



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE QUARTERS ENDED MARCH 31, 2012 AND 2011
AND FOR THE QUARTER ENDED DECEMBER 31, 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 March 31, 2012 and 2011 and December 31, 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 first quarter of 2012) and output of natural and associated gas is 3.50 billion cubic meters per quarter (average data for the first 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 1.0 million barrels per day (average for the first quarter of 2012) which equals 47% 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, CIS and Asia. Products produced at the German refineries are sold in Western Europe.

Financial and Operating Highlights

	<i>For 3 months ended</i>			<i>For 3 months ended</i>		
	March 31, 2012	December 31, 2011	<i>% change</i>	March 31, 2012	March 31, 2011	<i>% change</i>
Financial results, RUB billion						
Revenues	748	748	-	748	588	27.2%
EBITDA	165	148	11.5%	165	194	(14.9)%
Net income	112	72	55.6%	112	123	(8.9)%
Capital expenditures	118	133	(11.3)%	118	81	45.7%
Free cash flow	(46)	(14)	-	(46)	99	-
Net Debt	527	497	6.0%	527	317	66.2%
Operational results						
Hydrocarbon production (th. boe per day)	2,634	2,622	0.5%	2,634	2,564	2.7%
Crude oil production (th. barrels per day)	2,408	2,396	0.5%	2,408	2,355	2.3%
Gas production (bcm)	3.50	3.53	(0.8)%	3.50	3.20	9.4%
Production of petroleum products in Russia (mln tonnes)	12.15	12.47	(2.6)%	12.15	11.76	3.3%
Production of petroleum products in Germany (mln tonnes)	2.68	2.74	(2.2)%	2.68	-	-

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 special 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 3 months ended</i>		<i>Change</i>
	March 31, 2012	December 31, 2011		March 31, 2012	March 31, 2011	
World market	(US\$ per barrel)			(US\$ per barrel)		
Brent (dated)	118	109	8.4%	118	105	12.9%
Urals (average CIF Med and NWE)	117	109	7.6%	117	102	14.4%
Urals (FOB Primorsk)	116	108	7.5%	116	100	15.3%
Urals (FOB Novorossysk)	116	108	7.9%	116	101	15.0%
Dubai-Oman	117	107	9.2%	117	101	15.9%
	(US\$ per tonne)			(US\$ per tonne)		
Naphtha (av. FOB/CIF Med)	997	858	16.1%	997	889	12.1%
Naphtha (av. FOB Rotterdam/CIF NWE)	1,013	873	16.1%	1,013	904	12.1%
Naphtha (CFR Japan)	1,021	888	14.9%	1,021	916	11.5%
Fuel oil 3.5% (av. FOB/CIF Med)	682	624	9.3%	682	555	22.9%
Fuel oil 3.5% (av. FOB Rotterdam/CIF NWE)	684	622	10.0%	684	554	23.4%
High sulphur fuel oil 180 cst (FOB Singapore)	734	674	9.0%	734	597	22.9%
Gasoil 0.1% (av. FOB/CIF Med)	997	941	5.9%	997	882	13.0%
Gasoil 0.1% (av. FOB Rotterdam/CIF NWE)	993	946	4.9%	993	882	12.7%
Gasoil 0.5% (FOB Singapore)	985	923	6.6%	985	882	11.6%
	(th. RUB per barrel)			(th. RUB per barrel)		
Brent (dated)	3.59	3.41	5.3%	3.59	3.07	16.9%
Urals (average CIF Med and NWE)	3.54	3.39	4.4%	3.54	2.99	18.4%
Urals (FOB Primorsk)	3.50	3.36	4.2%	3.50	2.94	19.0%
Urals (FOB Novorossysk)	3.51	3.36	4.5%	3.51	2.95	19.0%
Dubai-Oman	3.53	3.34	5.7%	3.53	2.95	19.7%
	(th. RUB per tonne)			(th. RUB per tonne)		
Naphtha (av. FOB/CIF Med)	30.2	26.8	12.7%	30.2	26.0	16.2%
Naphtha (av. FOB Rotterdam/CIF NWE)	30.7	27.3	12.5%	30.7	26.5	15.8%
Naphtha (CFR Japan)	30.9	27.7	11.6%	30.9	26.8	15.3%
Fuel oil 3.5% (av. FOB/CIF Med)	20.6	19.5	5.6%	20.6	16.2	27.2%
Fuel oil 3.5% (av. FOB Rotterdam/CIF NWE)	20.7	19.4	6.7%	20.7	16.2	27.8%
High sulphur fuel oil 180 cst (FOB Singapore)	22.2	21.0	5.7%	22.2	17.5	26.9%
Gasoil 0.1% (av. FOB/CIF Med)	30.2	29.4	2.7%	30.2	25.8	17.1%
Gasoil 0.1% (av. FOB Rotterdam/CIF NWE)	30.1	29.6	1.7%	30.1	25.8	16.7%
Gasoil 0.5% (FOB Singapore)	29.8	28.8	3.5%	29.8	25.8	15.5%
Russian market	(th. RUB per tonne)			(th. RUB per tonne)		
(net of VAT, including excise tax)						
Crude oil	10.7	9.4	13.8%	10.7	8.8	21.6%
Fuel oil	8.9	9.2	(3.3)%	8.9	7.9	12.7%
Summer diesel	21.8	21.7	0.5%	21.8	18.1	20.4%
Winter diesel	24.6	25.3	(2.8)%	24.6	22.7	8.4%
Jet fuel	23.5	24.3	(3.3)%	23.5	19.5	20.5%
High octane gasoline	23.1	24.7	(6.5)%	23.1	22.3	3.6%
Low octane gasoline	22.2	23.0	(3.5)%	22.2	21.1	5.2%

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 appreciation against US\$ by 3.1% in the first quarter of 2012 compared to the fourth quarter of 2011 and nominal RUB depreciation against US\$ by 3.4% in the first quarter of 2012 compared to the first quarter of 2011.

The Russian Government regulates the prices of the gas Gazprom sells in Russia. 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 1.78 thousand per thousand cubic meters and 1.54 thousand RUB per thousand cubic meters in the first quarter of 2012 and fourth quarter of 2011, 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 part of the Company's revenues from sales of petroleum products is denominated in EUR, while most of the Company's expenses are denominated in RUB. Thus, the depreciation of the rouble positively affects Rosneft's results, 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 3 months ended</i>	
	March 31, 2012	December 31, 2011	March 31, 2012	March 31, 2011
Rouble inflation (CPI) for the period	1.5%	1.4%	1.5%	3.8%
Average RUB/US\$ exchange rate for the period	30.26	31.23	30.26	29.27
RUB/US\$ exchange rate at the end of the period	29.33	32.20	29.33	28.43
Average RUB/EUR exchange rate for the period	39.68	42.10	39.68	40.03
RUB/EUR exchange rate at the end of the period	39.17	41.67	39.17	40.02

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 3 months ended</i>		<i>Change</i>
	March 31, 2012	December 31, 2011	%	March 31, 2012	March 31, 2011	%
Mineral extraction tax						
Crude oil (RUB per tonne)	5,284	4,718	12.0%	5,284	4,090	29.2%
Natural gas (RUB per th. cubic meters)	251	237	5.9%	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)	400.8	403.7	(0.7)%	400.8	343.0	16.9%
Crude oil (RUB per tonne)	12,130	12,607	(3.8)%	12,130	10,041	20.8%
Crude oil (RUB per barrel)	1,658	1,723	(3.8)%	1,658	1,373	20.8%
East Siberian Crude oil* (RUB per tonne)	12,130	12,607	(3.8)%	12,130	3,956	206.6%
East Siberian Crude oil* (RUB per barrel)	1,658	1,723	(3.8)%	1,658	541	206.5%
Export customs duty for petroleum products						
Gasoline** (RUB per tonne)	10,916	11,345	(3.8)%	10,916	6,859	59.1%
Naphtha (RUB per tonne)	10,916	11,345	(3.8)%	10,916	6,859	59.1%
Light and middle distillates (RUB per tonne)	8,005	8,061	(0.7)%	8,005	6,859	16.7%
Liquid fuels (fuel oil) (RUB per tonne)	8,005	8,061	(0.7)%	8,005	4,431	80.7%

* 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	prior to June 30, 2012	prior to 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)	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)	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>		
	March 31, 2012	December 31, 2011	March 31, 2011
	RUB billion	RUB billion	RUB billion
Total revenues	748	748	588
Total taxes*	399	386	286
Effective tax burden, %	53.3%	51.6%	48.6%

* 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 45.5% and 46.1% of Rosneft's total revenues in the first quarter of 2012 and in the fourth quarter of 2011, respectively. In the first quarter of 2011 the mineral extraction tax and the export customs duty accounted for approximately 39.6% 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 reached 25 million tons and zero MET rate was replaced by the standard one.

Rosneft has exploration projects in the Okhotsk, Azov, 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.

In April 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 divide offshore projects in four categories depending on complexity and introduce a reduced MET rate ranging from 5% to 30% of project revenue.

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 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)

Since the end of 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 duties 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 the Urals price on the international market. Average Urals price used for petroleum product export customs duty calculation is the same as for the calculation of the crude oil export customs duty.

In January, 2011 export customs duty on light and dark petroleum products was calculated using special formula, and in relation to the export duty for crude oil amounted to 71% and 38% of the export duty for crude oil for light petroleum products, respectively.

Starting from February 2011 the export duty for light petroleum products was set at 67% of the export duty for crude oil, the export duty for dark petroleum products was set at 46.7% of the export duty for crude oil.

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 type and transportation route.

Recent changes of Transneft transportation tariffs

In January 2011 Transneft increased tariffs by 9.5% for export transportation of petroleum products and by 5.9% 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 .

In September and November 2011 Transneft increased tariffs for crude oil transportation by 2.85% and 5%, respectively (annual average tariff increased in 2011 compared with 2010 by 13.1%). As part of these increases, tariff for Rosneft's major transportation route "Yugansk – Primorsk" was raised by 7.2% and 11.8%.

Increase in Transneft's crude oil transportation tariffs in November 2011 resulted in growth of average tariff in the first quarter of 2012 compared with the fourth quarter of 2011 by 3.2%.

Recent changes of rail road transportation tariffs

In January 2011 and January 1 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 3 month ended</i>		
	March 31, 2012	December 31, 2011	Change	March 31, 2012	March 31, 2011	Change
	(th. RUB/tonne)		(%)	(th. RUB/tonne)		(%)
CRUDE OIL						
Domestic						
<i>Pipeline</i>						
Yugansk – Samara refineries	0.75	0.74	1.4%	0.75	0.72	4.2%
Samara – Samara refineries	0.05	0.05	-	0.05	0.05	-
Yugansk – Angarsk refinery	1.02	1.01	1.0%	1.02	0.96	6.3%
Purpe – Tuapse refinery	1.56	1.54	1.3%	1.56	1.48	5.4%
Tomsk – Achinsk refinery	0.34	0.34	-	0.34	0.33	3.0%
<i>Pipeline and railroad</i>						
Yugansk – Komsomolsk refinery	4.14	3.95	4.8%	4.14	3.92	5.6%
Exports						
<i>Pipeline</i>						
Yugansk – Primorsk	1.54	1.49	3.4%	1.54	1.29	19.4%
Yugansk – Novorossysk	1.49	1.48	0.7%	1.49	1.44	3.5%
Vankor (Purpe)-Tuapse	1.57	1.56	0.6%	1.57	-	-
Vankor (Purpe)-Kozmino	1.89	1.88	0.5%	1.89	1.82	3.8%
<i>Railroad and mixed</i>						
Stavropolneftegaz – CPC (railroad)	0.70	0.66	6.1%	0.70	0.66	6.1%
PETROLEUM PRODUCT EXPORTS						
Diesel						
Samara refineries – Ventspils	1.82	1.78	2.2%	1.82	1.70	7.1%
Angarsk refinery – Nakhodka	4.16	3.92	6.1%	4.16	3.92	6.1%
Komsomolsk refinery – Nakhodka	1.63	1.54	5.8%	1.63	1.54	5.8%
Achinsk refinery – Tuapse	4.69	4.43	5.9%	4.69	4.43	5.9%
Fuel oil						
Samara refineries – Odessa	2.82	2.68	5.2%	2.82	2.70	4.4%
Angarsk refinery – Nakhodka	4.14	3.91	5.9%	4.14	3.91	5.9%
Komsomolsk refinery – Nakhodka	1.56	1.47	6.1%	1.56	1.47	6.1%
Achinsk refinery – Nakhodka	5.30	5.00	6.0%	5.30	5.00	6.0%
Naphtha						
Samara refineries – Tuapse	1.93	1.83	5.5%	1.93	1.83	5.5%
Achinsk refinery – Tuapse	4.58	4.29	6.8%	4.58	4.29	6.8%
Angarsk refinery – Nakhodka	3.92	3.71	5.7%	3.92	3.71	5.7%
Komsomolsk refinery – Nakhodka	1.60	1.51	6.0%	1.60	1.51	6.0%

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).

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 3 months ended</i>		
	March 31, 2012	December 31, 2011	Change	March 31, 2012	March 31, 2011	Change
	<i>(million of barrels)</i>			<i>(million of barrels)</i>		
			<i>(%)</i>			<i>(%)</i>
Yuganskneftegaz (Western Siberia)	121.4	123.0	(1.3)%	121.4	120.2	1.0%
Samaraneftegaz (Central Russia)	19.3	19.5	(1.0)%	19.3	19.0	1.6%
Purneftegaz (Western Siberia)	12.8	13.1	(2.3)%	12.8	12.6	1.6%
Vankorneft (Eastern Siberia)	30.4	29.0	4.8%	30.4	25.1	21.1%
Severnaya Neft (Timan Pechora)	6.6	6.7	(1.5)%	6.6	6.8	(2.9)%
Sakhalin-1 (Far East) (net of royalty and government share)	2.1	2.3	(8.7)%	2.1	2.9	(27.6)%
Other	7.8	7.9	(1.3)%	7.8	8.1	(3.7)%
Crude oil production by fully and proportionately consolidated enterprises	200.4	201.5	(0.5)%	200.4	194.7	2.9%
Tomskneft (Western Siberia)	9.3	9.6	(3.1)%	9.3	9.3	-
Udmurtneft (Central Russia)	5.8	5.9	(1.7)%	5.8	5.7	1.8%
Polar Lights (Timan Pechora)	0.5	0.5	-	0.5	0.5	-
Verkhnechonskneftegaz (Eastern Siberia)	3.1	3.0	3.3%	3.1	1.8	72.2%
Total share in production of joint ventures	18.7	19.0	(1.6)%	18.7	17.3	8.1%
Total crude oil production	219.1	220.5	(0.6)%	219.1	212.0	3.3%
Daily crude oil production (th. barrels per day)	2,408	2,396	0.5%	2,408	2,355	2.3%

In the first quarter of 2012 Rosneft's average daily crude oil production was 2,408 th. barrels per day, which is an increase of 0.5% compared with the fourth quarter of 2011. Daily production level increased due to crude oil production growth at Vankor and Verkhnechonsk fields, which was accompanied by stable crude oil production in Rosneft's traditional regions. Overall production growth was partially offset by the natural decline in production at the Chaivo field of Sakhalin-1.

In the first quarter of 2012 Rosneft's average daily crude oil production was 2.3% higher than in the first quarter 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 Polar Lights.

Production of Gas

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

	<i>For 3 months ended</i>			<i>For 3 months ended</i>		
	March 31, 2012	December 31, 2011	Change	March 31, 2012	March 31, 2011	Change
	(bcm)		(%)	(bcm)		(%)
Purneftegaz (Western Siberia)	1.03	1.04	(1.0)%	1.03	0.90	14.4%
Yuganskneftegaz (Western Siberia)	0.77	0.79	(2.5)%	0.77	0.71	8.5%
Krasnodarneftegaz (Southern Russia)	0.76	0.73	4.1%	0.76	0.72	5.6%
Samaraneftegaz (Central Russia)	0.13	0.12	8.3%	0.13	0.13	-
Severnaya Neft (Timan Pechora)	0.08	0.06	33.3%	0.08	0.07	14.3%
Vankorneft (Eastern Siberia)	0.11	0.11	-	0.11	0.09	22.2%
Sakhalin-1 (Far East) (net of royalty and government share)	0.11	0.10	10.0%	0.11	0.10	10.0%
Other	0.31	0.32	(3.1)%	0.31	0.33	(6.1)%
Gas production by fully and proportionately consolidated enterprises	3.30	3.27	0.9%	3.30	3.05	8.2%
Tomskneft (Western Siberia)	0.19	0.23	(17.4)%	0.19	0.13	46.2%
Udmurtneft (Central Russia)	0.00	0.01	(83.8)%	0.00	0.01	(83.4)%
Polar Lights (Timan Pechora)	0.00	0.01	11.6%	0.00	0.01	5.8%
Verkhnechonskneftegaz (Eastern Siberia)	0.01	0.01	-	0.01	0.00	-
Total share in production of joint ventures	0.20	0.26	(23.1)%	0.20	0.15	33.3%
Total gas production	3.50	3.53	(0.8)%	3.50	3.20	9.4%
Natural gas	1.23	1.21	1.7%	1.23	1.25	(1.6)%
Associated gas	2.27	2.32	(2.2)%	2.27	1.95	16.4%

* Production volume equals extracted volume minus flared volume.

In the first quarter of 2012 Rosneft's natural and associated gas production was 3.50 bcm, which was 0.8% lower than in the fourth quarter of 2011 mainly due to different number of days in the quarters. Production increase at Krasnodarneftegaz, Samaraneftegaz and Sakhalin-1 resulted from seasonal increase in demand. Production growth at Severnaya Neft was a result of completion of gas pipelines to Khasyreisk energy center. Production decline at Tomskneft was due to maintenance works at Lugenetskoe-Parabel gas pipeline.

In the first quarter of 2012 Rosneft's natural and associated gas production was 9.4% higher than in the first quarter of 2011. The growth was due to the launch of compressor stations at Yuganskneftegaz in November 2011 and at Purneftegaz in September 2011, as well as due to maintenance works at the Luginetskaya compressor station of Tomskneft in the first quarter of 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 3 months ended</i>		
	March 31, 2012	December 31, 2011	Change	March 31, 2012	March 31, 2011	Change
	(million of tonnes)		(%)	(million of tonnes)		(%)
Crude oil processing at Rosneft's own refineries	12.84	13.15	(2.4)%	12.84	12.43	3.3%
Crude oil processing at Ruhr Oel GmbH	2.70	2.76	(2.2)%	2.70	-	-
Total group crude oil processing	15.54	15.91	(2.3)%	15.54	12.43	25.0%
Product output:						
High octane gasoline	1.38	1.38	-	1.38	1.28	7.8%
Low octane gasoline	0.10	0.08	25.0%	0.10	0.11	(9.1)%
Naphtha	0.89	1.04	(14.4)%	0.89	0.96	(7.3)%
Diesel	4.39	4.46	(1.6)%	4.39	4.24	3.5%
Fuel oil	4.22	4.39	(3.9)%	4.22	4.21	0.2%
Jet	0.28	0.31	(9.7)%	0.28	0.24	16.7%
Petrochemicals	0.15	0.15	-	0.15	0.15	-
Other	0.74	0.66	12.1%	0.74	0.57	29.8%
Product output at Rosneft's own refineries	12.15	12.47	(2.6)%	12.15	11.76	3.3%
Product output at Ruhr Oel GmbH	2.68	2.74	(2.2)%	2.68	-	-
Total group product output	14.83	15.21	(2.5)%	14.83	11.76	26.1%

In the first quarter of 2012, Rosneft's total refinery throughput was 2.3% lower than in the fourth quarter of 2011, partially due to different number of days in the quarters. Rosneft's refinery throughput in Russia decreased by 2.4%, which was due to turnarounds at Komsomolsk and Novokuibyshevsk refineries. Turnarounds at these refineries were the key factor of change in output structure. Throughput at Ruhr Oel GmbH refineries was lower due to seasonal factor. Rosneft's share in processing of non-crude feedstock at Ruhr Oel GmbH refineries was 0.33 and 0.30 million of tonnes in the first quarter of 2012 and in the fourth quarter of 2011 respectively.

In the first quarter of 2012 Rosneft's refinery throughput was 25% higher than in the first quarter of 2011 mainly due to the acquisition of a 50% stake in Ruhr Oel GmbH in May 2011. Throughput at Russian refineries increased by 3.3%. Growth in high octane gasoline output and decrease in naphtha volumes resulted from launching new secondary capacities at the refineries. 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 3 months ended</i>		
	March 31, 2012	December 31, 2011	Change (%)	March 31, 2012	March 31, 2011	Change (%)
	(RUB billion, except %)			(RUB billion, except %)		
Revenues						
Oil and gas sales	378	372	1.6%	378	328	15.2%
Petroleum products and petrochemicals sales	360	366	(1.6)%	360	248	45.2%
Support services and other revenues	10	10	-	10	12	(16.7)%
Total revenues	748	748	-	748	588	27.2%
Costs and expenses						
Production and operating expenses	45	49	(9.3)%	45	40	11.5%
Cost of purchased oil, gas and petroleum products and refining costs	90	109	(17.4)%	90	32	181.3%
General and administrative expenses	15	15	-	15	11	36.4%
Pipeline tariffs and transportation costs	60	55	9.1%	60	55	9.1%
Exploration expenses	5	7	(28.6)%	5	3	66.7%
Depreciation, depletion and amortisation	54	53	1.9%	54	50	8.0%
Taxes other than income tax	161	142	13.4%	161	106	51.9%
Export customs duty	207	223	(7.2)%	207	147	40.8%
Total cost and expenses	637	653	(2.5)%	637	444	43.5%
Operating income	111	95	16.8%	111	144	(22.9)%
Finance income	6	5	20.0%	6	5	20.0%
Finance expenses	(5)	(2)	150.0%	(5)	(5)	-
Equity share in profits of associates and joint ventures	9	5	80.0%	9	2	350.0%
Other income	27	20	35.0%	27	15	80.0%
Other expenses	(5)	(30)	(83.3)%	(5)	(5)	-
Income before income tax	143	93	53.8%	143	156	(8.3)%
Income tax expense	(31)	(21)	47.6%	(31)	(33)	(6.1)%
Net income	112	72	55.6%	112	123	(8.9)%
Other comprehensive income						
Foreign exchange differences on translation of foreign operations	2	(2)	(200.0)%	2	(3)	(166.7)%
Income from changes in fair value of financial assets available for-sale, net of tax	(1)	1	(200.0)%	(1)	-	100.0%
Total other comprehensive income, net of tax	1	(1)	(200.0)%	1	(3)	(133.3)%
Total comprehensive income, net of tax	113	71	59.2%	113	120	(5.8)%

	<i>For 3 months ended</i>		
	March 31, 2012	December 31, 2011	March 31, 2011
EBITDA	165	148	194
Operating income margin	14.8%	12.7%	24.5%
Share of pipeline and transportation costs in revenue	8.0%	7.4%	9.4%
Net income margin	15.0%	9.6%	20.9%

Revenues

In the first quarter of 2012 revenues were equal to those of the fourth quarter of 2011 and amounted to RUB 748 billion. The decrease in sales volumes of crude oil and petroleum products was fully offset by increase in crude oil and petroleum product prices.

In the first quarter of 2012 revenues were 27.9% higher compared to the first quarter of 2011, which was driven by increase in sales volumes and prices. Urals price increased by 18.4% and the world market prices for diesel and fuel oil denominated in RUB rose by 17.1% and 27.8% 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 3 months ended</i>				
	March 31, 2012		December 31, 2011		Change	March 31, 2012		March 31, 2011		Change
	% of total revenue		% of total revenue		%	% of total revenue		% of total revenue		%
(RUB billion, except %)										
Crude oil										
International Sales to non-CIS	351	46.9%	354	47.3%	(0.8)%	351	46.9%	311	52.9%	12.9%
Europe and other directions	246	32.9%	261	34.9%	(5.7)%	246	32.9%	212	36.1%	16.0%
Asia	105	14.0%	93	12.4%	12.9%	105	14.0%	99	16.8%	6.1%
International sales to CIS	21	2.8%	14	1.9%	50.0%	21	2.8%	12	2.0%	75.0%
Domestic	2	0.3%	1	0.1%	100.0%	2	0.3%	1	0.2%	100.0%
Total crude oil	374	50.0%	369	49.3%	1.4%	374	50.0%	324	55.1%	15.4%
Gas	4	0.5%	3	0.4%	29.4%	4	0.5%	4	0.7%	25.7%
Petroleum products										
International Sales to non-CIS	222	29.7%	213	28.5%	4.2%	222	29.7%	142	24.1%	56.3%
Europe and other directions	163	21.8%	151	20.2%	7.9%	163	21.8%	88	14.9%	85.2%
Asia	59	7.9%	62	8.3%	(4.8)%	59	7.9%	54	9.2%	9.3%
International Sales to CIS	2	0.3%	2	0.2%	0.0%	2	0.3%	1	0.2%	100.0%
Domestic	106	14.2%	121	16.2%	(12.4)%	106	14.2%	96	16.4%	10.4%
<i>Wholesale</i>	62	8.3%	70	9.4%	(11.4)%	62	8.3%	61	10.4%	1.6%
<i>Retail</i>	44	5.9%	51	6.8%	(13.7)%	44	5.9%	35	6.0%	25.7%
Sales of bunker fuel to end-users	9	1.2%	10	1.4%	(10.0)%	9	1.2%	5	0.8%	80.0%
Total petroleum products	339	45.4%	346	46.3%	(2.0)%	339	45.4%	244	41.5%	38.9%
Petrochemical products	21	2.8%	20	2.7%	5.0%	21	2.8%	4	0.7%	425.0%
International sales	18	2.4%	17	2.3%	5.9%	18	2.4%	1	0.2%	1,700.0%
Domestic	3	0.4%	3	0.4%	0.0%	3	0.4%	3	0.5%	0.0%
Support services and other revenues	10	1.3%	10	1.3%	(7.7)%	10	1.3%	12	2.0%	(16.5)%
Total sales	748	100.0%	748	100.0%	0.0%	748	100.0%	588	100.0%	27.2%

Sales Volumes

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

	<i>For 3 months ended</i>					<i>For 3 months ended</i>				
	March 31, 2012		December 31, 2011		Change	March 31, 2012		March 31, 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	103.8	47.0%	110.5	48.0%	(6.1)%	103.8	47.0%	108.3	52.9%	(4.2)%
Europe and other directions	70.2	31.8%	78.3	34.0%	(10.3)%	70.2	31.8%	71.7	35.0%	(2.1)%
Asia	33.6	15.2%	32.2	14.0%	4.3%	33.6	15.2%	36.6	17.9%	(8.2)%
CIS	11.7	5.3%	8.0	3.5%	46.3%	11.7	5.3%	7.3	3.6%	60.3%
Domestic	0.7	0.3%	0.7	0.3%	0.0%	0.7	0.3%	0.7	0.3%	0.0%
Total crude oil	116.2	52.6%	119.2	51.8%	(2.5)%	116.2	52.6%	116.3	56.8%	(0.1)%
Crude oil										
	mln tonnes		mln tonnes		%	mln tonnes		mln tonnes		%
International Sales to non-CIS	14.2	47.0%	15.1	48.0%	(6.1)%	14.2	47.0%	14.8	52.9%	(4.2)%
Europe and other directions	9.6	31.8%	10.7	34.0%	(10.3)%	9.6	31.8%	9.8	35.0%	(2.1)%
Asia	4.6	15.2%	4.4	14.0%	4.3%	4.6	15.2%	5.0	17.9%	(8.2)%
CIS	1.6	5.3%	1.1	3.5%	46.3%	1.6	5.3%	1.0	3.6%	60.3%
Domestic	0.1	0.3%	0.1	0.3%	0.0%	0.1	0.3%	0.1	0.3%	0.0%
Total crude oil	15.9	52.6%	16.3	51.8%	(2.5)%	15.9	52.6%	15.9	56.8%	(0.1)%
Petroleum products										
International Sales to non-CIS	8.2	27.2%	8.4	26.7%	(2.4)%	8.2	27.2%	6.6	23.6%	24.2%
Europe and other directions	6.1	20.2%	6.0	19.1%	1.7%	6.1	20.2%	4.2	15.0%	45.2%
Asia	2.1	7.0%	2.4	7.6%	(12.5)%	2.1	7.0%	2.4	8.6%	(12.5)%
International Sales to CIS	0.1	0.3%	0.1	0.3%	0.0%	0.1	0.3%	0.0	0.0%	0.0%
Domestic	4.7	15.6%	5.3	16.8%	(11.3)%	4.7	15.6%	4.9	17.5%	(4.1)%
Wholesale	3.2	10.6%	3.6	11.4%	(11.1)%	3.2	10.6%	3.5	12.5%	(8.6)%
Retail	1.5	5.0%	1.7	5.4%	(11.8)%	1.5	5.0%	1.4	5.0%	7.1%
Sales of bunker fuel to end-users	0.5	1.7%	0.7	2.2%	(28.6)%	0.5	1.7%	0.4	1.4%	25.0%
Total petroleum products	13.5	44.8%	14.5	46.0%	(6.9)%	13.5	44.8%	11.9	42.5%	13.4%
Petrochemical products										
	0.8	2.6%	0.7	2.2%	14.3%	0.8	2.6%	0.2	0.7%	300.0%
International sales	0.6	2.0%	0.5	1.6%	20.0%	0.6	2.0%	0.0	0.0%	0.0%
Domestic	0.2	0.6%	0.2	0.6%	0.0%	0.2	0.6%	0.2	0.7%	0.0%
Total crude oil and products	30.2	100.0%	31.5	100.0%	(4.1)%	30.2	100.0%	28.0	100.0%	7.9%
	bln m ³		bln m ³			bln m ³		bln m ³		
Gas										
Sales volumes	2.76		2.46		12.2%	2.76		2.50		10.4%

Average Crude Oil and Petroleum Product Sales Prices

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

	<i>For 3 months ended</i>					<i>For 3 months ended</i>				
	March 31, 2012		December 31, 2011		Change	March 31, 2012		March 31, 2011		Change
	(th.RUB/ barrel)	(th.RUB/ tonne)	(th.RUB/ barrel)	(th.RUB/ tonne)	%	(th.RUB/ barrel)	(th.RUB/ tonne)	(th.RUB/ barrel)	(th.RUB/ tonne)	%
Average prices on foreign markets										
Crude oil, excluding CIS	3.39	24.8	3.20	23.4	6.0%	3.39	24.8	2.88	21.1	17.5%
Europe and other directions	3.51	25.7	3.34	24.5	4.9%	3.51	25.7	2.96	21.6	19.0%
Asia	3.13	22.9	2.87	21.0	9.0%	3.13	22.9	2.73	20.0	14.5%
Crude oil, CIS	1.83	13.4	1.65	12.1	10.7%	1.83	13.4	1.67	12.2	9.8%
Petroleum products, non-CIS		27.0		25.8	4.7%		27.0		21.6	25.0%
Europe and other directions		26.7		25.5	4.7%		26.7		21.2	25.9%
Asia		27.8		26.4	5.3%		27.8		22.2	25.2%
Petroleum products, CIS		25.6		24.1	6.2%		25.6		22.3	14.8%
Average domestic prices										
Crude oil	1.53	11.2	1.44	10.6	5.7%	1.53	11.2	1.35	9.8	14.3%
Petroleum products		22.2		22.5	(1.3)%		22.2		19.3	15.0%
Wholesale		19.1		19.5	(2.1)%		19.1		17.2	11.0%
Retail		29.0		28.9	0.3%		29.0		24.5	18.4%
Gas (th.rub. /th. cubic meter)		1.78		1.54	15.6%		1.78		1.40	27.1%
Sales of bunker fuel to end-users		17.7		16.5	7.3%		17.7		14.1	25.5%
Petrochemical products		27.0		27.8	(2.9)%		27.0		15.6	73.1%
<i>International sales</i>		30.6		31.7	(3.5)%		30.6		35.1	(12.8)%
<i>Domestic</i>		14.5		14.8	(2.0)%		14.5		12.5	16.0%

International Crude Oil Sales to non-CIS

Revenues from international crude oil sales to non-CIS countries in the first quarter of 2012 were RUB 351 billion which is a slight decrease in comparison with the fourth quarter of 2011. Sales volumes decrease of 6.1% (unfavourable impact on revenues of RUB 21 billion) was partially compensated by average prices upturn of 6.0% (positive impact on revenues of RUB 18 billion). Sales volumes decrease is attributable to increased supplies of crude oil to Ruhr Oel refineries for processing as well as redirection of crude oil flows to the CIS-market due to better netbacks.

The deviation between average sales prices on the Asian markets and world market prices in the first 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 23 billion) in the first quarter of 2012 the average sales price on the Asian markets amounted to RUB 3.68 thousand per barrel.

In the first quarter of 2012 revenues from international crude oil sales to non-CIS countries increased by 12.9% compared to the first quarter of 2011. A 17.5% increase in average prices (positive impact on revenues of RUB 53 billion) was partially offset by decrease in sales volumes by 4.2% (negative impact on revenues of RUB 13 billion). Slight decrease in volumes of sales was attributed to crude oil supplies to Ruhr Oel refineries and increased sales volumes to CIS.

Crude Oil Supplies to Ruhr Oel Refineries

In May 2011 Rosneft started supplies of its own crude oil to Ruhr Oel refineries. These supplies amounted to 1.1 million tonnes (7.9 million barrels) in the first quarter of 2012 (Rosneft paid RUB 13 billion of export duties on this crude oil). 0.9 million tonnes (6.6 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 11 billion, the balance was reflected on the Balance Sheet as part of inventories).

Besides supplies of own crude oil Rosneft acquired 2.3 million tonnes (16.8 million barrels) of crude oil on the international market for RUB 59 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 first quarter of 2012 revenue from sales of crude oil to CIS was RUB 21 billion, 50.0% higher than in the previous quarter. A 46.3% increase in sales volumes and a 10.7% upturn in average prices had a positive impact on revenues of RUB 6 billion and RUB 1 billion respectively. The increase in sales volumes resulted from higher quotas for crude oil deliveries to Kazakhstan and Belarus with higher netbacks.

In the first quarter of 2012 revenues from international crude oil sales to CIS countries were RUB 9 billion higher in comparison with the first quarter of 2011, which is attributable to sales volumes growth of 60.3% and an average price increase of 9.8% (positive impact on revenues of RUB 7 billion and RUB 2 billion respectively). 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		
	March 31, 2012			December 31, 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	2	0.0	36.0	2	0.1	29.6	0.0%	(100.0)%	21.6%
Low octane gasoline	1	0.1	32.7	1	0.1	33.7	0.0%	0.0%	(3.0)%
Naphtha	28	0.9	30.1	24	0.9	26.7	16.7%	0.0%	12.7%
Diesel (Gasoil)	55	1.8	29.6	56	2.0	29.0	(1.8)%	(10.0)%	2.1%
Fuel oil	69	3.2	21.6	62	3.0	20.3	11.3%	6.7%	6.4%
Jet fuel	0	0.0	35.1	0	0.0	35.3	0.0%	0.0%	(0.6)%
Other	1	0.1	26.9	2	0.1	27.7	(50.0)%	0.0%	(2.9)%
Total petroleum products exported to non-CIS	156	6.1	25.6	147	6.2	24.3	6.1%	(1.6)%	5.3%
<i>Petroleum products sold from ROG refineries</i>	66	2.1	31.1	66	2.2	29.6	0.0%	(4.5)%	5.1%
Total	222	8.2	27.0	213	8.4	25.8	4.2%	(2.4)%	4.7%

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 222 billion in the first quarter of 2012, which is an increase of 4.2% compared to the previous quarter. A 4.7% upturn in average prices (positive impact on revenues of RUB 14 billion) was offset by a 2.4% decrease in sales volumes (negative impact on revenues of RUB 5 billion). The decrease was due to redirection of petroleum product flows to the domestic market and build-up of product stocks to meet seasonal demand growth on the domestic market.

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

	<i>For 3 months ended</i>						<i>% change</i>		
	March 31, 2012			March 31, 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	2	0.0	36.0	4	0.2	24.2	(50.0)%	(100.0)%	48.8%
Low octane gasoline	1	0.1	32.7	2	0.1	23.4	(50.0)%	0.0%	39.7%
Naphtha	28	0.9	30.1	22	0.8	26.1	27.3%	12.5%	15.3%
Diesel (Gasoil)	55	1.8	29.6	61	2.4	25.4	(9.8)%	(25.0)%	16.5%
Fuel oil	69	3.2	21.6	51	3.0	17.0	35.3%	6.7%	27.1%
Jet fuel	0	0.0	35.1	0	0.0	27.3	0.0%	0.0%	28.6%
Other	1	0.1	26.9	2	0.1	25.6	(50.0)%	0.0%	5.1%
Total petroleum products exported to non-CIS	156	6.1	25.6	142	6.6	21.6	9.9%	(7.6)%	18.5%
<i>Petroleum products sold from ROG refineries</i>	66	2.1	31.1	—	—	—	—	—	—
Total	222	8.2	27.0	142	6.6	21.6	56.3%	24.2%	25.0%

In the first quarter of 2012 revenues from international sales of petroleum products to non-CIS countries were 56.3% higher compared to the first quarter of 2011 which was driven by a 25.0% increase in average rouble prices (positive impact on revenues of RUB 45 billion) and 24.2% increase in sales volumes (positive impact on revenues of RUB 35 billion). The increase in sales volumes was due to acquisition of a 50% share in Ruhr Oel GmbH.

Domestic Sales of Petroleum Products

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

	<i>For 3 months ended</i>						<i>% change</i>		
	March 31, 2012			December 31, 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	38	1.3	28.6	48	1.6	28.8	(20.8)%	(18.8)%	(0.7)%
Low octane gasoline	1	0.1	24.5	2	0.1	25.4	(50.0)%	0.0%	(3.5)%
Naphtha	—	—	—	—	—	—	—	—	—
Diesel	46	1.9	24.4	49	2.1	23.5	(6.1)%	(9.5)%	3.8%
Fuel oil	6	0.6	10.1	7	0.7	10.2	(14.3)%	(14.3)%	(1.0)%
Jet fuel	8	0.3	25.8	7	0.2	25.3	14.3%	50.0%	2.0%
Other	7	0.5	10.7	8	0.6	13.9	(12.5)%	(16.7)%	(23.0)%
Total	106	4.7	22.2	121	5.3	22.5	(12.4)%	(11.3)%	(1.3)%

Revenues from sales of petroleum products on the domestic market were RUB 106 billion in the first quarter of 2012, which is a decrease of 12.4% compared to the fourth quarter of 2011. Revenue decrease was caused by 11.3% decrease in sales volumes and a slight 1.3% downturn in average prices which had an unfavourable impact on revenues of RUB 14 billion and RUB 1 billion respectively.

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		
	March 31, 2012			March 31, 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	38	1.3	28.6	36	1.4	25.0	5.6%	(7.1)%	14.4%
Low octane gasoline	1	0.1	24.5	3	0.2	20.7	(66.7)%	(50.0)%	18.4%
Naphtha	—	—	—	—	—	—	—	—	—
Diesel	46	1.9	24.4	42	2.0	20.5	9.5%	(5.0)%	19.0%
Fuel oil	6	0.6	10.1	6	0.7	8.0	0.0%	(14.3)%	26.3%
Jet fuel	8	0.3	25.8	5	0.2	21.1	60.0%	50.0%	22.3%
Other	7	0.5	10.7	4	0.4	11.8	75.0%	25.0%	(9.3)%
Total	106	4.7	22.2	96	4.9	19.3	10.4%	(4.1)%	15.0%

In the first quarter of 2012 revenues from sales of petroleum products on the domestic market increased by 10.4% compared to the first quarter of 2011. A 15.0% upturn in average prices (positive impact on revenues of RUB 14 billion) was compensated by a 4.1% decrease in sales volumes (unfavourable impact on revenues of RUB 4 billion).

Sales of bunker fuel to end-users

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

Revenues from sales of bunker fuel in the first quarter of 2012 were RUB 9 billion, a decrease of 10.0% in comparison with the previous quarter which is mainly attributable to a seasonal factor.

Sales volumes increase of 25.0% (positive impact on revenues of RUB 1 billion) accompanied by 25.5% upturn in average prices (favorable impact on revenues of RUB 3 billion) led to revenues growth of 80.0% in the first quarter of 2012 compared to the first quarter 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 first quarter of 2012 were RUB 21 billion, up 5.0% compared to the fourth quarter of 2011. An increase in sales volumes of 14.3% (favourable impact on revenues of RUB 3 billion) was accompanied by average prices downturn of 2.9% (unfavourable impact on revenues of RUB 2 billion).

A 425% growth in revenues from sales of petrochemical products in the first quarter 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 3 months ended</i>		
	March 31, 2012	December 31, 2011	Change	March 31, 2012	March 31, 2011	Change
Revenue	(RUB billion)			(RUB billion)		
			%			%
Western Siberia	1.2	1.0	20.0%	1.2	0.9	33.3%
South Russia	1.9	1.7	11.8%	1.9	1.8	5.6%
Far East	0.4	0.3	33.3%	0.4	0.3	33.3%
European part of Russia	0.9	0.4	125.0%	0.9	0.5	80.0%
Total	4.4	3.4	29.4%	4.4	3.5	25.7%
Sales volumes	(bcm)			(bcm)		
Western Siberia	1.05	1.25	(16.0)%	1.05	1.27	(17.3)%
South Russia	0.81	0.76	6.6%	0.81	0.78	3.8%
Far East	0.22	0.21	4.8%	0.22	0.20	10.0%
European part of Russia	0.68	0.24	183.3%	0.68	0.25	172.0%
Total	2.76	2.46	12.2%	2.76	2.50	10.4%
Average price	(th. RUB/th. of cubic metres)			(th. RUB/th. of cubic metres)		
Western Siberia	1.16	0.88	31.8%	1.16	0.74	56.8%
South Russia	2.33	2.35	(0.9)%	2.33	2.26	3.1%
Far East	1.81	1.75	3.4%	1.81	1.61	12.4%
European part of Russia	2.08	2.20	(5.5)%	2.08	1.88	10.6%
Total	1.78	1.54	15.6%	1.78	1.40	27.1%

In the first quarter of 2012 revenues from gas sales increased by 29.4% and amounted to RUB 4 billion due to increase in sales volumes of 12.2% and average prices upturn of 15.6%. Sales volumes increase was due to seasonal factor.

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 3 months ended</i>		
	March 31, 2012	December 31, 2011	Change	March 31, 2012	March 31, 2011	Change
	%	%	%	%	%	%
	of total revenue	of total revenue	%	of total revenue	of total revenue	%
	(RUB billion, except %)					
Drilling services	0.2	0.4	(50.0)%	0.2	0.2	0.0%
Sales of materials	2.3	2.4	(4.2)%	2.3	3.0	(23.3)%
Repairs and maintenance services	0.8	0.9	(11.1)%	0.8	0.7	14.3%
Rent services	0.7	0.7	0.0%	0.7	0.5	40.0%
Construction services	0.5	1.0	(50.0)%	0.5	0.5	0.0%
Transport services	1.7	1.8	(5.6)%	1.7	2.2	(22.7)%
Electric power sales and transmission	1.3	1.3	(0.0)%	1.3	3.5	(62.9)%
Other revenues	2.1	1.9	10.5%	2.1	0.9	133.3%
Total	9.6	10.4	(7.7)%	9.6	11.5	(16.5)%

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 3 months ended</i>		<i>Change</i>
	March 31, 2012	December 31, 2011	%	March 31, 2012	March 31, 2011	%
	(RUB billion, except %)					
Upstream	17.7	19.0	(6.8)%	17.7	17.3	2.3%
Land restoration program	0.7	-	-	0.7	-	-
Downstream	19.1	23.3	(18.0)%	19.1	14.9	28.2%
<i>Including procurement of additives and materials for Ruhr Oel refineries</i>	6.2	7.1	(12.7)%	6.2	-	-
Other	7.1	6.9	2.9%	7.1	7.8	(9.0)%
Total	44.6	49.2	(9.3)%	44.6	40.0	11.5%

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 first quarter of 2012 decreased to RUB 17.7 billion or by 6.8% compared with the previous quarter. The decrease was primarily attributable to decrease in crude oil production due to smaller number of days in the first quarter of 2012 and seasonal decrease in expenses for repairs of wells.

In the first quarter of 2012 upstream production and operating expenses increased by 2.3% compared with the same period of 2011, when these expenses were RUB 17.3 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 3 months ended</i>		<i>Change</i>
	March 31, 2012	December 31, 2011	%	March 31, 2012	March 31, 2011	%
	(RUB per bbl)			(RUB per bbl)		
Expenses per bbl of crude oil produced	88.3	94.2	(6.3)%	88.3	88.9	(0.7)%
Expenses per boe of hydrocarbons produced	80.5	86.0	(6.4)%	80.5	81.4	(1.1)%

Rosneft's downstream operating expenses decreased by 18.0% in the first quarter of 2012 compared with the fourth quarter of 2011. The decrease resulted primarily from accumulation of intragroup petroleum product inventories in the first quarter of 2012 to meet expected seasonal demand growth, as well as from decrease in procurements of additives and other materials for refining process at Ruhr Oel GmbH.

Downstream operating expenses increased by 28.2% in the first quarter of 2012 compared with the first quarter of 2011 primarily due to expenses for procurement of additives and other materials for refining process at Ruhr Oel GmbH as well as increase in electricity tariffs, cost of materials and additives for own refineries and increase in expenses for refinery turnarounds. Excluding the effect of procurement of additives and other materials for refining process at Ruhr Oel GmbH downstream operating expenses decreased by 13.4% due to intragroup inventories growth in the first quarter of 2012.

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 3 months ended</i>		<i>Change</i>
	March 31, 2012	December 31, 2011	%	March 31, 2012	March 31, 2011	%
	(RUB per tonne)			(RUB per tonne)		
Operating expenses (RUB billion)	8.36	8.19	2.1%	8.36	5.59	49.6%
Operating expenses per tonne of product output	688	657	4.7%	688	475	44.8%
Operating expenses per tonne of crude oil throughput	651	623	4.5%	651	450	44.7%

In the first quarter of 2012 operating expenses of Rosneft's refineries increased by 2.1% compared with the fourth quarter of 2011.

In the first quarter of 2012 these expenses increased by 49.6% compared with the first quarter 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 2.9% in the first quarter of 2012 compared with the fourth quarter of 2011. In the first quarter of 2012 these expenses decreased by 9.0% 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 3 months ended</i>		<i>Change</i>
	March 31, 2012	December 31, 2011	(%)	March 31, 2012	March 31, 2011	(%)
Crude oil						
Cost of crude oil procured (RUB billion)	81	92	(12.0)%	81	20	305.0%
<i>including Domestic market</i>	21	20	5.0%	21	20	5.0%
<i>International market</i>	60	72	(16.7)%	60	-	-
Volume of crude oil procured (million of barrels)	31.5	35.4	(11.0)%	31.5	15.7	100.6%
<i>including Domestic market</i>	14.7	15.0	(2.0)%	14.7	15.7	(6.4)%
<i>International market</i>	16.8	20.3	(17.2)%	16.8	-	-
Gas						
Cost of gas procured (RUB million)	238	296	(19.6)%	238	194	22.7%
Volume of gas procured (bcm)	0.15	0.18	(16.7)%	0.15	0.09	66.7%
Petroleum products						
Cost of petroleum product procured (RUB billion) ⁽¹⁾	5	13	(61.5)%	5	12	(58.3)%
Volume of petroleum product procured (million of tonnes)	0.2	0.5	(60.9)%	0.2	0.6	(67.9)%
Crude oil refining services						
Cost of refining of crude oil under processing agreements (RUB billion)	4	4	-	4	-	-
Volumes of crude oil refined under processing agreements (million of tonnes)	2.7	2.8	(3.6)%	2.7	-	-
Total cost of procured oil, gas and petroleum products and refining costs (RUB billion)	90	109	(17.4)%	90	32	181.3%

(1) In the first quarter 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. The structure of crude oil purchases is provided in the table below:

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 3 months ended</i>		<i>Change</i>
	March 31, 2012	December 31, 2011	%	March 31, 2012	March 31, 2011	%
	(million bbl, except %)					
International market	16.8	20.3	(17.2)%	16.8	-	-
Tomskneft	7.7	8.6	(10.5)%	7.7	12.4	(37.9)%
Udmurtneft	2.4	2.8	(14.3)%	2.4	1.5	60.0%
Others	4.1	3.7	10.8%	4.1	1.8	127.8%
Total	31.0	35.4	(12.4)%	31.0	15.7	97.5%

Rosneft procures crude oil on the international market to supply it to Ruhr Oel GmbH refineries.

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 first quarter of 2012 these transactions were exercised with Gazpromneft, Bashneft, TNK-BP and others. The volume of crude oil swaps amounted to 17.8 million barrels and 22.2 million barrels in the first quarter of 2012 and in the fourth quarter of 2011, respectively. Rosneft’s estimated benefits from these transactions were RUB 0.5 billion in the first quarter of 2012 and RUB 0.7 billion in the fourth quarter of 2011. In the first quarter of 2011 the volume of crude oil swaps amounted to 9.6 million barrels, which resulted in RUB 0.6 billion of benefits for Rosneft.

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 tables below set 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>		
	March 31, 2012			December 31, 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	0.11	23.7	11	0.38	28.8	(72.7)%	(70.3)%	(17.7)%
Low octane gasoline	0	0.00	22.5	0	0.00	22.0	-	-	2.3%
Diesel	1	0.03	28.5	1	0.05	23.5	-	(40.0)%	21.3%
Jet fuel	1	0.02	24.7	0	0.00	18.7	-	-	32.1%
Other	0	0.02	20.4	1	0.05	20.5	(100.0)%	(40.0)%	(0.5)%
Total	5	0.18	25.2	13	0.48	27.9	(61.5)%	(62.5)%	(9.7)%

The tables below set forth Rosneft’s costs, volumes and average prices per tonne of petroleum products procured from third parties in first quarter of 2012 and 2011:

	<i>For 3 months ended</i>						<i>% change</i>		
	March 31, 2012			March 31, 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	0.11	23.7	6	0.26	22.7	(50.0)%	(57.7)%	4.4%
Low octane gasoline	0	0.00	22.5	1	0.03	19.2	(100.0)%	(100.0)%	17.2%
Diesel	1	0.03	28.5	5	0.25	20.9	(80.0)%	(88.0)%	36.4%
Jet fuel	1	0.02	24.7	0	0.00	0.0	-	-	-
Other	0	0.02	20.4	0	0.02	17.9	-	-	14.0%
Total	5	0.18	25.2	12	0.56	21.9	(58.3)%	(67.9)%	15.1%

The decrease in volumes of petroleum product purchases in the first quarter of 2012 in comparison to the fourth quarter of 2011 and the first quarter of 2011 resulted from seasonal decrease in demand, higher output of own products and decrease in number of 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), lease expenses with respect to non-core property, maintenance of social infrastructure, expenses to establish allowances for doubtful accounts and other general expenses.

General and administrative expenses in the first quarter of 2012 were RUB 15 billion, same as in the fourth quarter of 2011. Seasonal decrease in audit and consulting fees was partially compensated by the increase in vacation reserves, rent and advertising expenses.

In the first quarter of 2011 general and administrative expenses were RUB 11 billion. The increase in the first quarter of 2012 compared with the first quarter of 2011 resulted mainly from the growth in vacation reserves, audit, consulting fees and advertising expenses.

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 first quarter of 2012 Rosneft's transportation costs increased to RUB 60 billion, or by 9.1% compared with the fourth quarter of 2011. The growth resulted from increase in railroad tariffs from January 2012 and Transneft tariffs from November 2011, as well as seasonal decrease in FCA sales of petroleum products.

In the first quarter of 2012 Rosneft's transportation costs increased by 9.1% compared with the first quarter 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		
	March 31, 2012				December 31, 2011						
	Volume, mln. tonnes	Share in export volumes	Cost, bln. RUB	Cost per tonne sold, th.RUB/t	Volume, mln. tonnes	Share in export volumes	Cost, bln. RUB	Cost per tonne sold, th.RUB/t	Volume	Cost	Cost per tonne sold, th.RUB/t
CRUDE OIL											
International sales											
Pipeline	15.4	97.2%	24.7	1.61	15.8	97.3%	24.6	1.56	(2.5)%	0.4%	3.2%
Railroad and mixed	0.4	2.8%	0.4	0.86	0.4	2.7%	0.4	0.90	-	-	(4.4)%
Transportation to refineries											
Pipeline ⁽¹⁾	12.7		6.5	0.51	11.1		6.0	0.54	14.4%	8.3%	(5.6)%
Railroad and mixed	1.5		6.2	4.07	1.7		5.9	3.54	(11.8)%	5.1%	15.0%
PETROLEUM PRODUCTS											
International sales											
Pipeline ⁽²⁾	0.3	3.7%	0.8	2.39	0.1	0.8%	0.2	2.56	200.0%	300.0%	(6.6)%
Railroad and mixed	7.8	85.1%	15.0	1.93	7.7	84.3%	13.3	1.74	1.3%	12.8%	10.9%
Other transportation expenses ⁽³⁾											
			6				5			20.0%	
Total	38.1		60	1.57	36.8		55	1.50	3.5%	9.1%	4.7%

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

(2) Rosneft exported 1.0 million tonnes (11.2% of total export volumes) and 1.4 million tonnes (14.9% of total export volumes) of petroleum products in the first quarter of 2012 and in the fourth quarter of 2011, respectively, through its own pipeline in the town of Tuapse, and under FCA conditions 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 (in case if these costs are not included to pipeline tariff) 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 3.2%, which was due to increase in tariffs by 0.5% - 3.4% compared with the previous quarter.

The decrease in crude oil railroad and mixed transportation cost per tonne of international sales was 4.4%, which was mainly due to change in structure of transportation routes.

The decrease in crude oil pipeline transportation cost per tonne of supplies to refineries was 5.6% compared with the fourth quarter, which was primarily due to changes in logistics of supplies to the Rosneft's refineries. In particular, crude oil was delivered to Angarsk and Achinsk refineries via shorter routes.

The increase in crude oil railroad and mixed transportation cost per tonne of domestic supplies was 15.0%, which was due to increase in transportations tariffs indexation as well as change in logistics of Tomskneft and Yuganskneftgaz crude oil supplies to the refineries.

Pipeline transportation cost per tonne of petroleum product international sales decreased by 6.6%. The decrease was due to change in structure of transportation routes.

Railroad and mixed transportation cost per tonne of petroleum product international sales increased by 10.9%. The increase was due to indexation of transportation tariffs and seasonal decrease in FCA sales of petroleum products (no FCA shipments in the first quarter of 2012 compared with 0.3 million tonnes in the fourth quarter of 2011).

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 3 months ended</i>										
	March 31, 2012				March 31, 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	15.4	97.2%	24.7	1.61	14.8	94.4%	21.7	1.46	4.1%	13.8%	10.3%
Railroad and mixed	0.4	2.8%	0.4	0.86	0.9	5.6%	1.2	1.37	(55.6)%	(66.7)%	(37.2)%
Transportation to refineries											
Pipeline ⁽¹⁾	12.7		6.5	0.51	9.3		6.0	0.65	36.6%	8.3%	(21.5)%
Railroad and mixed	1.5		6.2	4.07	1.6		6.2	3.83	(6.3)%	-	6.2%
PETROLEUM PRODUCTS											
International sales											
Pipeline ⁽²⁾	0.3	3.7%	0.8	2.39	0.4	5.3%	0.8	2.15	(25.0)%	-	11.2%
Railroad and mixed	7.8	85.1%	15.0	1.93	5.4	78.8%	14.8	2.74	44.4%	1.4%	(29.6)%
Other transportation expenses ⁽³⁾											
			6				4			50.0%	
Total	38.1		60	1.57	32.4		55	1.71	17.6%	9.1%	(8.1)%

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

(2) Rosneft exported 1.0 million tonnes (11.2% of total export volumes) and 1.1 million tonnes (15.9% of total export volumes) of petroleum products in the first quarter of 2012 and in the first quarter 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 (in case if these costs are not included to pipeline tariff) 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 10.3%, 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 37.2%, 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 21.5%, which was due to start of procured crude oil supplies to Ruhr Oel GmbH, where transportation costs are low due to short transportation distances in Europe.

The increase in crude oil railroad and mixed transportation cost per tonne of supplies to refineries was 6.2%, which was due to an increase in tariffs by 5.6%.

In the first quarter of 2012 the increase in pipeline cost per tonne of petroleum product international sales was 11.2%, which was due to increase in tariffs and the change in structure of transportation routes.

In the first quarter of 2012 the decrease in railroad and mixed cost per tonne of petroleum product international sales and was 29.6%. The decrease was 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 first quarter of 2012 exploration expenses decreased to RUB 5 billion compared with RUB 7 billion in the fourth quarter of 2011. The decrease was due to the dry exploration wells writing-off in Western and Eastern Siberia in the fourth quarter of 2011 and to the seasonal reduction in volumes of exploration works at Samaraneftegaz fields in the first quarter of 2012.

In the first quarter of 2012 exploration expenses increased by 66.7% 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 54 billion in the first quarter of 2012 compared to RUB 53 billion in the fourth quarter of 2011.

In the first quarter of 2012 depreciation, depletion and amortisation increased by 8.0% compared with RUB 50 billion in the first quarter 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 3 months ended</i>		<i>Change</i>
	March 31, 2012	December 31, 2011	%	March 31, 2012	March 31, 2011	%
	(RUB billion, except %)					
Mineral extraction tax	133	122	9.0%	133	86	54.7%
Excise tax	18	14	28.6%	18	12	50.0%
Social security tax	6	3	100.0%	6	5	20.0%
Property tax	3	3	-	3	3	-
Interest, penalties and other payments	1	0	-	1	0	-
Total taxes other than income tax	161	142	13.4%	161	106	51.9%

Taxes other than income tax increased by 13.4% to RUB 161 billion in the first quarter of 2012, compared with RUB 142 billion in the fourth quarter of 2011 mainly due to the increase of base rates of the mineral extraction tax and the excise tax from January 1, 2012. The increase was also due to lower social security tax expenses in the second half of 2011 resulting from regressive tax rates.

In the first quarter of 2012, taxes other than income tax increased by 51.9% compared with in the first quarter 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.

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 3 months ended</i>		<i>Change</i>
	March 31, 2012	December 31, 2011	%	March 31, 2012	March 31, 2011	%
	(thousand RUB, except %)					
Average enacted mineral extraction tax rate	5.28	4.72	11.9%	5.28	4.09	29.1%
Actual mineral extraction tax expense per tonne of crude oil produced	4.85	4.43	9.5%	4.85	3.23	50.2%
Actual mineral extraction tax expense per tonne of oil equivalent produced	4.06	3.70	9.7%	4.06	2.73	48.7%

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 in the first quarter of 2011.

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 3 months ended</i>		<i>Change</i>
	March 31, 2012	December 31, 2011	%	March 31, 2012	March 31, 2011	%
	(RUB billion, except %)					
Export customs duty for crude oil	155	167	(7.2)%	155	110	40.9%
Export customs duty for petroleum products	52	56	(7.1)%	52	37	40.5%
Total export customs duties	207	223	(7.2)%	207	147	40.8%

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 3 months ended</i>		<i>Change</i>
	March 31, 2012	December 31, 2011	%	March 31, 2012	March 31, 2011	%
Average Urals price (th. RUB/tonne)	25.90	24.80	4.4%	25.90	21.87	18.4%
Average enacted export customs duty (th. RUB /tonne)	12.13	12.61	(3.8)%	12.13	10.04	20.8%
Hypothetical export customs duty* (th. RUB/tonne)	13.09	12.38	5.7%	13.09	11.60	12.8%
Average customs duty on crude oil exports to non-CIS countries subject to regular rate (th. RUB/tonne)	11.93	12.65	(5.7)%	11.93	8.62	38.4%

*Customs duties are calculated using the average Urals price for the period (i.e. without time lag).

The actual average customs duty on exports subject to regular duty deviates from the enacted export customs duty due to different monthly export volumes. Furthermore, crude oil produced at the Vankor field was subject to reduced export duty until May 2011.

Operating Income

As a result of the factors discussed above, operating income increased by 16.8% to RUB 111 billion, in the first quarter of 2012 compared with RUB 95 billion in the fourth quarter of 2011. As a percentage of total revenues, operating income was 14.8% and 12.7% in the first quarter of 2012 and in the fourth quarter of 2011 respectively. As a percentage of total revenues, operating income before taxes other than income tax and export customs duty was 64.0% and 61.5% in the first quarter of 2012 and in the fourth quarter of 2011, respectively.

Operating income decreased by 22.9% in first quarter of 2012 compared to RUB 144 billion in the first quarter of 2011. As a percentage of total revenues, operating income before taxes other than income tax and export customs duty was 64.0% and 67.5% in the first quarters of 2012 and 2011, respectively.

Reduction in operating income margin is primarily driven by termination of zero Mineral Extraction Tax rate and special customs duty rate for Vankor.

Finance Income

Finance income includes interest received on deposits and deposit certificates, as well as on loans issued, gains from changes in fair value of financial assets, gain from disposal of financial assets and other finance income.

In the first quarter of 2012 finance income amounted to RUB 6 billion in comparison with RUB 5 billion in the fourth quarter of 2011.

The growth was attributable to the gain from partial disposal of financial assets in the first quarter of 2012. In the first quarter of 2011 finance income amounted to RUB 5 billion.

Finance Expenses

Finance expenses include interest paid on loans and borrowings received, loss from changes in fair value of financial assets at fair value affecting the financial result, increase in provision due to the unwinding of discount, loss from disposal of financial assets and other finance income.

In the first quarter of 2012 finance expense increased by 150% to RUB 5 billion, as a result of partial disposal of financial assets.

In the first quarter of 2011 finance expense amounted to RUB 5 billion.

Equity share in profits of associates and joint ventures

The equity share in profits of associates and joint ventures amounted to RUB 9 billion in the first quarter of 2012 compared with RUB 5 billion in the fourth quarter of 2011. The increase resulted from the increase in profits incurred by certain Rosneft's associates.

Other income and other expenses

In the first quarter of 2012 other income amounted to RUB 27 billion, compared to RUB 20 billion in the fourth quarter of 2011. The increase was primarily attributable to foreign exchange gain of RUB 26 billion in the first quarter of 2012. In the first quarter of 2011 other income amounted to RUB 15 billion.

In the first quarter of 2012 other expenses amounted to RUB 5 billion, compared to RUB 30 billion in the fourth quarter of 2011. The decrease resulted from foreign exchange loss of RUB 10 billion in the fourth quarter of 2011. In the first quarter of 2011 other income amounted to RUB 5 billion.

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 3 months ended</i>	
	March 31, 2012	December 31, 2011	March 31, 2012	March 31, 2011
Effective income tax rate for Rosneft under IFRS	22%	23%	22%	21%

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.

Net Income

As a result of the factors discussed above net income increased by 55.6% to RUB 112 billion in the first quarter of 2012 from RUB 72 billion in the fourth quarter of 2011. As a percentage of revenues, net income was 15.0% and 9.6% in the first quarter of 2012 and fourth quarter of 2011, respectively.

Net income decreased from RUB 123 billion in the first quarter of 2011 to RUB 112 billion in the first quarter 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 3 months ended</i>		<i>Change</i>
	March 31, 2012	December 31, 2011	times	March 31, 2012	March 31, 2011	times
	(RUB billion)			(RUB billion)		
Net cash provided by operating activities	74	117	0.63	74	180	0.41
Net cash used in investing activities	(102)	(122)	0.84	(102)	(134)	0.76
Net cash used in financing activities	(15)	43	-	(15)	(34)	0.44

Operating Cash Flow

Net cash provided by operating activities amounted to RUB 74 billion in the first quarter of 2012 compared to RUB 117 billion in the fourth quarter of 2011. Operating cash flow includes operations with trading securities as part of the Company's efforts to manage cash resources (net inflow of RUB 2 billion in the first quarter of 2012 and net outflow of RUB 2 billion in the fourth quarter of 2011). 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 72 billion in the first quarter of 2012 and RUB 119 billion in the fourth quarter of 2011.

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 3 months ended</i>		<i>Change</i>
	March 31, 2012	December 31, 2011	times	March 31, 2012	March 31, 2011	times
	(RUB billion)			(RUB billion)		
Net cash provided by operating activity	74	117	0.63	74	180	0.41
Effect from operation with trading securities	(2)	2	-	(2)	-	-
Adjusted net cash provided by operating activity	72	119	0.61	72	180	0.40
Change in working capital before FX	(69)	(10)	-	(69)	16	-
Adjusted net cash provided by operating activity before change in working capital	141	129	1.09	141	164	0.86

The decrease in the adjusted operating cash flow primarily resulted from the increase in the working capital by RUB 43 billion including FX effect (RUB 69 billion before FX effect) in the first quarter of 2012.

The working capital increased due to the following factors:

- Increase in trade receivables by RUB 54 billion resulted from the increase in the USD denominated portion of trade receivables by RUB 62 billion primarily due temporary cancelation of early payment collection from oil buyers;
- Increase in the inventories by RUB 17 billion was driven by product stocks build-up to meet the seasonal demand growth on the domestic market;

which was partially compensated by:

- Decrease in advances paid by RUB 13 billion due to significant prepayments in the end of 2011 in order to secure operations during New Year holidays.

The decrease in net cash provided by the operating activity in the first quarter of 2012 compared to the first quarter of 2011 resulted from decrease in the net income margin after the cancelation of special tax for Vankor and increase in working capital after the acquisition of Ruhr Oel GmbH in May 2011.

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 3 months ended</i>		<i>Change</i>
	<i>March 31,</i>	<i>December 31,</i>		<i>March 31,</i>	<i>March 31,</i>	
	<i>2012</i>	<i>2011</i>		<i>2012</i>	<i>2011</i>	
	<i>(RUB billion)</i>		<i>(%)</i>	<i>(RUB billion)</i>		<i>(%)</i>
Yuganskneftegaz	21	32	(34.4)%	21	17	23.5%
Vankorneft	29	24	20.8%	29	20	45.0%
Purneftegaz	3	6	(50.0)%	3	2	50.0%
Severnaya Neft	2	3	(33.3)%	2	1	100.0%
Samaraneftegaz	2	3	(33.3)%	2	1	100.0%
Other ¹	4	9	(55.6)%	4	6	(33.3)%
Total upstream segment	61	77	(20.8)%	61	47	29.8%
The Company	-	-	-	-	-	-
Tuapse refinery	21	19	10.5%	21	14	50.0%
Komsomolsk refinery	3	1	200.0%	3	1	200.0%
Angarsk refinery	1	4	(75.0)%	1	-	100.0%
Achinsk refinery	4	2	100.0%	4	1	300.0%
Syzran refinery	1	3	(66.7)%	1	-	100.0%
Novokuibyshevsk refinery	3	4	(25.0)%	3	1	200.0%
Kuibyshev refinery	3	2	50.0%	3	1	200.0%
Marketing Business Units and others ²	3	10	(70.0)%	3	4	(25.0)%
Total downstream	39	45	(13.3)%	39	22	77.3%
Other activities³	5	8	(37.5)%	5	3	66.7%
Subtotal capital expenditures	105	130	(19.2)%	105	72	45.8%
Change in materials in capital expenditures	13	3	33.3%	13	9	44.4%
Total capital expenditures	118	133	(11.2)%	118	81	45.7%
Licence acquisition costs	1	2	(50.0)%	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 first quarter of 2012 Rosneft's total capital expenditures including material purchases decreased by 11.2% to RUB 118 billion compared with RUB 133 billion in the fourth quarter of 2011. The decrease in capital expenditures was due to planning and budgetary factors. In the first quarter of 2011 capital expenditures amounted to RUB 81 billion.

Upstream capital expenditures in the first quarter of 2012 decreased by 20.8% compared with the fourth quarter of 2011 and amounted to RUB 61 billion. The decrease was due to seasonal factors. The increase in capital expenditures at the Vankor field is in line with the construction schedule of the central treatment facility and gas infrastructure. In the first quarter of 2011 the upstream capital expenditures amounted to RUB 47 billion.

Downstream capital expenditures were RUB 39 billion in the first quarter of 2012 and decreased by RUB 6 billion or by 13.3% compared with the fourth quarter of 2011. The decrease was due to planning and seasonal factors. In the first quarter of 2011 downstream capital expenditures amounted to RUB 22 billion.

Capital expenditures for other activities decreased by 37.5% to RUB 5 billion in the first quarter of 2012, compared with RUB 8 billion in the fourth quarter of 2011. In the first quarter of 2011 capital expenditures for other activities amounted to RUB 3 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 13 billion in the first quarter of 2012.

In the first quarter 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 527 billion as of March 31, 2012 compared to RUB 497 billion as of December 31, 2011. The increase resulted from implementation of corporate investment program and acquisition of short term investments as part of excess cash management. The increase was partially offset by foreign exchange gain due to RUB appreciation against USD.

Rosneft's long-term loans are generally secured by oil export contracts. As of March 31, 2012, December 31, 2011 and March 31, 2011 72.8%, 75.6% and 85.3%, respectively, of Rosneft's borrowings were secured by crude oil export contracts (excluding exports to the CIS).

As of March 31, 2012, December 31, 2011 and March 31, 2011, pledged oil exports constituted 17.1%, 20.1% and 20.2%, respectively, of the total crude oil export sales for the analysed period (excluding export to the CIS).

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

As of the date	March 31, 2012	December 31, 2011	March 31, 2011
	RUB billions		
Short term debt	152	152	152
Long term debt	532	596	493
Total debt	684	748	645
Cash and cash equivalents	113	166	137
Short-term bank deposits ,including special purpose deposits	22	21	45
Structured deposits	12	32	125
Short term promissory notes and other short-term liquid instruments	10	32	21
Net debt	527	497	317

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 3 months ended	
	March 31, 2012	December 31, 2011	March 31, 2012	March 31, 2011
EBITDA margin	22.1%	19.8%	22.1%	33.0%
Net income margin	15.0%	9.6%	15.0%	20.9%
Net debt to capital employed ratio	0.19	0.19	0.19	0.14
Net debt to annualised EBITDA	0.80	0.84	0.80	0.41
Current ratio	1.81	1.97	1.81	1.97
	RUB / bbl			
EBITDA/bbl	823	735	823	997
Upstream capital expenditure/bbl	304	382	304	241
Upstream operating expenses/bbl	88.3	94.2	88.3	88.9
Free cash flow/bbl	(230)	(71)	(230)	511
	RUB / boe			
EBITDA/boe	750	671	750	912
Upstream capital expenditure/boe	277	349	277	221
Upstream operating expenses/boe	80.5	86.0	80.5	81.4
Free cash flow/boe	(209)	(64)	(209)	468

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		
	March 31, 2012	December 31, 2011	March 31, 2011
Upstream capital expenditures (RUB billion)	61	77	47
Upstream operating expenses (RUB billion)	18	19	17
Barrels of crude oil produced (million)	200.4	201.5	194.7
Barrels of oil equivalent produced (million)	219.9	220.7	212.6

Calculation of Free Cash Flow

	For 3 months ended		
	March 31, 2012	December 31, 2011	March 31, 2011
	(RUB billion)		
Net cash provided by operating activities	74	117	180
Capital expenditures	(118)	(133)	(81)
Trading securities operations	(2)	2	-
Free cash flow	(46)	(14)	99

Current ratio

	For 3 months ended	
	March 31, 2012	December 31, 2011
	(RUB billion, except ratio)	
Current assets	791	815
Current liabilities	438	414
Current ratio	1.81	1.97

For reference:

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

	<i>For 3 months ended</i>		
	March 31, 2012	December 31, 2011	March 31, 2011
	(US\$ million)		
Revenues			
Oil and gas sales	12,490	11,911	11,206
Petroleum products and petrochemicals sales	11,895	11,719	8,473
Support services and other revenues	330	320	410
Total revenues	24,715	23,950	20,089
Costs and expenses			
Production and operating expenses	1,487	1,569	1,367
Cost of purchased oil, gas and petroleum products	2,974	3,490	1,093
General and administrative expenses	496	480	376
Pipeline tariffs and transportation costs	1,983	1,761	1,879
Exploration expenses	165	224	102
Depreciation, depletion and amortisation	1,784	1,697	1,708
Taxes other than income tax	5,320	4,547	3,621
Export customs duty	6,840	7,140	5,022
Total cost and expenses	21,049	20,908	15,168
Operating income	3,666	3,042	4,921
Finance income	198	160	171
Finance expenses	(165)	(64)	(171)
Equity share in profits of associates and joint ventures	297	160	68
Other income	892	640	512
Other expenses	(165)	(961)	(171)
Income before income tax	4,723	2,977	5,330
Income tax expense	(1,024)	(672)	(1,127)
Net income	3,699	2,305	4,203
Other comprehensive income			
Foreign exchange differences on translation of foreign operations	66	(64)	(102)
Income from changes in fair value of financial assets available for-sale, net of tax	(33)	32	0
Total other comprehensive income, net of tax	33	(32)	(102)
Total comprehensive income, net of tax	3,732	2,273	4,101

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