to accelerating development of infrastructure of new wells.

In the first quarter of 2015 downstream capital expenditures amounted to RUB 30 billion. The decrease by 53.1% compared with the fourth quarter of 2014 was due to seasonal factor. In the first quarter of 2014 downstream capital expenditures amounted to RUB 25 billion.

In the first quarter of 2015 capital expenditures of refineries decreased by 53.3% to RUB 28 billion compared with RUB 60 billion in the fourth quarter of 2014. In the first quarter of 2014 capital expenditures of refineries amounted to RUB 24 billion. Works are mainly performed under a refinery upgrade program in Russia and maintenance programs of existing capacities.

Capital expenditures for other activities that were related to planned acquisition of transportation and other equipment in the first quarter of 2015 amounted to RUB 2 billion. The expenditures were optimized compared with the first quarter of 2014.

The license acquisition costs in the first quarter of 2015 in the amount of RUB 4.5 billion refer to advances issued for the participation in the auction aimed to acquiring licenses for research, exploration and production at Ai-Yaunsky block located in Western-Siberian region.

In the first quarter of 2015 the Company received cash from the repayment of advances issued in the previous quarter in the amount of RUB 7.7 billion for the participation in the auction aimed to acquiring new licenses for research, exploration and production at blocks located in Western-Siberian region.¹

The license acquisition costs in the fourth quarter of 2014 in the amount of RUB 20 billion refer to acquisition of licenses for research, exploration and production of hydrocarbons at fields located in the Volga, Ural and Western-Siberian region and at the continental shelf of the Sea of Okhotsk.

The license acquisition costs in the first quarter of 2014 in the amount of RUB 2 billion refer to acquisition of licenses for research, exploration and production at blocks located in Western-Siberian region and Eastern-Siberian region and at the continental shelf of the Sea of Okhotsk.

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 "Return of auction advances" of Consolidated Statement of cash flows.

Debt Obligations

Rosneft net debt amounts to RUB 2,529 billion as of March 31, 2015 compared to RUB 2,467 billion as of December 31, 2014. Rosneft's total loans and borrowings and other financial liabilities was RUB 3,272 billion as of March 31, 2015 compared to RUB 3,406 billion as of December 31, 2014. The decrease was mainly attributable to early and the scheduled repayment of loans and Eurobonds, and the reduction of liabilities related to derivative financial instruments.

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 March 31, 2015, December 31, 2014, and March 31, 2014: 29.4%, 28.3% and 26.4% respectively, of Rosneft's borrowings were secured by crude oil export contracts (excluding exports to the CIS). As of March 31, 2015, December 31, 2014, and March 31, 2014 pledged oil exports constituted 5.0%, 4.3% and 4.3% respectively, of the total crude oil export sales for the analysed period (excluding export to the CIS).

The calculation of the net debt is disclosed in the following table:

As of the date	March 31, 2015	December 31, 2014	March 31, 2014
	RUB billion		
Short-term debt and other short-term liabilities	1,119	1,216	894
Long-term debt and other long-term liabilities	2,153	2,190	1,446
Total debt	3,272	3,406	2,340
Cash and cash equivalents	126	216	220
Other short-term financial assets	617	723	497
Net debt	2,529	2,467	1,623¹

¹Revised data of previous periods.

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		
	March 31, 2015	December 31, 2014	March 31, 2014
EBITDA margin	20.6%	14.3%	21.0%
Net income margin	4.3%	6.8%	6.4%
Net debt to annualised EBITDA	2.45	2.33	1.48
Current ratio	1.00	1.05	1.20
	RUB / bbl		
EBITDA/bbl	762	526	818
Upstream capital expenditures/bbl	276	277	212
Upstream operating expenses/bbl	195	201	157
Adjusted free cash flow /bbl	374	537	342
	RUB / boe		
EBITDA/boe	613	425	684
Upstream capital expenditures/boe	222	224	178
Upstream operating expenses/boe	157	162	131
Adjusted free cash flow /boe	301	434	286

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 Measures¹

	For 3 months ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Crude oil and NGL production (mln bbl)	347.9	357.3	353.3
Crude oil and NGL and gas production (mln boe)	432.4	441.9	422.4

¹ Excluding share in production of associates.

Calculation of Adjusted Free Cash Flow

	For 3 months ended		
	March 31, 2015	December 31, 2014	March 31, 2014
	RUB billion		
Net cash provided by operating activities	238	358	658
Capital expenditures	(128)	(163)	(104)
Trading securities operations*	(1)	(3)	(2)
Offsetting of/(Receipt of) prepayments under long term supply contracts ¹	21	—	(431)
Adjusted free cash flow	130	192	121

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

¹ Settlement of prepayments received in prior periods under long-term supply contracts started in 2015. In prior periods one off prepayments received under long-term contracts were adjusted with the purpose to estimate operating cash flow on a straight line basis.

Calculation of EBITDA Margin

	For 3 months ended		
	March 31, 2015	December 31, 2014	March 31, 2014
	RUB billion (except %)		
Operating income	144	54	184
Depreciation, depletion and amortization	121	134	105
EBITDA	265	188	289
Revenues	1,288	1,311	1,375
EBITDA margin	20.6%	14.3%	21.0%

Calculation of Adjusted EBITDA Margin

	<i>For 3 months ended</i>		
	March 31, 2015	December 31, 2014	March 31, 2014
	RUB billion (except %)		
Operating income	144	54	184
Depreciation, depletion and amortization	121	134	105
EBITDA	265	188	289
<i>Effect of prepayments offsetting</i>	21	-	-
Adjusted EBITDA	286	188	289
Revenues	1,288	1,311	1,375
Adjusted EBITDA margin	22.2%	14.3%	21.0%

Calculation of Net Income Margin

	<i>For 3 months ended</i>		
	March 31, 2015	December 31, 2014	March 31, 2014
	RUB billion (except %)		
Net income	56	89	88
Revenues	1,288	1,311	1,375
Net income margin	4.3%	6.8%	6.4%

Current ratio

	<i>For 3 months ended</i>		
	March 31, 2015	December 31, 2014	March 31, 2014
	RUB billion (except ratio)		
Current assets	1,849	2,131	1,786
Current liabilities	1,873	2,031	1,489
Current ratio	1.00	1.05	1.20

Consolidated financial highlights (in USD terms)¹

Consolidated statement of profit or loss

	<i>For 3 months ended</i>		
	March 31, 2015	December 31, 2014	March 31, 2014
	USD billion		
Total revenues and equity share in (losses)/profits of associates and joint ventures	21.0	28.2	39.3
Costs and expenses			
Production and operating expenses	2.0	2.7	2.8
Cost of purchased oil, gas and petroleum products and refining costs	2.0	2.8	3.5
General and administrative expenses	0.4	0.6	0.8
Pipeline tariffs and transportation costs	2.3	2.6	3.3
Exploration expenses	0.1	0.1	0.1
Depreciation, depletion and amortization	1.9	2.9	3.0
Taxes other than income tax	5.5	5.9	8.6
Export customs duty	4.2	9.2	11.9
Total cost and expenses	18.4	26.8	34.0
Operating income	2.6	1.4	5.3
Finance income	0.2	0.2	0.2
Finance expenses	(1.7)	(2.1)	(1.2)
Other income	0.2	0.0	1.6
Other expenses	(0.2)	(0.4)	(0.4)
Foreign exchange differences	0.1	4.2	(2.5)
Income before income tax	1.2	3.3	3.0
Income tax	(0.2)	(1.3)	(0.6)
Net income	1.0	2.0	2.4

Key consolidated financial highlights (in USD terms)

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

	<i>For 3 months ended</i>		
	March 31, 2015	December 31, 2014	March 31, 2014
EBITDA margin	21.4%	15.2%	21.1%
Net income margin	4.8%	7.1%	6.1%
Net debt to annualised EBITDA	1.74	1.51	1.37
Current ratio	1.00	1.05	1.20
	USD/bbl*		
EBITDA/bbl	13.2	11.8	23.4
Upstream capital expenditures/bbl	4.4	5.9	6.0
Upstream operating expenses/bbl	3.1	4.3	4.5
Adjusted free cash flow /bbl	7.2	11.6	10.0
	USD/boe*		
EBITDA/boe	10.6	9.5	19.6
Upstream capital expenditures/boe	3.5	4.8	5.0
Upstream operating expenses/boe	2.5	3.4	3.7
Adjusted free cash flow /boe	5.8	9.4	8.4

*Calculated from unrounded data

¹Calculated using average monthly Bank of Russia exchange rates for the reporting period

Calculation of Adjusted Free Cash Flow

	For 3 months ended		
	March 31, 2015	December 31, 2014	March 31, 2014
	USD billion		
Net cash provided by operating activities	3.8	7.7	19.5
Capital expenditures	(2.0)	(3.5)	(2.9)
Trading securities operations*	(0.0)	–	(0.1)
Effect from receipts under long term supply contracts ¹	0.7	–	(13.0)
Adjusted free cash flow	2.5	4.2	3.5

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

¹In 2015 receipt under long-term supply contracts referred to settlement of prepayments received in prior periods. In prior periods one off prepayments received under long-term contracts were adjusted with the purpose to estimate operating cash flow on a straight line basis.

Calculation of EBITDA Margin

	For 3 months ended		
	March 31, 2015	December 31, 2014	March 31, 2014
	USD billion (except %)		
Operating income	2.6	1.4	5.3
Depreciation, depletion and amortization	1.9	2.9	3.0
EBITDA*	4.5	4.3	8.3
Revenues	21.0	28.2	39.3
EBITDA margin	21.4%	15.2%	21.1%

*Including effect from offsetting of prepayments under long-term contracts.

Calculation of Net Income Margin

	For 3 months ended		
	March 31, 2015	December 31, 2014	March 31, 2014
	USD billion (except %)		
Net income	1.0	2.0	2.4
Revenues	21.0	28.2	39.3
Net income margin	4.8%	7.1%	6.1%

Current ratio

	For 3 months ended		
	March 31, 2015	December 31, 2014	March 31, 2014
	USD billion (except ratio)		
Current assets	31.6	37.9	50.0
Current liabilities	32.0	36.1	41.7
Current ratio	1.00	1.05	1.20

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

2015	RUB/USD	2014	RUB/USD
January	61.88	January	33.46
February	64.68	February	35.23
March	60.26	March	36.21
		April	35.66
		May	34.93
		June	34.41
		July	34.64
		August	36.11
		September	37.88
		October	40.77
		November	45.91
		December	55.54