



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS FOR THE QUARTERS ENDED SEPTEMBER 30 AND JUNE 30, 2012  
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**

*The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended September 30, 2012 and 2011 (the "Interim 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 and affiliated companies. This report presents Rosneft's financial condition and results of operations on a consolidated basis. 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 companies accounted for on an equity basis or under the proportionate consolidation method and 100% for fully consolidated companies.*

*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 7.315 ratio is used. To convert thousands of cubic meters of gas to barrels of oil equivalent a 5.883 ratio is used.*

## 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.

OJSC Rosneft was established in accordance with the Russian Government Decree №971, issued on September 29, 1995. From its foundation, the Company has expanded significantly through organic growth, consolidation of interests, acquisition of new companies and development of new businesses. Rosneft is now the leader of Russia's petroleum industry in terms of crude oil reserves and production operating in all key regions of the country.

Rosneft is one of the world's largest publicly traded companies in terms of proved hydrocarbon reserves which as of December 31, 2011 amounted to 23.35 billion barrels of oil equivalent, including 18.35 billion barrels of oil and 850 billion cubic meters of gas, on the basis of the standards set forth by the Society of Petroleum Engineers, Petroleum Reserves Management System ("PRMS").

Rosneft's crude oil production amounts to 2.5 million barrels per day (average for the third quarter of 2012) and output of natural and associated gas is 4.30 billion cubic meters per quarter (for the third quarter of 2012).

Rosneft processes part of the crude oil produced at its seven domestic refineries with total primary refining capacity of 1.1 million barrels per day, including mini refineries. Rosneft's domestic refinery throughput is 1.1 million barrels per day (average for the third quarter of 2012) which equals around 45% of the Company's crude oil output. Current utilization of the refining capacities is close to maximum. 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 which owns stakes in four German refineries, where Rosneft processes own and procured crude oil.

Part of the petroleum products produced by the Company at the domestic refineries is sold in Russia, both wholesale and through Rosneft's own retail network which comprises approximately 1,700 service stations in 44 regions of Russia. The remaining volumes (mainly fuel oil, diesel and naphtha) are exported to Europe, Asia and CIS. Products produced at the German refineries are sold in Western Europe.

## Financial and Operating Highlights

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 9 months ended</i>		<i>% change</i>
	<i>September 30, 2012</i>	<i>June 30, 2012</i>		<i>September 30, 2012</i>	<i>September 30, 2011</i>	
<b>Financial results, RUB billion</b>						
Revenues	802	718	11.7%	2,268	1,954	16.1%
EBITDA	191	89	114.6%	445	498	(10.6)%
Net income	181	(8)	-	285	247	15.4%
Capital expenditures	105	121	(13.2)%	344	258	33.3%
Free cash flow	53	25	112.0%	32	112	(71.4)%
Net Debt	625	658	(5.0)%	625	443	41.1%
<b>Operational results</b>						
Hydrocarbon production (th. boe per day)	2,729	2,621	4.1%	2,662	2,574	3.4%
Crude oil production (th. barrels per day)	2,454	2,413	1.7%	2,425	2,374	2.1%
Gas production (th.boe per day)	275	208	32.2%	237	200	18.5%
Production of petroleum products in Russia (mln tonnes)	12.66	11.11	14.0%	35.92	35.61	0.9%
Production of petroleum products in Germany (mln tonnes)	2.78	2.56	8.6%	8.02	4.56	75.9%

## **Significant acquisitions in the third quarter of 2012**

### **Acquisition of NGK ITERA LLC**

In August 2012, the Company completed a transaction on acquisition of 51% of NGK ITERA LLC. 6% interest in equity of NGK ITERA LLC is to be paid in cash in the amount of US\$ 173.4 million (RUB 6 billion at the CBR official exchange rate as of September 30, 2012), the Company also contributed its wholly owned subsidiary Kynsko-Chaselskoye neftegaz for 45% interest in equity of NGK ITERA LLC. The Company has recognized gain related to the disposal of Kynsko-Chaselskoye neftegaz in the amount of RUB 82 billion in Other income in the consolidated statement of comprehensive income (before deferred income tax effect in the amount of RUB 17 billion) (See section “Other income and expenses”). NGK ITERA LLC is one of the largest independent producers and traders of natural gas in Russia. (See section “Gas production”). In accordance with independent reserve engineers, DeGolyer and MacNaughton, NGK ITERA proven gas reserves are estimated at 232.3 billion cubic meters of gas as of December 31, 2011. The joint venture plans to produce 13 billion cubic metres of gas in 2013.

### **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/US\$ exchange rate and inflation;
- Taxation including changes in mineral extraction tax, export customs duty and excises;
- Changes in tariffs of natural monopolies (for pipeline and railway transport);
- Changes in electricity prices.

Changes in prices, export customs duty and transport tariffs can 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 and on numerous speculative factors. Crude oil exported by Rosneft via 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 ESPO pipeline is sold at a price which is linked to the price of “Dubai” grade.

Petroleum product prices in 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 are 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 US\$ and RUB. The prices nominated in US\$ are translated into RUB at average US\$/RUB exchange rate for the respective period.

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 9 months ended</i>		<i>Change</i>
	<b>September 30, 2012</b>	<b>June 30, 2012</b>		<b>September 30, 2012</b>	<b>September 30, 2011</b>	
<b>World market</b>	<b>(US\$ per barrel)</b>			<b>(US\$ per barrel)</b>		
Brent (dated)	109.6	108.2	1.3%	112.1	111.9	0.2%
Urals (average CIF Med and NWE)	109.0	106.5	2.3%	110.8	109.2	1.5%
Urals (FOB Primorsk)	107.8	104.7	3.0%	109.4	108.3	1.0%
Urals (FOB Novorossysk)	108.3	105.4	2.8%	109.9	108.6	1.2%
Dubai-Oman	106.4	106.4	0.0%	109.8	106.3	3.3%
	<b>(US\$ per tonne)</b>			<b>(US\$ per tonne)</b>		
Naphtha (av. FOB/CIF Med)	893	862	3.6%	917	934	(1.7)%
Naphtha (av. FOB Rotterdam/CIF NWE)	907	877	3.4%	932	948	(1.7)%
Naphtha (CFR Japan)	915	893	2.4%	943	955	(1.3)%
Fuel oil 3.5% (av. FOB/CIF Med)	624	630	(1.0)%	645	604	6.8%
Fuel oil 3.5% (av. FOB Rotterdam/CIF NWE)	620	623	(0.5)%	642	602	6.7%
High sulphur fuel oil 180 cst (FOB Singapore)	660	667	(1.1)%	687	640	7.3%
Gasoil 0.1% (av. FOB/CIF Med)	945	925	2.2%	956	928	2.9%
Gasoil 0.1% (av. FOB Rotterdam/CIF NWE)	946	926	2.1%	955	930	2.7%
Gasoil (FOB Singapore)	933	905	3.2%	941	925	1.7%
	<b>(th. RUB per barrel)</b>			<b>(th. RUB per barrel)</b>		
Brent (dated)	3.51	3.36	4.5%	3.49	3.22	8.4%
Urals (average CIF Med and NWE)	3.49	3.30	5.8%	3.44	3.14	9.6%
Urals (FOB Primorsk)	3.45	3.25	6.2%	3.40	3.12	9.0%
Urals (FOB Novorossysk)	3.47	3.27	6.1%	3.42	3.12	9.6%
Dubai-Oman	3.41	3.30	3.3%	3.41	3.06	11.4%
	<b>(th. RUB per tonne)</b>			<b>(th. RUB per tonne)</b>		
Naphtha (av. FOB/CIF Med)	28.6	26.7	7.1%	28.5	26.9	5.9%
Naphtha (av. FOB Rotterdam/CIF NWE)	29.0	27.2	6.6%	29.0	27.3	6.2%
Naphtha (CFR Japan)	29.3	27.7	5.8%	29.3	27.5	6.5%
Fuel oil 3.5% (av. FOB/CIF Med)	20.0	19.5	2.6%	20.1	17.4	15.5%
Fuel oil 3.5% (av. FOB Rotterdam/CIF NWE)	19.8	19.3	2.6%	20.0	17.3	15.6%
High sulphur fuel oil 180 cst (FOB Singapore)	21.1	20.7	1.9%	21.4	18.4	16.3%
Gasoil 0.1% (av. FOB/CIF Med)	30.3	28.7	5.6%	29.7	26.7	11.2%
Gasoil 0.1% (av. FOB Rotterdam/CIF NWE)	30.3	28.7	5.6%	29.7	26.7	11.2%
Gasoil (FOB Singapore)	29.9	28.1	6.4%	29.3	26.6	10.2%
<b>Russian market</b>	<b>(th. RUB per tonne)</b>			<b>(th. RUB per tonne)</b>		
(net of VAT, including excise tax)						
Crude oil	10.3	9.5	8.4%	10.2	8.8	15.9%
Fuel oil	9.7	9.1	6.6%	9.2	8.7	5.7%
Summer diesel	23.8	22.5	5.8%	22.8	19.0	20.0%
Winter diesel	25.2	23.5	7.2%	24.4	20.7	17.9%
Jet fuel	22.4	22.8	(1.8)%	22.9	19.5	17.4%
High octane gasoline	26.3	25.1	4.8%	24.8	23.9	3.8%
Low octane gasoline	23.5	23.0	2.2%	22.8	21.8	4.6%

Sources: Platts (world market), Kortes/Argus (Russian market).

Difference between movement of prices denominated in US\$ and those denominated in RUB is explained by the nominal RUB depreciation against US\$ by 3.2% in the third quarter of 2012 compared to the second quarter of 2012 and nominal RUB depreciation against US\$ by 8.1% in the nine months of 2012 compared to the nine months of 2011.

The Russian Government regulates the prices of the gas sold in Russia by Gazprom. While the regulated price has been rising in Russia and 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 sale price was RUB 2.14 thousand per thousand cubic meters and RUB 1.92 thousand per thousand cubic meters in the third quarter of 2012 and second quarter of 2012, respectively. In the nine months of 2012 and 2011, Rosneft's average gas sale price was RUB 1.95 thousand per thousand cubic meters and RUB 1.43 thousand per thousand cubic meters, respectively.

## US\$/RUB and EUR/RUB Exchange Rate and Inflation

The US\$/RUB and EUR/RUB exchange rate and inflation in the Russian Federation affect Rosneft's results as most of the Company's revenues from sales of crude oil and petroleum products are denominated in US\$, 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 exchange rate movements and inflation during the periods analyzed:

	<i>For 3 months ended</i>		<i>For 9 months ended</i>	
	<b>September 30, 2012</b>	<b>June 30, 2012</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>
Rouble inflation (CPI) for the period	2.0%	1.7%	5.2%	4.7%
Average RUB/US\$ exchange rate for the period	32.01	31.01	31.10	28.77
RUB/US\$ exchange rate at the end of the period	30.92	32.82	30.92	31.88
Average RUB/EUR exchange rate for the period	40.01	39.81	39.83	40.47
RUB/EUR exchange rate at the end of the period	39.98	41.32	39.98	43.40

## Taxation

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 9 months ended</i>		<i>Change</i>
	<b>September 30, 2012</b>	<b>June 30, 2012</b>		<b>September 30, 2012</b>	<b>September 30, 2011</b>	
<b>Mineral extraction tax</b>						
Crude oil (RUB per tonne)	5,147	4,826	6.7%	5,086	4,368	16.4%
Natural gas (RUB per th. cubic meters)	251	251	0.0%	251	237	5.9%
Associated gas (RUB per th. cubic meters)	0	0	-	0	0	-
<b>Export customs duty for crude oil</b>						
Crude oil (US\$ per tonne)	366.6	443.0	(17.2)%	403.5	410.7	(1.8)%
Crude oil (RUB per tonne)	11,733	13,740	(14.6)%	12,547	11,813	6.2%
Crude oil (RUB per barrel)	1,604	1,878	(14.6)%	1,715	1,615	6.2%
East Siberian Crude oil (RUB per tonne)	11,733	13,740	(14.6)%	12,547	9,076*	38.2%
East Siberian Crude oil (RUB per barrel)	1,604	1,878	(14.6)%	1,715	1,241*	38.2%
<b>Export customs duty for petroleum products</b>						
Gasoline** (RUB per tonne)	10,559	12,365	(14.6)%	11,292	9,607	17.5%
Naphtha** (RUB per tonne)	10,559	12,365	(14.6)%	11,292	9,607	17.5%
Light and middle distillates (RUB per tonne)	7,743	9,066	(14.6)%	8,280	7,958	4.0%
Liquid fuels (fuel oil) (RUB per tonne)	7,743	9,066	(14.6)%	8,280	5,432	52.4%

\* A special export customs duty for crude oil produced at Verkhnechonsk and Vankor fields was in effect till May, 2011.

\*\* The Russian Government introduced a special export duty for gasoline starting from May 1, 2011 and a special export duty for naphtha starting from June 1, 2011.

According to the legislation the excise tax rates on the petroleum products are linked to the environmental characteristics of the products.

	<b>2011</b>	<b>until June 30, 2012</b>	<b>until December 31, 2012</b>	<b>2013</b>	<b>2014</b>
<b>Excise on petroleum products</b>					
<b>High octane gasoline (RUB per tonne)</b>					
High octane gasoline non-compliant with euro-3,4,5 (RUB per tonne)	5,995	7,725	8,225	10,100	11,110
High octane gasoline euro-3 (RUB per tonne)	5,672	7,382	7,882	9,750	10,725
High octane gasoline euro-4 (RUB per tonne)	5,143	6,822	6,822	8,560	9,416
High octane gasoline euro-5 (RUB per tonne)	5,143	6,822	5,143	5,143	5,657
<b>Naphtha (RUB per tonne)</b>					
Naphtha (RUB per tonne)	6,089	7,824	7,824	9,617	10,579
<b>Diesel (RUB per tonne)</b>					
Diesel below euro-3,4,5 (RUB per tonne)	2,753	4,098	4,300	5,860	6,446
Diesel euro-3 (RUB per tonne)	2,485	3,814	4,300	5,860	6,446
Diesel euro-4 (RUB per tonne)	2,247	3,562	3,562	4,934	5,427
Diesel euro-5 (RUB per tonne)	2,247	3,562	2,962	4,334	4,767
<b>Lubricants (RUB per tonne)</b>					
Lubricants (RUB per tonne)	4,681	6,072	6,072	7,509	8,260

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

	<i>For 3 months ended</i>		<i>For 9 months ended</i>	
	September 30, 2012	June 30, 2012	September 30, 2012	September 30, 2011
	RUB billion	RUB billion	RUB billion	RUB billion
Total revenues	802	718	2,268	1,954
Total taxes*	427	400	1,226	988
<b>Effective tax burden, %</b>	<b>53.2%</b>	<b>55.7%</b>	<b>54.1%</b>	<b>50.6%</b>

\* 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 43.0% and 52.1% of Rosneft's total revenues in the third quarter of 2012 and in the second quarter of 2012, respectively. In the nine months of 2012 and 2011 the mineral extraction tax and the export customs duty accounted for approximately 46.7% and 44.0%, respectively, of Rosneft's total revenues.

### **Mineral Extraction Tax**

The rate of mineral extraction tax for crude oil is linked to the Urals price in the international market and changes every month. It is calculated in US\$ per tonne of crude oil produced and enacted in RUB per tonne using average exchange rate for the respective month.

The mineral extraction tax rate is calculated by multiplying the base rate of RUB 446 (from January 1, 2012 base rate was increased from RUB 419 to RUB 446) by the adjustment ratio of  $((\text{Price} - 15) / 261) * \text{Exchange rate}$ , where "Price" is the average Urals price per barrel and "Exchange rate" is the average RUB/US\$ exchange rate established by the Central Bank of Russia in the respective month.

According to changes in tax legislation introduced in the end of 2010 the base rate will be increased to RUB 470 starting from January 1, 2013.

The Russian Tax Code provides for reduced or zero mineral extraction tax rate for crude oil produced at certain fields:

- the reduced rate is applicable to crude oil produced at the fields with reserve depletion rate of over 80%; for calculation of the reduced rate a special adjustment ratio  $(3.8 - 3.5 * \text{reserve depletion rate})$  is applied; the reduced rate varies therefore from 0.3 to 1.0 of the standard rate;
- the zero tax rate is applicable to high-viscosity crude oil;
- the zero tax rate is applicable during specific time period or for specific volumes of production (depending on what is achieved earlier) at fields in Yakutia, Irkutsk Region, Krasnoyarsk Territory, Nenets Autonomous District, Yamal Peninsula, Azov, Caspian and Black seas, sea of Okhotsk, offshore fields located to the north of the Arctic Circle (the exact time period and volume vary by regions where the field is located);
- the reduced tax rate is applicable to crude oil produced at the fields with the value of initial recoverable reserves being less than 5 mln tonne and depletion level of reserves less or equal 0.05. For the calculation of reduced tax rate special coefficient should be used characterising the value of reserves for a specific field  $(0.125 * \text{value of initial oil recoverable reserves} + 0.375)$ .

Rosneft benefits from the reduced mineral extraction tax rate as it has several fields with reserve depletion rate of over 80%.

Moreover its fields in Irkutsk Region and Krasnoyarsk Territory are subject to the zero mineral extraction tax rate which is applicable for the first 25 million tonnes of production and not more than 10 years period for a production licence and not more than 15 years period for an exploration and production license.

On August 6, 2011 accumulated production at the Vankor oil field exceeded 25 million tons and zero MET rate was replaced by the standard one. In May 2012 the Company started developing Severo-Vankorsky area of Vankor oil and this area is subject to the zero MET rate (applicable for the first 25 million tonnes of production).

Rosneft has exploration projects in the Azov, Okhotsk, Caspian, Barents, Kara and Black seas and participates in the Sakhalin-1 PSA which is subject to a special tax regime exempting the Company from paying mineral extraction tax.

On April 12, 2012 the Government of the Russian Federation issued an order specifying the tax proposals on special tax regime for offshore projects. The document categorizes offshore projects by four group depending on complexity and specifies special MET rate for each project group ranging from 5% to 30% of international oil price.

### **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 US\$ per tonne.

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

<i>Urals price (US\$ per tonne)</i>	<i>Export customs duty(US\$ per tonne)</i>
Below and including 109.5 (15 US\$ per barrel).....	Export customs duty is not levied
Above 109.5 to and including 146 (15 to 20 US\$ per barrel).....	35% of the difference between the average Urals price in US\$ per tonne and US\$ 109.5
Above 146 to and including 182.5 (20 to 25 US\$ per barrel).....	US\$ 12.78 plus 45% of the difference between the average Urals price in US\$ per tonne and US\$ 146
Above 182.5 (25 US\$ per barrel).....	US\$ 29.2 plus 60% of the difference between the average Urals price in US\$ per tonne and US\$ 182.5

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

Starting from October 2011 the marginal export duty rate was reduced from 65% to 60%.

In April 12, 2012 the Russian Government decided to devise a special tax regime for exploration projects at the continental shelf of the Russian Federation. As part of this work the decision was taken to exempt companies working at the Russian continental shelf from export customs duty.

### **Export customs duty on Eastern Siberian crude oil (Vankor and Verkhnechonsk)**

Starting from December 01, 2009, crude oil produced at a number of fields in Eastern Siberia was subject to a specific export customs duty regime (for production of oil with specific physicochemical characteristics zero export duty rate is applied). In particular, zero export duty rate was applicable to the Verkhnechonsk field starting from December 1, 2009. The zero export duty rate was applicable to the Vankor field starting from January 19, 2010.

Starting from July 01, 2010 the zero rate was replaced by a special rate calculated as  $(\text{Price}-50) * 0.45$ , where "Price" is average Urals price in US\$ per barrel used for the calculation of ordinary export duty.

Starting from May 1, 2011 the Vankor and Verkhnechonsk fields were excluded from the list of fields subject to the special export duty rate.

### **Export customs duty on crude oil export to CIS**

Export duties are not payable on crude oil exports to CIS countries that are members of the Customs Union. In accordance with the agreement signed by the Government of Russian Federation and the Government of Belarus crude oil exports to Belarus within specific limits established by the Russian Ministry of Energy are exempted from export duty until January 1, 2012. Starting from January 1, 2012 zero export duty rate is applicable to the crude oil exports to Belarus.

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

Export customs duty on petroleum products is set every month by the Government simultaneously with the export customs duty on crude oil and is denominated in US\$ per tonne. The rate of the export customs duty on petroleum products is linked to crude oil price.

In January, 2011 export customs duties on light and dark petroleum products were calculated using special formula, and amounted to 71% (for light petroleum products) and 38% (for dark petroleum products) of the export duty for crude oil.

Starting from February 2011 the export duties for petroleum products were directly linked to export duty for crude oil and were set at 67% of the export duty for crude oil for light products and at 46.7% for dark products.

Starting from May 1, 2011 the Russian Government introduced a special export duty for gasoline equivalent to 90% of the export duty for crude oil. Starting from June 1, 2011 the Russian Government introduced a special export duty for naphtha equivalent to 90% of the export duty for crude oil.

Starting from October 2011 the export duty for light petroleum products was lowered from 67% to 66% of export duty for crude oil, the export duty for dark petroleum products was raised from 46.7% to 66% of export duty for crude oil. Export duty for naphtha and gasoline remained at 90% of crude oil export duty. These rates are effective as at the reporting date.

## **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 Transneft, which is a natural state-owned pipeline monopoly. Rosneft also transports crude oil and petroleum products via railway network owned and operated by RZD, another natural state-owned monopoly.

The Federal Tariff Service (the FTS), a governmental body regulating natural monopolies, sets Transneft's base tariffs for transportation of crude oil and petroleum products, which include a dispatch tariff, a pumping tariff, loading, charge-discharge, transshipment and other tariffs. Tariffs for railroad transportation are also regulated by FTS. The tariffs are set in rubles 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, where these costs are not already incorporated in pipeline tariffs, often depend on the type of cargo and the transportation route.

### *Recent changes of Transneft transportation tariffs*

Starting from December 1, 2010 Transneft increased tariffs by 9.5% on average for export transportation of petroleum products and starting from January 1, 2011 increased tariffs by 5.9% on average for domestic transportation of petroleum products. As a result, annual average tariffs in 2011 compared with 2010 increased by 10.4% for export transportation and by 6.1% for domestic transportation.

Starting from September 2011 Transneft increased tariffs for crude oil transportation by 2.85% on average. Starting from November 2011 Transneft increased tariffs for crude oil transportation by 5% on average. Transneft revised and increased the tariff for Rosneft's major transportation route "Yugansk – Primorsk" in September and November 2011, by 7.2% and 11.8%, respectively. One year-on-year average basis, tariffs for pipeline transportation of crude oil for export and domestic supplies increased by 13.1% in 2011 compared with 2010.

In January 2012 Transneft increased tariffs by 6% on average for export and domestic transportation of petroleum products. Starting from August 1, 2012 tariffs for pipeline transportation of petroleum products for Rosneft increased by 5.4% for domestic transportation and by 3% for export transportation. For nine months of 2012 compared to December 2011 the tariffs for export transportation of petroleum products increased by 9.2% and tariffs for domestic transportation of petroleum products increased by 11.7%.

### *Recent changes of rail road transportation tariffs*

In January 2011 and January 2012 tariffs for rail road transportation were increased by 8.0% and 6.0% on average, respectively.

Rosneft average transportation tariffs applied for major transportation routes denominated in RUB for the respective periods:

	<i>For 3 months ended</i>			<i>For 9 months ended</i>		
	September 30, 2012	June 30, 2012	Change	September 30, 2012	September 30, 2011	Change
	(th. RUB/tonne)		(%)	(th. RUB/tonne)		(%)
<b>CRUDE OIL</b>						
<b>Domestic</b>						
<i>Pipeline</i>						
Yugansk – Samara refineries	0.75	0.75	-	0.75	0.72	4.2%
Samara – Samara refineries	0.05	0.05	-	0.05	0.05	0.0%
Yugansk – Angarsk refinery	1.25	1.25	-	1.25	1.20	4.2%
Purpe – Tuapse refinery	1.56	1.56	-	1.56	1.49	4.7%
Tomsk – Achinsk refinery	0.34	0.34	-	0.34	0.33	3.0%
<i>Pipeline and railroad</i>						
Yugansk – Komsomolsk refinery	4.14	4.14	-	4.14	3.92	5.6%
<b>Exports</b>						
<i>Pipeline</i>						
Yugansk – Primorsk	1.54	1.54	-	1.54	1.30	18.5%
Yugansk – Novorossiysk	1.49	1.49	-	1.49	1.45	2.8%
Vankor (Purpe)-Kozmino	1.89	1.89	-	1.89	1.82	3.8%
<i>Railroad</i>						
Stavropolneftegaz – CPC	0.68	0.68	-	0.68	0.66	3.0%
<b>PETROLEUM PRODUCT EXPORTS</b>						
<b>Diesel</b>						
Samara refineries – Ventspils	1.91	1.89	1.1%	1.88	1.71	9.9%
Angarsk refinery – Nakhodka	4.16	4.16	-	4.16	3.89	6.9%
Komsomolsk refinery – Nakhodka	1.63	1.63	-	1.63	1.53	6.5%
Achinsk refinery – Tuapse	4.69	4.69	-	4.69	4.38	7.1%
<b>Fuel oil</b>						
Samara refineries – Odessa	2.93	2.90	1.0%	2.90	2.70	7.4%
Angarsk refinery – Nakhodka	4.14	4.14	-	4.14	3.96	4.5%
Komsomolsk refinery – Nakhodka	1.56	1.56	-	1.56	1.48	5.4%
Achinsk refinery – Nakhodka	5.30	5.30	-	5.30	4.89	8.4%
<b>Naphtha</b>						
Samara refineries – Tuapse	1.93	1.93	-	1.93	1.87	3.2%
Achinsk refinery – Tuapse	4.58	4.58	-	4.58	4.30	6.5%
Angarsk refinery – Nakhodka	3.92	3.92	-	3.92	3.78	3.7%
Komsomolsk refinery – Nakhodka	1.60	1.60	-	1.60	1.50	6.7%

Source: Transneft, RZD, Rosneft. Mixed export tariffs include transshipment at non-Rosneft terminals. The data is provided for major routes at each direction

Rosneft operates proprietary transportation and transshipment facilities. This allows optimising Company's 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"). In Caspian Pipeline Consortium Rosneft has a 7.5% stake through a joint venture "Rosneft Shell Caspian Ventures Ltd" (Cyprus) (Rosneft owes 51%).

## Operating Results

### Production of Crude Oil

Rosneft has twelve 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 accounted for using proportionate consolidation method. In addition, Rosneft participates in four production joint ventures accounted for using the equity method: Tomskneft – 50.0%, Udmurtneft – 49.5%, Polar Lights – 50.0% and Verkhnechonskneftegaz – 25.94%.

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

	<i>For 3 months ended</i>		<b>Change</b>	<i>For 9 months ended</i>		<b>Change</b>
	<b>September 30, 2012</b>	<b>June 30, 2012</b>		<b>September 30, 2012</b>	<b>September 30, 2011</b>	
	<i>(million of barrels)</i>		<i>(%)</i>	<i>(million of barrels)</i>		<i>(%)</i>
Yuganskneftegaz (Western Siberia)	122.9	121.6	1.1%	365.9	365.2	0.2%
Samaraneftegaz (Central Russia)	19.9	19.7	1.0%	58.9	58.1	1.4%
Purneftegaz (Western Siberia)	12.9	12.5	3.2%	38.2	38.3	(0.3)%
Vankorneft (Eastern Siberia)	35.1	30.7	14.3%	96.2	80.7	19.2%
Severnaya Neft (Timano Pechora)	6.4	6.5	(1.5)%	19.5	19.9	(2.0)%
Sakhalin-1 (Far East) (net of royalty and government share)	2.2	2.2	0.0%	6.5	7.7	(15.6)%
Other	7.1	7.5	(5.3)%	22.4	24.4	(8.2)%
<b>Crude oil production by fully and proportionately consolidated enterprises</b>	<b>206.5</b>	<b>200.7</b>	<b>2.9%</b>	<b>607.6</b>	<b>594.3</b>	<b>2.2%</b>
Tomskneft (Western Siberia)	9.5	9.3	2.2%	28.1	28.3	(0.7)%
Udmurtneft (Central Russia)	5.9	5.8	1.7%	17.5	17.3	1.2%
Polar Lights (Timan Pechora)	0.4	0.5	(20.0)%	1.4	1.7	(17.6)%
Verkhnechonskneftegaz (Eastern Siberia)	3.5	3.3	6.1%	9.9	6.6	50.0%
<b>Total share in production of joint ventures</b>	<b>19.3</b>	<b>18.9</b>	<b>2.1%</b>	<b>56.9</b>	<b>53.9</b>	<b>5.6%</b>
<b>Total crude oil production</b>	<b>225.8</b>	<b>219.6</b>	<b>2.8%</b>	<b>664.5</b>	<b>648.2</b>	<b>2.5%</b>
<b>Daily crude oil production (th. barrels per day)</b>	<b>2,454</b>	<b>2,413</b>	<b>1.7%</b>	<b>2,425</b>	<b>2,374</b>	<b>2.1%</b>

In the third quarter of 2012 Rosneft's average daily crude oil production was 2,454 th. barrels per day, which is an increase of 1.7% compared with the second quarter of 2012. The production level increased due to crude oil production growth mainly at Vankor, as well as at fields in Western Siberia and Central Russia owing to the launch of new wells and more efficient geotechnical works. Overall production growth was partially offset by the natural decline in production at Timano Pechora and South of Russia fields, which is included in "Other" fully consolidated subsidiaries.

In the nine months of 2012 Rosneft's average daily crude oil production was 2.1% higher than in the nine months of 2011. The growth was driven primarily by production increase at Vankor, Verkhnechonsk, Samaraneftegaz, Udmurtneft and Yuganskneftegaz fields, which was partially offset by production decrease at Sakhalin-1 and Timano Pechora.

## Production of Gas

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

	For 3 months ended			For 9 months ended		
	September 30, 2012	June 30, 2012	Change	September 30, 2012	September 30, 2011	Change
	(bcm)		(%)	(bcm)		(%)
Purneftegaz (Western Siberia)	0.98	0.99	(1.0)%	3.00	2.67	12.4%
Yuganskneftegaz (Western Siberia)	0.81	0.69	17.4%	2.27	2.07	9.7%
Krasnodarneftegaz (Southern Russia)	0.66	0.66	0.0%	2.08	2.00	4.0%
Samaraneftegaz (Central Russia)	0.14	0.13	7.7%	0.40	0.38	5.3%
Severnaya Neft (Timan Pechora)	0.07	0.07	0.0%	0.22	0.20	10.0%
Vankorneft (Eastern Siberia)	0.11	0.11	0.0%	0.33	0.26	26.9%
Sakhalin-1 (Far East) (net of royalty and government share)	0.06	0.10	(40.0)%	0.23	0.21	9.5%
Other	0.25	0.24	4.2%	0.84	0.93	(9.7)%
<b>Gas production by fully and proportionately consolidated enterprises</b>	<b>3.08</b>	<b>2.99</b>	<b>3.0%</b>	<b>9.37</b>	<b>8.72</b>	<b>7.5%</b>
Tomskneft (Western Siberia)	0.19	0.21	(9.5)%	0.59	0.50	18.0%
ITERA LLC	1.02	-	-	1.02	-	-
Other	0.01	0.02	(50.0)%	0.04	0.04	0.0%
<b>Total share in production of joint ventures</b>	<b>1.22</b>	<b>0.23</b>	<b>&gt;100%</b>	<b>1.65</b>	<b>0.54</b>	<b>&gt;100%</b>
<b>Total gas production</b>	<b>4.30</b>	<b>3.22</b>	<b>33.5%</b>	<b>11.02</b>	<b>9.26</b>	<b>19.0%</b>
Natural gas	2.07	1.09	89.9%	4.39	3.47	26.5%
Associated gas	2.23	2.13	4.7%	6.63	5.79	14.5%

\* Production volume equals extracted volume minus flared volume.

In the third quarter of 2012 Rosneft's natural and associated gas production was 4.30 bcm, which was significantly higher than in the second quarter of 2012. The increase in gas production mainly resulted from acquisition of ITERA which led to the overall increase in gas production by 1.02 bcm for the period August-September 2012.

Excluding the effect of ITERA acquisition, the gas production increased to 3.28 bcm mainly following the completion of turnaround works at compressor station at the Priobskoe field of Yuganskneftegaz. Overall production growth was partially offset by the natural decline in production at Tomskneft and Sakhalin-1 due to seasonal decrease in demand for gas and turnarounds of heat equipment.

In the nine months of 2012 Rosneft's natural and associated gas production was significantly higher than in the nine months of 2011, mainly due to ITERA acquisition. Excluding the effect of ITERA acquisition, gas production growth by 0.74 bcm year-on-year was due to the following factors: stable operation at the Luginetskaya compressor station of Tomskneft, higher crude oil production at the Vankor field and at the Priobskoe field of Yuganskneftegaz and the launch of compressor stations in Purneftegaz at the Komsomolskoe field of Purneftegaz in September 2011.

Rosneft is implementing a programme aimed at increasing associated gas utilisation rate. The programme envisages construction of gas gathering facilities, booster compression stations and underground storage facilities as well as gas power stations. In the nine months of 2012, the following assets were put into exploitation within the gas utilisation programme: compression stations in Priobskoe and Kharampurskoe fields, gas pipeline at Ombinskoe field.

## Petroleum Product Output

Rosneft processes produced and procured crude oil at its refineries: the Tuapse refinery on the Black Sea in the South of Russia, the Komsomolsk refinery in the Russian Far East, the Achinsk and Angarsk refineries in Eastern Siberia and the Kuibyshev, Novokuibyshevsk and Syzran refineries in the Samara region (European part of Russia). The capacity of these refineries stands at 51.8 million tonnes per year.

Rosneft also owns six mini-refineries (in Western Siberia, Eastern Siberia, Timan-Pechora and the southern part of European Russia), as well as OJSC Angarsk polymer plant (petrochemical block of the Angarsk refinery), LLC Novokuibyshevsk lubricants and additives plant (lubricants block of the Novokuibyshevsk refinery) and OJSC Rosneft-MZ Nefteprodukt (lubricants plant in Moscow).

In May, 2011 Rosneft acquired a 50% stake in Ruhr Oel GmbH which owns stakes in four refineries in Germany. Rosneft's share in primary capacity of these refineries amounts to 11.6 million tonnes per year. The Gelsenkirchen refinery, which is fully owned by Ruhr Oel GmbH, has a petrochemical block with annual capacity of 1 million tonnes of ethylene.

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

	<i>For 3 months ended</i>			<i>For 9 months ended</i>		
	<b>September 30, 2012</b>	<b>June 30, 2012</b>	<b>Change</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>Change</b>
	<b>(million of tonnes)</b>		<b>(%)</b>	<b>(million of tonnes)</b>		<b>(%)</b>
Crude oil processing at Rosneft's own refineries	13.27	11.64	14.0%	37.75	37.50	0.7%
Crude oil processing at Ruhr Oel GmbH	2.71	2.40	12.9%	7.81	4.45	75.5%
<b>Total group crude oil processing</b>	<b>15.98</b>	<b>14.04</b>	<b>13.8%</b>	<b>45.56</b>	<b>41.95</b>	<b>8.6%</b>
<b>Product output:</b>						
High octane gasoline	1.45	1.13	28.3%	3.96	3.95	0.3%
Low octane gasoline	0.09	0.09	0.0%	0.28	0.26	7.7%
Naphtha	0.94	0.90	4.4%	2.73	2.79	(2.2)%
Diesel	4.49	3.84	16.9%	12.72	12.79	(0.5)%
Fuel oil	4.13	3.71	11.3%	12.06	12.52	(3.7)%
Jet	0.43	0.45	(4.4)%	1.16	0.89	30.3%
Petrochemicals	0.08	0.14	(42.9)%	0.37	0.38	(2.6)%
Other	1.05	0.85	23.5%	2.64	2.03	30.0%
<b>Product output at Rosneft's own refineries</b>	<b>12.66</b>	<b>11.11</b>	<b>14.0%</b>	<b>35.92</b>	<b>35.61</b>	<b>0.9%</b>
Product output at Ruhr Oel GmbH	2.78	2.56	8.6%	8.02	4.56	75.9%
<b>Total group product output</b>	<b>15.44</b>	<b>13.67</b>	<b>12.9%</b>	<b>43.94</b>	<b>40.17</b>	<b>9.4%</b>

In the third quarter of 2012, Rosneft's total refinery throughput was 13.8% higher than in the second quarter of 2012. Rosneft's refinery throughput in Russia increased by 14.0%, following the completion of turnarounds at Achinsk and Kuibyshev refineries. Turnarounds at refineries mentioned above were the key factor of change in output structure. The planned turnarounds at Angarsk refinery and Angarsk polymer refinery resulted in decrease in petrochemical products output.

Throughput at Ruhr Oel GmbH refineries increased following the turnarounds at Gelsenkirchen refinery. Rosneft's share in processing of non-crude feedstock at Ruhr Oel GmbH refineries was 0.35 and 0.41 million of tonnes in the third and in the second quarters of 2012 respectively.

In the nine months of 2012 Rosneft's refinery throughput was 8.6% higher than in the nine months of 2011 mainly due to the acquisition of a 50% stake in Ruhr Oel GmbH in May 2011. Throughput at Russian refineries increased by 0.7%. Increase in jet fuel production resulted from change in output structure of the Syzran refinery following the demand growth.

## Results of Operations

The following table sets forth the statement of income information both in absolute values and respective changes over the analyzed periods:

	<i>For 3 months ended</i>			<i>For 9 months ended</i>		
	<b>September 30, 2012</b>	<b>June 30, 2012</b>	<b>Change (%)</b>	<b>September30, 2012</b>	<b>September30, 2011</b>	<b>Change (%)</b>
	<b>(RUB billion, except %)</b>			<b>(RUB billion, except %)</b>		
<b>Revenues</b>						
Oil and gas sales	393	370	6.2%	1,141	1,020	11.9%
Petroleum products and petrochemicals sales	398	338	17.8%	1,096	899	21.9%
Support services and other revenues	11	10	10.0%	31	35	(11.4)%
<b>Total revenues</b>	<b>802</b>	<b>718</b>	<b>11.7%</b>	<b>2,268</b>	<b>1,954</b>	<b>16.1%</b>
<b>Costs and expenses</b>						
Production and operating expenses	52	61	(14.8)%	158	140	12.9%
Cost of purchased oil, gas and petroleum products and refining costs	100	85	17.6%	275	189	45.5%
General and administrative expenses	15	18	(16.7)%	48	37	29.7%
Pipeline tariffs and transportation costs	61	58	5.2%	179	161	11.2%
Exploration expenses	6	4	50.0%	15	6	150.0%
Depreciation, depletion and amortisation	59	53	11.3%	166	160	3.8%
Taxes other than income tax	165	158	4.4%	484	356	36.0%
Export customs duty	212	245	(13.5)%	664	567	17.1%
<b>Total cost and expenses</b>	<b>670</b>	<b>682</b>	<b>(1.8)%</b>	<b>1,989</b>	<b>1,616</b>	<b>23.1%</b>
<b>Operating income</b>	<b>132</b>	<b>36</b>	<b>266.7%</b>	<b>279</b>	<b>338</b>	<b>(17.5)%</b>
Finance income	6	3	100.0%	15	15	0.0%
Finance expenses	(5)	(2)	150.0%	(12)	(17)	(29.4)%
Equity share in profits of associates and joint ventures	7	4	75.0%	20	11	81.8%
Other income	84	-	-	85	6	>100%
Other expenses	(9)	(13)	(30.8)%	(27)	(29)	(6.9)%
Result of operations with foreign currency, foreign exchange differences	16	(39)	141.0%	3	(12)	>100%
<b>Income/(loss) before income tax</b>	<b>231</b>	<b>(11)</b>	<b>&gt;100%</b>	<b>363</b>	<b>312</b>	<b>16.3%</b>
Income tax expense	(50)	3	>100%	(78)	(65)	20.0%
<b>Net income/(loss)</b>	<b>181</b>	<b>(8)</b>	<b>&gt;100%</b>	<b>285</b>	<b>247</b>	<b>15.4%</b>
<b>Other comprehensive income/(loss)</b>						
Foreign exchange differences on translation of foreign operations	5	(3)	266.7%	4	2	100.0%
Income/(loss) from changes in fair value of financial assets available for-sale	1	(2)	150.0%	(2)	-	-
<b>Total other comprehensive income/(loss), net of tax</b>	<b>6</b>	<b>(5)</b>	<b>220.0%</b>	<b>2</b>	<b>2</b>	<b>-</b>
<b>Total comprehensive income(loss), net of tax</b>	<b>187</b>	<b>(13)</b>	<b>&gt;100%</b>	<b>287</b>	<b>249</b>	<b>15.3%</b>
	<i>For 3 months ended</i>			<i>For 9 months ended</i>		
	<b>September 30, 2012</b>	<b>June 30, 2012</b>		<b>September 30, 2012</b>	<b>September 30, 2011</b>	
EBITDA	191	89		445	498	
Operating income margin	16.5%	5.0%		12.3%	17.3%	
Share of pipeline and transportation costs in revenue	7.6%	8.1%		7.9%	8.2%	
Net income margin	22.6%	(1.1)%		12.6%	12.6%	

\* The difference between percents presented here and in the sections is a result of rounding

## Revenues

In the third quarter of 2012 revenues were 11.7% up compared to those of the second quarter of 2012 and amounted to RUB 802 billion. That was mainly due to increase in crude oil and petroleum product prices and increase in sales volumes of petroleum products.

In the nine months of 2012 revenues were 16.1% higher compared to the nine months of 2011, which was driven by increase in sales volumes and price. Urals price increased by 9.6% and the world market prices for diesel and fuel oil denominated in RUB rose by 11.2% and 15.5% respectively.

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

	<i>For 3 months ended</i>					<i>For 9 months ended</i>				
	September 30, 2012		June 30, 2012		Change	September 30, 2012		September 30, 2011		Change
	% of total revenue		% of total revenue		%	% of total revenue		% of total revenue		%
	(RUB billion, except %)									
<b>Crude oil</b>										
International Sales to non-CIS	363	45.2%	348	48.5%	4.3%	1,062	46.8%	967	49.5%	9.8%
Europe and other directions	265	33.0%	261	36.4%	1.5%	772	34.0%	694	35.5%	11.2%
Asia	98	12.2%	87	12.1%	12.6%	290	12.8%	273	14.0%	6.2%
International sales to CIS	22	2.8%	15	2.1%	46.7%	58	2.6%	40	2.0%	45.0%
Domestic	1	0.1%	2	0.3%	(50.0)%	5	0.2%	2	0.1%	150.0%
<b>Total crude oil</b>	<b>386</b>	<b>48.1%</b>	<b>365</b>	<b>50.9%</b>	<b>5.8%</b>	<b>1,125</b>	<b>49.6%</b>	<b>1,009</b>	<b>51.6%</b>	<b>11.5%</b>
<b>Gas</b>	<b>7</b>	<b>0.9%</b>	<b>5</b>	<b>0.7%</b>	<b>35.4%</b>	<b>16</b>	<b>0.7%</b>	<b>11</b>	<b>0.6%</b>	<b>37.7%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	222	27.7%	179	24.9%	24.0%	623	27.5%	499	25.5%	24.8%
Europe and other directions	163	20.3%	123	17.1%	32.5%	449	19.8%	337	17.2%	33.2%
Asia	59	7.4%	56	7.8%	5.4%	174	7.7%	162	8.3%	7.4%
International Sales to CIS	3	0.4%	2	0.3%	50.0%	7	0.3%	6	0.3%	16.7%
Domestic	139	17.3%	122	16.9%	13.9%	367	16.2%	327	16.7%	12.2%
Wholesale	85	10.6%	75	10.4%	13.3%	222	9.8%	200	10.2%	11.0%
Retail	54	6.7%	47	6.5%	14.9%	145	6.4%	127	6.5%	14.2%
Sales of bunker fuel to end-users	16	2.0%	12	1.7%	33.3%	37	1.6%	28	1.5%	32.1%
<b>Total petroleum products</b>	<b>380</b>	<b>47.4%</b>	<b>315</b>	<b>43.8%</b>	<b>20.6%</b>	<b>1,034</b>	<b>45.6%</b>	<b>860</b>	<b>44.0%</b>	<b>20.2%</b>
<b>Petrochemical products</b>	18	2.2%	23	3.2%	(21.7)%	62	2.7%	39	2.0%	59.0%
International sales	16	2.0%	20	2.8%	(20.0)%	54	2.4%	32	1.6%	68.8%
Domestic	2	0.2%	3	0.4%	(33.3)%	8	0.3%	7	0.4%	14.3%
<b>Support services and other revenues</b>	11	1.4%	10	1.4%	2.9%	31	1.4%	35	1.8%	(12.5)%
<b>Total sales</b>	<b>802</b>	<b>100.0%</b>	<b>718</b>	<b>100.0%</b>	<b>11.7%</b>	<b>2,268</b>	<b>100.0%</b>	<b>1,954</b>	<b>100.0%</b>	<b>16.1%</b>

## Sales Volumes

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

	<i>For 3 months ended</i>					<i>For 9 months ended</i>				
	September 30, 2012		June 30, 2012		Change	September 30, 2012		September 30, 2011		Change
	mln bbls	% of total volume	mln bbls	% of total volume	%	mln bbls	% of total volume	mln bbls	% of total volume	%
<b>Crude oil</b>										
International Sales to non-CIS	111.3	46.1%	111.9	48.7%	(0.5)%	327.0	47.3%	323.3	49.3%	1.1%
Europe and other directions	77.6	32.2%	81.2	35.3%	(4.4)%	229.0	33.1%	223.1	34.0%	2.6%
Asia	33.7	13.9%	30.7	13.4%	9.8%	98.0	14.2%	100.2	15.3%	(2.2)%
CIS	11.7	4.8%	11.0	4.8%	6.4%	34.4	5.0%	25.6	3.9%	34.4%
Domestic	0.7	0.3%	2.2	1.0%	(68.2)%	3.6	0.5%	1.5	0.2%	140.0%
<b>Total crude oil</b>	<b>123.7</b>	<b>51.2%</b>	<b>125.1</b>	<b>54.5%</b>	<b>(1.1)%</b>	<b>365.0</b>	<b>52.8%</b>	<b>350.4</b>	<b>53.4%</b>	<b>4.2%</b>
<b>Crude oil</b>										
	mln tonnes	%	mln tonnes	%	%	mln tonnes	%	mln tonnes	%	%
International Sales to non-CIS	15.2	46.1%	15.3	48.7%	(0.5)%	44.7	47.3%	44.2	49.3%	1.1%
Europe and other directions	10.6	32.2%	11.1	35.3%	(4.4)%	31.3	33.1%	30.5	34.0%	2.6%
Asia	4.6	13.9%	4.2	13.4%	9.8%	13.4	14.2%	13.7	15.3%	(2.2)%
CIS	1.6	4.8%	1.5	4.8%	6.4%	4.7	5.0%	3.5	3.9%	34.4%
Domestic	0.1	0.3%	0.3	1.0%	(68.2)%	0.5	0.5%	0.2	0.2%	140.0%
<b>Total crude oil</b>	<b>16.9</b>	<b>51.2%</b>	<b>17.1</b>	<b>54.5%</b>	<b>(1.1)%</b>	<b>49.9</b>	<b>52.8%</b>	<b>47.9</b>	<b>53.4%</b>	<b>4.2%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	8.4	25.5%	7.5	23.9%	12.0%	24.1	25.5%	22.1	24.6%	9.0%
Europe and other directions	6.2	18.8%	5.3	16.9%	17.0%	17.6	18.6%	15.1	16.8%	16.6%
Asia	2.2	6.7%	2.2	7.0%	0.0%	6.5	6.9%	7.0	7.8%	(7.1)%
International Sales to CIS	0.2	0.6%	0.0	0.0%	0.0%	0.3	0.3%	0.3	0.4%	0.0%
Domestic	6.1	18.5%	5.4	17.2%	13.0%	16.2	17.1%	16.1	17.9%	0.6%
Wholesale	4.2	12.7%	3.8	12.1%	10.5%	11.2	11.8%	11.3	12.6%	(0.9)%
Retail	1.9	5.8%	1.6	5.1%	18.8%	5.0	5.3%	4.8	5.3%	4.2%
Sales of bunker fuel to end-users	0.8	2.4%	0.7	2.2%	14.3%	2.0	2.1%	1.8	2.0%	11.1%
<b>Total petroleum products</b>	<b>15.5</b>	<b>47.0%</b>	<b>13.6</b>	<b>43.3%</b>	<b>14.0%</b>	<b>42.6</b>	<b>45.0%</b>	<b>40.3</b>	<b>44.9%</b>	<b>5.7%</b>
<b>Petrochemical products</b>										
International sales	0.6	1.8%	0.7	2.2%	(14.3)%	2.1	2.2%	1.5	1.7%	40.0%
Domestic	0.4	1.2%	0.6	1.9%	(33.3)%	1.6	1.7%	1.0	1.1%	60.0%
Domestic	0.2	0.6%	0.1	0.3%	100.0%	0.5	0.5%	0.5	0.6%	0.0%
<b>Total crude oil and products</b>	<b>33.0</b>	<b>100.0%</b>	<b>31.4</b>	<b>100.0%</b>	<b>5.1%</b>	<b>94.6</b>	<b>100.0%</b>	<b>89.7</b>	<b>100.0%</b>	<b>5.5%</b>
<b>Gas</b>										
Sales volumes	bln m <sup>3</sup>		bln m <sup>3</sup>			bln m <sup>3</sup>		bln m <sup>3</sup>		
	<b>2.76</b>		<b>2.66</b>		<b>3.8%</b>	<b>8.18</b>		<b>7.28</b>		<b>12.4%</b>

## 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 9 months ended</i>				
	September 30, 2012		June 30, 2012		Change	September 30, 2012		September 30, 2011		Change
	(th.RUB/ barrel)	(th.RUB/ tonne)	(th.RUB/ barrel)	(th.RUB/ tonne)		(th.RUB/ barrel)	(th.RUB/ tonne)	(th.RUB/ barrel)	(th.RUB/ tonne)	
<b>Average prices on foreign markets</b>										
Crude oil, excluding CIS	3.30	24.2	3.09	22.6	7.1%	3.25	23.8	2.99	21.9	8.7%
Europe and other directions	3.44	25.2	3.20	23.4	7.7%	3.38	24.7	3.11	22.7	8.8%
Asia	2.98	21.8	2.78	20.3	7.4%	2.97	21.7	2.72	19.9	9.0%
Crude oil, CIS	1.84	13.5	1.35	9.9	36.4%	1.68	12.3	1.59	11.7	5.1%
Petroleum products, non-CIS		26.6		24.1	10.4%		25.9		22.5	15.1%
Europe and other directions		26.3		23.4	12.4%		25.6		22.3	14.8%
Asia		27.4		25.6	7.0%		26.9		23.1	16.5%
Petroleum products, CIS		24.1		22.9	5.2%		24.2		21.2	14.2%
<b>Average domestic prices</b>										
Crude oil	1.54	11.3	1.29	9.4	20.2%	1.38	10.1	1.37	10.0	1.0%
Petroleum products		23.1		22.9	0.9%		22.8		20.4	11.8%
Wholesale		20.3		20.1	1.0%		19.9		17.8	11.8%
Retail		29.3		29.3	0.0%		29.2		26.4	10.6%
Gas (th.rub. /th. cubic meter)		2.14		1.92	11.5%		1.95		1.43	36.4%
Sales of bunker fuel to end-users		18.0		17.9	0.6%		17.9		15.0	19.3%
Petrochemical products		29.5		32.2	(8.4)%		29.5		26.6	10.9%
<i>International sales</i>		33.7		36.7	(8.2)%		33.5		33.7	(0.6)%
<i>Domestic</i>		15.5		18.1	(14.4)%		16.0		13.7	16.8%

## International Crude Oil Sales to non-CIS

Revenues from international crude oil sales to non-CIS countries in the third quarter of 2012 were RUB 363 billion which is an increase in comparison with the second quarter of 2012. Average prices upturn of 7.1% (positive impact on revenues of RUB 17 billion) was partially offset by sales volumes decrease of 0.5% (negative impact on revenues of RUB 2 billion). Export sales volumes reduction was due to the redirection of crude oil for processing following the completion of turnarounds at major refineries.

The deviation between average sales prices on the Asian markets and world market prices (Dubai-Oman) in the third quarter of 2012 is due to deliveries to Transneft of 6 million tonnes of crude oil per year under the contract signed in 2009. These volumes are sold to Transneft at export alternative price basis (international crude oil price excluding export duty) and are recognized as international sales in Company's sales structure. Excluding revenues from crude oil sales to Transneft (RUB 21 billion) in the third quarter of 2012 the average sales price on the Asian markets amounted to RUB 3.5 thousand per barrel.

In the nine months of 2012 revenues from international crude oil sales to non-CIS countries increased by 9.8% compared to the nine months of 2011. A 8.7% upturn in average prices (positive impact on revenues of RUB 84 billion) was accompanied by a slight increase in sales volumes by 1.1% (favourable impact on revenues of RUB 11 billion).

## Crude Oil Supplies to Ruhr Oel GmbH Refineries

In January 2012 Rosneft resumed supplies of its own crude oil to Ruhr Oel GmbH refineries. In the nine months of 2012 these supplies, net of resale operations, amounted to 1.6 million tonnes (11.8 million barrels). Rosneft paid RUB 20 billion of export duties on this crude oil. 1.5 million tonnes (10.7 million barrels) of this crude oil was fully processed and sold. The balance remained in stocks (export duty disclosed in the consolidated statement of income amounted to RUB 18 billion, the balance was reflected on the Balance Sheet as part of inventories).

Besides supplies of own crude oil, in the nine months of 2012 Rosneft acquired 6.4 million tonnes (46.8 million barrels) of crude oil on the international market for RUB 166 billion to supply to Ruhr Oel GmbH refineries. These expenses are reflected in the cost of purchased oil, gas and petroleum products and refining costs in the consolidated statements of income and comprehensive income.

### **International Crude Oil Sales to CIS**

In the third quarter of 2012 revenue from sales of crude oil to CIS (Belarus and Kazakhstan) was RUB 22 billion, which is an increase of 46.7% compared to the previous quarter. A 36.4% upturn in average prices, accompanied by an increase in sales volumes of 6.4% had a positive impact on revenues of RUB 6 billion and RUB 1 billion, respectively. The increase in sales volumes resulted from higher quotas for crude oil deliveries to Belarus.

In the nine months of 2012 revenues from international crude oil sales to CIS countries (Belarus and Kazakhstan) were RUB 18 billion higher in comparison with the nine months of 2011, which is attributable to sales volumes growth of 34.4% (positive impact on revenues of RUB 14 billion). Average price upturn of 5.1% led to revenue growth of RUB 4 billion.

### **International Petroleum Product Sales to Non-CIS**

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold to non-CIS countries:

	<i>For 3 months ended</i>						<i>% change</i>		
	September 30, 2012			June 30, 2012			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	2	0.0	38.9	1	0.0	38.1	100.0%	–	2.1%
Low octane gasoline	1	0.0	36.0	1	0.0	33.5	0.0%	–	7.5%
Naphtha	25	0.9	29.1	23	0.8	27.0	8.7%	12.5%	7.8%
Diesel (Gasoil)	49	1.6	30.0	38	1.4	28.1	28.9%	14.3%	6.8%
Fuel oil	66	3.3	20.6	59	3.0	19.9	11.9%	10.0%	3.5%
Jet fuel	0	0.0	38.5	0	0.0	37.2	–	–	3.5%
Other	1	0.1	26.2	1	0.1	27.5	0.0%	0.0%	(4.7)%
<b>Total petroleum products exported to non-CIS</b>	<b>144</b>	<b>5.9</b>	<b>24.8</b>	<b>123</b>	<b>5.3</b>	<b>23.4</b>	<b>17.1%</b>	<b>11.3%</b>	<b>6.0%</b>
<i>Petroleum products sold from ROG refineries</i>	78	2.5	30.6	56	2.2	25.8	39.3%	13.6%	18.6%
<b>Total</b>	<b>222</b>	<b>8.4</b>	<b>26.6</b>	<b>179</b>	<b>7.5</b>	<b>24.1</b>	<b>24.0%</b>	<b>12.0%</b>	<b>10.4%</b>

Average prices of petroleum product sales may vary significantly depending on the market mainly due to different product mix.

Revenue from the international sales of petroleum products to non-CIS countries was RUB 222 billion in the third quarter of 2012, which is an increase of 24.0% compared to the previous quarter. A 10.4% upturn in average prices as well as sales volume increase of 12.0% had a positive impact on revenues of RUB 21 billion and RUB 22 billion, respectively. The increase in volumes was due to an increase in refinery throughput.

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold to non-CIS countries:

	<i>For 9 months ended</i>						<i>% change</i>		
	September 30, 2012			September 30, 2011			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	5	0.0	37.7	12	0.5	24.9	(58.3)%	(100.0)%	51.4%
Low octane gasoline	3	0.1	33.9	5	0.2	26.6	(40.0)%	(50.0)%	27.4%
Naphtha	76	2.6	28.8	70	2.6	26.7	8.6%	0.0%	7.9%
Diesel (Gasoil)	142	4.8	29.3	127	4.8	26.1	11.8%	0.0%	12.3%
Fuel oil	194	9.5	20.7	179	10.1	17.8	8.4%	(5.9)%	16.3%
Jet fuel	0	0.0	37.2	1	0.0	30.3	(100.0)%	–	22.8%
Other	3	0.3	26.9	6	0.2	25.0	(50.0)%	50.0%	7.6%
<b>Total petroleum products exported to non-CIS</b>	<b>423</b>	<b>17.3</b>	<b>24.6</b>	<b>400</b>	<b>18.4</b>	<b>21.6</b>	<b>5.8%</b>	<b>(6.0)%</b>	<b>13.9%</b>
<i>Petroleum products sold from ROG refineries</i>	200	6.8	29.2	99	3.7	26.9	102.0%	83.8%	8.6%
<b>Total</b>	<b>623</b>	<b>24.1</b>	<b>25.9</b>	<b>499</b>	<b>22.1</b>	<b>22.5</b>	<b>24.8%</b>	<b>9.0%</b>	<b>15.1%</b>

In the nine months of 2012 revenues from international sales of petroleum products to non-CIS countries were 24.8% higher compared to the nine months of 2011 which was driven by a 15.1% increase in average rouble prices (positive impact on revenues of RUB 79 billion) and 9.0% increase in sales volumes (positive impact on revenues of RUB 45 billion). The increase in sales volumes was due to acquisition of a 50% share in Ruhr Oel GmbH.

#### **Domestic Sales of Petroleum Products**

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold in Russia:

	<i>For 3 months ended</i>						<i>% change</i>		
	September 30, 2012			June 30, 2012			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	51	1.7	29.3	44	1.6	28.5	15.9%	6.3%	2.8%
Low octane gasoline	2	0.1	25.1	2	0.1	23.7	0.0%	0.0%	5.9%
Naphtha	–	–	–	–	–	–	–	–	–
Diesel	62	2.6	23.9	54	2.3	23.5	14.8%	13.0%	1.7%
Fuel oil	3	0.3	10.5	2	0.2	10.6	50.0%	50.0%	(0.9)%
Jet fuel	11	0.5	24.5	11	0.5	24.9	0.0%	0.0%	(1.6)%
Other	10	0.9	11.5	9	0.7	12.0	11.1%	28.6%	(4.2)%
<b>Total</b>	<b>139</b>	<b>6.1</b>	<b>23.1</b>	<b>122</b>	<b>5.4</b>	<b>22.9</b>	<b>13.9%</b>	<b>13.0%</b>	<b>0.9%</b>

Revenues from sales of petroleum products on the domestic market were RUB 139 billion in the third quarter of 2012, which is an increase of 13.9% compared to the second quarter of 2012. Revenue growth was attributable to 13.0% increase in sales volumes and a slight upturn in average prices of 0.9% which had a total favourable impact on revenues of RUB 17 billion. Sales volumes increase is attributable to seasonal demand growth.

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold in Russia:

	<i>For 9 months ended</i>						% change		
	September 30, 2012			September 30, 2011					
	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	133	4.6	28.8	126	4.7	27.0	5.6%	(2.1)%	6.7%
Low octane gasoline	5	0.3	24.4	5	0.2	21.7	0.0%	50.0%	12.4%
Naphtha	–	–	–	–	–	–	–	–	–
Diesel	162	6.8	23.9	147	7.4	19.9	10.2%	(8.1)%	20.1%
Fuel oil	11	1.1	10.3	12	1.4	8.7	(8.3)%	(21.4)%	18.4%
Jet fuel	30	1.3	25.0	18	0.9	21.0	66.7%	44.4%	19.0%
Other	26	2.1	11.5	19	1.5	12.3	36.8%	40.0%	(6.5)%
<b>Total</b>	<b>367</b>	<b>16.2</b>	<b>22.8</b>	<b>327</b>	<b>16.1</b>	<b>20.4</b>	<b>12.2%</b>	<b>0.6%</b>	<b>11.8%</b>

In the nine months of 2012 revenues from sales of petroleum products on the domestic market increased by 12.2% compared to the nine months of 2011. A 11.8% upturn in average prices (favourable impact on revenues of RUB 38 billion) was accompanied by a 0.6% increase in sales volumes (positive impact on revenues of RUB 2 billion).

### **Sales of bunker fuel to end-users**

Since December 2007 the Group has been selling bunker fuel (fuel oil and diesel fuel) in the ports of the Russian Federation including seaports of Far East, North and South of European part of Russia, as well as river ports.

Revenues from sales of bunker fuel in the third quarter of 2012 were RUB 16 billion, an increase of 33.3% in comparison with the previous quarter which is mainly attributable to a seasonal factor.

19.3% upturn in average prices accompanied by a 11.1% increase in sales volumes led to revenue growth of 32.1% or RUB 9 billion in the nine month of 2012 compared to the same period of 2011. Volumes growth was due to expansion of the Company's bunkering business.

### **Petrochemical Product Sales**

Revenues from sales of petrochemical products in the third quarter of 2012 were RUB 18 billion, down of 21.7% compared to the second quarter of 2012. Sales volume decreased by 14.3% (unfavourable impact on revenues of RUB 3 billion) mainly following the planned turnaround at Angarsk polymer processing plant in September that resulted in change in output structure. The average price for petrochemical products decreased by 8.4%, which had an unfavourable impact on revenues of RUB 2 billion, following the change in output structure.

A 59.0% growth in revenues from sales of petrochemical products in the nine months of 2012 compared to the same period of 2011 was mainly due to acquisition of a 50% stake in Ruhr Oel GmbH in May 2011.

## Gas Sales

Rosneft's gas sales have been limited to date, but the Company's long term strategy envisages significant expansion of its gas business. Gazprom controls the Unified Gas Supply System (UGSS) and is the dominant gas supplier in Russia and the only exporter of gas.

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

	<i>For 3 months ended</i>			<i>For 9 months ended</i>		
	September 30, 2012	June 30, 2012	Change	September 30, 2012	September 30, 2011	Change
<b>Revenue</b>	<b>(RUB billion)</b>			<b>(RUB billion)</b>		
			%			%
Western Siberia	1.5	1.3	15.4%	4.0	4.0	0.0%
South Russia	2.0	1.7	17.6%	5.6	5.0	12.0%
Far East	0.3	0.3	0.0%	1.0	0.8	25.0%
European part of Russia	2.7	1.5	80.0%	5.1	1.6	218.8%
<b>Total</b>	<b>6.5</b>	<b>4.8</b>	<b>35.4%</b>	<b>15.7</b>	<b>11.4</b>	<b>37.7%</b>
<b>Sales volumes</b>	<b>(bcm)</b>			<b>(bcm)</b>		
Western Siberia	1.15	1.05	9.5%	3.25	3.84	(15.4)%
South Russia	0.69	0.67	3.0%	2.17	2.14	1.4%
Far East	0.14	0.15	(6.7)%	0.51	0.51	0.0%
European part of Russia	0.78	0.79	(1.3)%	2.25	0.79	184.8%
<b>Total</b>	<b>2.76</b>	<b>2.66</b>	<b>3.8%</b>	<b>8.18</b>	<b>7.28</b>	<b>12.4%</b>
<b>Average price</b>	<b>(th. RUB/th. of cubic metres)</b>			<b>(th. RUB/th. of cubic metres)</b>		
Western Siberia	1.26	1.22	3.3%	1.22	0.77	58.4%
South Russia	2.92	2.48	17.7%	2.56	2.36	8.5%
Far East	1.89	1.82	3.8%	1.84	1.57	17.2%
European part of Russia	2.79	2.41	15.8%	2.44	2.06	18.4%
<b>Total</b>	<b>2.14</b>	<b>1.92</b>	<b>11.5%</b>	<b>1.95</b>	<b>1.43</b>	<b>36.4%</b>

In the third quarter of 2012 revenues from gas sales increased by 35.4% and amounted to RUB 6.5 billion due to increase in average prices and sales volumes.

Revenue growth from gas sales of 37.7% in the nine months of 2012 in comparison with the nine months of 2011 was driven by an increase in average prices of 36.4% and an increase in sales volumes which had a positive impact on revenues of RUB 4 billion and RUB 1 billion, 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 income and comprehensive income.

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

	<i>For 3 months ended</i>			<i>For 9 months ended</i>		
	September 30, 2012	June 30, 2012	Change	September 30, 2012	September 30, 2011	Change
	% of total revenue	% of total revenue	%	% of total revenue	% of total revenue	%
	(RUB billion, except %)					
Drilling services	0.8	0.6	33.3%	1.6	0.8	100.0%
Sales of materials	2.6	2.7	(3.7)%	7.6	7.7	(1.3)%
Repairs and maintenance services	0.8	0.8	0.0%	2.4	2.3	4.3%
Rent services	0.7	0.7	0.0%	2.1	1.8	16.7%
Construction services	0.5	0.7	(28.6)%	1.7	1.8	(5.6)%
Transport services	2.0	1.8	11.1%	5.5	6.3	(12.7)%
Electric power sales and transmission	1.0	1.0	0.0%	3.3	7.6	(56.6)%
Other revenues	2.3	2.1	9.5%	6.5	6.8	(4.4)%
<b>Total</b>	<b>10.7</b>	<b>10.4</b>	<b>2.9%</b>	<b>30.7</b>	<b>35.1</b>	<b>(12.5)%</b>

## Costs and Expenses

### Production and Operating Expenses

Operating expenses are split over operating segments in the table below.

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 9 months ended</i>		<i>Change</i>
	September 30, 2012	June 30, 2012	%	September 30, 2012	September 30, 2011	%
<b>(RUB billion, except %)</b>						
Upstream	18.2	17.7	2.8%	53.6	51.7	3.7%
Land restoration program	–	–	–	0.7	–	–
Downstream	26.5	35.9	(26.2)%	81.5	66.5	22.6%
<i>Including procurement of additives and materials for Ruhr Oel GmbH refineries</i>	7.8	11.3	(31.0)%	25.3	16.0	58.1%
Other	7.4	7.8	(5.1)%	22.3	21.7	2.8%
<b>Total</b>	<b>52.1</b>	<b>61.4</b>	<b>(15.1)%</b>	<b>158.1</b>	<b>139.9</b>	<b>13.0%</b>

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

In 2010 the Company adopted a special five-year land restoration program aimed at restoration of lands located in the territory of upstream activities of several subsidiaries of Rosneft and damaged before the acquisition of these subsidiaries by Rosneft. In March 2012 the program was amended, which resulted in additional accrual of RUB 0.7 billion. This amount does not include expenses on land restoration spent by the Company as a part of regular production activity.

Upstream production and operating expenses in the third quarter of 2012 increased by 2.8% compared with the previous quarter and amounted to RUB 18.2 billion. The expenses growth resulted from an increase in electricity tariffs from July 2012.

In the nine months of 2012 upstream production and operating expenses increased by 3.7% up to RUB 53.6 billion compared with the same period of 2011. The growth of expenses was kept below the inflation level due to cost saving efforts.

Upstream production and operating expenses per barrel are shown in the table below.

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 9 months ended</i>		<i>Change</i>
	September 30, 2012	June 30, 2012	%	September 30, 2012	September 30, 2011	%
<b>(RUB per bbl)</b>						
Expenses per bbl of crude oil produced	88.1	88.2	(0.1)%	88.2	87.0	1.4%
Expenses per boe of hydrocarbons produced	81.0	81.1	(0.1)%	80.9	80.1	1.0%

Rosneft's downstream operating expenses decreased by 26.2% in the third quarter of 2012 compared with the second quarter of 2012. The decrease followed the growth of operating expenses in the second quarter of 2012 which resulted primarily from partial sale of previously accumulated intragroup inventories (according to the accounting principles operating expenses are adjusted for all the expenses associated with the change in intragroup inventories). Another factor of downstream expenses downturn is the decrease in procurement of additives and other materials for refining process at Ruhr Oel GmbH following the completion of turnarounds at Gelsenkirchen refinery.

Downstream operating expenses increased by 22.6% in the nine months of 2012 compared with the nine months of 2011 primarily due to increased expenses for procurement of additives and other materials for refining process at Ruhr Oel GmbH. Excluding the effect of procurement of additives and other materials for refining process at Ruhr Oel GmbH downstream operating expenses increased by 11.3% mainly due to an increase in electricity tariffs, cost of materials and additives for own refineries.

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 9 months ended</i>		<i>Change</i>
	<b>September 30, 2012</b>	<b>June 30, 2012</b>	<b>%</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>%</b>
	<b>(RUB per tonne)</b>			<b>(RUB per tonne)</b>		
<b>Operating expenses (RUB billion)</b>	8.54	8.85	(3.5)%	25.75	19.51	32.0%
Operating expenses per tonne of product output	675	797	(15.3)%	717	548	30.8%
Operating expenses per tonne of crude oil throughput	644	760	(15.3)%	682	520	31.2%

In the third quarter of 2012 operating expenses of Rosneft's refineries decreased by 3.5% compared with the second quarter of 2012 due to seasonal decrease in operating turnaround expenses at refineries. The decrease was partially offset by the growth in electricity tariffs starting from July 2012.

In the nine months of 2012 these expenses increased by 32.0% compared with the nine months of 2011. The growth resulted mainly from increase in volumes of additives used to produce euro-standard products in accordance with requirements of Technical regulations to quality of motor fuel. The growth was also due to higher prices for additives and other materials involved in production as well as growth in electricity tariffs.

Operating expenses related to other activities decreased by 5.1% in the third quarter of 2012 compared with the second quarter of 2012 due to decrease in volumes of construction services rendered to the third parties. In the nine months of 2012 these expenses increased by 2.8% compared with the same period of 2011. The increase was primarily due to the higher volumes of drilling and repairs and maintenance services rendered to the third parties.

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

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 9 months ended</i>		<i>Change</i>
	<b>September 30, 2012</b>	<b>June 30, 2012</b>	<b>%</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>%</b>
<b>Crude oil</b>						
Cost of crude oil procured (RUB billion)	84	67	25.4%	232	134	73.1%
<i>including Domestic market</i>	27	18	50.0%	66	52	26.9%
<i>International market</i>	57	49	16.3%	166	82	102.4%
Volume of crude oil procured (million of barrels)	35.1	27.3	28.6%	93.4	68.8	35.8%
<i>including Domestic market</i>	18.8	13.6	38.2%	46.6	44.1	5.7%
<i>International market</i>	16.3	13.7	19.0%	46.8	24.7	89.5%
<b>Gas</b>						
Cost of gas procured (RUB million)	279	281	(0.7)%	798	673	18.6%
Volume of gas procured (bcm)	0.17	0.18	(5.6)%	0.50	0.36	38.9%
<b>Petroleum products</b>						
Cost of petroleum product procured (RUB billion) <sup>(1)</sup>	11	12	(8.3)%	28	48	(41.7)%
Volume of petroleum product procured (million of tonnes)	0.4	0.5	(17.6)%	1.1	2.0	(43.4)%
<b>Crude oil refining services</b>						
Cost of refining of crude oil under processing agreements (RUB billion)	5	5	0.0%	14	7	100.0%
Volumes of crude oil refined under processing agreements (million of tonnes)	2.7	2.4	12.5%	7.8	4.5	73.3%
<b>Total cost of procured oil, gas and petroleum products and refining costs (RUB billion)</b>	<b>100</b>	<b>85</b>	<b>17.6%</b>	<b>275</b>	<b>189</b>	<b>45.5%</b>

(1) In the nine months of 2012 the average procurement price of petroleum products from third parties was higher than the average selling price of petroleum products due to differences in the mix of procured and sold petroleum products.

Rosneft purchases crude oil primarily from its affiliates to process it at own refineries. Rosneft procures crude oil on the international market to supply it to Ruhr Oel GmbH refineries.

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 9 months ended</i>		<i>Change</i>
	September 30, 2012	June 30, 2012	%	September 30, 2012	September 30, 2011	%
	(million bbl, except %)					
International market	16.3	13.7	19.0%	46.8	24.7	89.5%
Tomskneft	10.3	8.3	24.1%	26.3	31.1	(15.4)%
Udmurtneft	4.2	1.8	133.3%	8.4	6.3	33.3%
Others	4.3	3.5	22.9%	11.9	6.7	77.6%
<b>Total</b>	<b>35.1</b>	<b>27.3</b>	<b>28.6%</b>	<b>93.4</b>	<b>68.8</b>	<b>35.8%</b>

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 statements of income and comprehensive income. In the third quarter of 2012 these transactions were exercised with Gazpromneft, Bashneft, TNK-BP and others. The volume of crude oil swaps amounted to 21.4 million barrels and 18.9 million barrels in the third quarter of 2012 and in the second quarter of 2012, respectively. Rosneft’s estimated benefits from these transactions were RUB 0.5 billion in the third quarter of 2012 and RUB 0.5 billion in the second quarter of 2012. In the nine months of 2012 and 2011 the volume of crude oil swaps amounted to 58.1 million barrels and 43.5 million barrels, which resulted in RUB 1.5 billion of benefits for Rosneft in the nine months 2012.

Petroleum products from third parties are purchased 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.

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

	<i>For 3 months ended</i>						<i>% change</i>		
	September 30, 2012			June 30, 2012			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	7	0.25	27.3	7	0.30	25.9	0.0%	(16.7)%	5.4%
Low octane gasoline	0	0.00	26.4	0	0.00	25.3	–	–	4.3%
Diesel	2	0.11	25.6	4	0.16	24.6	(50.0)%	(31.3)%	4.1%
Jet fuel	1	0.02	23.7	0	0.02	24.0	–	0.0%	(1.3)%
Other	1	0.04	20.1	1	0.03	21.5	0.0%	33.3%	(6.5)%
<b>Total</b>	<b>11</b>	<b>0.42</b>	<b>25.9</b>	<b>12</b>	<b>0.51</b>	<b>25.2</b>	<b>(8.3)%</b>	<b>(17.6)%</b>	<b>2.8%</b>

The table below sets forth Rosneft’s costs, volumes and average prices per tonne of petroleum products procured from third parties in nine months of 2012 and 2011:

	<i>For 9 months ended</i>						<i>% change</i>		
	September 30, 2012			September 30, 2011			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	17	0.66	26.1	39	1.47	26.1	(56.4)%	(55.1)%	0.0%
Low octane gasoline	0	0.00	25.4	1	0.06	18.3	(100.0)%	(100.0)%	38.8%
Diesel	7	0.30	25.4	7	0.37	20.1	0.0%	(18.9)%	26.4%
Jet fuel	2	0.06	24.2	–	–	–	–	–	–
Other	2	0.09	20.5	1	0.06	18.3	100.0%	50.0%	12.0%
<b>Total</b>	<b>28</b>	<b>1.11</b>	<b>25.3</b>	<b>48</b>	<b>1.96</b>	<b>24.4</b>	<b>(41.7)%</b>	<b>(43.4)%</b>	<b>3.7%</b>

The decrease in volumes of petroleum product purchases in the third quarter of 2012 in comparison to the second quarter of 2012 resulted from increase in petroleum products output on own refineries.

The decrease in volumes of petroleum product purchases in the nine months of 2012 in comparison to the nine months of 2011 was due to increased supplies for retail sales from own refineries, as well as decrease in number of own filling stations.

Average petroleum product procurement prices may deviate from average sales prices depending on particular regions and product quality.

### **General and Administrative Expenses**

General and administrative expenses include wages and 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 with respect to non-core property, expenses to establish allowances for doubtful accounts and other general expenses.

General and administrative expenses in the third quarter of 2012 were RUB 15 billion and in the second quarter of 2012 were RUB 18 billion.

In the nine months of 2012 and 2011 general and administrative expenses were RUB 48 billion and RUB 37 billion, respectively.

### **Pipeline Tariffs and Transportation Costs**

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

In the third quarter of 2012 Rosneft's transportation costs increased to RUB 61 billion, or by 5.2% compared to the second quarter of 2012 which was mainly due to transportation volumes growth following the completion of turnarounds at refineries and growth of domestic sales volumes.

In the nine months of 2012 Rosneft's transportation costs increased by 11.2% compared with the nine months of 2011. The increase resulted from transportation tariffs growth, which was partially offset by the change in structure of transportation routes.

The table below sets forth comparison on quarter-on-quarter basis for costs per tonne of crude oil and petroleum products transported by pipeline, railway and a combination of pipeline and railway:

	<i>For 3 months ended</i>								<i>% change</i>		
	September 30, 2012				June 30, 2012				Volume	Cost	Cost per tonne sold, th.RUB/t
	Volume, mln. tonnes	Share in export volumes	Cost, bln. RUB	Cost per tonne sold, th.RUB/t	Volume, mln. tonnes	Share in export volumes	Cost, bln. RUB	Cost per tonne sold, th.RUB/t			
<b>CRUDE OIL</b>											
<b>International sales</b>											
Pipeline	16.4	97.6%	26.7	1.62	16.3	97.0%	26.8	1.65	0.6%	(0.4)%	(1.8)%
Railroad and mixed	0.4	2.4%	0.3	0.83	0.5	3.0%	0.4	0.82	(20.0)%	(25.0)%	1.2%
<b>Transportation to refineries</b>											
Pipeline <sup>(1)</sup>	11.2		6.7	0.59	9.6		5.7	0.59	16.7%	17.5%	(1.7)%
Railroad and mixed	1.5		5.8	3.94	1.5		5.9	4.00	0.0%	(1.7)%	(1.5)%
<b>PETROLEUM PRODUCTS</b>											
<b>International sales</b>											
Pipeline <sup>(2)</sup>	0.4	4.3%	1.0	2.42	0.1	1.2%	0.2	2.14	300.0%	400.0%	13.1%
Railroad and mixed	6.3	67.0%	10.4	1.65	6.5	75.6%	11.1	1.70	(3.1)%	(6.3)%	(2.9)%
<b>Other transportation expenses <sup>(3)</sup></b>											
			10				8			25.0%	
<b>Total</b>	<b>36.2</b>		<b>61</b>	<b>1.69</b>	<b>34.5</b>		<b>58</b>	<b>1.68</b>	<b>4.9%</b>	<b>5.2%</b>	<b>0.6%</b>

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

(2) Rosneft exported 2.7 million tonnes (28.7% of total export volumes) and 1.9 million tonnes (22.3% of total export volumes) of petroleum products in the third quarter of 2012 and in the second quarter of 2012, respectively, through its own pipeline in the town of Tuapse, and on FCA terms from Samara refineries in the navigation period, where Rosneft does not bear transportation expenses directly, except for transshipment costs.

(3) Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to service stations as well as transportation expenses related to sales of bunker fuel. Other transportation expenses also include Rosneft expenses on crude oil swap deals excluding economy in price.

The decrease in crude oil pipeline transportation cost per tonne of international sales was 1.8%, which was due to the change in structure of transportation routes.

The increase in crude oil railroad and mixed transportation cost per tonne of international sales was 1.2%, which was mainly due to change in structure of transportation routes.

The decrease in crude oil pipeline transportation cost per tonne of supplies to refineries was 1.7% compared to the second quarter, which was primarily due to changes in logistics of supplies to the Rosneft's refineries.

The decrease in crude oil railroad and mixed transportation cost per tonne of supplies to refineries was 1.5%, which was due to change in logistics of crude oil supply to Komsomolsk refinery.

Pipeline transportation cost per tonne of petroleum product international sales increased by 13.1%. The increase was due to change in the delivery basis in the 3<sup>rd</sup> quarter of 2012, which stipulated inclusion of reloading costs to transportation costs.

Railroad and mixed transportation cost per tonne of petroleum product international sales decreased by 2.9%. The decrease was due to seasonal increase in FCA sales of petroleum products, where Rosneft does not bear transportation expenses directly, and due to increase in volumes of petroleum products sold on Germany market.

The table below sets forth costs per tonne of crude oil and petroleum products transported by pipeline, railway and a combination of pipeline and railway for the comparable periods:

	<i>For 9 months ended</i>								<i>% change</i>		
	September 30, 2012				September 30, 2011						
	Volume, mln. tonnes	Share in export volumes	Cost, bln. RUB	Cost per tonne sold, th.RUB/t	Volume, mln. tonnes	Share in export volumes	Cost, bln. RUB	Cost per tonne sold, th.RUB/t	Volume	Cost	Cost per tonne sold, th.RUB/t
<b>CRUDE OIL</b>											
<b>International sales</b>											
Pipeline	48.1	97.4%	78.2	1.63	45.8	96.0%	68.0	1.48	5.0%	15.0%	10.1%
Railroad and mixed	1.3	2.6%	1.1	0.84	1.9	4.0%	2.2	1.14	(31.6)%	(50.0)%	(26.3)%
<b>Transportation to refineries</b>											
Pipeline <sup>(1)</sup>	32.0		18.9	0.59	30.9		18.2	0.59	3.6%	3.8%	0.0%
Railroad and mixed	4.5		17.9	4.01	4.5		17.8	3.96	0.0%	0.6%	1.3%
<b>PETROLEUM PRODUCTS</b>											
<b>International sales</b>											
Pipeline <sup>(2)</sup>	0.8	3.0%	2.0	2.38	0.6	2.5%	1.2	2.17	33.3%	66.7%	9.7%
Railroad and mixed	20.6	76.0%	36.5	1.77	17.8	74.2%	36.4	2.04	15.7%	0.3%	(13.2)%
<b>Other transportation expenses <sup>(3)</sup></b>			24				17			41.2%	
<b>Total</b>	<b>107.3</b>		<b>179</b>	<b>1.67</b>	<b>101.5</b>		<b>161</b>	<b>1.59</b>	<b>5.7%</b>	<b>11.2%</b>	<b>5.0%</b>

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

(2) Rosneft exported 5.7 million tonnes (21.0% of total export volumes) and 5.6 million tonnes (23.3% of total export volumes) of petroleum products in the nine months of 2012 and in the nine months of 2011, respectively, through its own pipeline in the town of Tuapse and on FCA terms from Samara refineries in the navigation period, where Rosneft does not bear transportation expenses directly, except for transshipment costs.

(3) Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to service stations as well as transportation expenses related to sales of bunker fuel. Other transportation expenses also include Rosneft expenses on crude oil swap deals.

The increase in crude oil pipeline transportation cost per tonne of international sales was 10.1%, which was due to an increase in tariffs by 2.8% – 18.5%.

The decrease in crude oil railroad and mixed transportation cost per tonne of international sales was 26.3%, which was due to the cease of supplies of Purneftegaz crude oil to CPC.

Crude oil pipeline transportation cost per tonne of supplies to refineries remained unchanged as a result of increased supplies to Ruhr Oel GmbH of crude oil procured on the international market offset by an increase in tariffs.

The increase in crude oil railroad and mixed transportation cost per tonne of supplies to refineries was 1.3%, which was due to an increase in tariffs.

The increase in pipeline cost per tonne of petroleum product international sales was 9.7%, which was due to increase in tariffs.

The decrease in railroad and mixed cost per tonne of petroleum product international sales was 13.2% due to petroleum products sales volumes growth on the local market of Germany, where transportation costs are low due to short transportation distances.

## **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 third quarter of 2012 exploration expenses increased to RUB 6 billion compared with RUB 4 billion in the second quarter of 2012 due to increase in volumes of seismic works at the blocks in the Arctic seas.

In the nine months of 2012 exploration expenses were RUB 15 billion and increased by 150.0% compared with the same period of 2011 due to increase in volumes of seismic works and other works not related to the exploration drilling.

### **Depreciation, Depletion and Amortisation**

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

Depreciation, depletion and amortisation were RUB 59 billion in the third quarter of 2012 compared to RUB 53 billion in the second quarter of 2012 due to higher volumes of production and increased book value of fixed assets.

In the nine months of 2012 depreciation, depletion and amortisation were RUB 166 billion and increased by 3.8% compared with RUB 160 billion in the nine months of 2011.

### **Taxes Other than Income Tax**

Taxes other than income tax include the mineral extraction tax, the excise tax, the property tax and other taxes.

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 9 months ended</i>		<i>Change</i>
	<b>September 30, 2012</b>	<b>June 30, 2012</b>	<b>%</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>%</b>
	<b>(RUB billion, except %)</b>					
Mineral extraction tax	133	129	3.1%	395	292	35.3%
Excise tax	23	18	27.8%	59	41	43.9%
Social security tax	6	6	-	17	13	30.8%
Property tax	3	3	-	9	9	-
Interest, penalties and other payments to budget	-	2	(100.0)%	4	1	>100%
<b>Total taxes other than income tax</b>	<b>165</b>	<b>158</b>	<b>4.4%</b>	<b>484</b>	<b>356</b>	<b>36.0%</b>

Taxes other than income tax increased by 4.4% to RUB 165 billion in the third quarter of 2012, compared with RUB 158 billion in the second quarter of 2012 mainly due to the mineral extraction tax and the excise tax increase. In the third quarter of 2012 the excise tax increased significantly due to excise tax rates growth from July 1, 2012 and increase in share of petroleum products subject to excises taxes in total volume of petroleum product sales.

In the nine months of 2012 taxes other than income tax increased by 36.0% compared with the nine months of 2011 mainly due to the beginning of the mineral extraction tax accruals for crude oil produced at the Vankor field and the increase in base rate of the mineral extraction tax, as well as the excise tax increase from January 1, and July 1, 2012.

The following table sets the actual mineral extraction tax rates per barrel and per barrel of oil equivalent produced for the periods analysed:

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 9 months ended</i>		<i>Change</i>
	<b>September 30, 2012</b>	<b>June 30, 2012</b>	<b>%</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>%</b>
	(thousand RUB, except %)					
Average enacted mineral extraction tax rate	5.15	4.83	6.6%	5.09	4.37	16.5%
Actual mineral extraction tax expense per tonne of crude oil produced	4.71	4.70	0.2%	4.76	3.59	32.6%
Actual mineral extraction tax expense per tonne of oil equivalent produced	4.33	4.32	0.2%	4.36	3.31	31.7%

The actual mineral extraction tax rate is lower than enacted tax rate for the analysed period primarily due to the reduced rates for crude oil produced at fields with reserve depletion of over 80%. The difference between enacted rate and actual rate is also affected by the normal delay in the inventory turnover. In the nine months of 2011 the actual average mineral extraction tax rate and expense duty on application of the zero rate for crude oil produced at the Vankor fields was applicable till August 2011. Since May 2012, the reduced mineral extraction tax is applicable to the Severo-Vankorsky oil producing field.

### **Export Customs Duty**

Export customs duties include crude oil and petroleum product export customs duties. The export customs duties are also discussed above under "Macroeconomic Factors Affecting Results of Operations—Taxation—Mineral Extraction Tax and Export Customs Duty".

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 9 months ended</i>		<i>Change</i>
	<b>September 30, 2012</b>	<b>June 30, 2012</b>	<b>%</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>%</b>
	(RUB billion, except %)					
Export customs duty for crude oil	162	192	(15.6)%	509	444	14.6%
Export customs duty for petroleum products	50	53	(5.7)%	155	123	26.0%
<b>Total export customs duties</b>	<b>212</b>	<b>245</b>	<b>(13.5)%</b>	<b>664</b>	<b>567</b>	<b>17.1%</b>

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 9 months ended</i>		<i>Change</i>
	<b>September 30, 2012</b>	<b>June 30, 2012</b>	<b>%</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>	<b>%</b>
Average Urals price (th. RUB/tonne)	25.52	24.14	5.7%	25.20	22.98	9.7%
Average enacted export customs duty (th. RUB /tonne)	11.73	13.74	(14.6)%	12.55	11.81	6.3%
Hypothetical export customs duty* (th. RUB/tonne)	12.74	11.93	6.8%	12.62	12.36	2.1%
Average customs duty on crude oil exports to non-CIS countries subject to regular rate (th. RUB/tonne)	11.82	13.71	(13.8)%	12.56	11.82	6.3%

\*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. Furthermore, crude oil produced at the Vankor field was subject to reduced export duty until May 2011.

### **Operating Income**

As a result of the factors discussed above, operating income increased by 266.7% to RUB 132 billion in the third quarter of 2012 compared with RUB 36 billion in the second quarter of 2012. As a percentage of total revenue, operating income was 16.5% and 5.0% in the third quarter of 2012 and in the second quarter of 2012, respectively. As a percentage of total revenues, operating income before taxes other than income tax and export customs duty was 63.5% and 61.1% in the third quarter of 2012 and in the second quarter of 2012, respectively.

Operating income decreased by 17.5% in the nine months of 2012 to RUB 279 billion compared to RUB 338 billion in the nine months of 2011. As a percentage of total revenues, operating income before taxes other than income tax and export customs duty was 62.9% and 64.5% in the nine months of 2012 and 2011, respectively. Reduction in operating income margin is primarily driven by termination of zero Mineral Extraction Tax rate and special export customs duty rate for crude oil produced at the Vankor field, by revision MET rate basis and by inflation.

### **Finance Income and Expenses**

Finance income includes interest received on deposits and deposit certificates, as well as on loans issued, interest paid on loans and borrowings received, results from changes in fair value of financial assets, increase in provision due to the unwinding of discount, results from disposal of financial assets and other finance income and expenses.

Net finance income remained unchanged in the third quarter 2012 and amounted to RUB 1 billion.

In the nine months of 2012 net finance income amounted to RUB 3 billion comparing to net finance loss in amount of RUB 2 billion in the nine months of 2011. This change is attributable to the change of fair value of embedded call options on structured deposit agreements.

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

The equity share in profits of associates and joint ventures amounted to RUB 7 billion in the third quarter of 2012 compared with RUB 4 billion in the second quarter of 2012. The increase resulted from the increase in profits incurred by certain Rosneft's associates.

In the nine months of 2012 and 2011 the equity share in profits of associates and joint ventures amounted to RUB 20 billion and RUB 11 billion, respectively.

### **Other income and other expenses**

In the third quarter of 2012 other income increased to RUB 84 billion, compared to less than one billion RUB in the second quarter of 2012. In the nine months of 2012 and 2011 other income amounted to RUB 85 billion and RUB 6 billion, respectively. The increase in other income is attributable to the non-cash income from acquisition of 51% of ITERA Oil and Gas Company (See section "Acquisition") in the amount of RUB 82 billion.

In the third quarter of 2012 other expenses amounted to RUB 9 billion, compared to RUB 13 billion in the second quarter of 2012. The decrease in other expenses in the third quarter was due to effect of reduction of book value of unproved reserves by RUB 5.7 billion occurred in the second quarter of 2012. In the nine months of 2012 and 2011 other expenses amounted to RUB 27 billion and RUB 29 billion, respectively.

### **Foreign Exchange Loss**

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.

Foreign exchange income was RUB 16 billion in the third quarter of 2012 compared with foreign exchange loss of RUB 39 billion in the second quarter of 2012. Foreign exchange income incurred in the third quarter is attributed to considerable appreciation of ruble against US dollar during the third quarter.

Foreign exchange income was RUB 3 billion in nine months of 2012 compared to foreign exchange loss of RUB 12 billion in the nine months of 2011. Opposite dynamics of gain and loss from the foreign exchange in the nine months of 2012 compared to the nine months of 2011 is attributed to insignificant fluctuation of the exchange rate of ruble against US dollar in the nine months of 2011.

### **Income Tax**

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

	<i>For 3 months ended</i>		<i>For 9 months ended</i>	
	<b>September 30, 2012</b>	<b>June 30, 2012</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>
Effective income tax rate for Rosneft under IFRS	21.6%	-	21.5%	20.8%

The Company applies the provision of IAS 12 "Income taxes" to determine effective tax rate. The effective tax rate is calculated as the ratio of income tax expense to income before tax.

The income tax is amounted to RUB 50 billion of loss in the third quarter of 2012 compared to the income of RUB 3 billion accrued in the second quarter of 2012 due to the increase in taxable income which was significantly affected by losses recognition from the revaluation of obligations denominated in foreign currency in the second quarter of 2012.

### Net Income/(Loss)

As a result of the factors discussed above, net income amounted to RUB 181 billion in the third quarter of 2012 compared to the net loss of RUB 8 billion in the second quarter of 2012.

Net income increased from RUB 247 billion in the nine months of 2011 to RUB 285 billion in the nine months of 2012. The increase in the net income for the nine months of 2012 is mainly attributable to non-cash income from ITERA acquisition and income from foreign exchange gain which was partially offset by operating income decrease.

## 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> times	<i>For 9 months ended</i>		<i>Change</i> times
	September 30, 2012	June 30, 2012		September 30, 2012	September 30, 2011	
	(RUB billion)			(RUB billion)		
Net cash provided by operating activities	160	145	1.10	379	369	1.02
Net cash used in investing activities	(105)	(120)	0.85	(331)	(272)	1.22
Net cash from/(used in) financing activities	55	(9)	-	31	(99)	-

### Operating Cash Flow

Net cash provided by operating activities amounted to RUB 160 billion in the third quarter of 2012 compared to RUB 145 billion in the second quarter of 2012. Operating cash flow includes operations with trading securities as part of the Company's efforts to manage cash resources (net inflow of RUB 2 billion in the third quarter of 2012 and net outflow of RUB 1 billion in the second quarter of 2012). For the management analysis the operating cash flow was adjusted for the effects mentioned above. The adjusted net cash provided by operating activity amounted to RUB 158 billion in the third quarter of 2012 and RUB 146 billion in the second quarter of 2012.

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> times	<i>For 9 months ended</i>		<i>Change</i> times
	September 30, 2012	June 30, 2012		September 30, 2012	September 30, 2012	
	(RUB billion)			(RUB billion)		
<b>Net cash provided by operating activity</b>	<b>160</b>	<b>145</b>	<b>1.10</b>	<b>379</b>	<b>369</b>	<b>1.03</b>
Effect from operation with trading securities	(2)	1	-	(3)	1	-
<b>Adjusted net cash provided by operating activity</b>	<b>158</b>	<b>146</b>	<b>1.08</b>	<b>376</b>	<b>370</b>	<b>1.02</b>
Change in working capital before FX	(25)	86	-	(8)	(51)	0.06
<b>Adjusted net cash provided by operating activity before change in working capital</b>	<b>183</b>	<b>60</b>	<b>3.05</b>	<b>384</b>	<b>421</b>	<b>0.91</b>

The increase in the adjusted operating cash flow quarter-on-quarter primarily resulted from the increase in the net income due to growth in oil price and simultaneous positive export duty lag effect.

Changes mentioned above were compensated by increase in working capital by RUB 25 billion before foreign exchange effect in the third quarter of 2012 compared with the decrease in working capital by RUB 86 billion before foreign exchange effect in the second quarter of 2012. The working capital with the foreign exchange effect increased by RUB 13 billion in the third quarter of 2012 due to the following factors:

- Increase in accounts receivables by RUB 18 billion due to increase in oil prices and sales volume;
  - Increase in the inventories by RUB 9 billion;
- which was partially compensated by:
- Increase in trade payables by RUB 16 billion.

The increase in adjusted net cash provided by operating activity in the nine months of 2012 compared to the nine months of 2011 resulted from the increased net income margin and change in working capital.

## Capital Expenditures

The table below sets forth Rosneft's capital expenditures and licence acquisition costs:

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 9 months ended</i>		<i>Change</i>
	<i>September 30, 2012</i>	<i>June 30, 2012</i>		<i>September 30, 2012</i>	<i>September 30, 2011</i>	
	<i>(RUB billion)</i>		<i>(%)</i>	<i>(RUB billion)</i>		<i>(%)</i>
Yuganskneftegaz	31	27	14.8%	79	64	23.4%
Vankorneft	22	23	(4.3)%	74	62	19.4%
Purneftegaz	5	3	66.7%	11	9	22.2%
Severnaya Neft	1	1	-	4	3	33.3%
Samaraneftegaz	2	3	(33.3)%	7	6	16.7%
Other <sup>1</sup>	6	10	(40.0)%	19	19	-
<b>Total upstream segment</b>	<b>67</b>	<b>67</b>	<b>-</b>	<b>194</b>	<b>163</b>	<b>19.0%</b>
The Company	-	1	(100.0)%	1	1	-
Tuapse refinery	15	23	(34.8)%	59	40	47.5%
Komsomolsk refinery	2	2	-	7	4	75.0%
Angarsk refinery	2	2	-	5	2	150.0%
Achinsk refinery	2	3	(33.3)%	10	3	233.3%
Syzran refinery	2	3	(33.3)%	6	2	200.0%
Novokuibyshevsk refinery	2	3	(33.3)%	8	3	166.7%
Kuibyshev refinery	3	3	-	9	4	125.0%
Marketing Business Units and others <sup>2</sup>	8	9	(11.1)%	19	14	35.7%
<b>Total downstream</b>	<b>36</b>	<b>49</b>	<b>(26.5)%</b>	<b>124</b>	<b>73</b>	<b>69.9%</b>
<b>Other activities<sup>3</sup></b>	<b>6</b>	<b>1</b>	<b>&gt;100%</b>	<b>12</b>	<b>9</b>	<b>33.3%</b>
<b>Subtotal capital expenditures</b>	<b>109</b>	<b>117</b>	<b>(6.8)%</b>	<b>330</b>	<b>245</b>	<b>34.7%</b>
Change in materials in capital expenditures	(4)	4	-	14	13	7.7%
<b>Total capital expenditures</b>	<b>105</b>	<b>121</b>	<b>(13.2)%</b>	<b>344</b>	<b>258</b>	<b>33.3%</b>
<b>Licence acquisition costs</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>6</b>	<b>(66.7)%</b>

<sup>1</sup> Including: Krasnodarneftegaz, Stavropolneftegaz, Sakhalin-1, Grozneftegaz, VSNK and Dagneftegaz.

<sup>2</sup> Relating to companies providing processing and storage services.

<sup>3</sup> Relating to other services companies.

In the third quarter of 2012 Rosneft's total capital expenditures including material purchases decreased by 13.2% to RUB 105 billion compared with RUB 121 billion in the second quarter of 2012. Dynamics of capital expenditures fully complies with the business plan. In the nine months of 2012 and 2011 capital expenditures amounted to RUB 344 billion and RUB 258 billion, respectively.

Upstream capital expenditures in the third quarter of 2012 amounted to RUB 67 billion equalling the level of the second quarter of 2012. In the nine months of 2012 and 2011 upstream capital expenditures amounted to RUB 194 billion and RUB 163 billion, respectively. The increase in capital expenditures in the nine months of 2012 was primarily driven by intensified construction works and equipment purchases at Yuganskneftegaz, Vankorneft, Purneftegaz, Severnaya Neft, and Samaraneftegaz. The construction works mainly include development of oil fields infrastructure and construction of associated gas utilization facilities.

Downstream capital expenditures in the third quarter of 2012 decreased by 26.5% to RUB 36 billion. The completion of construction works ahead of plan in the second quarter of 2012 resulted in the decrease in capital expenditures at many refineries, including the Tuapse refinery.

In the nine months of 2012 and 2011 downstream capital expenditures amounted to RUB 124 billion and RUB 73 billion, respectively. The increase in capital expenditures was driven by continued program for capacity upgrade and expansion at the refineries, including modernization of the Tuapse, Komsomolsk, Angarsk, Achinsk, Syzran, Novokuibyshevsk and Kuibyshev refineries.

Capital expenditures for other activities increased to RUB 6 billion in the third quarter of 2012 following the increase in procurement of equipment for other operating activity. In the nine months of 2012 and 2011 capital expenditures for other activities amounted to RUB 12 billion and RUB 9 billion, respectively.

Since the fourth quarter of 2006 the Company's subsidiaries have been purchasing construction materials and selling the materials to contractors that provide construction and drilling services at subsidiaries' fields. The net decrease in unused construction materials included in capital expenditures was RUB 4 billion in the third quarter of 2012. In the nine months of 2012 and 2011 the net increase in unused construction materials included in capital expenditures amounted to RUB 14 billion and RUB 13 billion, respectively.

In the nine months of 2012 the licence acquisition costs of RUB 2.2 billion refer to the acquisition of licences for the research, exploration and production:

- In the Barents sea with the licence acquisition costs of RUB 0.9 billion;
- At Sernovodsky block in Ingooshetia region with the licence acquisition costs of RUB 0.2 billion;
- In Samara region with the licence acquisition costs of RUB 0.5 billion;
- In Udmurt region with the licence acquisition costs of RUB 0.6 billion.

## **Financing activities**

On June 20, 2012 the annual general shareholders' meeting approved dividends for 2011 in the amount of RUB 37 billion or RUB 3.45 per share. RUB 33 billion of the above are related to outstanding shares, including dividend withholding tax on treasury shares. In August 2012, the approved dividends were fully paid.

## **Debt Obligations**

Rosneft net debt decreased to RUB 625 billion as of September 30, 2012 compared to RUB 658 billion as of June 30, 2012.

Portion of Rosneft's long-term loans are secured by oil export contracts. As of September 30, 2012 and June 30, 2012 and December 31, 2011 56.1%, 65.5% and 75.6%, respectively, of Rosneft's borrowings were secured by crude oil export contracts (excluding exports to the CIS).

As of September 30, 2012 and June 30, 2012 and December 31, 2011, pledged oil exports constituted 13.7%, 13.8% and 20.1%, 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:

<b>As of the date</b>	<b>September 30, 2012</b>	<b>June 30, 2012</b>	<b>December 31, 2011</b>
		<b>RUB billions</b>	
Short term debt	115	136	152
Long term debt	769	689	596
<b>Total debt</b>	<b>884</b>	<b>825</b>	<b>748</b>
Cash and cash equivalents	240	138	166
Short-term bank deposits, including special purpose deposits	2	8	21
Structured deposits	7	7	32
Short-term liquid instruments	10	14	32
<b>Net debt</b>	<b>625</b>	<b>658</b>	<b>497</b>

## Key Financial Ratios

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

	For 3 months ended		For 9 months ended	
	September 30, 2012	June 30, 2012	September 30, 2012	September 30, 2011
EBITDA margin	23.8%	12.4%	19.6%	25.5%
Net income margin	22.6%	(1.1)%	12.6%	12.6%
Net debt to capital employed ratio	0.22	0.24	0.22	0.18
Net debt to annualised EBITDA	0.82	1.85	1.05	0.67
Current ratio	2.01	1.68	2.01	1.80
	<b>RUB / bbl</b>			
EBITDA/bbl	925	443	732	838
Upstream capital expenditure/bbl	324	334	319	274
Upstream operating expenses/bbl	88.1	88.2	88.2	87.0
Free cash flow/bbl	257	125	53	188
	<b>RUB / boe</b>			
EBITDA/boe	850	408	671	771
Upstream capital expenditure/boe	298	307	293	252
Upstream operating expenses/boe	81.0	81.1	80.9	80.1
Free cash flow/boe	236	115	48	174

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

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

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

### Upstream Measures

	For 3 months ended		For 9 months ended	
	September 30, 2012	June 30, 2012	September 30, 2012	September 30, 2011
Upstream capital expenditures (RUB billion)	67	67	194	163
Upstream operating expenses (RUB billion)	18.2	17.7	53.6	51.7
Barrels of crude oil produced (million)	206.5	200.7	607.6	594.3
Barrels of oil equivalent produced (million)	224.5	218.3	662.7	645.6

### Calculation of Free Cash Flow

	For 3 months ended		For 9 months ended	
	September 30, 2012	June 30, 2012	September 30, 2012	September 30, 2011
	<b>(RUB billion)</b>			
Net cash provided by operating activities	160	145	379	369
Capital expenditures	(105)	(121)	(344)	(258)
Trading securities operations	(2)	1	(3)	1
<b>Free cash flow</b>	<b>53</b>	<b>25</b>	<b>32</b>	<b>112</b>

### Current ratio

	For 3 months ended	
	September 30, 2012	June 30, 2012
	<b>(RUB billion, except ratio)</b>	
Current assets	901	765
Current liabilities	448	455
<b>Current ratio</b>	<b>2.01</b>	<b>1.68</b>

**For reference:**

**Consolidated Statement of Comprehensive Income (US\$ million)\***

	<i>For 3 months ended</i>		<i>For 9 months ended</i>	
	<b>September 30, 2012</b>	<b>June 30, 2012</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>
	<b>(US\$ million)</b>			
<b>Revenues</b>				
Oil and gas sales	12,278	11,930	36,690	35,458
Petroleum products and petrochemicals sales	12,435	10,898	35,243	31,252
Support services and other revenues	344	322	997	1,217
<b>Total revenues</b>	<b>25,057</b>	<b>23,150</b>	<b>72,930</b>	<b>67,927</b>
<b>Costs and expenses</b>				
Production and operating expenses	1,625	1,967	5,081	4,867
Cost of purchased oil, gas and petroleum products	3,124	2,741	8,843	6,570
General and administrative expenses	469	580	1,543	1,286
Pipeline tariffs and transportation costs	1,906	1,870	5,756	5,597
Exploration expenses	187	129	482	209
Depreciation, depletion and amortisation	1,843	1,709	5,338	5,562
Taxes other than income tax	5,155	5,094	15,564	12,376
Export customs duty	6,624	7,900	21,352	19,711
<b>Total cost and expenses</b>	<b>20,933</b>	<b>21,990</b>	<b>63,959</b>	<b>56,178</b>
<b>Operating income</b>	<b>4,124</b>	<b>1,160</b>	<b>8,971</b>	<b>11,749</b>
Finance income	187	97	482	521
Finance expenses	(156)	(64)	(386)	(591)
Equity share in profits of associates and joint ventures	219	129	643	382
Other income	2,624	-	2,733	209
Other expenses	(281)	(419)	(868)	(1,008)
Result of operations with foreign currency, foreign exchange differences	500	(1,258)	96	(418)
<b>Income before income tax</b>	<b>7,217</b>	<b>(355)</b>	<b>11,671</b>	<b>10,844</b>
Income tax expense	(1,562)	97	(2,508)	(2,260)
<b>Net income</b>	<b>5,655</b>	<b>(258)</b>	<b>9,163</b>	<b>8,584</b>
<b>Other comprehensive income</b>				
Foreign exchange differences on translation of foreign operations	156	(97)	129	70
Income from changes in fair value of financial assets available for-sale, net of tax	31	(64)	(64)	-
<b>Total other comprehensive income, net of tax</b>	<b>187</b>	<b>(161)</b>	<b>65</b>	<b>70</b>
<b>Total comprehensive income, net of tax</b>	<b>5,842</b>	<b>(419)</b>	<b>9,228</b>	<b>8,654</b>

\* figures translated to US\$ from RUB from consolidated statement of comprehensive income using average exchange rate for the respective periods.