



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE QUARTERS ENDED JUNE 30 AND MARCH 31, 2012
AND FOR THE SIX MONTHS ENDED JUNE 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 June 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 2.4 million barrels per day (average for the second quarter of 2012) and output of natural and associated gas is 3.22 billion cubic meters per quarter (average data for the second quarter of 2012).

Rosneft processes part of the crude oil produced at its seven domestic refineries with total primary refining capacity of 1.0 million barrels per day. Rosneft's domestic refinery throughput is 0.9 million barrels per day (average for the second quarter of 2012) which equals 42% of the Company's crude oil output. Current utilization of the refining capacities is close to 100%. 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>For 6 months ended</i>		
	June 30, 2012	March 31, 2012	<i>% change</i>	June 30, 2012	June 30, 2011	<i>% change</i>
Financial results, RUB billion						
Revenues	718	748	(4.0)%	1,466	1,239	18.3%
EBITDA	89	165	(46.1)%	254	346	(26.6)%
Net income	(8)	112	–	104	190	(45.3)%
Capital expenditures	121	118	2.5%	239	177	35.0%
Free cash flow	25	(46)	–	(21)	95	–
Net Debt	658	527	24.9%	658	364	80.8%
Operational results						
Hydrocarbon production (th. boe per day)	2,621	2,634	(0.5)%	2,628	2,565	2.5%
Crude oil production (th. barrels per day)	2,413	2,408	0.2%	2,410	2,362	2.0%
Gas production (bcm)	3.22	3.50	(8.0)%	6.72	6.26	7.3%
Production of petroleum products in Russia (mln tonnes)	11.11	12.15	(8.6)%	23.26	23.45	(0.8)%
Production of petroleum products in Germany (mln tonnes)	2.56	2.68	(4.5)%	5.24	1.74	201.1%

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 6 months ended</i>		<i>Change</i>
	June 30, 2012	March 31, 2012		June 30, 2012	June 30, 2011	
World market	(US\$ per barrel)			(US\$ per barrel)		
Brent (dated)	108.2	118.5	(8.7)%	113.3	111.2	1.9%
Urals (average CIF Med and NWE)	106.5	116.9	(8.9)%	111.7	108.1	3.3%
Urals (FOB Primorsk)	104.7	115.8	(9.6)%	110.3	106.8	3.3%
Urals (FOB Novorossysk)	105.4	116.0	(9.1)%	110.7	107.1	3.4%
Dubai-Oman	106.4	116.6	(8.7)%	111.5	105.8	5.4%
	(US\$ per tonne)			(US\$ per tonne)		
Naphtha (av. FOB/CIF Med)	862	997	(13.5)%	929	931	(0.2)%
Naphtha (av. FOB Rotterdam/CIF NWE)	877	1,013	(13.4)%	945	946	(0.1)%
Naphtha (CFR Japan)	893	1,021	(12.5)%	820	954	(14.0)%
Fuel oil 3.5% (av. FOB/CIF Med)	630	682	(7.6)%	656	590	11.2%
Fuel oil 3.5% (av. FOB Rotterdam/CIF NWE)	623	684	(8.9)%	654	589	11.0%
High sulphur fuel oil 180 cst (FOB Singapore)	667	734	(9.1)%	701	631	11.1%
Gasoil 0.1% (av. FOB/CIF Med)	925	997	(7.2)%	961	920	4.5%
Gasoil 0.1% (av. FOB Rotterdam/CIF NWE)	926	993	(6.7)%	960	922	4.1%
Gasoil 0.5% (FOB Singapore)	905	985	(8.1)%	945	925	2.2%
	(th. RUB per barrel)			(th. RUB per barrel)		
Brent (dated)	3.36	3.59	(6.4)%	3.47	3.18	9.1%
Urals (average CIF Med and NWE)	3.30	3.54	(6.8)%	3.42	3.09	10.7%
Urals (FOB Primorsk)	3.25	3.50	(7.1)%	3.38	3.06	10.5%
Urals (FOB Novorossysk)	3.27	3.51	(6.8)%	3.39	3.07	10.4%
Dubai-Oman	3.30	3.53	(6.5)%	3.42	3.03	12.9%
	(th. RUB per tonne)			(th. RUB per tonne)		
Naphtha (av. FOB/CIF Med)	26.7	30.2	(11.6)%	28.5	26.6	7.1%
Naphtha (av. FOB Rotterdam/CIF NWE)	27.2	30.7	(11.4)%	29.0	27.1	7.0%
Naphtha (CFR Japan)	27.7	30.9	(10.4)%	25.1	27.3	(8.1)%
Fuel oil 3.5% (av. FOB/CIF Med)	19.5	20.6	(5.3)%	20.1	16.9	18.9%
Fuel oil 3.5% (av. FOB Rotterdam/CIF NWE)	19.3	20.7	(6.8)%	20.0	16.9	18.3%
High sulphur fuel oil 180 cst (FOB Singapore)	20.7	22.2	(6.8)%	21.5	18.1	18.8%
Gasoil 0.1% (av. FOB/CIF Med)	28.7	30.2	(5.0)%	29.4	26.3	11.8%
Gasoil 0.1% (av. FOB Rotterdam/CIF NWE)	28.7	30.1	(4.7)%	29.4	26.4	11.4%
Gasoil 0.5% (FOB Singapore)	28.1	29.8	(5.7)%	28.9	26.5	9.1%
Russian market	(th. RUB per tonne)			(th. RUB per tonne)		
(net of VAT, including excise tax)						
Crude oil	9.5	10.7	(11.2)%	10.1	8.9	13.5%
Fuel oil	9.1	8.9	2.2%	9.0	8.2	9.8%
Summer diesel	22.5	21.8	3.2%	22.2	18.7	18.7%
Winter diesel	23.5	24.6	(4.5)%	24.1	20.9	15.3%
Jet fuel	22.8	23.5	(3.0)%	23.2	19.1	21.5%
High octane gasoline	25.1	23.1	8.7%	24.1	23.2	3.9%
Low octane gasoline	23.0	22.2	3.6%	22.6	21.5	5.1%

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 2.5% in the second quarter of 2012 compared to the first quarter of 2012 and nominal RUB depreciation against US\$ by 7.0% in the six months of 2012 compared to the six 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 1.92 thousand per thousand cubic meters and RUB 1.78 thousand per thousand cubic meters in the second quarter of 2012 and first quarter of 2012, respectively. In the six months of 2012 and 2011, Rosneft's average gas sale price was RUB 1.85 thousand per thousand cubic meters and RUB 1.41 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\$ and EUR, 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 6 months ended</i>	
	June 30, 2012	March 31, 2012	June 30, 2012	June 30, 2011
Rouble inflation (CPI) for the period	1.7%	1.5%	3.2%	5.0%
Average RUB/US\$ exchange rate for the period	31.01	30.26	30.64	28.62
RUB/US\$ exchange rate at the end of the period	32.82	29.33	32.82	28.08
Average RUB/EUR exchange rate for the period	39.81	39.68	39.74	40.16
RUB/EUR exchange rate at the end of the period	41.32	39.17	41.32	40.39

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 6 months ended</i>		<i>Change</i>
	June 30, 2012	March 31, 2012	%	June 30, 2012	June 30, 2011	%
Mineral extraction tax						
Crude oil (RUB per tonne)	4,826	5,284	(8.7)%	5,055	4,278	18.2%
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	-
Export customs duty for crude oil						
Crude oil (US\$ per tonne)	443.0	400.8	10.5%	421.9	394.8	6.9%
Crude oil (RUB per tonne)	13,740	12,130	13.3%	12,927	11,300	14.4%
Crude oil (RUB per barrel)	1,878	1,658	13.3%	1,767	1,545	14.4%
East Siberian Crude oil* (RUB per tonne)	13,740	12,130	13.3%	12,927	7,215	79.2%
East Siberian Crude oil* (RUB per barrel)	1,878	1,658	13.3%	1,767	986	79.2%
Export customs duty for petroleum products						
Gasoline** (RUB per tonne)	12,365	10,916	13.3%	11,634	8,640	34.7%
Naphtha (RUB per tonne)	12,365	10,916	13.3%	11,634	8,640	34.7%
Light and middle distillates (RUB per tonne)	9,066	8,005	13.3%	8,530	7,636	11.7%
Liquid fuels (fuel oil) (RUB per tonne)	9,066	8,005	13.3%	8,530	5,150	65.6%

* 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.

	2011	until June 30, 2012	until December 31, 2012	2013	2014
Excise on petroleum products					
High octane gasoline (RUB per tonne)					
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
Naphtha (RUB per tonne)					
Naphtha (RUB per tonne)	6,089	7,824	7,824	9,617	10,579
Diesel (RUB per tonne)					
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
Lubricants (RUB per tonne)					
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 6 months ended</i>	
	June 30, 2012	March 31, 2012	June 30, 2012	June 30, 2011
	RUB billion	RUB billion	RUB billion	RUB billion
Total revenues	718	748	1 466	1 239
Total taxes*	400	399	799	629
Effective tax burden, %	55.7%	53.3%	54.5%	50.8%

* 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 52.1% and 45.5% of Rosneft's total revenues in the second quarter of 2012 and in the first quarter of 2012, respectively. In the six months of 2012 and 2011 the mineral extraction tax and the export customs duty accounted for approximately 48.7% and 42.6%, 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 zero 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.

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 exceed 25 million tons and zero MET rate was replaced by the standard one.

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 has been subject to a specific export customs duty regime. 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.

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 export customs duty on crude oil.

In January, 2011 export customs duties on light and dark petroleum products were calculated using special formula (based on the Urals price), 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.

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. As part of these increases, tariff for Rosneft's major transportation route "Yugansk – Primorsk" was raised by 7.2% and 11.8%.

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 6 months ended</i>		
	June 30, 2012	March 31, 2012	Change	June 30, 2012	June 30, 2011	Change
	(th. RUB/tonne)		(%)	(th. RUB/tonne)		(%)
CRUDE OIL						
Domestic						
<i>Pipeline</i>						
Yugansk – Samara refineries	0.75	0.75	0.0%	0.75	0.72	4.2%
Samara – Samara refineries	0.05	0.05	0.0%	0.05	0.05	0.0%
Yugansk – Angarsk refinery	1.25	1.25	0.0%	1.25	1.19	5.0%
Purpe – Tuapse refinery	1.56	1.56	0.0%	1.56	1.48	5.4%
Tomsk – Achinsk refinery	0.34	0.34	0.0%	0.34	0.33	3.0%
<i>Pipeline and railroad</i>						
Yugansk – Komsomolsk refinery	4.14	4.14	0.0%	4.14	3.92	5.6%
Exports						
<i>Pipeline</i>						
Yugansk – Primorsk	1.54	1.54	0.0%	1.54	1.29	19.4%
Yugansk – Novorossysk	1.49	1.49	0.0%	1.49	1.44	3.5%
Vankor (Purpe)-Kozmino	1.89	1.89	0.0%	1.89	1.82	3.8%
<i>Railroad and mixed</i>						
Stavropolneftegaz – CPC (railroad)	0.70	0.70	0.0%	0.70	0.66	6.1%
PETROLEUM PRODUCT EXPORTS						
Diesel						
Samara refineries – Ventspils	1.89	1.82	3.8%	1.86	1.69	10.1%
Angarsk refinery – Nakhodka	4.16	4.16	0.0%	4.16	3.89	6.9%
Komsomolsk refinery – Nakhodka	1.63	1.63	0.0%	1.63	1.53	6.5%
Achinsk refinery – Tuapse	4.69	4.69	0.0%	4.69	4.38	7.1%
Fuel oil						
Samara refineries – Odessa	2.90	2.82	2.8%	2.86	2.67	7.1%
Angarsk refinery – Nakhodka	4.14	4.14	0.0%	4.14	3.96	4.5%
Komsomolsk refinery – Nakhodka	1.56	1.56	0.0%	1.56	1.48	5.4%
Achinsk refinery – Nakhodka	5.30	5.30	0.0%	5.30	4.89	8.4%
Naphtha						
Samara refineries – Tuapse	1.93	1.93	0.0%	1.93	1.87	3.2%
Achinsk refinery – Tuapse	4.58	4.58	0.0%	4.58	4.30	6.5%
Angarsk refinery – Nakhodka	3.92	3.92	0.0%	3.92	3.78	3.7%
Komsomolsk refinery – Nakhodka	1.60	1.60	0.0%	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>			<i>For 6 months ended</i>		
	June 30, 2012	March 31, 2012	Change	June 30, 2012	June 30, 2011	Change
	<i>(million of barrels)</i>		<i>(%)</i>	<i>(million of barrels)</i>		<i>(%)</i>
Yuganskneftegaz (Western Siberia)	121.6	121.4	0.2%	243.0	241.8	0.5%
Samaraneftegaz (Central Russia)	19.7	19.3	2.1%	39.0	38.5	1.3%
Purneftegaz (Western Siberia)	12.5	12.8	(2.3)%	25.3	25.3	-
Vankorneft (Eastern Siberia)	30.7	30.4	1.0%	61.1	51.7	18.2%
Severnaya Neft (Timan Pechora)	6.5	6.6	(1.5)%	13.1	13.3	(1.5)%
Sakhalin-1 (Far East) (net of royalty and government share)	2.2	2.1	4.8%	4.3	5.4	(20.4)%
Other	7.5	7.8	(3.8)%	15.3	16.2	(5.6)%
Crude oil production by fully and proportionately consolidated enterprises	200.7	200.4	0.1%	401.1	392.2	2.3%
Tomskneft (Western Siberia)	9.3	9.3	-	18.6	18.7	(0.5)%
Udmurtneft (Central Russia)	5.8	5.8	-	11.6	11.5	1.5%
Polar Lights (Timan Pechora)	0.5	0.5	-	1.0	1.1	(10.8)%
Verkhnechonskneftegaz (Eastern Siberia)	3.3	3.1	6.5%	6.4	4.0	61.3%
Total share in production of joint ventures	18.9	18.7	1.1%	37.6	35.2	6.8%
Total crude oil production	219.6	219.1	0.2%	438.7	427.5	2.6%
Daily crude oil production (th. barrels per day)	2,413	2,408	0.2%	2,410	2,362	2.0%

In the second quarter of 2012 Rosneft's average daily crude oil production was 2,413 th. barrels per day, which is an increase of 0.2% compared with the first quarter of 2012. Daily production level increased due to crude oil production growth at Samaraneftegaz and Vankor fields. Overall production growth was partially offset by the natural decline in production at Severnaya Neft and Purneftegaz fields.

In the six months of 2012 Rosneft's average daily crude oil production was 2.0% higher than in the six months of 2011. The growth was driven primarily by production increase at Vankor and Verkhnechonsk fields, which was partially offset by output decrease at Sakhalin-1 and Timan Pechora.

Production of Gas

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

	<i>For 3 months ended</i>			<i>For 6 months ended</i>		
	June 30, 2012	March 31, 2012	Change	June 30, 2012	June 30, 2011	Change
	(bcm)	(bcm)	(%)	(bcm)	(bcm)	(%)
Purneftegaz (Western Siberia)	0.99	1.03	(3.9)%	2.02	1.78	13.5%
Yuganskneftegaz (Western Siberia)	0.69	0.77	(10.4)%	1.46	1.41	3.5%
Krasnodarneftegaz (Southern Russia)	0.66	0.76	(13.2)%	1.42	1.38	2.9%
Samaraneftegaz (Central Russia)	0.13	0.13	-	0.26	0.25	4.0%
Severnaya Neft (Timan Pechora)	0.07	0.08	(12.5)%	0.15	0.13	15.4%
Vankorneft (Eastern Siberia)	0.11	0.11	-	0.22	0.18	22.2%
Sakhalin-1 (Far East) (net of royalty and government share)	0.10	0.11	(9.1)%	0.21	0.17	23.5%
Other	0.24	0.31	(22.6)%	0.55	0.63	(12.7)%
Gas production by fully and proportionately consolidated enterprises	2.99	3.30	(9.4)%	6.29	5.93	6.1%
Tomskneft (Western Siberia)	0.21	0.19	10.5%	0.40	0.30	33.3%
Other	0.02	0.01	100.0%	0.03	0.03	-
Total share in production of joint ventures	0.23	0.20	15.0%	0.43	0.33	30.3%
Total gas production	3.22	3.50	(8.0)%	6.72	6.26	7.3%
Natural gas	1.09	1.23	(11.4)%	2.32	2.38	(2.5)%
Associated gas	2.13	2.27	(6.2)%	4.40	3.88	13.4%

* Production volume equals extracted volume minus flared volume.

In the second quarter of 2012 Rosneft's natural and associated gas production was 3.22 bcm, which was 8.0% lower than in the first quarter of 2012 mainly due to seasonal decrease in demand for gas produced by Krasnodarneftegaz and turnaround works at compressor station in Yuganskneftegaz. Production growth at Tomskneft was due to completion of maintenance works at Lugenetskoe-Parabel gas pipeline in the first quarter of 2012.

In the six months of 2012 Rosneft's natural and associated gas production was 7.3% higher than in the six months of 2011. The growth was due to stable operation at the Luginetskaya compressor station of Tomskneft in the six months of 2012 and due to higher crude oil production at the Vankor field and due to the launch of compressor stations at 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.

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 6 months ended</i>		
	June 30, 2012	March 31, 2012	Change	June 30, 2012	June 30, 2011	Change
	(million of tonnes)		(%)	(million of tonnes)		(%)
Crude oil processing at Rosneft's own refineries	11.64	12.84	(9.3)%	24.48	24.69	(0.9)%
Crude oil processing at Ruhr Oel GmbH	2.40	2.70	(11.1)%	5.10	1.63	212.9%
Total group crude oil processing	14.04	15.54	(9.7)%	29.58	26.32	12.4%
Product output:						
High octane gasoline	1.13	1.38	(18.1)%	2.51	2.52	(0.4)%
Low octane gasoline	0.09	0.10	(10.0)%	0.19	0.19	-
Naphtha	0.90	0.89	1.1%	1.79	1.92	(6.8)%
Diesel	3.84	4.39	(12.5)%	8.23	8.42	(2.3)%
Fuel oil	3.71	4.22	(12.1)%	7.93	8.32	(4.7)%
Jet	0.45	0.28	60.7%	0.73	0.56	30.4%
Petrochemicals	0.14	0.15	(6.7)%	0.29	0.30	(3.3)%
Other	0.85	0.74	14.9%	1.59	1.22	30.3%
Product output at Rosneft's own refineries	11.11	12.15	(8.6)%	23.26	23.45	(0.8)%
Product output at Ruhr Oel GmbH	2.56	2.68	(4.5)%	5.24	1.74	201.1%
Total group product output	13.67	14.83	(7.8)%	28.50	25.19	13.1%

In the second quarter of 2012, Rosneft's total refinery throughput was 9.7% lower than in the first quarter of 2012. Rosneft's refinery throughput in Russia decreased by 9.3%, which was due to turnarounds at Achinsk and Kuibyshev refineries. Turnarounds at these refineries were the key factor of change in output structure. Throughput at Ruhr Oel GmbH refineries was lower due to turnarounds at Gelsenkirchen refinery. Rosneft's share in processing of non-crude feedstock at Ruhr Oel GmbH refineries was 0.41 and 0.33 million of tonnes in the second quarter of 2012 and in the first quarter of 2012 respectively.

In the six months of 2012 Rosneft's refinery throughput was 12.4% higher than in the six months of 2011 mainly due to the acquisition of a 50% stake in Ruhr Oel GmbH in May 2011. Throughput at Russian refineries decreased by 0.9%. Increase in jet fuel production resulted from change in output structure of the Syzran refinery in November 2011 due to high demand for the jet fuel.

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 6 months ended</i>		
	June 30, 2012	March 31, 2012	Change (%)	June 30, 2012	June 30, 2011	Change (%)
	(RUB billion, except %)			(RUB billion, except %)		
Revenues						
Oil and gas sales	370	378	(2.1)%	748	666	12.3%
Petroleum products and petrochemicals sales	338	360	(6.1)%	698	549	27.1%
Support services and other revenues	10	10	-	20	24	(16.7)%
Total revenues	718	748	(4.0)%	1 466	1 239	18.3%
Costs and expenses						
Production and operating expenses	61	45	35.6%	106	84	26.2%
Cost of purchased oil, gas and petroleum products and refining costs	85	90	(5.6)%	175	101	73.3%
General and administrative expenses	18	15	20.0%	33	22	50.0%
Pipeline tariffs and transportation costs	58	60	(3.3)%	118	110	7.3%
Exploration expenses	4	5	(20.0)%	9	5	80.0%
Depreciation, depletion and amortisation	53	54	(1.9)%	107	105	1.9%
Taxes other than income tax	158	161	(1.9)%	319	224	42.4%
Export customs duty	245	207	18.4%	452	347	30.3%
Total cost and expenses	682	637	7.1%	1 319	998	32.2%
Operating income	36	111	(67.6)%	147	241	(39.0)%
Finance income	3	6	(50.0)%	9	10	(10.0)%
Finance expenses	(2)	(5)	(60.0)%	(7)	(10)	(30.0)%
Equity share in profits of associates and joint ventures	4	9	(55.6)%	13	5	160.0%
Other income	-	1	(100.0)%	1	1	-
Other expenses	(13)	(5)	160.0%	(18)	(18)	-
Result of operations with foreign currency, foreign exchange differences	(39)	26	-	(13)	19	-
Income/(loss) before income tax	(11)	143	-	132	248	(46.8)%
Income tax expense	3	(31)	-	(28)	(58)	(51.7)%
Net income/(loss)	(8)	112	-	104	190	(45.3)%
Other comprehensive income/(loss)						
Foreign exchange differences on translation of foreign operations	(3)	2	-	(1)	(5)	(80.0)%
Income/(loss) from changes in fair value of financial assets available for-sale	(2)	(1)	100.0%	(3)	1	-
Total other comprehensive income/(loss), net of tax	(5)	1	-	(4)	(4)	-
Total comprehensive income(loss), net of tax	(13)	113	-	100	186	(46.2)%
	<i>For 3 months ended</i>			<i>For 6 months ended</i>		
	June 30, 2012	March 31, 2012		June 30, 2012	June 30, 2011	
EBITDA	89	165		254	346	
Operating income margin	5,0%	14,8%		10,0%	19,5%	
Share of pipeline and transportation costs in revenue	8,1%	8,0%		8,0%	8,9%	
Net income margin	(1,1)%	15,0%		7,1%	15,3%	

Revenues

In the second quarter of 2012 revenues were 4.0% down compared to those of the first quarter of 2012 and amounted to RUB 718 billion. That was mainly due to decrease in crude oil and petroleum product prices and was partially compensated by increase in sales volumes.

In the six months of 2012 revenues were 18.3% higher compared to the six months of 2011, which was driven by increase in sales volumes and prices. Urals price increased by 10.7% and the world market prices for diesel and fuel oil denominated in RUB rose by 11.8% and 18.9% 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 6 months ended</i>				
	June 30, 2012		March 31, 2012		Change	June 30, 2012		June 30, 2011		Change
	% of total revenue		% of total revenue		%	% of total revenue		% of total revenue		%
(RUB billion, except %)										
Crude oil										
International Sales to non-CIS	348	48.5%	351	46.9%	(0.9)%	699	47.7%	633	51.1%	10.4%
Europe and other directions	261	36.4%	246	32.9%	6.1%	507	34.6%	447	36.1%	13.4%
Asia	87	12.1%	105	14.0%	(17.1)%	192	13.1%	186	15.0%	3.2%
International sales to CIS	15	2.1%	21	2.8%	(28.6)%	36	2.5%	24	1.9%	50.0%
Domestic	2	0.3%	2	0.3%	0.0%	4	0.3%	2	0.2%	100.0%
Total crude oil	365	50.9%	374	50.0%	(2.4)%	739	50.5%	659	53.2%	12.1%
Gas	5	0.7%	4	0.5%	9.1%	9	0.6%	7	0.6%	31.4%
Petroleum products										
International Sales to non-CIS	179	24.9%	222	29.7%	(19.4)%	401	27.3%	308	24.9%	30.2%
Europe and other directions	123	17.1%	163	21.8%	(24.5)%	286	19.5%	196	15.8%	45.9%
Asia	56	7.8%	59	7.9%	(5.1)%	115	7.8%	112	9.1%	2.7%
International Sales to CIS	2	0.3%	2	0.3%	0.0%	4	0.3%	3	0.2%	33.3%
Domestic	122	16.9%	106	14.2%	15.1%	228	15.5%	203	16.4%	12.3%
Wholesale	75	10.4%	62	8.3%	21.0%	137	9.3%	124	10.0%	10.5%
Retail	47	6.5%	44	5.9%	6.8%	91	6.2%	79	6.4%	15.2%
Sales of bunker fuel to end-users	12	1.7%	9	1.2%	33.3%	21	1.4%	15	1.2%	40.0%
Total petroleum products	315	43.8%	339	45.4%	(7.1)%	654	44.5%	529	42.7%	23.6%
Petrochemical products	23	3.2%	21	2.8%	9.5%	44	3.0%	20	1.6%	120.0%
International sales	20	2.8%	18	2.4%	11.1%	38	2.6%	14	1.1%	171.4%
Domestic	3	0.4%	3	0.4%	0.0%	6	0.4%	6	0.5%	0.0%
Support services and other revenues	10	1.4%	10	1.3%	0.0%	20	1.4%	24	1.9%	(16.7)%
Total sales	718	100.0%	748	100.0%	(4.0)%	1,466	100.0%	1,239	100.0%	18.3%

Sales Volumes

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

	<i>For 3 months ended</i>					<i>For 6 months ended</i>				
	June 30, 2012		March 31, 2012		Change	June 30, 2012		June 30, 2011		Change
	mln bbls	% of total volume	mln bbls	% of total volume	%	mln bbls	% of total volume	mln bbls	% of total volume	%
Crude oil										
International Sales to non-CIS	111.9	48.7%	103.8	47.0%	7.8%	215.7	47.9%	215.1	50.7%	0.3%
Europe and other directions	81.2	35.3%	70.2	31.8%	15.7%	151.4	33.6%	146.3	34.5%	3.5%
Asia	30.7	13.4%	33.6	15.2%	(8.6)%	64.3	14.3%	68.8	16.2%	(6.5)%
CIS	11.0	4.8%	11.7	5.3%	(6.0)%	22.7	5.0%	15.4	3.6%	47.4%
Domestic	2.2	1.0%	0.7	0.3%	214.3%	2.9	0.7%	1.5	0.4%	93.3%
Total crude oil	125.1	54.5%	116.2	52.6%	7.7%	241.3	53.6%	232.0	54.7%	4.0%
Crude oil	mln tonnes		mln tonnes		%	mln tonnes		mln tonnes		%
International Sales to non-CIS	15.3	48.7%	14.2	47.0%	7.8%	29.5	47.9%	29.4	50.7%	0.3%
Europe and other directions	11.1	35.3%	9.6	31.8%	15.7%	20.7	33.6%	20.0	34.5%	3.5%
Asia	4.2	13.4%	4.6	15.2%	(8.6)%	8.8	14.3%	9.4	16.2%	(6.5)%
CIS	1.5	4.8%	1.6	5.3%	(6.0)%	3.1	5.0%	2.1	3.6%	47.4%
Domestic	0.3	1.0%	0.1	0.3%	214.3%	0.4	0.7%	0.2	0.4%	93.3%
Total crude oil	17.1	54.5%	15.9	52.6%	7.7%	33.0	53.6%	31.7	54.7%	4.0%
Petroleum products										
International Sales to non-CIS	7.5	23.9%	8.2	27.2%	(8.5)%	15.7	25.5%	13.9	24.0%	12.9%
Europe and other directions	5.3	16.9%	6.1	20.2%	(13.1)%	11.4	18.5%	9.0	15.5%	26.7%
Asia	2.2	7.0%	2.1	7.0%	4.8%	4.3	7.0%	4.9	8.5%	(12.2)%
International Sales to CIS	0.0	0.0%	0.1	0.3%	(100.0)%	0.1	0.2%	0.2	0.3%	(50.0)%
Domestic	5.4	17.2%	4.7	15.6%	14.9%	10.1	16.4%	10.3	17.7%	(1.9)%
Wholesale	3.8	12.1%	3.2	10.6%	18.8%	7.0	11.4%	7.2	12.4%	(2.8)%
Retail	1.6	5.1%	1.5	5.0%	6.7%	3.1	5.0%	3.1	5.3%	0.0%
Sales of bunker fuel to end-users	0.7	2.2%	0.5	1.7%	40.0%	1.2	1.9%	1.1	1.9%	9.1%
Total petroleum products	13.6	43.3%	13.5	44.8%	0.7%	27.1	44.0%	25.5	43.9%	6.3%
Petrochemical products										
International sales	0.7	2.2%	0.8	2.6%	(12.5)%	1.5	2.4%	0.8	1.4%	87.5%
Domestic	0.6	1.9%	0.6	2.0%	0.0%	1.2	1.9%	0.4	0.7%	200.0%
	0.1	0.3%	0.2	0.6%	(50.0)%	0.3	0.5%	0.4	0.7%	(25.0)%
Total crude oil and products	31.4	100.0%	30.2	100.0%	4.0%	61.60	100.0%	58.0	100.0%	6.2%
Gas	bln m³		bln m³			bln m³		bln m³		
Sales volumes	2.66		2.76		(3.6)%	5.42		4.95		9.5%

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 6 months ended</i>				
	June 30, 2012		March 31, 2012		Change	June 30, 2012		June 30, 2011		Change
	(thRUB/ barrel)	(thRUB/ tonne)	(thRUB/ barrel)	(thRUB/ tonne)	%	(thRUB/ barrel)	(thRUB/ tonne)	(thRUB/ barrel)	(thRUB/ tonne)	%
Average prices on foreign markets										
Crude oil, excluding CIS	3.09	22.6	3.39	24.8	(8.9)%	3.23	23.6	2.95	21.6	9.3%
Europe and other directions	3.20	23.4	3.51	25.7	(8.9)%	3.34	24.5	3.06	22.3	9.9%
Asia	2.78	20.3	3.13	22.9	(11.4)%	2.96	21.7	2.71	19.9	9.0%
Crude oil, CIS	1.35	9.9	1.83	13.4	(26.1)%	1.59	11.6	1.61	11.8	(1.7)%
Petroleum products, non-CIS		24.1		27.0	(10.7)%		25.6		22.1	15.8%
Europe and other directions		23.4		26.7	(12.4)%		25.2		21.7	16.1%
Asia		25.6		27.8	(7.9)%		26.7		22.7	17.6%
Petroleum products, CIS		22.9		25.6	(10.5)%		24.2		21.3	13.6%
Average domestic prices										
Crude oil	1.29	9.4	1.53	11.2	(16.1)%	1.37	10.0	1.38	10.1	(1.0)%
Petroleum products		22.9		22.2	3.2%		22.6		19.7	14.7%
Wholesale		20.1		19.1	5.2%		19.7		17.3	13.9%
Retail		29.3		29.0	1.0%		29.1		25.4	14.6%
Gas (th.rub. /th. cubic meter)		1.92		1.78	7.9%		1.85		1.41	31.2%
Sales of bunker fuel to end-users		17.9		17.7	1.1%		17.8		14.4	23.6%
Petrochemical products		32.2		27.0	19.3%		29.5		24.8	19.0%
<i>International sales</i>		36.7		30.6	19.9%		33.5		37.1	(9.7)%
<i>Domestic</i>		18.1		14.5	24.8%		16.2		13.6	19.1%

International Crude Oil Sales to non-CIS

Revenues from international crude oil sales to non-CIS countries in the second quarter of 2012 were RUB 348 billion which is a slight decrease in comparison with the first quarter of 2012. Average prices downturn of 8.9% (negative impact on revenues of RUB 30 billion) was partially compensated by sales volumes increase of 7.7% (positive impact on revenues of RUB 27 billion). Export sales volumes growth is attributable to crude flows redirection from domestic refineries due to planned turnaround works.

The deviation between average sales prices on the Asian markets and world market prices in the second 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 price based on international crude oil prices excluding the export duty and are reflected as international sales in Company's sales structure. Excluding revenues from crude oil sales to Transneft (RUB 17 billion) in the second quarter of 2012 the average sales price on the Asian markets amounted to RUB 3.4 thousand per barrel.

In the six months of 2012 revenues from international crude oil sales to non-CIS countries increased by 10.4% compared to the six months of 2011. A 9.3% upturn in average prices (positive impact on revenues of RUB 64 billion) was accompanied by a slight increase in sales volumes by 0.3% (favourable impact on revenues of RUB 2 billion).

Crude Oil Supplies to Ruhr Oel Refineries

In January 2012 Rosneft resumed supplies of its own crude oil to Ruhr Oel refineries. In the first half of 2012 these supplies amounted to 2.2 million tonnes (15.8 million barrels). Rosneft paid RUB 28 billion of export duties on this crude oil. 2.0 million tonnes (14.6 million barrels) of this crude oil was fully processed and sold, and the balance remained in stocks (export duty disclosed in the consolidated statement of income amounted to RUB 26 billion, the balance was reflected on the Balance Sheet as part of inventories).

Besides supplies of own crude oil, in the first half of 2012 Rosneft acquired 4.2 million tonnes (30.5 million barrels) of crude oil on the international market for RUB 109 billion to supply to Ruhr Oel 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 second quarter of 2012 revenue from sales of crude oil to CIS was RUB 15 billion, which is a decrease of 28.6% compared to the previous quarter. A 26.1% downturn in average prices, accompanied by a decrease in sales volumes of 6.0% had a negative impact on revenues of RUB 5 billion and RUB 1 billion respectively. Sales volumes decrease was due normalization of deliveries in the second quarter of 2012 in comparison with higher sales volumes in the first quarter of 2012.

In the six months of 2012 revenues from international crude oil sales to CIS countries were RUB 12 billion higher in comparison with the six months of 2011, which is attributable to sales volumes growth of 47.4% (positive impact on revenues of RUB 13 billion). Average price downturn of 1.7% led to revenue reduction of RUB 1 billion. The increase in sales volumes resulted from higher quotas for crude oil deliveries to Kazakhstan and Belarus.

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>						% change		
	June 30, 2012			March 31, 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	1	0.0	38.1	2	0.0	36.0	(50.0)%	—	5.8%
Low octane gasoline	1	0.0	33.5	1	0.1	32.7	0.0%	(100.0)%	2.4%
Naphtha	23	0.8	27.0	28	0.9	30.1	(17.9)%	(11.1)%	(10.3)%
Diesel (Gasoil)	38	1.4	28.1	55	1.8	29.6	(30.9)%	(22.2)%	(5.1)%
Fuel oil	59	3.0	19.9	69	3.2	21.6	(14.5)%	(6.3)%	(7.9)%
Jet fuel	0	0.0	37.2	0	0.0	35.1	—	—	6.0%
Other	1	0.1	27.5	1	0.1	26.9	0.0%	0.0%	2.2%
Total petroleum products exported to non-CIS	123	5.3	23.4	156	6.1	25.6	(21.2)%	(13.1)%	(8.6)%
<i>Petroleum products sold from ROG refineries</i>	56	2.2	25.8	66	2.1	31.1	(15.2)%	4.8%	(17.0)%
Total	179	7.5	24.1	222	8.2	27.0	(19.4)%	(8.5)%	(10.7)%

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 179 billion in the second quarter of 2012, which is a decrease of 19.4% compared to the previous quarter. A 10.7% downturn in average prices as well as sales volume decrease of 8.5% had a negative impact on revenues of RUB 24 billion and RUB 19 billion, respectively. The decrease in volumes was due to decrease in refinery throughput and redirection of petroleum product flows to the domestic market following the seasonal demand growth.

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

	<i>For 6 months ended</i>						% change		
	June 30, 2012			June 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	3	0.0	36.9	10	0.4	24.1	(70.0)%	(100.0)%	53.2%
Low octane gasoline	2	0.1	33.0	4	0.2	25.6	(50.0)%	(50.0)%	28.9%
Naphtha	51	1.7	28.7	47	1.8	26.5	8.5%	(5.6)%	8.3%
Diesel (Gasoil)	93	3.2	29.0	92	3.6	25.7	1.1%	(11.1)%	12.7%
Fuel oil	128	6.2	20.8	113	6.3	17.4	13.3%	(1.6)%	19.5%
Jet fuel	0	0.0	36.2	0	0.0	29.4	—	—	23.0%
Other	2	0.2	27.2	4	0.2	24.9	(50.0)%	0.0%	9.2%
Total petroleum products exported to non-CIS	279	11.4	24.6	270	12.5	21.6	3.3%	(8.8)%	13.9%
<i>Petroleum products sold from ROG refineries</i>	122	4.3	28.4	38	1.4	26.9	221.1%	207.1%	5.7%
Total	401	15.7	25.6	308	13.9	22.1	30.2%	12.9%	15.8%

In the six months of 2012 revenues from international sales of petroleum products to non-CIS countries were 30.2% higher compared to the six months of 2011 which was driven by a 15.8% increase in average rouble prices (positive impact on revenues of RUB 53 billion) and 12.9% increase in sales volumes (positive impact on revenues of RUB 40 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>						% change		
	June 30, 2012			March 31, 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	44	1.6	28.5	38	1.3	28.6	15.8%	23.1%	(0.3)%
Low octane gasoline	2	0.1	23.7	1	0.1	24.5	100.0%	0.0%	(3.3)%
Naphtha	—	—	—	—	—	—	—	—	—
Diesel	54	2.3	23.5	46	1.9	24.4	17.4%	21.1%	(3.7)%
Fuel oil	2	0.2	10.6	6	0.6	10.1	(66.7)%	(66.7)%	5.0%
Jet fuel	11	0.5	24.9	8	0.3	25.8	37.5%	66.7%	(3.5)%
Other	9	0.7	12.0	7	0.5	10.7	28.6%	40.0%	12.1%
Total	122	5.4	22.9	106	4.7	22.2	15.1%	14.9%	3.2%

Revenues from sales of petroleum products on the domestic market were RUB 122 billion in the second quarter of 2012, which is an increase of 15.1% compared to the first quarter of 2012. Revenue growth was caused by 14.9% increase in sales volumes and a slight 3.2% upturn in average prices which had a favourable impact on revenues of RUB 16 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 6 months ended</i>						% change		
	June 30, 2012			June 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	82	2.9	28.6	77	3.0	25.8	6.5%	(3.3)%	10.9%
Low octane gasoline	3	0.2	24.0	4	0.2	21.0	(25.0)%	0.0%	14.3%
Naphtha	—	—	—	—	—	—	—	—	—
Diesel	100	4.2	23.9	91	4.6	19.9	9.9%	(8.7)%	20.1%
Fuel oil	8	0.8	10.3	9	1.1	8.3	(11.1)%	(27.3)%	24.1%
Jet fuel	19	0.8	25.3	11	0.5	20.4	72.7%	60.0%	24.0%
Other	16	1.2	11.4	11	0.9	11.7	45.5%	33.3%	(2.6)%
Total	228	10.1	22.6	203	10.3	19.7	12.3%	(1.9)%	14.7%

In the six months of 2012 revenues from sales of petroleum products on the domestic market increased by 12.3% compared to the six months of 2011. A 14.7% upturn in average prices (positive impact on revenues of RUB 29 billion) was compensated by a 1.9% decrease in sales volumes (unfavourable impact on revenues of RUB 4 billion). Sales volumes decline is attributable to refinery throughput reduction in the first half of 2012 in comparison with the first half of 2011.

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 second quarter of 2012 were RUB 12 billion, an increase of 33.3% in comparison with the previous quarter which is mainly attributable to a seasonal factor.

23.6% upturn in average prices accompanied by a 9.1% increase in sales volumes led to revenue growth of 40.0% or RUB 6 billion in the six 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 second quarter of 2012 were RUB 23 billion, up 9.5% compared to the first quarter of 2012. Average prices upturn of 19.3% (favourable impact on revenues of RUB 5 billion) was accompanied by sales volumes decrease of 12.5% (unfavourable impact on revenues of RUB 3 billion). Sales volume decrease resulted from planned turnaround on German refineries.

A 120.0% growth in revenues from sales of petrochemical products in the six 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 6 months ended</i>		
	June 30, 2012	March 31, 2012	Change	June 30, 2012	June 30, 2011	Change
Revenue	(RUB billion)			(RUB billion)		
			%			%
Western Siberia	1.3	1.2	8.3%	2.5	1.9	31.6%
South Russia	1.7	1.9	(10.5)%	3.6	3.4	5.9%
Far East	0.3	0.4	(25.0)%	0.7	0.6	16.7%
European part of Russia	1.5	0.9	66.7%	2.4	1.1	118.2%
Total	4.8	4.4	9.1%	9.2	7.0	31.4%
Sales volumes	(bcm)			(bcm)		
Western Siberia	1.05	1.05	0.0%	2.10	2.56	(18.0)%
South Russia	0.67	0.81	(17.3)%	1.48	1.48	0.0%
Far East	0.15	0.22	(31.8)%	0.37	0.35	5.7%
European part of Russia	0.79	0.68	16.2%	1.47	0.56	162.5%
Total	2.66	2.76	(3.6)%	5.42	4.95	9.5%
Average price	(th. RUB/th. of cubic metres)			(th. RUB/th. of cubic metres)		
Western Siberia	1.22	1.16	5.2%	1.19	0.76	56.6%
South Russia	2.48	2.33	6.4%	2.39	2.29	4.4%
Far East	1.82	1.81	0.6%	1.82	1.57	15.9%
European part of Russia	2.41	2.08	15.9%	2.25	1.97	14.2%
Total	1.92	1.78	7.9%	1.85	1.41	31.2%

In the second quarter of 2012 revenues from gas sales increased by 9.1% and amounted to RUB 4.8 billion due to increase in average prices. Sales volumes decrease was due to seasonal factor.

Revenue growth from gas sales of 31.4% in the six months of 2012 in comparison with the six months of 2011 was driven by an increase in average prices of 31.2% and an increase in sales volumes which had a positive impact on revenues of RUB 1 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 6 months ended</i>						
	June 30, 2012	March 31, 2012	Change	June 30, 2012	June 30, 2011	Change				
	%	%	%	%	%	%				
	of total revenue	of total revenue		of total revenue	of total revenue					
	(RUB billion, except %)									
Drilling services	0.6	5.8%	0.2	2.1%	200.0%	0.8	4.0%	0.5	2.0%	60.0%
Sales of materials	2.7	26.0%	2.3	24.0%	17.4%	5.0	25.0%	5.4	22.1%	(7.4)%
Repairs and maintenance services	0.8	7.7%	0.8	8.3%	0.0%	1.6	8.0%	1.5	6.1%	6.7%
Rent services	0.7	6.7%	0.7	7.3%	0.0%	1.4	7.0%	1.2	4.9%	16.7%
Construction services	0.7	6.7%	0.5	5.2%	40.0%	1.2	6.0%	1.3	5.3%	(7.7)%
Transport services	1.8	17.3%	1.7	17.7%	5.9%	3.5	17.5%	4.3	17.6%	(18.6)%
Electric power sales and transmission	1.0	9.6%	1.3	13.5%	(23.1)%	2.3	11.5%	6.7	27.5%	(65.7)%
Other revenues	2.1	20.2%	2.1	21.9%	0.0%	4.2	21.0%	3.5	14.5%	20.0%
Total	10.4	100.0%	9.6	100.0%	8.3%	20.0	100.0%	24.4	100.0%	(18.0)%

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 6 months ended</i>		<i>Change</i>
	June 30, 2012	March 31, 2012	%	June 30, 2012	June 30, 2011	%
	(RUB billion, except %)					
Upstream	17.7	17.7	–	35.4	32.9	7.6%
Land restoration program	–	0.7	–	0.7	–	–
Downstream	35.9	19.1	88.0%	55.0	35.8	53.6%
<i>Including procurement of additives and materials for Ruhr Oel refineries</i>	11.3	6.2	82.3%	17.5	6.9	153.6%
Other	7.8	7.1	9.9%	14.9	15.3	(2.6)%
Total	61.4	44.6	37.7%	106.0	84.0	26.2%

Upstream production and operating expenses include materials and supplies, equipment maintenance and repair, 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 second quarter of 2012 remained unchanged compared with the previous quarter and amounted to RUB 17.7 billion. The level of expenses has been retained due to cost saving efforts.

In the six months of 2012 upstream production and operating expenses increased by 7.6% compared with the same period of 2011, when these expenses were RUB 32.9 billion. 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 6 months ended</i>		<i>Change</i>
	June 30, 2012	March 31, 2012	%	June 30, 2012	June 30, 2011	%
	(RUB per bbl)			(RUB per bbl)		
Expenses per bbl of crude oil produced	88.2	88.3	(0.1)%	88.2	84.0	5.0%
Expenses per boe of hydrocarbons produced	81.1	80.5	0.7%	80.8	77.1	4.8%

Rosneft's downstream operating expenses increased by 88.0% in the second quarter of 2012 compared with the first quarter of 2012. The increase resulted primarily from partial sale of intragroup inventories accumulated in the first quarter of 2012 (according to the accounting principles operating expenses are adjusted for all the expenses associated with the change in intragroup inventories), as well as from increase in procurement of additives and other materials for refining process at Ruhr Oel GmbH and from turnaround works at domestic refineries.

Downstream operating expenses increased by 53.6% in the six months of 2012 compared with the six months of 2011 primarily due to 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 29.8% due to difference in dynamics in intragroup inventories in the six months of 2012, as well as increase in electricity tariffs, cost of materials and additives for own refineries and increase in expenses for refinery turnaround works.

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2012	March 31, 2012	%	June 30, 2012	June 30, 2011	%
	(RUB per tonne)			(RUB per tonne)		
Operating expenses (RUB billion)	8.85	8.36	5.9%	17.21	11.95	44.0%
Operating expenses per tonne of product output	797	688	15.8%	740	510	45.1%
Operating expenses per tonne of crude oil throughput	760	651	16.7%	703	484	45.2%

In the second quarter of 2012 operating expenses of Rosneft's refineries increased by 5.9% compared with the first quarter of 2012 due to increase in expenses for refinery turnarounds.

In the six months of 2012 these expenses increased by 44.0% compared with the six months of 2011. The growth resulted mainly from increase in volumes of additives used to produce euro-standard products, as well as higher prices for additives and other materials and growth in electricity tariffs.

Operating expenses related to other activities increased by 9.9% in the second quarter of 2012 compared with the first quarter of 2012 due to increase in volumes of services rendered to the third parties. In the six months of 2012 these expenses decreased by 2.6% compared with the same period of 2011. The decrease was primarily due to the lower volumes of 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 6 months ended</i>		<i>Change</i>
	June 30, 2012	March 31, 2012	(%)	June 30, 2012	June 30, 2011	(%)
Crude oil						
Cost of crude oil procured (RUB billion)	67	81	(17.3)%	148	67	120.9%
<i>including Domestic market</i>	18	21	(14.3)%	39	38	2.6%
<i>International market</i>	49	60	(18.3)%	109	29	275.9%
Volume of crude oil procured (million of barrels)	27.3	31.0	(11.9)%	58.3	38.1	53.0%
<i>including Domestic market</i>	13.6	14.2	(4.2)%	27.8	29.7	(6.4)%
<i>International market</i>	13.7	16.8	(18.5)%	30.5	8.4	263.1%
Gas						
Cost of gas procured (RUB million)	281	238	18.1%	519	428	21.3%
Volume of gas procured (bcm)	0.18	0.15	20.0%	0.33	0.21	57.1%
Petroleum products						
Cost of petroleum product procured (RUB billion) ⁽¹⁾	12	5	140.0%	17	31	(45.2)%
Volume of petroleum product procured (million of tonnes)	0.5	0.2	150.0%	0.7	1.3	(46.2)%
Crude oil refining services						
Cost of refining of crude oil under processing agreements (RUB billion)	5	4	25.0%	9	3	200.0%
Volumes of crude oil refined under processing agreements (million of tonnes)	2.4	2.7	(11.1)%	5.1	1.6	218.8%
Total cost of procured oil, gas and petroleum products and refining costs (RUB billion)	85	90	(5.6)%	175	101	73.3%

(1) In the six 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 6 months ended</i>		<i>Change</i>
	June 30, 2012	March 31, 2012	%	June 30, 2012	June 30, 2011	%
	(million bbl, except %)					
International market	13.7	16.8	(18.5)%	30.5	8.4	263.1%
Tomskneft	8.3	7.7	7.8%	16.0	22.2	(27.9)%
Udmurtneft	1.8	2.4	(25.0)%	4.2	3.6	16.7%
Others	3.5	4.1	(14.6)%	7.6	3.9	94.9%
Total	27.3	31.0	(11.9)%	58.3	38.1	53.0%

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 second quarter of 2012 these transactions were exercised with Gazpromneft, Bashneft, TNK-BP and others. The volume of crude oil swaps amounted to 18.9 million barrels and 17.8 million barrels in the second quarter of 2012 and in the first quarter of 2012, respectively. Rosneft’s estimated benefits from these transactions were RUB 0.5 billion in the second quarter of 2012 and RUB 0.5 billion in the first quarter of 2012. In the six months of 2012 and 2011 the volume of crude oil swaps amounted to 36.7 million barrels and 23.5 million barrels, which resulted in RUB 1.0 billion of benefits for Rosneft in the six 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>		
	June 30, 2012			March 31, 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	0.30	25.9	3	0.11	23.7	133.3%	172.7%	9.3%
Low octane gasoline	0	0.00	25.3	0	0.00	22.5	–	–	12.4%
Diesel	4	0.16	24.6	1	0.03	28.5	300.0%	433.3%	(13.7)%
Jet fuel	0	0.02	24.0	1	0.02	24.7	(100.0)%	–	(2.8)%
Other	1	0.03	21.5	0	0.02	20.4	–	50.0%	5.4%
Total	12	0.51	25.2	5	0.18	25.2	140.0%	183.3%	–

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

	<i>For 6 months ended</i>						<i>% change</i>		
	June 30, 2012			June 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	10	0.41	25.3	23	0.93	24.8	(56.5)%	(55.9)%	2.0%
Low octane gasoline	0	0.00	24.4	1	0.05	19.7	(100.0)%	(100.0)%	23.9%
Diesel	5	0.19	25.2	6	0.31	20.7	(16.7)%	(38.7)%	21.7%
Jet fuel	1	0.04	24.4	0	0.00	16.8	–	–	45.2%
Other	1	0.05	21.0	1	0.04	17.6	–	25.0%	19.3%
Total	17	0.69	24.9	31	1.33	22.9	(45.2)%	(48.1)%	8.7%

The increase in volumes of petroleum product purchases in the second quarter of 2012 in comparison to the first quarter of 2012 resulted from seasonal increase in demand for petroleum products.

The decrease in volumes of petroleum product purchases in the first half of 2012 in comparison to the first half 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 second quarter of 2012 were RUB 18 billion and in the first quarter of 2012 were RUB 15 billion.

In the six months of 2012 and 2011 general and administrative expenses were RUB 33 billion and RUB 22 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 second quarter of 2012 Rosneft's transportation costs decreased to RUB 58 billion, or by 3.3% compared with the first quarter of 2012. The decrease resulted from seasonal decrease in volumes of oil transportation to the refineries during refinery turnarounds, as well as seasonal increase in FCA sales of petroleum products.

In the six months of 2012 Rosneft's transportation costs increased by 7.4% compared with the six 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>								% change		
	June 30, 2012				March 31, 2012						
	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
CRUDE OIL											
International sales											
Pipeline	16.3	97.0%	26.8	1.65	15.4	97.2%	24.7	1.61	5.8%	8.5%	2.5%
Railroad and mixed	0.5	3.0%	0.4	0.82	0.4	2.8%	0.4	0.86	25.0%	–	(4.7)%
Transportation to refineries											
Pipeline ⁽¹⁾	9.6		5.7	0.59	11.2		6.5	0.58	(14.3)%	(12.3)%	1.7%
Railroad and mixed	1.5		5.9	4.00	1.5		6.2	4.07	–	(4.8)%	(1.7)%
PETROLEUM PRODUCTS											
International sales											
Pipeline ⁽²⁾	0.1	1.0%	0.2	2.14	0.3	3.7%	0.8	2.39	(66.7)%	(75.0)%	(10.5)%
Railroad and mixed	7.7	79.4%	14.2	1.86	7.8	85.1%	15.0	1.93	(1.3)%	(5.3)%	(3.6)%
Other transportation expenses ⁽³⁾			5				6			(16.7)%	
Total	35.7		58	1.62	36.6		60	1.64	(2.5)%	(3.3)%	(1.2)%

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

(2) Rosneft exported 1.9 million tonnes (19.6% of total export volumes) and 1.0 million tonnes (11.2% of total export volumes) of petroleum products in the second quarter of 2012 and in the first quarter of 2012, respectively, through its own pipeline in the town of Tuapse, and on FCA terms from Samara refineries, 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 increase in crude oil pipeline transportation cost per tonne of international sales was 2.5%, which was due to the change in structure of transportation routes.

The decrease in crude oil railroad and mixed transportation cost per tonne of international sales was 4.7%, which was mainly due to change in structure of transportation routes.

The increase in crude oil pipeline transportation cost per tonne of supplies to refineries was 1.7% compared with the first 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 domestic supplies was 1.7%, which was due to change in logistics of Tomskneft and Yuganskneftegaz crude oil supplies to the refineries.

Pipeline transportation cost per tonne of petroleum product international sales decreased by 10.5%. The decrease was due to change in structure of transportation routes.

Railroad and mixed transportation cost per tonne of petroleum product international sales decreased by 3.6%. The decrease was due to seasonal increase in FCA sales of petroleum products, where Rosneft does not bear transportation expenses directly.

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 6 months ended</i>										
	June 30, 2012				June 30, 2011				% change		
	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
CRUDE OIL											
International sales											
Pipeline	31.7	97.2%	51.6	1.63	29.9	95.3%	44.1	1.47	6.0%	17.0%	10.9%
Railroad and mixed	0.9	2.8%	0.8	0.84	1.5	4.7%	1.8	1.24	(40.0)%	(55.6)%	(32.3)%
Transportation to refineries											
Pipeline ⁽¹⁾	20.9		12.2	0.58	19.2		13.2	0.69	8.9%	(7.6)%	(15.9)%
Railroad and mixed	3.0		12.1	4.04	3.3		13.1	3.93	(9.1)%	(7.6)%	2.8%
PETROLEUM PRODUCTS											
International sales											
Pipeline ⁽²⁾	0.4	2.1%	1.0	2.34	0.5	3.3%	1.1	2.16	(20.0)%	(9.1)%	8.3%
Railroad and mixed	15.4	81.9%	29.2	1.90	11.4	76.1%	26.1	2.29	35.1%	11.9%	(17.0)%
Other transportation expenses ⁽³⁾			11				11			-	
Total	72.3		118	1.63	65.8		110	1.67	9.9%	7.4%	(2.4)%

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

(2) Rosneft exported 3.0 million tonnes (16.0% of total export volumes) and 3.1 million tonnes (20.6% of total export volumes) of petroleum products in the six months of 2012 and in the six months of 2011, respectively, through its own pipeline in the town of Tuapse, 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 10.9%, which was due to an increase in tariffs by 3.5% – 19.4%.

The decrease in crude oil railroad and mixed transportation cost per tonne of international sales was 32.3%, which was due to the cease of supplies of Purneftegaz crude oil to CPC.

The decrease in crude oil pipeline transportation cost per tonne of supplies to refineries was 15.9%, which was due to start of supplies to Ruhr Oel GmbH of crude oil procured on the international market.

The increase in crude oil railroad and mixed transportation cost per tonne of supplies to refineries was 2.8%, which was due to an increase in tariffs.

The increase in pipeline cost per tonne of petroleum product international sales was 8.3%, which was due to increase in tariffs and the change in structure of transportation routes.

The decrease in railroad and mixed cost per tonne of petroleum product international sales was 17.0% due to start of petroleum products sales 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 second quarter of 2012 exploration expenses decreased to RUB 4 billion compared with RUB 5 billion in the first quarter of 2012. The decrease has followed the dry exploration wells writing-off in the first quarter of 2012.

In the six months of 2012 exploration expenses increased by 80.0% 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 53 billion in the second quarter of 2012 compared to RUB 54 billion in the first quarter of 2012.

In the six months of 2012 depreciation, depletion and amortisation increased by 1.9% compared with RUB 105 billion in the six months of 2011 due to higher volumes of production and increased book value of fixed assets.

Taxes Other than Income Tax

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

The 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 6 months ended</i>		<i>Change</i>
	June 30, 2012	March 31, 2012	%	June 30, 2012	June 30, 2011	%
	(RUB billion, except %)					
Mineral extraction tax	129	133	(3.0)%	262	181	44.8%
Excise tax	18	18	–	36	26	38.5%
Social security tax	6	6	–	12	10	20.0%
Property tax	3	3	–	6	6	–
Interest, penalties and other payments	2	1	100.0%	3	1	200.0%
Total taxes other than income tax	158	161	(1.9)%	319	224	42.4%

Taxes other than income tax decreased by 1.9% to RUB 158 billion in the second quarter of 2012, compared with RUB 161 billion in the first quarter of 2012 mainly due to the decrease of the mineral extraction tax rates in the second quarter of 2012 due to decrease of oil price.

In the six months of 2012, taxes other than income tax increased by 42.4% compared with the first six 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, 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 6 months ended</i>		<i>Change</i>
	June 30, 2012	March 31, 2012	%	June 30, 2012	June 30, 2011	%
	(thousand RUB, except %)					
Average enacted mineral extraction tax rate	4.83	5.28	(8.7)%	5.05	4.28	18.2%
Actual mineral extraction tax expense per tonne of crude oil produced	4.70	4.85	(3.1)%	4.78	3.38	41.4%
Actual mineral extraction tax expense per tonne of oil equivalent produced	4.32	4.43	(2.5)%	4.37	3.10	41.0%

The actual mineral extraction tax rate is lower than enacted tax rate for the period, primarily, due to the reduced rates for crude oil produced at fields with reserve depletion of over 80% and application of the zero rate for crude oil produced at the Vankor field applicable till August, 2011. The difference between enacted rate and actual rate is also affected by dynamics in intragroup inventory.

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 6 months ended</i>		<i>Change</i>
	June 30, 2012	March 31, 2012	%	June 30, 2012	June 30, 2011	%
	(RUB billion, except %)					
Export customs duty for crude oil	192	155	23.9%	347	268	29.5%
Export customs duty for petroleum products	53	52	1.9%	105	79	32.9%
Total export customs duties	245	207	18.4%	452	347	30.3%

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2012	March 31, 2012	%	June 30, 2012	June 30, 2011	%
Average Urals price (th. RUB/tonne)	24.14	25.90	(6.8)%	25.02	22.60	10.7%
Average enacted export customs duty (th. RUB /tonne)	13.74	12.13	13.3%	12.93	11.30	14.4%
Hypothetical export customs duty* (th. RUB/tonne)	11.93	13.09	(8.9)%	12.60	12.13	3.8%
Average customs duty on crude oil exports to non-CIS countries subject to regular rate (th. RUB/tonne)	13.71	12.10	13.3%	12.94	11.90	8.7%

*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 decreased by 67.6% to RUB 36 billion, in the second quarter of 2012 compared with RUB 111 billion in the first quarter of 2012. As a percentage of total revenues, operating income was 5.0% and 14.8% in the second quarter of 2012 and in the first quarter of 2012 respectively. As a percentage of total revenues, operating income before taxes other than income tax and export customs duty was 61.1% and 64.0% in the second quarter of 2012 and in the first quarter of 2012, respectively.

Operating income decreased by 39.0% in six months of 2012 compared to RUB 241 billion in the six months of 2011. As a percentage of total revenues, operating income before taxes other than income tax and export

customs duty was 62.6% and 65.5% in the six 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.

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 second quarter 2012 and amounted to RUB 1 billion.

Net finance income increase from RUB 0 billion in the six months 2011 to RUB 2 billion in the six months 2012 due to partial disposal of financial assets.

Equity share in profits of associates and joint ventures

The equity share in profits of associates and joint ventures amounted to RUB 4 billion in the second quarter of 2012 compared with RUB 9 billion in the first quarter of 2012. The decrease resulted from the decrease in profits incurred by certain Rosneft's associates.

In the six months of 2012 and 2011 the equity share in profits of associates and joint ventures amounted to RUB 13 billion and RUB 5 billion, respectively.

Other income and other expenses

In the second quarter of 2012 other income amounted to less than one billion RUB, compared to RUB 1 billion in the first quarter of 2012. In the six months of 2012 and 2011 other income amounted to RUB 1 billion and RUB 1 billion, respectively.

In the second quarter of 2012 other expenses amounted to RUB 13 billion, compared to RUB 5 billion in the first quarter of 2012. The increase in other expenses in the second quarter occurred due to the expenses on reduction of book value of unproved reserves by RUB 5.7 billion. In the six months of 2012 and 2011 other income amounted to RUB 18 billion and RUB 18 billion, respectively.

Foreign Exchange Loss

Foreign exchange loss was RUB 39 billion in the second quarter of 2012 compared with foreign exchange gain of RUB 26 billion in the first quarter of 2012. Foreign exchange loss incurred in the second quarter is attributed to considerable depreciation of ruble (12 %) against US dollar during the second quarter. While, in the first quarter of 2012 ruble appreciation against US dollar was 9%. This resulted in opposite effect from revaluation of assets and liabilities denominated in foreign currency in the second quarter of 2012 in comparison with first quarter of 2012. Company recognized RUB 39 billion loss against RUB 26 billion profit of foreign exchange difference in the second quarter of 2012 and first quarter respectively.

Foreign exchange loss was RUB 13 billion in six months of 2012 compared to foreign exchange gain RUB 19 billion the six months of 2011. Opposite dynamics of gain and loss from the foreign exchange in six months of 2012 compared to the six months of 2011 is attributed to insignificant fluctuation of the exchange rate of ruble against US dollar in the six 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 6 months ended</i>	
	June 30, 2012	March 31, 2012	June 30, 2012	June 30, 2011
Effective income tax rate for Rosneft under IFRS	-	22%	21%	23%

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 3 billion of income in the second quarter 2012 compared to the expenses of RUB 31 billion accrued in the first quarter 2012. The major factor of considerable changes was the ruble exchange rate fluctuation against other foreign currencies that led to recognition of losses from revaluation of obligations denominated in foreign currency.

Net Income/(Loss)

As a result of the factors discussed above, net loss amounted to RUB 8 billion in the second quarter of 2012 compared to net income RUB 112 billion in the first quarter of 2012. The loss is mainly due to decrease in oil and petroleum products prices and export duty lag effect.

Net income decreased from RUB 190 billion in the six months of 2011 to RUB 104 billion in the six months of 2012. Major factors of net income reduction are the following: cancellation of reduced MET and export duty rates for Vankor field, growth of transport tariffs and increase in mineral extraction tax base rate and excise tax rates. It was partially compensated by increased prices for crude oil and petroleum products and growth of sales volumes and other factors.

Liquidity and Capital Resources

Cash Flows

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	<i>June 30, 2012</i>	<i>March 31, 2012</i>	<i>times</i>	<i>June 30, 2012</i>	<i>June 30, 2011</i>	<i>times</i>
	<i>(RUB billion)</i>			<i>(RUB billion)</i>		
Net cash provided by operating activities	145	74	1.96	219	270	0.81
Net cash used in investing activities	(124)	(102)	1.22	(226)	(195)	1.16
Net cash used in financing activities	(9)	(15)	0.60	(24)	(56)	0.43

Operating Cash Flow

Net cash provided by operating activities amounted to RUB 145 billion in the second quarter of 2012 compared to RUB 74 billion in the first quarter of 2012. Operating cash flow includes operations with trading securities as part of the Company's efforts to manage cash resources (net outflow of RUB 1 billion in the second quarter of 2012 and net inflow of RUB 2 billion in the first 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 146 billion in the second quarter of 2012 and RUB 72 billion in the first 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>	<i>For 6 months ended</i>		<i>Change</i>
	<i>June 30, 2012</i>	<i>March 31, 2012</i>	<i>times</i>	<i>June 30, 2012</i>	<i>June 30, 2011</i>	<i>times</i>
	<i>(RUB billion)</i>			<i>(RUB billion)</i>		
Net cash provided by operating activity	145	74	1.96	219	270	0.81
Effect from operation with trading securities	1	(2)	-	(1)	2	-
Adjusted net cash provided by operating activity	146	72	2.03	218	272	0.80
Change in working capital before FX	86	(69)	-	17	(10)	-
Adjusted net cash provided by operating activity before change in working capital	60	141	0.43	201	282	0.71

The increase in the adjusted operating cash flow in the second quarter compared with the first quarter primarily resulted from the decrease in the working capital by RUB 86 billion before foreign exchange effect in the second quarter compared with the increase of working capital by RUB 69 billion before foreign exchange effect in the first quarter.

In the second quarter the working capital decreased due to the following factors:

- Decrease in accounts receivables by RUB 46 billion due to return to early payment collection from oil buyers and oil prices decrease;
- Decrease in the inventories by RUB 12 billion due to partial sale of inventory accumulated during previous periods and increase in sales volumes;
- Increase in trade payables by RUB 22 billion, which was partially compensated by:
 - Increase in amount of income tax and VAT under export sales receivable by RUB 24 billion.

The decrease in net cash provided by the operating activity in the six months of 2012 compared to the six months of 2011 resulted from decrease in the net income margin for the reasons discussed above.

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 6 months ended</i>		<i>Change</i>
	<i>June 30, 2012</i>	<i>March 31, 2012</i>		<i>June 30, 2012</i>	<i>June 30, 2011</i>	
	<i>(RUB billion)</i>		<i>(%)</i>	<i>(RUB billion)</i>		<i>(%)</i>
Yuganskneftegaz	27	21	28.6%	48	39	23.1%
Vankorneft	23	29	(20.7)%	52	47	10.6%
Purneftegaz	3	3	-	6	5	20.0%
Severnaya Neft	1	2	(50.0)%	3	2	50.0%
Samaraneftegaz	3	2	50.0%	5	4	25.0%
Other ¹	10	4	150.0%	13	11	18.2%
Total upstream segment	67	61	9.8%	127	108	17.6%
The Company	1	-	100.0%	1	1	-
Tuapse refinery	23	21	9.5%	44	25	76.0%
Komsomolsk refinery	2	3	(33.3)%	5	2	150.0%
Angarsk refinery	2	1	100.0%	3	1	200.0%
Achinsk refinery	3	4	(25.0)%	8	2	300.0%
Syzran refinery	3	1	200.0%	4	1	300.0%
Novokuibyshevsk refinery	3	3	-	6	2	200.0%
Kuibyshev refinery	3	3	-	6	2	200.0%
Marketing Business Units and others ²	9	3	200.0%	11	10	10.0%
Total downstream	49	39	25.6%	88	45	95.5%
Other activities³	1	5	(80.0)%	6	6	-
Subtotal capital expenditures	117	105	11.4%	221	159	39.0%
Change in materials in capital expenditures	4	13	(69.2)%	18	18	-
Total capital expenditures	121	118	2.5%	239	177	35.0%
Licence acquisition costs	-	1	(100.0)%	1	4	(75.0)%

¹ Including: Krasnodarneftegaz, Stavropolneftegaz, Sakhalin-1, Grozneftegaz, VSNK and Dagneftegaz.

² Relating to companies providing processing and storage services.

³ Relating to other services companies.

In the second quarter of 2012 Rosneft's total capital expenditures including material purchases increased by 2.5% to RUB 121 billion compared with RUB 118 billion in the first quarter of 2012. The dynamics of capital expenditures is explained by planning factors. In the six months of 2012 and 2011 capital expenditures amounted to RUB 239 billion and RUB 177 billion, respectively.

Upstream capital expenditures in the second quarter of 2012 increased by 9.8% compared with the first quarter of 2012 and amounted to RUB 67 billion. The increase in capital expenditures at Yuganskneftegaz was in line with the construction schedule at Priobskoye and Obninskoye fields and due to construction of gas utilization system at Ugutskoye field. The increase in capital expenditures at Samaraneftegaz resulted from the planned construction of oil facilities. The decrease in capital expenditures at the Vankor fields in the second quarter of 2012 was due to completion of part of construction works ahead of plan in the first quarter of 2012.

In the six months of 2012 and 2011 the upstream capital expenditures amounted to RUB 127 billion and RUB 108 billion, respectively.

Downstream capital expenditures were RUB 49 billion in the second quarter of 2012 and increased by RUB 10 billion or by 25.6% compared with the first quarter of 2012. The increase in capital expenditures was driven by extensive modernization program at refineries.

In the six months of 2012 downstream capital expenditures comprised RUB 88 billion compared with RUB 45 billion in the six months of 2011.

Capital expenditures for other activities decreased by 80.0% to RUB 1 billion in the second quarter of 2012, compared with RUB 5 billion in the first quarter of 2012. In the six months of 2012 and 2011 capital expenditures for other activities amounted to RUB 6 billion.

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 increase in unused construction materials included in capital expenditures was RUB 4 billion in the second quarter of 2012. In the six months of 2012 and 2011 net increase in unused construction materials included in capital expenditures amounted to RUB 18 billion.

In the six months of 2012 the licence acquisition costs of RUB 0.9 billion refer to the licences for the blocks in the Barents sea.

Debt Obligations

Rosneft net debt increased to RUB 658 billion as of June 30, 2012 compared to RUB 527 billion as of March 31, 2012. The increase resulted from implementation of corporate investment program, purchases of own shares and RUB depreciation against USD.

Rosneft's long-term loans are generally secured by oil export contracts. As of June 30, 2012, March 31, 2012 and December 31, 2011 65.5%, 72.8% and 75.6%, respectively, of Rosneft's borrowings were secured by crude oil export contracts (excluding exports to the CIS).

Decrease in ratio is attributed to an increase in the share of unsecured loans in the Company's debt portfolio.

As of June 30, 2012, March 31, 2012 and December 31, 2011, pledged oil exports constituted 13.8%, 17.1% 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:

As of the date	June 30, 2012	March 31, 2012	December 31, 2011
	RUB billions		
Short term debt	136	152	152
Long term debt	689	532	596
Total debt	825	684	748
Cash and cash equivalents	138	113	166
Short-term bank deposits, including special purpose deposits	8	22	21
Structured deposits	7	12	32
Short-term liquid instruments	14	10	32
Net debt	658	527	497

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 6 months ended	
	June 30, 2012	March 31, 2012	June 30, 2012	June 30, 2011
EBITDA margin	12.4%	22.1%	17.3%	27.9%
Net income margin	(1.1)%	15.0%	7.1%	15.3%
Net debt to capital employed ratio	0.24	0.19	0.24	0.16
Net debt to annualised EBITDA	1.85	0.80	1.30	0.53
Current ratio	1.68	1.81	1.68	1.67
	RUB / bbl			
EBITDA/bbl	443	823	633	882
Upstream capital expenditure/bbl	334	304	317	275
Upstream operating expenses/bbl	88.2	88.3	88.2	84.0
Free cash flow/bbl	125	(230)	(52)	242
	RUB / boe			
EBITDA/boe	408	750	580	810
Upstream capital expenditure/boe	307	277	290	253
Upstream operating expenses/boe	81.1	80.5	80.8	77.1
Free cash flow/boe	115	(209)	(48)	222

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 6 months ended	
	June 30, 2012	March 31, 2012	June 30, 2012	June 30, 2011
Upstream capital expenditures (RUB billion)	67	61	127	108
Upstream operating expenses (RUB billion)	17.7	17.7	35.4	32.9
Barrels of crude oil produced (million)	200.7	200.4	401.1	392.2
Barrels of oil equivalent produced (million)	218.3	219.9	438.2	427.1

Calculation of Free Cash Flow

	For 3 months ended		For 6 months ended	
	June 30, 2012	March 31, 2012	June 30, 2012	June 30, 2011
	(US\$ million)			
Net cash provided by operating activities	145	74	219	270
Capital expenditures	(121)	(118)	(239)	(177)
Trading securities operations	1	(2)	(1)	2
Free cash flow	25	(46)	(21)	95

Current ratio

	For 3 months ended	
	June 30, 2012	March 31, 2012
	(RUB billion, except ratio)	
Current assets	765	791
Current liabilities	455	438
Current ratio	1.68	1.81

For reference:

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

	<i>For 3 months ended</i>		<i>For 6 months ended</i>	
	June 30, 2012	March 31, 2012	June 30, 2012	June 30, 2011
	(US\$ million)			
Revenues				
Oil and gas sales	11,930	12,490	24,413	23,267
Petroleum products and petrochemicals sales	10,898	11,895	22,781	19,180
Support services and other revenues	322	330	653	838
Total revenues	23,150	24,715	47,847	43,285
Costs and expenses				
Production and operating expenses	1,967	1,487	3,460	2,935
Cost of purchased oil, gas and petroleum products	2,741	2,974	5,712	3,528
General and administrative expenses	580	496	1,077	769
Pipeline tariffs and transportation costs	1,870	1,983	3,851	3,843
Exploration expenses	129	165	294	175
Depreciation, depletion and amortisation	1,709	1,784	3,492	3,668
Taxes other than income tax	5,094	5,320	10,412	7,826
Export customs duty	7,900	6,840	14,752	12,123
Total cost and expenses	21,990	21,049	43,050	34,867
Operating income	1,160	3,666	4,797	8,418
Finance income	97	198	294	349
Finance expenses	(64)	(165)	(228)	(349)
Equity share in profits of associates and joint ventures	129	297	424	175
Other income	-	33	33	35
Other expenses	(419)	(165)	(587)	(629)
Result of operations with foreign currency, foreign exchange differences	(1,258)	859	(424)	664
Income before income tax	(355)	4,723	4,309	8,663
Income tax expense	97	(1,024)	(914)	(2,026)
Net income	(258)	3,699	3,395	6,637
Other comprehensive income				
Foreign exchange differences on translation of foreign operations	(97)	66	(33)	(175)
Income from changes in fair value of financial assets available for-sale, net of tax	(64)	(33)	(98)	35
Total other comprehensive income, net of tax	(161)	33	(131)	(140)
Total comprehensive income, net of tax	(419)	3,732	3,264	6,497

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