



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE QUARTERS ENDED DECEMBER 31 AND SEPTEMBER 30, 2011
AND FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011, 2010 AND 2009**

The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended December 31, 2011, 2010 and 2009 (the "Consolidated Financial Statements"). Such terms as "Rosneft," "Company" and "Group" in their different forms in this report mean Rosneft Oil Company and its consolidated subsidiaries 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 millions of US\$. All figures are rounded; however, the fluctuations in percentage 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 2.40 million barrels per day (average for the fourth quarter of 2011) and output of natural and associated gas is over 3.53 billion cubic meters per quarter (data for the fourth quarter of 2011).

Rosneft processes part of the crude oil produced at its seven refineries with total primary refining capacity of 1.0 million barrels per day. Rosneft's refinery throughput is 1.0 million barrels per day (average for the fourth quarter of 2011) which equals 48% of the Company's crude oil output. The remaining volumes of crude oil are mostly exported to Europe, Asia and CIS countries. 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.

In May, 2011 Rosneft acquired a 50% stake in joint venture Ruhr Oel GmbH which owns stakes in four German refineries: Gelsenkirchen, MiRO, Bayernoil and PCK Schwedt. Net refining capacity of Ruhr Oel GmbH is 465,000 barrels per day. The Gelsenkirchen refinery has a petrochemical block with capacity of 3.9 million tonnes.

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 41 regions of Russia (1,800 service stations including franchising agreements). 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 Europe.

Financial and Operating Highlights

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 12 months ended December 31</i>		
	<i>December 31, 2011</i>	<i>September 30, 2011</i>		<i>2011</i>	<i>2010</i>	<i>2009</i>
Financial results						
Revenues (US\$ million)	23,951	24,627	(2.7)%	91,975	63,047	46,826
EBITDA (US\$ million)	4,753	5,283	(10.0)%	22,022	19,203	13,565
Net income (US\$ million)	2,992	2,778	7.7%	12,452	10,400	6,514
Capital expenditures	4,265	2,768	54.1%	13,246	8,931	7,252
Adjusted free cash flow ¹	(756)	69	(1,195.7)%	2,338	5,839	3,443
Net Debt	15,864	13,991	13.4%	15,864	13,662	18,489
Operational results						
Crude oil production (th. barrels per day)	2,396	2,399	(0.1)%	2,380	2,322	2,182
Gas production (bcm)	3.53	3.00	17.7%	12.79	12.34	12.68
Hydrocarbon production (th. boe per day)	2,622	2,591	1.2%	2,586	2,521	2,386
Domestic production of petroleum products (million tonnes)	12.47	12.16	2.5%	48.08	47.89	47.06

¹ Free cash flow is adjusted for trading securities operations.

Main 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 and export customs duty);
- Changes in transport tariffs of natural monopolies (for pipeline and railway transport);
- Changes in the production volumes of crude oil, gas and petroleum products.

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 for Dubai grade.

Russian domestic market prices of crude oil are difficult to determine, mainly due to the significant intragroup turnover between upstream and downstream segments of the vertically integrated oil companies that together represent approximately 90% of Russia's daily production and 85% of refinery throughput. Moreover, to the extent they exist, crude oil market prices in Russia can significantly deviate from export netbacks due to seasonal oversupply and regional imbalances.

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:

	<i>For 3 months ended</i>		<i>change between 3^d and 4th quarters</i>	<i>For 12 months ended December 31</i>			<i>change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011-2010	2010-2009
World market	(US\$ per barrel)		%	(US\$ per barrel)			%	
Brent (dated)	109.31	113.46	(3.7)%	111.27	79.47	61.51	40.0%	29.2%
Urals (average CIF Med and NWE)	108.63	111.50	(2.6)%	109.07	78.25	61.01	39.4%	28.3%
Urals (FOB Primorsk)	107.74	111.55	(3.4)%	108.20	76.74	59.51	41.0%	29.0%
Urals (FOB Novorossysk)	107.52	111.57	(3.6)%	108.32	76.76	59.60	41.1%	28.8%
Dubai-Oman	106.80	107.29	(0.5)%	106.41	78.16	61.80	36.1%	26.5%
	(US\$ per tonne)			(US\$ per tonne)				
Naphtha (av. FOB/CIF Med)	858.14	939.38	(8.6)%	914.75	698.44	520.59	31.0%	34.2%
Naphtha (av. FOB Rotterdam/CIF NWE)	872.55	951.32	(8.3)%	929.15	710.85	531.19	30.7%	33.8%
Naphtha (CFR Japan)	888.24	956.06	(7.1)%	938.24	723.86	553.36	29.6%	30.8%
Fuel oil 3.5% (av. FOB/CIF Med)	623.95	631.22	(1.2)%	608.95	442.26	348.63	37.7%	26.9%
Fuel oil 3.5% (av. FOB Rotterdam/CIF NWE)	622.05	628.81	(1.1)%	607.17	440.79	344.00	37.7%	28.1%
High sulphur fuel oil 180 cst(FOB Singapore)	673.58	660.00	2.1%	648.71	470.35	370.76	37.9%	26.9%
Gasoil 0.1% (av. FOB/CIF Med)	941.16	945.41	(0.4)%	931.63	672.29	520.65	38.6%	29.1%
Gasoil 0.1% (av. FOB Rotterdam/CIF NWE)	946.49	943.95	0.3%	933.76	671.84	518.92	39.0%	29.5%
Gasoil 0.5% (FOB Singapore)	923.28	926.67	(0.4)%	924.77	664.70	512.55	39.1%	29.7%
Russian market (net of VAT, including excise tax)	(US\$ per tonne)			(US\$ per tonne)				
Crude oil	299.86	291.51	2.9%	304.40	222.22	182.49	37.0%	21.8%
Fuel oil	294.32	330.98	(11.1)%	299.49	252.06	207.89	18.8%	21.2%
Summer diesel	694.03	678.38	2.3%	670.00	469.45	397.96	42.7%	18.0%
Winter diesel	811.14	697.87	16.2%	741.61	544.09	452.19	36.3%	20.3%
Jet fuel	777.08	694.32	11.9%	701.77	490.35	427.04	43.1%	14.8%
High octane gasoline	790.93	873.01	(9.4)%	821.47	685.07	579.79	19.9%	18.2%
Low octane gasoline	736.48	773.29	(4.8)%	753.03	569.00	500.01	32.3%	13.8%

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

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 the gas Rosneft sells to Gazprom. Rosneft's average gas sale price was RUB 1,549 (excluding VAT) (US\$ 49.59 per thousand cubic meters) and RUB 1,509 (US\$ 51.93 per thousand cubic meters) in the fourth and third quarters of 2011, respectively.

In 2011, and 2010, Rosneft's average gas sale price was RUB 1,470 (US\$ 50.00 per thousand cubic meters) and RUB 1,289 (US\$ 42.45 per thousand cubic meters), respectively. In 2009 Rosneft's average gas sale price was RUB 1,058 (excluding VAT) (US\$ 33.36 per thousand cubic meters).

US\$/RUB Exchange Rate and Inflation

The US\$/RUB exchange rate and inflation in the Russian Federation affect Rosneft's results as most of the Company's revenues from sales of crude oil and petroleum products are denominated in US\$, while most of the Company's expenses are denominated in RUB. Thus, the depreciation of the rouble positively affects Rosneft's 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 12 months ended December 31</i>		
	December 31, 2011	September 30, 2011	2011	2010	2009
Rouble inflation (CPI) for the period	1.4%	(0.3)%	6.1%	8.8%	8.8%
Change of the average invert exchange rate (RUB/US\$) compared to the previous period	(7.0)%	(3.7)%	3.3%	4.4%	(21.6)%
US\$/RUB exchange rate at the end of the period	32.20	31.88	32.20	30.48	30.24
Average US\$/RUB exchange rate for the period	31.23	29.05	29.39	30.37	31.72
Real appreciation/(depreciation) of the RUB against the US\$ compared to the previous period	(6.3)%	(3.5)%	12.1%	11.6%	(22.8)%

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 between 3^d and 4th quarters</i>	<i>For 12 months ended December 31</i>		<i>% change for 12 months ended December 31</i>		
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011 - 2010	2010-2009
Mineral extraction tax								
Crude oil (RUB per tonne)	4,718	4,547	3.8%	4,455	3,074	2,299	44.9%	33.7%
Natural gas (RUB per th. cubic meters)	237	237	-	237	147	147	61.2%	-
Associated gas (RUB per th. cubic meters)	-	-	-	-	-	-	-	-
Export customs duty								
Crude oil (US\$ per tonne)	403.7	442.5	(8.8)%	408.92	273.61	179.33	49.5%	52.6%
East Siberian Crude oil* (US\$ per tonne)	403.7	442.5	(8.8)%	337.56	58.07	-	481.3%	-
Gasoline, naphtha** (US\$ per tonne)	363.3	398.2	(8.8)%	341.29	196.64	133.13	73.6%	47.7%
Light and middle distillates (US\$ per tonne)	266.4	296.4	(10.1)%	274.08	196.64	133.13	39.4%	47.7%
Liquid fuels (fuel oil) (US\$ per tonne)	266.4	206.6	28.9%	208.21	105.93	71.71	96.6%	47.7%

* For Verkhnechonsk and Vankor fields.

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

In 2010 the excise tax rates on the petroleum products were as follows:

Excise on petroleum products	
High octane gasoline (RUB per tonne)	3,992
Low octane gasoline (RUB per tonne)	2,923
Naphtha (RUB per tonne)	4,290
Diesel (RUB per tonne)	1,188
Lubricants (RUB per tonne)	3,246

According to the legislation introduced in the end of 2010 the excise taxes on the petroleum products were increased and linked to the environmental characteristics of the products.

Excise on petroleum products	For 12 months ended December 31		For 6 months ended		For 12 months ended December 31	
	2011	2012	June 30, 2012	December 31, 2012	2013	2014
High octane gasoline (RUB per tonne)						
High octane gasoline below 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	

Tax rates translated from RUB to US\$ at the average exchange rate for the period:

	For 3 months ended		% change between 3 ^d and 4 th quarters	For 12 months ended December 31			% change for 12 months ended December 31	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011-2010	2010-2009
Mineral extraction tax								
Crude oil (US\$ per tonne)	151.07	156.56	(3.5)%	151.58	101.23	72.47	49.7%	39.7%
Natural gas (US\$ per th. cubic meters)	7.59	8.16	(7.0)%	8.06	4.84	4.64	66.5%	4.3%

Tax rates translated from tonnes to barrels:

	For 3 months ended		% change between 3 ^d and 4 th quarters	For 12 months ended December 31			% change for 12 months ended December 31	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011 - 2010	2010-2009
Mineral extraction tax on crude oil (US\$ per barrel)	20.65	21.40	(3.5)%	20.73	13.84	9.91	49.8%	39.7%
Export duty on crude oil (US\$ per barrel)	55.18	60.49	(8.8)%	55.90	37.40	24.51	49.5%	52.6%

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

	For 3 months ended		For 12 months ended December 31		
	December 30, 2011	September 30, 2011	2011	2010	2009
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Total revenues	23,951	24,627	91,975	63,047	46,826
Total taxes*	12,075	12,738	46,910	30,307	22,192
Effective tax burden, %	50.4%	51.7%	51.0%	48.1%	47.4%

* Includes the following taxes: 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 45.9% and 46.1% of Rosneft's total revenues in the fourth and third quarters of 2011, respectively. In 2011, 2010 and 2009 the mineral extraction tax and the export customs duty accounted for approximately 44.5%, 40.9% and 39.8% 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 419 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 446 from January 1, 2012 and to RUB 470 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 and Caspian seas, offshore fields located to the north of the Arctic Circle (the exact time period and volume vary by regions where the field is located).

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 or the first 10 years for a production licence and 15 years for an exploration and production license.

The Verkhnechonsk field in the Irkutsk Region developed jointly with TNK-BP and accounted for on an equity basis was put on stream in 2008 and the major Vankor field in the Krasnoyarsk Territory developed by Rosneft was officially launched in August 2009.

On August 6, 2011 accumulated production at the Vankor oil field reached 25 million tons. Since then zero MET rate was replaced by the standard one.

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

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 65% 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 maximum ordinary export customs duty for crude oil was calculated using the following formula: US\$ 29.2 plus 60% of the difference between the average Urals price in US\$ per tonne and US\$ 182.5

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 and to the Vankor field starting from January 19, 2010.

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

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

Export customs duty on crude oil export to CIS

In 2010 export duties were not payable on crude oil exports to CIS countries that are members of the Customs Union except for Belarus. In January 2010, the exports of crude oil to Belarus were taxable at the ordinary export duty rate. On January 27, 2010 the Government of Russian Federation and the Government of Belarus signed an agreement on crude oil and petroleum product exports. In accordance with the agreement 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. The rate of the export customs duty depended on the type of the product: light (gasoline, diesel, jet) or dark (fuel oil) till February 2011.

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.

Starting January 2011, petroleum products export sales to the members of the Customs Union (including Belarus) are exempted from customs duties within certain volumes agreed by the members.

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. These companies are natural state-owned pipeline monopolies. 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 tariff for transportation of crude oil and petroleum products respectively, which includes a dispatch tariff, a pumping tariff, loading, charge-discharge, transshipment and other tariffs. Tariffs' indexation for railroad transportation is also set by FTS. The tariffs are set in rubles and are not linked to the RUB/US\$ 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 2010 Transneft increased its tariffs for crude oil export three times, in January, August and December, by 15.9%, 3.3% and 9.9%, respectively. In February 2010 tariffs for pipeline exports of petroleum products were increased by 10.4% and tariffs for transportation within Russia were raised by 2.2%.

In January 2011 Transneft increased tariffs for export transportation of petroleum products by 9.5% and for domestic transportation of petroleum products by 5.9%, respectively. On year-on-year average basis, tariffs for pipeline transportation of petroleum products increased by 10.4% for export sales and by 6.1% for domestic sales.

In September 2011 Transneft increased tariffs for crude oil transportation by 2.85%. On year-on-year average basis, tariffs for pipeline transportation of crude oil for export and domestic supplies increased by 13.1%. Transneft increased crude oil transportation tariffs by 5% on average in November, 2011. In 2011 Transneft increased its tariffs for the major crude oil export route “Yugansk – Primorsk” twice, in September and November, by 7.2% and 11.8%, respectively.

Recent changes of rail road transportation tariffs

Starting January 1, 2010 tariffs for rail road transportation were increased by 9.4%.

Starting January 1, 2011 tariffs for rail road transportation were raised by 8.0%. No further indexation took place in 2011.

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

	<i>For 3 months ended</i>		<i>change between 4th and 3^d quarters</i>	<i>For 12 months ended December 31</i>			<i>change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011–2010	2010–2009
	(RUB/tonne)		(%)	(RUB/tonne)			(%)	
CRUDE OIL								
Domestic								
<i>Pipeline</i>								
Yugansk – Samara refineries	745.22	723.74	3,0%	726.32	648.55	531.57	12.0%	22.0%
Samara – Samara refineries	46.18	45.71	1,0%	45.72	41.29	34.95	10.7%	18.1%
Yugansk – Angarsk refinery	1,234.80	1,201.53	2,8%	1,205.91	1,084.52	897.87	11.2%	20.8%
Purpe – Tuapse refinery	1543.44	1,493.00	3,4%	1,500.53	1,340.59	1,110.14	11.9%	20.8%
Tomsk – Achinsk refinery	336.43	329.45	2,1%	329.88	297.42	245.66	10.9%	21.1%
<i>Pipeline and railroad</i>								
Yugansk – Komsomolsk refinery	3,945.49	3,924.31	0,5%	3,926.04	3,606.61	3,036.42	8,9%	18,8%
Exports								
<i>Pipeline</i>								
Yugansk – Primorsk	1,491.54	1,320.23	13,0%	1,348.21	1,163.86	968.19	15,8%	20,2%
Yugansk – Novorossysk	1,483.53	1,453.31	2,1%	1,456.55	1,307.20	1,099.32	11,4%	18,9%
Vankor (Purpe)-Tuapse	1,556.88	1,505.48	3,4%	1,513.43	1,354.85	-	11,7%	-
Vankor (Purpe)-Kozmino	1,881.93	1,833.13	2,7%	1,836.39	1,634.15	-	12,4%	-
<i>Railroad and mixed</i>								
Purneftegaz - CPC*	-	-	-	2,044.25	1,883.92	1,667.36	8,5%	13,0%
Stavropolneftegaz – CPC (railroad)	659.73	659.73	-	659.73	610.93	543.37	32,0%	12,4%
PETROLEUM PRODUCT EXPORTS								
Diesel								
Samara refineries – Ventspils	1,776.93	1,747.35	1,7%	1,729.10	1,596.28	1,473.09	8,3%	8,4%
Angarsk refinery – Nakhodka	3,890.15	3,890.15	-	3,890.15	3,615.65	3,206.08	7,6%	12,8%
Komsomolsk refinery – Nakhodka	1,525.31	1,525.31	-	1,525.31	1,419.03	1,256.94	7,5%	12,9%
Achinsk refinery – Tuapse	4,379.27	4,379.27	-	4,379.27	4,069.43	3,608.78	7,6%	12,8%
Fuel oil								
Samara refineries – Odessa	2,763.31	2,537.78	8,9%	2,712.92	2,579.51	2,338.62	5,2%	10,3%
Angarsk refinery – Nakhodka	3,963.98	3,963.98	-	3,963.98	3,670.78	3,257.66	8,0%	12,7%
Komsomolsk refinery – Nakhodka	1,484.69	1,484.69	-	1,484.69	1,374.87	1,220.14	8,0%	12,7%
Achinsk refinery – Nakhodka	4,889.87	4,889.87	-	4,889.87	4,528.16	4,018.57	8,0%	12,7%
Naphtha								
Samara refineries – Tuapse	1,868.86	1,868.86	-	1,868.86	1,740.94	1,541.66	7,3%	12,9%
Achinsk refinery – Tuapse	4,297.44	4,297.44	-	4,297.44	3,995.98	3,543.16	7,5%	12,8%
Angarsk refinery – Nakhodka	3,776.55	3,776.55	-	3,776.55	3,512.37	3,113.97	7,5%	12,8%
Komsomolsk refinery – Nakhodka	1,496.64	1,496.64	-	1,496.64	1,393.50	1,233.91	7,4%	12,9%

* - oil transportation for Purneftegaz - CPC via Tikhoretskaya station was canceled in June, 2011

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

The table below presents average tariffs applied for major transportation routes used by Rosneft primarily denominated in RUB and translated to US\$ at the average exchange rate for the respective periods:

	<i>For 3 months ended</i>		<i>change between 4th and 3^d quarters</i>	<i>For 12 months ended December 31</i>			<i>change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011–2010	2010–2009
	(US\$/tonne)		(%)	(US\$/tonne)			(%)	
CRUDE OIL								
Domestic								
<i>Pipeline</i>								
Yugansk – Samara refineries	23.86	24.92	(4.3)%	24.72	21.36	16.76	15.7%	27.4%
Samara – Samara refineries	1.48	1.57	(5.7)%	1.56	1.36	1.10	14.7%	23.6%
Yugansk – Angarsk refinery	39.54	41.37	(4.4)%	41.04	35.71	28.30	14.9%	26.2%
Purpe – Tuapse refinery	49.42	51.40	(3.9)%	51.06	44.14	34.99	15.7%	26.2%
Tomsk – Achinsk refinery	10.77	11.34	(5.0)%	11.23	9.79	7.74	14.7%	26.5%
<i>Pipeline and railroad</i>								
Yugansk – Komsomolsk refinery	126.34	135.11	(6.5)%	133.60	118.76	95.72	12.5%	24.1%
Exports								
<i>Pipeline</i>								
Yugansk – Primorsk	47.76	45.45	5.1%	45.88	38.32	30.52	19.7%	25.6%
Yugansk – Novorossysk	47.50	50.03	(5.1)%	49.56	43.04	34.65	15.1%	24.2%
Vankor(Purpe)- Tuapse	49.85	51.83	(3.8)%	51.50	44.61	-	15.4%	-
Vankor(Purpe)-Kozmino	60.26	63.11	(4.5)%	62.49	53.81	-	16.1%	-
<i>Railroad and mixed</i>								
Purneftegaz – CPC*	-	-	-	69.56	62.03	52.56	12.1%	18.0%
Stavropolneftegaz – CPC(railroad)	21.12	22.71	(7.0)%	22.45	20.12	17.13	11.6%	17.5%
PETROLEUM PRODUCT EXPORTS								
Diesel								
Samara refineries – Ventspils ¹	56.90	60.16	(5.4)%	58.84	52.56	46.44	11.9%	13.2%
Angarsk refinery – Nakhodka	124.56	133.93	(7.0)%	132.37	119.06	101.06	11.2%	17.8%
Komsomolsk refinery – Nakhodka	48.84	52.51	(7.0)%	51.90	46.73	39.62	11.1%	17.9%
Achinsk refinery – Tuapse	140.22	150.77	(7.0)%	149.02	134.00	113.76	11.2%	17.8%
Fuel oil								
Samara refineries – Odessa	88.48	87.37	1.3%	92.32	84.94	73.72	8.7%	15.2%
Angarsk refinery – Nakhodka	126.93	136.47	(7.0)%	134.89	120.87	102.69	11.6%	17.7%
Komsomolsk refinery – Nakhodka	47.54	51.12	(7.0)%	50.52	45.27	38.46	11.6%	17.7%
Achinsk refinery – Nakhodka	156.57	168.35	(7.0)%	166.39	149.10	126.68	11.6%	17.7%
Naphtha								
Samara refineries – Tuapse	59.84	64.34	(7.0)%	63.59	57.33	48.60	10.9%	18.0%
Achinsk refinery – Tuapse	137.60	147.95	(7.0)%	146.23	131.58	111.69	11.1%	17.8%
Angarsk refinery – Nakhodka	120.93	130.02	(7.0)%	128.51	115.66	98.16	11.1%	17.8%
Komsomolsk refinery – Nakhodka	47.92	51.53	(7.0)%	50.93	45.89	38.90	11.0%	18.0%

¹- tariff denominated in US\$

* - oil transportation for Purneftegaz - CPC via Tikhoretskaya station was canceled in June, 2011

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

Rosneft operates proprietary transportation and transshipment facilities which allow to optimise 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 pipeline in which Rosneft has a 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%, Verkhnechonskneftegaz – 25.94%).

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

	For 3 months ended		% change between 4 th and 3 ^d quarters	For 12 months ended December 31			% change for 12 months ended December 31	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011-2010	2010-2009
	(million of barrels, except %)							
Yuganskneftegaz (Western Siberia)	122.95	123.36	(0.3)%	488.14	483.23	485.40	1.0%	(0.4)%
Samaraneftegaz (Central Russia)	19.53	19.65	(0.6)%	77.64	75.80	73.81	2.4%	2.7%
Purneftegaz (Western Siberia)	13.06	13.02	0.3%	51.33	52.68	57.15	(2.6)%	(7.8)%
Vankorneft (Eastern Siberia)	29.02	28.99	0.1%	109.74	92.90	26.63	18.1%	248.9%
Severnaya Neft (Timan Pechora)	6.67	6.58	1.4%	26.58	29.87	34.81	(11.0)%	(14.2)%
Sakhalin-1 (Far East) (net of royalty and government share)	2.33	2.33	–	10.02	9.19	10.09	9.0%	(8.9)%
Other	7.93	8.17	(2.9)%	32.38	35.40	40.17	(8.5)%	(11.9)%
Crude oil production by fully and proportionately consolidated enterprises	201.49	202.10	(0.3)%	795.83	779.07	728.06	2.2%	7.0%
Tomskneft (Western Siberia)	9.58	9.60	(0.2)%	37.85	37.67	39.75	0.5%	(5.2)%
Udmurtneft (Central Russia)	5.86	5.88	(0.3)%	23.19	23.17	23.01	0.1%	0.7%
Polar Lights (Timan Pechora)	0.55	0.57	(3.5)%	2.23	2.56	3.34	(12.9)%	(23.4)%
Verkhnechonskneftegaz (Eastern Siberia)	2.97	2.58	15.1%	9.54	4.94	2.24	93.1%	120.5%
Total share in production of joint ventures	18.96	18.63	1.8%	72.81	68.34	68.34	6.5%	–
Total crude oil production	220.45	220.73	(0.1)%	868.64	847.41	796.40	2.5%	6.4%
Daily crude oil production (th. barrels per day)	2,396	2,399	(0.1)%	2,380	2,322	2,182	2.5%	6.4%

In the fourth quarter of 2011 Rosneft's average daily crude oil production reached 2,396 th. barrels per day, which was in line with the production in the third quarter of 2011.

In 2011 Rosneft's average daily crude oil production was 2,380 th. barrels per day, which was 2.5% higher than in 2010. The growth was driven primarily by commercial production growth at the Vankor oil field after the launch of new wells and due to the launch of production at Odoptu field in September 2010 at Sakhalin-1. Overall production growth was partially offset by the natural decline in production at the fields of Severnaya Neft.

In 2010 Rosneft's average daily crude oil production was 2,322 th. barrels per day, which was 6.4% higher than in 2009. The growth was driven primarily by commercial production launch at the Vankor field in July 2009 and production growth at the Verkhnechonsk field and Samaraneftegaz fields.

Production of Gas

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

	For 3 months ended		% change between 4 th and 3 ^d quarters	For 12 months ended December 31			% change for 12 months ended December 31	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011-2010	2010-2009
	(bcm, except %)							
Purneftegaz (Western Siberia)	1.04	0.89	16.9%	3.71	3.60	3.76	3.1%	(4.3)%
Yuganskneftegaz (Western Siberia)	0.79	0.66	19.7%	2.86	2.65	2.62	7.9%	1.1%
Krasnodarneftegaz (Southern Russia)	0.73	0.62	17.7%	2.73	2.71	2.93	0.7%	(7.5)%
Samaraneftegaz (Central Russia)	0.12	0.13	(7.7)%	0.50	0.47	0.39	6.4%	20.5%
Severnaya Neft (Timan Pechora)	0.06	0.07	(14.3)%	0.26	0.28	0.29	(7.1)%	(3.4)%
Vankorneft (Eastern Siberia)	0.11	0.08	37.5%	0.37	0.28	–	32.1%	–
Sakhalin-1 (Far East) (net of royalty and government share)	0.10	0.04	150.0%	0.31	0.29	0.26	6.9%	11.5%
Other	0.32	0.30	6.7%	1.25	1.35	1.61	(7.4)%	(16.1)%
Gas production by fully and proportionately consolidated enterprises	3.27	2.79	17.2%	11.99	11.63	11.86	3.1%	(1.9)%
Tomskneft (Western Siberia)	0.23	0.20	15.0%	0.73	0.65	0.77	12.3%	(15.6)%
Udmurtneft (Central Russia)	0.01	0.01	(0.2)%	0.04	0.04	0.03	1.5%	33.3%
Polar Lights (Timan Pechora)	0.01	0.00	8.5%	0.02	0.02	0.02	(2.1)%	(6.9)%
Verkhnechonskneftegaz (Eastern Siberia)	0.01	0.00	69.3%	0.01	0.00	0.00	235.4%	176.2%
Total share in production of joint ventures	0.26	0.21	23.8%	0.80	0.71	0.82	12.7%	(13.4)%
Total gas production	3.53	3.00	17.7%	12.79	12.34	12.68	3.6%	(2.7)%
Natural gas	1.21	1.09	11.0%	4.68	4.66	4.90	0.4%	(4.9)%
Associated gas	2.32	1.91	21.5%	8.11	7.68	7.78	5.5%	1.3%

* Production volume equals extracted volume minus flared volume.

In the fourth quarter of 2011 Rosneft's natural and associated gas production was 3.53 bcm, which was 17.7% higher than in the third quarter of 2011. The increase was primarily driven by launch of booster compression stations in Yuganskneftegaz and Purneftegaz in the last quarter of 2011 and seasonal increase in demand for gas produced by Krasnodarneftegaz.

In 2011 Rosneft's natural and associated gas production was 3.6% higher than in 2010, primarily, as a result of increased production of associated gas at Samaraneftegaz, Vankor and Yuganskneftegaz. Launch of new booster compression stations and gas preparations facilities allowed to increase associated gas utilization rates. The increase was partially offset by the natural decline in production of crude oil and associated gas at Severnaya Neft.

In 2010 Rosneft's natural and associated gas production was 2.7% lower than in 2009, primarily as a result of required maintenance at Lugenetskaya compression station, as well as decrease in demand for gas produced by Krasnodarneftegaz and decrease in crude oil production at Purneftegaz. The decrease was partially offset by production growth at Yuganskneftegaz and Samaraneftegaz and due to the progress with associated gas utilization programme.

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, including 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).

Rosneft also owns four mini-refineries (in Western Siberia, Eastern Siberia, Timan-Pechora and the southern part of European Russia), 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 joint venture Ruhr Oel GmbH, in which the remaining 50% are held by BP. The joint venture has stakes in four refineries in Germany: Gelsenkirchen - 100%; MiRO - 24%; Bayernoil - 25%; and PCK Schwedt – 37.5%. The primary refining capacity of Ruhr Oel GmbH is approximately 23.2 million tonnes per year, thus, Rosneft's share in primary refining capacity comprises approximately 11.6 million tonnes per year. The Gelsenkirchen refinery has a petrochemical block with capacity of 3.9 million tonnes.

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

	<i>For 3 months ended</i>		<i>% change between 3^d and 4th quarters</i>	<i>For 12 months ended December 31</i>			<i>% change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011-2010	2010-2009
	(million of tonnes, except %)							
Crude oil processing at Rosneft's own refineries	13.15	12.81	2.7%	50.65	50.49	49.83	0.3%	1.3%
Rosneft's share in crude oil processing at Ruhr Oel GmbH	2.76	2.82	(2.1)%	7.21	–	–	100.0%	–
Total group crude oil processing	15.91	15.63	1.8%	57.86	50.49	49.83	14.6%	1.3%
Product output:								
High octane gasoline	1.38	1.43	(3.5)%	5.33	4.92	4.82	8.3%	2.1%
Low octane gasoline	0.08	0.08	–	0.35	1.53	1.37	(77.1)%	11.7%
Naphtha	1.04	0.87	19.5%	3.83	3.13	3.40	22.4%	(7.9)%
Diesel	4.46	4.37	2.1%	17.25	16.84	17.01	2.4%	(1.0)%
Fuel oil	4.39	4.20	4.5%	16.91	17.39	16.47	(2.8)%	5.6%
Jet	0.31	0.33	(6.1)%	1.20	1.10	1.10	9.1%	–
Petrochemicals	0.15	0.08	87.5%	0.54	0.52	0.48	3.8%	8.3%
Other	0.66	0.80	(17.5)%	2.68	2.46	2.41	8.9%	2.1%
Product output at Rosneft's own refineries	12.47	12.16	2.5%	48.08	47.89	47.06	0.4%	1.8%
Rosneft's share in product output at Ruhr Oel GmbH	2.74	2.82	(2.8)%	7.30	–	–	100.0%	–
Total group product output	15.21	14.98	1.5%	55.38	47.89	47.06	15.6%	1.8%

In the fourth quarter of 2011, Rosneft's refinery throughput was 1.8% higher than in the third quarter of 2011. Rosneft's refinery throughput in Russia was 2.7% higher than in the third quarter of 2011. The growth was attributed to processing recovery after its decrease in the third quarter due to turnarounds at Angarsk polymer plant, Komsomolsk refinery, Angarsk and Syzran refineries. The increase was mitigated by the decrease of crude oil processing at Ruhr Oel GmbH due to insignificant seasonal fluctuations. Rosneft's share in processing of non-crude feedstocks at Ruhr Oel GmbH refinery was 0.30 and 0.38 million tonnes in the fourth and third quarter of 2011, respectively

In 2011 Rosneft's refinery throughput was 14.6% higher in comparison to 2010 due to acquisition of share in Ruhr Oel GmbH in May 2011 and crude oil processing growth at Rosneft's own refineries by 0.3%. The decrease in low octane gasoline output and increase in naphtha output was experienced after the introduction of new requirements for Technical regulations to quality of motor fuel introduced since January 2011.

In 2010 Rosneft's refinery throughput was 1.8% higher than in 2009. The increase in production of fuel oil was due to a decrease of potential light fractions content in the oil processed at Kuibyshev, Novokuibyshevsk, Tuapse and Komsomolsk refineries, as well as decrease in demand for products produced from fuel oil.

Results of Operations

The following table sets forth the statement of income information both in absolute values and as a percentage of total revenues:

	<i>For 3 months ended</i>				
	December 31, 2011		September 30, 2011		Change
	US\$ million, except %	% of total revenue	US\$ million, except %	% of total revenue	%
Revenues					
Oil and gas sales	11,932	49.8%	12,170	49.4%	(2.0)%
Petroleum products and petrochemicals sales	11,685	48.8%	12,100	49.1%	(3.4)%
Support services and other revenues	334	1.4%	357	1.4%	(6.4)%
Total revenues	23,951	100.0%	24,627	100.0%	(2.7)%
Cost and expenses					
Production and operating expenses	1,650	6.9%	1,870	7.6%	(11.8)%
Cost of purchased oil, gas and petroleum products	3,437	14.4%	3,062	12.4%	12.2%
General and administrative expenses	490	2.0%	487	2.0%	0.6%
Pipeline tariffs and transportation costs	1,751	7.3%	1,740	7.1%	0.6%
Exploration expenses	220	0.9%	60	0.2%	266.7%
Depreciation, depletion and amortisation	1,619	6.8%	1,549	6.3%	4.5%
Accretion expense	35	0.1%	41	0.2%	(14.6)%
Taxes other than income tax	4,513	18.8%	4,554	18.5%	(0.9)%
Export customs duty	7,137	29.8%	7,571	30.7%	(5.7)%
Total cost and expenses	20,852	87.1%	20,934	85.0%	(0.4)%
Operating income	3,099	12.9%	3,693	15.0%	(16.1)%
Other income/(expenses)					
Interest income	152	0.6%	155	0.6%	(1.9)%
Interest expense	(19)	(0.1)%	(67)	(0.3)%	(71.6)%
Loss on disposal of property, plant and equipment	(78)	(0.3)%	(104)	(0.4)%	(25.0)%
Gain/(loss) on disposal of investments	24	0.1%	16	0.1%	50.0%
Equity share in affiliates' profits	192	0.8%	213	0.9%	(9.9)%
Dividends and income from joint ventures	–	–	3	–	(100.0)%
Other (expenses)/income, net	260	1.1%	(120)	(0.5)%	(316.7)%
Foreign exchange (loss)/gain	(207)	(0.9)%	(358)	(1.5)%	(42.2)%
Total other expenses	324	1.4%	(262)	(1.1)%	(223.7)%
Income before income tax and minority interest	3,423	14.3%	3,431	13.9%	(0.2)%
Income tax	(425)	(1.8)%	(613)	(2.5)%	(30.7)%
Net income	2,998	12.5%	2,818	11.4%	6.4%
Less: net income attributable to noncontrolling interests	(6)	0.0%	(40)	(0.2)%	(85.0)%
Net income attributable to Rosneft	2,992	12.5%	2,778	11.3%	7.7%
Other comprehensive income	50	0.2%	(24)	(0.1)%	(308.3)%
Comprehensive income	3,042	12.7%	2,754	11.2%	10.5%

The table below provides information on the Results of Operations for the period 2011, 2010 and 2009:

	<i>For 12 months ended December 31</i>			<i>% change</i>	
	2011	2010	2009	2011 -2010	2010 -2009
	(US\$ million, except %)				
Revenues					
Oil and gas sales	47,417	34,767	24,820	36.4%	40.1%
Petroleum products and petrochemicals sales	43,020	26,660	20,736	61.4%	28.6%
Support services and other revenues	1,538	1,620	1,270	(5.1)%	27.6%
Total revenues	91,975	63,047	46,826	45.9%	34.6%
Cost and expenses					
Production and operating expenses	6,540	4,792	4,024	36.5%	19.1%
Cost of purchased oil, gas and petroleum products	10,058	2,386	1,890	321.5%	26.2%
General and administrative expenses	1,785	1,584	1,416	12.7%	11.9%
Pipeline tariffs and transportation costs	7,329	6,980	5,414	5.0%	28.9%
Exploration expenses	448	439	325	2.1%	35.1%
Depreciation, depletion and amortisation	5,996	5,597	4,350	7.1%	28.7%
Accretion expense	146	107	87	36.4%	23.0%
Taxes other than income tax	16,911	10,920	8,061	54.9%	35.5%
Export customs duty	26,882	16,743	12,131	60.6%	38.0%
Total cost and expenses	76,095	49,548	37,698	53.6%	31.4%
Operating income	15,880	13,499	9,128	17.6%	47.9%
Other income/(expenses)					
Interest income	658	547	516	20.3%	6.0%
Interest expense	(320)	(580)	(605)	(44.8)%	(4.1)%
Loss on disposal of property, plant and equipment	(230)	(156)	(350)	47.4%	(55.4)%
(Loss)/gain on disposal of investments	39	23	5	69.6%	360.0%
Equity share in affiliates' profits	577	60	112	861.7%	(46.4)%
Dividends and income from joint ventures	11	11	(8)	0.0%	(237.5)%
Other (expenses)/income, net	(260)	(120)	(350)	116.7%	(65.7)%
Foreign exchange (loss)/gain	(649)	32	71	(2,128.1)%	(54.9)%
Total other expenses	(174)	(183)	(609)	(4.9)%	(70.0)%
Income before income tax and minority interest	15,706	13,316	8,519	17.9%	56.3%
Income tax	(3,117)	(2,644)	(2,000)	17.9%	32.2%
Net income	12,589	10,672	6,519	18.0%	63.7%
Less: net income attributable to noncontrolling interests	(137)	(272)	(5)	(49.6)%	5,340%
Net income attributable to Rosneft	12,452	10,400	6,514	19.7%	59.7%
Other comprehensive income	53	2	18	2,550.0%	(88.9)%
Comprehensive income	12,505	10,402	6,532	20.2%	59.2%

Revenues

In the fourth quarter of 2011 revenues were 2.7% lower than in the third quarter of 2011 and amounted to US\$ 23,951 million. Revenue decrease mainly resulted from reduction in market prices of crude oil and petroleum products.

In 2011 revenues were 45.9% higher compared to 2010, which was driven by substantial increase in prices and volumes growth. For example, Urals price increased by 39.4% and the world market prices for diesel and fuel oil rose by 39.1% and 37.7% respectively. Sales volumes growth by 9.2% is attributable to increased oil production and refinery throughput.

Revenues were US\$ 63,047 million in 2010, 34.6% higher compared with 2009, which was driven by substantial increase in prices and volumes growth.

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

	<i>For 3 months ended</i>		<i>change between 3^d and 4th quarters</i>			<i>For 12 months ended December 31</i>				<i>change for 12 months ended December 31</i>			
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011 – 2010	2010 – 2009					
	<i>% of total revenue</i>	<i>% of total revenue</i>	<i>%</i>	<i>%</i>	<i>% of total revenue</i>	<i>% of total revenue</i>	<i>% of total revenue</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	
(US\$ million, except %)													
Crude oil													
International Sales to non-CIS	11,343	47.4%	11,485	46.6%	(1.2)%	44,983	48.9%	32,719	51.9%	23,019	49.1%	37.5%	42.1%
Europe and other directions	8,367	34.9%	8,478	34.4%	(1.3)%	32,495	35.3%	22,895	36.3%	18,275	39.0%	41.9%	25.3%
Asia	2,976	12.5%	3,007	12.2%	(1.0)%	12,488	13.6%	9,824	15.6%	4,744	10.1%	27.1%	107.1%
International sales to CIS	441	1.8%	547	2.2%	(19.4)%	1,847	2.0%	1,363	2.2%	1,313	2.8%	35.5%	3.8%
Domestic	26	0.1%	17	0.1%	52.9%	100	0.1%	269	0.4%	134	0.3%	(62.8)%	100.7%
Total crude oil	11,810	49.3%	12,049	48.9%	(2.0)%	46,930	51.0%	34,351	54.5%	24,466	52.2%	36.6%	40.4%
Gas	122	0.5%	121	0.5%	0.8%	487	0.5%	416	0.7%	354	0.8%	17.1%	17.5%
Petroleum products													
International Sales to non-CIS	6,789	28.4%	6,598	26.8%	2.9%	24,168	26.3%	14,141	22.4%	11,622	24.8%	70.9%	21.7%
Europe and other directions	4,830	20.2%	4,855	19.7%	(0.5)%	16,552	18.0%	8,156	12.9%	6,727	14.4%	102.9%	21.2%
Asia	1,959	8.2%	1,743	7.1%	12.4%	7,616	8.3%	5,985	9.5%	4,895	10.4%	27.3%	22.3%
International Sales to CIS	61	0.2%	101	0.4%	(39.6)%	277	0.3%	172	0.3%	144	0.3%	61.0%	19.4%
Domestic	3,859	16.1%	4,300	17.5%	(10.3)%	15,256	16.6%	11,192	17.7%	8,304	17.8%	36.3%	34.8%
Wholesale	2,261	9.4%	2,616	10.7%	(13.6)%	9,210	10.0%	7,241	11.4%	5,183	11.1%	27.2%	39.7%
Retail	1,598	6.7%	1,684	6.8%	(5.1)%	6,046	6.6%	3,951	6.3%	3,121	6.7%	53.0%	26.6%
Sales of bunker fuel to end-users	334	1.4%	407	1.7%	(17.9)%	1,293	1.4%	739	1.2%	426	0.9%	75.0%	73.5%
Total petroleum products	11,043	46.1%	11,406	46.4%	(3.2)%	40,994	44.6%	26,244	41.6%	20,496	43.8%	56.2%	28.0%
Petrochemical products	642	2.7%	694	2.8%	(7.5)%	2,026	2.2%	416	0.6%	240	0.5%	387.0%	73.3%
International sales	563	2.4%	636	2.6%	(11.5)%	1,693	1.8%	120	0.1%	70	0.1%	1,310.8%	71.4%
Domestic	79	0.3%	58	0.2%	36.2%	333	0.4%	296	0.5%	170	0.4%	12.5%	74.1%
Support services and other revenues	334	1.4%	357	1.4%	(6.4)%	1,538	1.7%	1,620	2.6%	1,270	2.7%	(5.1)%	27.6%
Total sales	23,951	100.0%	24,627	100.0%	(2.7)%	91,975	100.0%	63,047	100.0%	46,826	100.0%	45.9%	34.6%

Sales Volumes

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

	<i>For 3 months ended</i>		<i>change between 3^d and 4th quarters</i>			<i>For 12 months ended December 31</i>				<i>change for 12 months ended December 31</i>			
	December 31, 2011		September 30, 2011		2011	2011		2010		2009		2011 - 2010	2010 - 2009
	mln bbls	% of total volume	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	110.31	48.1%	108.84	46.7%	1.4%	433.86	49.0%	420.46	51.8%	381.33	50.1%	3.2%	10.3%
Europe and other directions	77.83	33.9%	76.95	33.0%	1.1%	301.09	34.0%	296.84	36.6%	304.30	40.0%	1.4%	(2.5)%
Asia	32.48	14.2%	31.89	13.7%	1.9%	132.77	15.0%	123.62	15.2%	77.03	10.1%	7.4%	60.5%
CIS	8.34	3.6%	10.17	4.3%	(18.0)%	33.65	3.8%	24.51	3.0%	30.58	4.0%	7.3%	(19.8)%
Domestic	0.66	0.3%	0.37	0.2%	78.4%	2.19	0.2%	8.85	1.1%	4.97	0.7%	(75.3)%	78.1%
Total crude oil	119.31	52.0%	119.38	51.2%	(0.1)%	469.70	53.0%	453.82	55.9%	416.88	54.8%	3.5%	8.9%
Crude oil	mln tonnes		mln tonnes			mln tonnes		mln tonnes		mln tonnes			
International Sales to non-CIS	15.08	48.1%	14.88	46.7%	1.4%	59.31	49.0%	57.48	51.8%	52.13	50.1%	3.2%	10.3%
Europe and other directions	10.64	33.9%	10.52	33.0%	1.1%	41.16	34.0%	40.58	36.6%	41.60	40.0%	1.4%	(2.5)%
Asia	4.44	14.2%	4.36	13.7%	1.9%	18.15	15.0%	16.90	15.2%	10.53	10.1%	7.4%	60.5%
CIS	1.14	3.6%	1.39	4.3%	(18.0)%	4.60	3.8%	3.35	3.0%	4.18	4.0%	37.3%	(19.8)%
Domestic	0.09	0.3%	0.05	0.2%	78.4%	0.30	0.2%	1.21	1.1%	0.68	0.7%	(75.3)%	78.1%
Total crude oil	16.31	52.0%	16.32	51.2%	(0.1)%	64.21	53.0%	62.04	55.9%	56.99	54.8%	3.5%	8.9%
Petroleum products													
International Sales to non-CIS	8.26	26.3%	8.19	25.7%	0.9%	30.41	25.1%	25.51	23.0%	27.15	26.2%	19.2%	(6.0)%
Europe and other directions	5.93	18.9%	6.09	19.1%	(2.6)%	21.05	17.4%	15.39	13.9%	16.38	15.8%	36.8%	(6.0)%
Asia	2.33	7.4%	2.10	6.6%	11.0%	9.36	7.7%	10.12	9.1%	10.77	10.4%	(7.5)%	(6.0)%
International Sales to CIS	0.08	0.3%	0.14	0.4%	(42.9)%	0.37	0.3%	0.30	0.3%	0.36	0.3%	23.3%	(16.7)%
Domestic	5.36	17.1%	5.79	18.2%	(7.4)%	21.43	17.7%	20.49	18.5%	17.60	16.9%	4.6%	16.4%
Wholesale	3.63	11.6%	4.08	12.8%	(11.0)%	14.88	12.3%	15.23	13.8%	12.83	12.3%	(2.3)%	18.7%
Retail	1.73	5.5%	1.71	5.4%	1.2%	6.55	5.4%	5.26	4.7%	4.77	4.6%	24.5%	10.3%
Sales of bunker fuel to end-users	0.63	2.0%	0.74	2.3%	(14.9)%	2.46	2.0%	1.83	1.6%	1.20	1.2%	34.4%	52.5%
Total petroleum products	14.33	45.7%	14.86	46.6%	(3.6)%	54.67	45.1%	48.13	43.4%	46.31	44.6%	13.6%	3.9%
Petrochemical products													
International sales	0.73	2.3%	0.70	2.2%	4.3%	2.21	1.9%	0.74	0.7%	0.66	0.6%	198.6%	12.1%
Domestic	0.57	1.8%	0.58	1.8%	(1.7)%	1.52	1.3%	0.12	0.1%	0.10	0.1%	1,166.7%	20.0%
International	0.16	0.5%	0.12	0.4%	33.3%	0.69	0.6%	0.62	0.6%	0.56	0.5%	11.3%	10.7%
Total crude oil and products	31.37	100.0%	31.88	100.0%	(1.6)%	121.09	100.0%	110.91	100.0%	103.96	100.0%	9.2%	6.7%
Gas	bcm		bcm			bcm		bcm		bcm			
Sales Volumes	2.46		2.33		5.6%	9.74		9.80		10.61		(0.6)%	(7.6)%

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 conditions of sales):

	<i>3 month ended</i>				<i>% change between 3^d and 4th quarters</i>	<i>2011</i>		<i>2010</i>		<i>2009</i>		<i>% change for 12 months ended December 31</i>	
	<i>December 31, 2011</i>	<i>September 30, 2011</i>				<i>(US\$/ barrel)</i>	<i>(US\$/ tonne)</i>	<i>(US\$/ barrel)</i>	<i>(US\$/ tonne)</i>	<i>(US\$/ barrel)</i>	<i>(US\$/ tonne)</i>	<i>2011 - 2010</i>	<i>2010- 2009</i>
Average export prices													
Crude oil, excluding CIS	102.83	752.19	105.52	771.84	(2.5)%	103.68	758.44	77.82	569.22	60.37	441.57	33.2%	28.9%
Europe and other directions	107.50	786.37	110.18	805.89	(2.4)%	107.92	789.48	77.13	564.19	60.06	439.30	39.9%	28.4%
Asia	91.63	670.27	94.29	689.68	(2.8)%	94.06	688.04	79.47	581.30	61.59	450.52	18.4%	29.0%
Crude oil, CIS	52.88	386.84	53.79	393.53	(1.7)%	54.89	401.52	55.61	406.87	42.94	314.11	(1.3)%	29.5%
Petroleum products, non- CIS		821.91		805.62	2.0%		794.74		554.33		428.07	43.4%	29.5%
Europe and other directions		814.50		797.21	2.2%		786.32		529.95		410.68	48.4%	29.0%
Asia		840.77		830.00	1.3%		813.68		591.40		454.50	37.6%	30.1%
Petroleum products, CIS		762.50		721.43	5.7%		748.65		573.33		400.00	30.6%	43.3%
Average domestic prices													
Crude oil	46.95	343.47	46.71	341.71	0.5%	47.22	345.39	30.40	222.31	26.96	197.06	55.4%	12.8%
Petroleum products		719.96		742.66	(3.1)%		711.90		546.22		471.82	30.3%	15.8%
Wholesale		622.87		641.18	(2.9)%		618.95		475.44		403.98	30.2%	17.7%
Retail		923.70		984.80	(6.2)%		923.05		751.14		654.30	22.9%	14.8%
Gas (US\$/thousand cubic meter)		49.59		51.93	(4.5)%		50.00		42.45		33.36	17.8%	27.2%
Sales of bunker fuel to end-users		530.16		550.00	(3.6)%		525.61		403.83		355.00	30.2%	13.8%
Petrochemical products		879.45		991.43	(11.3)%		916.74		562.16		363.64	63.1%	54.6%
<i>International sales</i>		987.72		1,096.55	(9.9)%		1,113.82		1,000.00		700.00	11.4%	42.9%
<i>Domestic</i>		493.75		483.33	2.2%		482.61		477.42		303.57	1.1%	57.3%

International Crude Oil Sales to non-CIS

Revenues from crude oil exports to non-CIS countries in the fourth quarter of 2011 were US\$ 11,343 million which is a decrease of 1.2% quarter-on-quarter. Average prices downturn of 2.5% (unfavourable impact on revenues of US\$ 296 million) was partially compensated by sales volumes growth of 1.4% (positive impact on revenues of US\$ 154 million). Sales volumes increase is attributable to redirection of crude oil flows from CIS following CIS export quota exhaustion.

In 2011 revenues from crude oil exports to non-CIS countries increased by 37.5% compared to 2010, which was driven by a 33.2% increase in average export prices (positive impact on revenues of US\$ 11,222 million) and a 3.2% increase in sales volumes (favourable impact on revenues of US\$ 1,042 million). Export sales volumes growth was due to increased production at Vankor.

The deviation between average sales prices on the Asian markets and world market prices in 2011 is due to start of deliveries to Transneft of 6 mln 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 export duty) and are reflected as international sales in Company's sales structure. Crude oil sales to Transneft (6.00 mln. tonnes) were the major factor of change in international crude oil sales structure. Excluding revenues from crude oil sales to Transneft (US\$ 2,586 million) in 2011 the average sales price on the Asian markets was equal to US\$ 111.41 per barrel.

In 2010 revenues from crude oil exports to non-CIS countries were US\$ 32,719 million or 42.1% higher compared with 2009, which was driven by a 28.9% increase in average export prices (positive impact on revenues of US\$ 7,337 million) and a 10.3% increase in sales volumes (favourable impact on revenues of US\$ 2,363 million).

Crude Oil Supplies to Ruhr Oel GmbH

In May 2011 Rosneft started supplies of its own crude oil to Ruhr Oel GmbH. These supplies amounted to 1.08 million tonnes (7.93 million barrels) for the 12 months of 2011 (Rosneft paid US\$ 499 million of export duties on this crude oil). This crude oil was fully processed and sold as of December 31, 2011. Rosneft did not accomplish its own crude oil deliveries to Ruhr Oel GmbH in the fourth quarter of 2011.

Besides supplies of own crude oil Rosneft acquired 6.14 million tonnes (44.35 million barrels) of crude oil on the international market for US\$ 5,050 million to supply to Ruhr Oel GmbH. 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 fourth quarter of 2011 revenues from sales of crude oil to CIS were US\$ 441 million, 19.4% lower than in the third quarter of 2011. Sales volumes decrease of 18.0% and average prices downturn of 1.7% led to revenues reduction of US\$ 98 million and US\$ 8 million, respectively. Sales volumes decrease in the last quarter of 2011 is attributed to CIS crude oil export quota exhaustion and followed redirection of crude oil export volumes to non-CIS countries.

In 2011 revenues from crude oil exports to CIS countries were US\$ 484 million higher in comparison with 2010, which is attributable to sales volumes increase of 37.3% (positive impact on revenues of US\$ 509 million). Insignificant decline in average price by 1.3% led to revenue reduction of US\$ 25 million. Sales volumes increase is due to custom duties cancellation on crude oil export to Belarus.

In 2010 revenues from sales of crude oil to the CIS were US\$ 1,363 million, which is an increase of 3.8% compared with 2009, which is attributable to an average price increase of 29.5% (positive impact on revenues of US\$ 311 million). A 19.8% sales volumes decrease had an unfavourable impact on revenues of US\$ 261 million.

Domestic Crude Oil Sales

In the fourth quarter of 2011 domestic crude oil sales were US\$ 26 million, 52.9% higher than in the third quarter of 2011. A 78.4% increase in sales volumes and 0.5% upturn in average prices led to revenue growth of US\$ 9 million.

In 2011 revenues from crude oil sales on domestic market were 62.8% lower compared to 2010. The reduction was driven by a 75.3% decrease in sales volumes (unfavorable impact on revenues of US\$ 202 million) and was partially compensated by average prices upturn of 55.4% (positive impact on revenues of US\$ 33 million). Sales volumes decrease resulted from sales reduction after the start of deliveries to Transneft.

In 2010 domestic crude oil sales were US\$ 269 million, which is an increase of 100.7% compared with 2009. The growth was driven by a 78.1% increase in sales volumes (favorable impact on revenues of US\$ 104 million) as well as by a 12.8% increase in average prices (positive impact on revenues of US\$ 31 million).

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:

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

	<i>For 3 months ended</i>						<i>% change</i>		
	December 31, 2011			September 30, 2011			US\$ million	million of tonnes	Average price US\$/tonne
	US\$ million	million of tonnes	Average price US\$/tonne	US\$ million	million of tonnes	Average price US\$/tonne			
High octane gasoline	76	0.07	1,059.57	81	0.07	1,087.60	(6.2)%	0.0%	(2.6)%
Low octane gasoline	39	0.04	1,055.18	40	0.04	1,071.07	(2.5)%	0.0%	(1.5)%
Naphtha	745	0.88	850.62	817	0.88	932.03	(8.8)%	0.0%	(8.7)%
Diesel (Gasoil)	1,809	1.93	935.66	1,181	1.26	938.88	53.2%	53.2%	(0.3)%
Fuel oil	1,956	3.03	646.02	2,295	3.60	637.46	(14.8)%	(15.8)%	1.3%
Jet fuel	6	0.01	1,130.63	6	0.01	1,095.59	0.0%	0.0%	3.2%
Other	47	0.07	852.28	64	0.07	887.53	(26.6)%	0.0%	(4.0)%
Total petroleum products exported to non-CIS	4,678	6.03	775.79	4,484	5.93	756.16	4.3%	1.7%	2.6%
<i>Petroleum products sold from ROG refineries</i>	<i>2,111</i>	<i>2.23</i>	<i>947.98</i>	<i>2,114</i>	<i>2.26</i>	<i>936.00</i>	<i>(0.1)%</i>	<i>(1.3)%</i>	<i>1.3%</i>
Total	6,789	8.26	821.91	6,598	8.19	805.62	2.9%	0.9%	2.0%

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

Revenues from the export of petroleum products to non-CIS countries were US\$ 6,789 million in the fourth quarter of 2011, which is an increase of 2.9% compared with the third quarter of 2011. A 2.0% increase in average prices (favourable impact on revenues of US\$ 135 million) was accompanied by 0.9% increase in sales volumes (positive impact on revenues of US\$ 56 million). Increase in diesel export volumes in the last quarter of 2011 took place after redirection of respective volumes from domestic market followed after predicted demand decrease on summer diesel on domestic market. On the other hand seasonal increase in consumption of fuel oil on domestic market resulted in redirection of respective volumes from non-CIS international sales.

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

	<i>For 12 months ended December 31</i>									<i>% change between 12 months ended December 31, 2011 and 2010</i>			<i>% change between 12 months ended December 31, 2010 and 2009</i>		
	2011			2010			2009			US\$ million	million of tonnes	US\$/tonne	US\$ million	million of tonnes	US\$/tonne
	US\$ million	million of tonnes	US\$/tonne	US\$ million	million of tonnes	US\$/tonne	US\$ million	million of tonnes	US\$/tonne						
High octane gasoline	497	0.54	922.21	127	0.15	837.02	127	0.21	595.06	291.3%	260.0%	10.2%	0.0%	(28.6)%	40.7%
Low octane gasoline	227	0.24	946.42	140	0.20	713.36	108	0.17	625.60	62.1%	20.0%	32.7%	29.6%	17.6%	14.0%
Naphtha	3,195	3.51	909.60	2,188	3.11	702.51	1,704	3.31	514.86	46.0%	12.9%	29.5%	28.4%	(6.0)%	36.4%
Diesel (gasoil)	6,189	6.77	913.84	5,386	8.23	654.47	4,565	9.35	488.11	14.9%	(17.7)%	39.6%	18.0%	(12.0)%	34.1%
Fuel oil	8,196	13.09	626.27	6,082	13.51	450.07	4,944	13.76	359.25	34.8%	(3.1)%	39.1%	23.0%	(1.8)%	25.3%
Jet fuel	21	0.02	1,076.09	12	0.02	771.80	47	0.09	546.31	75.0%	0.0%	39.4%	(74.5)%	(77.8)%	41.3%
Other	237	0.31	786.72	206	0.29	690.30	127	0.26	486.84	15.0%	6.9%	14.0%	62.2%	11.5%	41.8%
Total petroleum products exported to non-CIS	18,562	24.48	758.25	14,141	25.51	554.33	11,622	27.15	428.07	31.3%	(4.0)%	36.8%	21.7%	(6.0)%	29.5%
<i>Petroleum products sold from ROG refineries</i>	<i>5,606</i>	<i>5.93</i>	<i>946.17</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Total	24,168	30.41	794.74	14,141	25.51	554.33	11,622	27.15	428.07	70.9%	19.2%	43.4%	21.7%	(6.0)%	29.5%

In 2011 revenues from the export of petroleum products to non-CIS countries were 70.9% higher compared to 2010 which was driven by a 43.4% upturn in average prices and sales volumes growth of 19.2% (positive impact on revenues of US\$ 7,311 million and US\$ 2,716 million, respectively). Petroleum products sales to non-CIS countries net of Ruhr Oel GmbH sales volumes decreased by 4.0%. Thus attributed to increase in demand on domestic market and followed redirection of respective sales volumes. Gasoline and naphtha international sales followed after revision of Technical regulations on quality of motor fuel introduced since January 2011.

Revenues from petroleum product exports to non-CIS countries were US\$ 14,141 million in 2010, which is a decrease of 21.7% compared with 2009, which was driven by a 29.5% increase in average prices (positive impact on revenues of US\$ 3,221 million). Sales volumes decrease of 6.0% had a negative impact on revenues of US\$ 702 million.

International Petroleum Product Sales to CIS

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

	<i>For 3 months ended</i>						% change		
	December 31, 2011			September 30, 2010					
	US\$ million	million of tonnes	Average price US\$/tonne	US\$ million	million of tonnes	Average price US\$/tonne	US\$ million	million of tonnes	Average price US\$/tonne
High octane gasoline	9	0.01	659.23	54	0.08	675.71	(83.3)%	(87.5)%	(2.4)%
Low octane gasoline	–	–	–	–	–	–	–	–	–
Naphtha	–	–	–	–	–	–	–	–	–
Diesel	38	0.05	756.84	30	0.04	781.86	26.7%	25.0%	(3.2)%
Fuel oil	–	–	–	–	–	–	–	–	–
Jet fuel	–	–	–	–	–	–	–	–	–
Other	14	0.02	802.69	17	0.02	772.50	(17.6)%	0.0%	3.9%
Total	61	0.08	762.50	101	0.14	721.43	(39.6)%	(42.9)%	5.7%

Revenues from sales of petroleum products to CIS countries in the fourth quarter of 2011 were 39.6% lower than in the third quarter of 2011 and amounted to US\$ 61 million. The decrease was driven by sales volumes decrease of 42.9% (unfavourable impact on revenues of US\$ 43 million), which was partially compensated by 5.7% upturn in average prices (a positive impact on revenues of US\$ 3 million). Sales volumes decrease is attributable to the redirection of high octane gasoline to domestic market.

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

	<i>For 12 months ended December 31</i>									% change between 12 months ended December 31, 2011 and 2010		% change between 12 months ended December 31, 2010 and 2009			
	2011			2010			2009			US\$ million	million of tonnes	US\$/Tonne	US\$ million	million of tonnes	US\$/Tonne
	US\$ million	million of tonnes	US\$/Tonne	US\$ million	million of tonnes	US\$/Tonne	US\$ million	million of tonnes	US\$/Tonne	US\$ million	million of tonnes	US\$/Tonne	US\$ million	million of tonnes	US\$/Tonne
High octane gasoline	113	0.17	666.39	8	0.02	403.25	27	0.07	415.36	312.5%	750.0%	65.3%	(70.4)%	(71.4)%	(2.9)%
Low octane gasoline	–	–	–	3	0.01	300.00	3	0.01	251.82	(100.0)%	(100.0)%	(100.0)%	–	–	19.1%
Naphtha	–	–	–	–	–	–	2	0.01	346.70	–	–	–	(100.0)%	(100.0)%	(100.0)%
Diesel	109	0.14	804.16	83	0.14	569.83	60	0.14	411.59	31.3%	0.0%	41.1%	38.3%	0.0%	38.4%
Fuel oil	–	–	–	3	0.01	417.45	–	–	–	(100.0)%	(100.0)%	(100.0)%	–	–	–
Jet fuel	–	–	–	–	–	–	7	0.02	414.10	–	–	–	(100.0)%	(100.0)%	(100.0)%
Other	55	0.06	857.63	75	0.12	635.58	45	0.11	410.35	(26.7)%	(50.0)%	34.9%	66.7%	9.1%	54.9%
Total	277	0.37	748.65	172	0.30	573.33	144	0.36	400.00	61.0%	23.3%	30.6%	19.4%	(16.7)%	43.3%

Revenue increase of US\$ 105 million in 2011 in comparison with 2010 resulted from 30.6% upturn in average prices (positive impact on revenues of US\$ 65 million) and 23.3% increase in sales volumes (favourable impact on revenues of US\$ 40 million).

Revenues from sales of petroleum products to the CIS in 2010 were 19.4% higher than in 2009 and amounted to US\$ 172 million, which was a result of 43.3% upturn in average prices (positive impact on revenues of US\$ 52 million) which was partially offset by 16.7% decrease in sales volumes (negative impact on revenues of US\$ 24 million).

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>		
	December 31, 2011			September 30, 2011					
	US\$ million	million of tonnes	Average price US\$/tonne	US\$ million	million of tonnes	Average price US\$/tonne	US\$ million	million of tonnes	Average price US\$/tonne
High octane gasoline	1,516	1.64	923.53	1,714	1.71	999.55	(11.6)%	(4.1)%	(7.6)%
Low octane gasoline	54	0.07	825.01	30	0.03	876.12	80.0%	133.3%	(5.8)%
Naphtha	–	–	–	–	–	–	–	–	–
Diesel	1,585	2.1	753.12	1,915	2.79	686.43	(17.2)%	(24.7)%	9.7%
Fuel oil	227	0.7	325.74	109	0.32	345.04	108.3%	118.8%	(5.6)%
Jet fuel	231	0.29	810.33	240	0.32	757.93	(3.8)%	(9.4)%	6.9%
Other	246	0.56	441.08	292	0.62	468.17	(15.8)%	(9.7)%	(5.8)%
Total	3,859	5.36	719.96	4,300	5.79	742.66	(10.3)%	(7.4)%	(3.1)%

Revenues from sales of petroleum products on the domestic market were US\$ 3,859 million in the fourth quarter of 2011, which is a decrease of 10.3% compared with the third quarter of 2011. Revenue reduction was caused by a 7.4% decrease in sales volumes and a 3.1% downturn in average prices (unfavourable impact on revenues of US\$ 319 million and US\$ 122 million, respectively). Sales volumes decrease was due to a seasonal reduction in demand for summer diesel, resulting to its redirection to foreign markets, and decreased sales to agricultural enterprises. Seasonal increased demand on fuel oil on domestic market led to its redirection of respective volumes from non-CIS markets.

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

	<i>For 12 months ended December 31</i>									<i>% change between 12 months ended December 31, 2011 and 2010</i>		<i>% change between 12 months ended December 31, 2010 and 2009</i>			
	2011			2010			2009			US\$ million	million of tonnes	US\$/Tonne	US\$ million	million of tonnes	US\$/Tonne
	US\$ million	million of tonnes	US\$/Tonne	US\$ million	million of tonnes	US\$/Tonne	US\$ million	million of tonnes	US\$/Tonne	US\$ million	million of tonnes	US\$/Tonne	US\$ million	million of tonnes	US\$/Tonne
High octane gasoline	5,917	6.34	934.06	4,159	5.44	765.11	3,194	4.77	670.09	42.3%	16.5%	22.1%	30.2%	14.0%	14.2%
Low octane gasoline	233	0.31	760.56	807	1.36	593.84	654	1.24	528.86	(71.1)%	(77.2)%	28.1%	23.4%	9.7%	12.3%
Naphtha	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Diesel	6,693	9.47	706.89	4,341	8.27	525.50	3,142	7.03	447.25	54.2%	14.5%	34.5%	38.2%	17.6%	17.5%
Fuel oil	645	2.09	308.80	643	2.51	256.54	354	1.63	218.04	0.3%	(16.7)%	20.4%	81.6%	54.0%	17.7%
Jet fuel	848	1.13	751.40	531	0.98	542.16	228	0.48	470.56	59.7%	15.3%	38.6%	132.9%	104.2%	15.2%
Other	920	2.09	439.44	711	1.93	365.10	732	2.45	294.61	29.4%	8.3%	20.4%	(2.9)%	(21.2)%	23.9%
Total	15,256	21.43	711.90	11,192	20.49	546.22	8,304	17.60	471.82	36.3%	4.6%	30.3%	34.8%	16.4%	15.8%

In 2011 revenues from sales of petroleum products on the domestic market increased by 36.3% compared to 2010. This resulted from a 30.3% upturn in average prices (positive impact on revenues of US\$ 3,551 million) and from a 4.6% increase in sales volumes (favourable impact on revenues of US\$ 513 million). Volumes growth was due to the increased demand for petroleum products.

Revenues from sales of petroleum products on the domestic market were US\$ 11,192 million in 2010 which is a increase of 34.8% compared with 2009. This resulted from a 15.8% upturn in average prices (positive impact on revenues of US\$ 1,524 million) and from a 16.4% increase in sales volumes (favourable impact on revenues of US\$ 1,364 million).

Sales of bunker fuel to end-users

Rosneft is 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 fourth quarter of 2011 were US\$ 334 million, a decrease of 17.9% in comparison with the third quarter of 2011. Revenue decline was due to seasonal factor.

Revenues from sales of bunker fuel in 2011 were US\$ 1,293 million an increase of 75.0% compared to 2010. In 2010 and 2009 revenues were US\$ 739 million and US\$ 426 million respectively.

Petrochemical Product Sales

Revenues from sales of petrochemical products in the fourth quarter of 2011 were US\$ 642 million, down 7.5% compared to the third quarter of 2011. Average price decline of 11.3% (negative impact on revenues of US\$ 82 million) was partially compensated by sales volumes increase of 4.3% (favourable impact on revenues of US\$ 30 million). Sales volumes increase was due to increased output of petrochemical products.

A 387.0% growth in revenues from sales of petrochemical products in 2011 compared to 2010 was mainly due to acquisition of share in Ruhr Oel GmbH.

In 2010 revenues from sales of petrochemical products were US\$ 416 million, 73.3% up compared to 2009. It was due to price increase of 54.6% and volume growth of 12.1%.

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>% change between 3rd and 4th quarters</i>	<i>For 12 months ended December 31</i>			<i>% change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011 – 2010	2010-2009
Revenue	(US\$ million, except %)							
Western Siberia	35	35	0.0%	136	118	114	15.3%	3.5%
South Russia	57	56	1.8%	233	198	157	17.7%	26.1%
Far East	9	10	(10.0)%	43	37	36	16.2%	2.8%
European part of Russia	21	20	5.0%	75	63	47	19.0%	34.0%
Total	122	121	0.8%	487	416	354	17.1%	17.5%
Sales volumes	(bcm, except %)							
Western Siberia	1.28	1.28	0.0%	5.12	5.24	5.98	(2.3)%	(12.4)%
South Russia	0.76	0.65	16.9%	2.91	3.04	3.24	(4.3)%	(6.2)%
Far East	0.15	0.15	0.0%	0.66	0.66	0.62	0.0%	6.5%
European part of Russia	0.27	0.25	8.0%	1.05	0.86	0.77	22.1%	11.7%
Total	2.46	2.33	5.6%	9.74	9.80	10.61	(0.6)%	(7.6)%
Average price	(US\$/thousand of cubic metres, except %)							
Western Siberia	27.42	27.53	(0.4)%	26.53	22.44	19.13	18.2%	17.3%
South Russia	75.29	86.37	(12.8)%	80.16	65.13	48.44	23.1%	34.5%
Far East	60.53	66.85	(9.5)%	65.03	56.59	57.83	14.9%	(2.1)%
European part of Russia	77.02	77.71	(0.9)%	71.64	73.88	62.74	(3.0)%	17.8%
Total	49.59	51.93	(4.5)%	50.00	42.45	33.36	17.8%	27.2%

In the fourth quarter of 2011 revenues from gas sales were US\$ 122 million, insignificantly higher than in the third quarter of 2011. A 5.6% increase in sales volumes was balanced out by average price decline of 4.5%. Sales volumes increase was due to seasonal increase in demand.

Revenue growth from gas sales of 17.1% in 2011 in comparison with 2010 was driven by an increase in average prices of 17.8% (positive impact on revenues of US\$ 74 million) and was partially offset by sales volumes decrease of 0.6% (negative impact on revenues of US\$ 3 million).

In 2010 revenues from gas sales increased by 17.5% and amounted to US\$ 416 million comparison to 2009, which was driven by increase in average prices of 27.2% (favourable impact on revenues of US\$ 89 million). Sales volumes decrease of 7.6% led to revenue reduction of US\$ 27 million.

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>change between 3^d and 4th quarters</i>		<i>For 12 months ended December 31</i>				<i>change for 12 months ended December 31</i>							
	December 31, 2011		September 30, 2011		2011		2011		2010		2009		2011-2010		2010-2009	
	% of total revenue		% of total revenue		%		% of total revenue		% of total revenue		% of total revenue		%		%	
(US\$ million, except %)																
Drilling services	10	3.0%	13	3.6%	(23.1)%	40	2.6%	60	3.7%	25	2.0%	(33.3)%	140.0%			
Sales of materials	67	20.1%	109	30.5%	(38.5)%	355	23.1%	341	21.0%	237	18.7%	4.1%	43.9%			
Repairs and maintenance services	27	8.1%	28	7.8%	(3.6)%	108	7.0%	107	6.6%	104	8.2%	0.9%	2.9%			
Rent services	22	6.6%	21	5.9%	4.8%	85	5.5%	68	4.2%	51	4.0%	25.0%	33.3%			
Construction services	34	10.2%	23	6.4%	47.8%	96	6.2%	86	5.3%	63	5.0%	11.6%	36.5%			
Transport services	61	18.3%	71	19.9%	(14.1)%	284	18.5%	325	20.1%	269	21.2%	(12.6)%	20.8%			
Electric power sales and transmission	40	12.0%	33	9.2%	21.2%	301	19.6%	400	24.7%	273	21.5%	(24.8)%	46.5%			
Other revenues	73	21.7%	59	16.7%	23.7%	269	17.5%	233	14.4%	248	19.4%	15.5%	(6.0)%			
Total	334	100.0%	357	100.0%	(6.4)%	1,538	100.0%	1,620	100.0%	1,270	100.0%	(5.1)%	27.6%			

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 between 3^d and 4th quarters</i>		<i>For 12 months ended December 31</i>			<i>% change for 12 months ended December 31</i>								
	December 31, 2011		September 30, 2011		2011		2011		2010		2009		2011-2010		2010-2009	
(US\$ million, except %)																
Upstream	637		624		2.1%	2,445		2,208		1,869		10.7%		18.1%		
Land restoration program	-		-		-	-		111		-		-		-		
Downstream	783		1,036		(24.4)%	3,105		1,583		1,501		96.1%		5.5%		
<i>Including procurement of additives and materials for Ruhr Oel GmbH</i>	277		350		(20.9)%	868		-		-		-		-		
Other	230		210		9.5%	990		890		654		11.2%		36.1%		
Total	1,650		1,870		(11.8)%	6,540		4,792		4,024		36.5%		19.1%		

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.

Upstream production and operating expenses in the fourth quarter of 2011 increased to US\$ 637 million or by 2.1% compared with the third quarter of 2011. The increase was due to the seasonal increase in technological transportation costs, seasonal increase in electricity and heat expenses, payment of annual bonuses to technical staff, increase in volumes of repair and maintenance provided by third parties, which was partially offset by the decrease in crude oil production and real rouble depreciation against the US\$ by 6.3%.

In 2011 upstream production and operating expenses increased to US\$ 2,445 million, or by 10.7% compared with 2010, when these expenses were US\$ 2,208 million. The growth was due to the real RUB appreciation against the US\$ by 12.1%, oil production increase by 2.2%, partially offset by cost-cutting initiatives.

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 accordance with the program Rosneft made a one-off accrual of land restoration expenses in the amount of US\$ 111 million. This amount does not include expenses on land restoration spent by the Company as a part of regular production activity.

In 2010 upstream production and operating expenses increased to US\$ 2,208 million, or by 18.1% compared with 2009. The growth was due to oil production increase by 7.0% and the real RUB appreciation against the US\$ by 11.6%, partially offset by cost-cutting initiatives.

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

	<i>For 3 months ended</i>		<i>% change between 3^d and 4th quarters</i>	<i>For 12 months ended December 31</i>			<i>% change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011 - 2010	2010 - 2009
	(US\$ per bbl and US\$ per boe, except %)							
Expenses per bbl of crude oil produced	3.16	3.09	2.3%	3.07	2.83	2.57	8.5%	10.1%
Expenses per boe of hydrocarbon produced	2.89	2.86	1.0%	2.82	2.61	2.34	8.0%	11.5%

Rosneft's downstream expenses decreased by 24.4% to US\$ 783 million in the fourth quarter of 2011 compared with US\$ 1,036 million in the third quarter of 2011. Excluding procurements of additives and other materials for refining process at Ruhr Oel GmbH, downstream operating expenses decreased by 26.2%. The decrease followed after predicting demand decline on petroleum products on domestic market and respective growth of intragroup petroleum products stock by 0.46 million tonnes. Closing of the river navigation period and change in FCA tanker shipments schedule also made its contribution in respective decrease indicated above.

These expenses increased by 96.1% in 2011 compared with 2010. The increase resulted primarily from procurements of additives and other materials for refining process at Ruhr Oel GmbH for the amount of US\$ 868 million. Excluding this amount, downstream operating expenses increased by 41.3% due to increased volumes of retail revenue, increased expenses for additives for refining on own refineries and other factors.

In 2010 downstream operating expenses were US\$ 1,583 million, which is an increase of 5.5% compared with 2009 primarily due to the real RUB appreciation against the US\$ of 11.6% and change in intragroup inventories.

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

	<i>For 3 months ended</i>		<i>% change between 3^d and 4th quarters</i>	<i>For 12 months ended December 31</i>			<i>% change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011 - 2010	2010 - 2009
Operating expenses (US\$ million)	258	254	1.6%	914	738	685	23.8%	7.7%
Operating expenses per tonne of product output (US\$/tonne)	20.69	20.89	(1.0)%	19.01	15.41	14.56	23.4%	5.8%
Operating expenses per tonne of crude oil throughput (US\$/tonne)	19.62	19.83	(1.1)%	18.05	14.62	13.75	23.5%	6.3%

Operating expenses of Rosneft's refineries were US\$ 258 million in the fourth quarter of 2011, which is an increase of 1.6% compared with US\$ 254 million in the third quarter of 2011. The increase was primarily due to increased volumes of crude oil throughput, increased volumes of materials and additives used in refining for production of EURO-class gasoline and seasonal increase in expenses for electricity.

In 2011 these expenses increased by 23.8% to US\$ 914 million compared to US\$ 738 million in 2010. The increase resulted from the real appreciation of the RUB against the US\$ by 12.1%, increase in cost and volumes of materials and additives for production of EURO-class gasoline and higher electricity tariffs.

In 2010 refining operating expenses were US\$ 738 million, which is an increase of 7.7% compared with 2009. The increase resulted from the real appreciation of the RUB against the US\$ by 11.6% and higher volumes of refinery throughput.

Operating expenses related to other activities increased to US\$ 230 million in the fourth quarter of 2011, or by 9.5% compared with the third quarter of 2011. The increase was due to the increased volume of construction and other activities.

In 2011 these expenses increased to US\$ 990 million compared with US\$ 890 million in 2010. The increase was due to real rouble appreciation compared to US\$ by 12.1% and other factors.

In 2010 these expenses increased to US\$ 890 million, or by 36.1% compared to 2009, primarily due to higher volumes of other activities accompanied by the increase in other revenues by 27.6% (particularly, from transportation services and electric power sales and transmission), and other factors.

Cost of Purchased Crude Oil, Gas and Petroleum Products

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

	<i>For 3 months ended</i>		<i>% change between 3^d and 4th quarters</i>	<i>For 12 months ended December 31</i>			<i>% change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011 – 2010	2010-2009
Cost of crude oil procured (US\$ million)	2,884	2,320	24.3%	7,562	1,454	1,513	420.1%	(3.9)%
Volume of crude oil procured (million of barrels)	35.35	30.69	15.2%	104.13	51.75	57.61	101.2%	(10.2)%
Cost of gas procured (US\$ million)	10	8	25.0%	33	26	29	26.9%	(10.3)%
Volume of gas procured (bcm)	0.19	0.15	26.7%	0.55	0.51	0.59	7.8%	(13.6)%
Cost of petroleum product procured (US\$ million) ⁽¹⁾	416	599	(30.6)%	2,087	906	348	130.4%	160.3%
Volume of petroleum product procured (million of tonnes)	0.48	0.63	(23.8)%	2.44	1.55	0.71	57.4%	118.3%
Cost of refining of crude oil under processing agreements (US\$ million)	127	135	(5.9)%	376	-	-	-	-
Volumes of crude oil refined under processing agreements (million of tonnes)	2.76	2.82	(2.1)%	7.21	-	-	-	-
Total cost of procured oil, gas and petroleum products and refining costs (US\$ millions)	3,437	3,062	12.2%	10,058	2,386	1,890	321.5%	26.2%

(1) In the fourth quarter and the twelve months of 2011 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 between 3^d and 4th quarters</i>	<i>For 12 months ended December 31</i>			<i>% change for 12 months ended 31 December</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011 – 2010	2010-2009
	(million bbl, except %)							
International market	20.29	16.21	25.2%	44.95	-	-	-	-
Tomskneft	8.56	8.95	(4.4)%	39.71	37.22	33.46	6.7%	11.2%
Udmurtneft	2.79	2.73	2.2%	9.08	10.08	12.90	(9.9)%	(21.9)%
Surgutneftegaz	-	-	-	-	-	5.94	-	(100.0)%
Others	3.71	2.80	32.5%	10.39	4.45	5.31	133.5%	(16.2)%
Total	35.35	30.69	15.2%	104.13	51.75	57.61	101.2%	(10.2)%

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

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 fourth quarter of 2011 these transactions were exercised with Gazpromneft, Bashneft, TNK-BP, Uralskaya NK and others.

The volume of crude oil swaps amounted to 22.21 million barrels in the fourth quarter of 2011 compared to 20.01 million barrels in the third quarter of 2010. The volume of crude oil swaps were 65.75 million barrels in the twelve months of 2011, compared to 38.49 million barrels in 2010 and 41.33 million barrels in 2009. Rosneft's estimated benefits from these transactions were US\$ 21 million in the fourth quarter of 2011 and US\$ 87 million in 2011.

Petroleum products from third parties are purchased primarily to satisfy 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 in the fourth and third quarters of 2011:

	<i>For 3 months ended</i>						% change		
	December 31, 2011			September 30, 2011					
	US\$ million	million of tonnes	average price US\$/tonne	US\$ million	million of tonnes	average price US\$/tonne	US\$ million	million of tonnes	average price US\$/tonne
High octane gasoline	347	0.38	906.09	536	0.54	998.97	(35.3)%	(29.6)%	(9.3)%
Low octane gasoline	1	0.00	708.19	7	0.01	723.33	(85.7)%	(100.0)%	(2.1)%
Diesel	36	0.05	742.11	40	0.06	681.83	(10.0)%	(16.7)%	8.8%
Fuel oil	-	-	-	-	-	-	-	-	-
Jet fuel	1	0.00	602.04	-	-	-	-	-	-
Other	31	0.05	661.02	16	0.02	722.88	93.8%	150.0%	(8.6)%
Total	416	0.48	866.67	599	0.63	950.79	(30.6)%	(23.8)%	(8.8)%

The decrease in volumes of petroleum product purchases in the fourth quarter of 2011 was due to a seasonal decrease in demand for petroleum products and increased supplies from own refineries.

The tables below set forth Rosneft's costs, volumes and average prices per tonne of petroleum products procured from third parties in 2011, 2010 and 2009:

	<i>For 12 months ended December 31</i>									<i>% change for 12 months ended December 31, 2011 and 2010</i>			<i>% change for 12 months ended December 31, 2010 and 2009</i>		
	2011			2010			2009			US\$ million	million of tonnes	US\$/tonne	US\$ million	million of tonnes	US\$/tonne
	US\$ million	million of tonnes	US\$/tonne	US\$ million	million of tonnes	US\$/tonne	US\$ million	million of tonnes	US\$/tonne						
High octane gasoline	1,681	1.85	909.94	482	0.69	701.38	151	0.25	615.14	248.8%	168.1%	29.7%	219.2%	176.0%	14.0%
Low octane gasoline	41	0.06	672.45	43	0.07	579.82	21	0.04	533.65	(4.7)%	(14.3)%	16.0%	104.8%	75.0%	8.7%
Diesel	292	0.42	695.31	325	0.66	492.33	129	0.29	432.00	(10.2)%	(36.4)%	41.2%	151.9%	127.6%	14.0%
Fuel oil	-	-	-	2	0.01	302.17	17	0.05	342.60	-	-	-	(88.2)%	(80.0)%	(11.8)%
Jet fuel	1	0.00	602.04	-	-	-	-	-	-	-	-	-	-	-	-
Other	72	0.11	651.10	54	0.12	450.12	30	0.08	385.06	33.3%	(8.3)%	44.7%	80.0%	50.0%	16.9%
Total	2,087	2.44	855.33	906	1.55	584.52	348	0.71	490.14	130.4%	57.4%	46.4%	160.3%	118.3%	19.3%

Average petroleum product procurement prices may deviate from average sales prices mainly due to different mix of regions where procurement and sales are effected and different 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 fourth quarter of 2011 were US\$ 490 million, 0.6% higher than in the third quarter of 2011. In 2011 general and administrative expenses increased from US\$ 1,584 million to US\$ 1,785 million. Major factors affecting general and administrative expenses upturn are related to increase in 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 fourth quarter of 2011 Rosneft's transportation costs remained practically unchanged and accounted for US\$ 1,751 million compared with US\$ 1,740 million in the third quarter of 2011. This was mainly due to the nominal RUB depreciation against US\$ by 7.0%, which was mitigated by indexation of transportation tariffs in November 2011 and decline in volumes of sales under the FCA terms.

During 2011 Rosneft's transportation costs increased to US\$ 7,329 million, or by 5.0% compared with 2010. The increase resulted from indexation of transportation tariffs, increased volumes of crude oil transportation from Vankor to China and start of crude oil supplies to Ruhr Oel GmbH, which was partially compensated by replacement of railroad deliveries of crude oil to China for pipeline transportation.

In 2010 Rosneft's transportation costs increased to US\$ 6,980 million, or by 28.9% compared with 2009. The increase resulted from higher transportation volumes due to increase in crude oil production at the Vankor field and increase in tariffs of natural monopolies by 13.2% – 27.4% in US\$ terms.

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:

	<i>For 3 months ended</i>								% change		
	December 31, 2011				September 30, 2011						
	Volume, mln. tonnes	Share in export volumes	Cost, mln. US\$	Cost per tonne sold, US\$/t	Volume, mln. tonnes	Share in export volumes	Cost, mln. US\$	Cost per tonne sold, US\$/t	Volume	Cost	Cost per tonne sold
CRUDE OIL											
International sales											
Pipeline	15.78	97.3%	787	49.87	15.82	97.2%	821	51.90	(0.3)%	(4.1)%	(3.9)%
Railroad and mixed	0.44	2.7%	11	25.00	0.45	2.8%	12	26.67	(2.2)%	(8.3)%	(6.3)%
Transportation to refineries											
Pipeline ⁽¹⁾	11.12		190	17.09	11.72		171	14.59	(5.1)%	11.1%	17.1%
Railroad and mixed	1.66		187	112.65	1.17		161	137.61	41.9%	16.1%	(18.1)%
PETROLEUM PRODUCTS											
International sales											
Pipeline ⁽²⁾	0.07	0.8%	5	71.43	0.08	0.9%	6	75.00	(12.5)%	(16.7)%	(4.8)%
Railroad and mixed	7.66	84.4%	427	55.74	6.44	71.6%	351	54.50	18.9%	21.7%	2.3%
Other transportation expenses⁽³⁾											
			144				218			(33.9)%	
Total	36.73		1,751	47.66	35.68		1,740	48.77	3.0%	0.6%	(2.3)%

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

(2) Rosneft exported 1.35 million tonnes (14.8% of total export volumes) and 2.47 million tonnes (27.5% of total export volumes) of petroleum products in the fourth quarter of 2011 and in the third 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. Trans-shipment expenses for supplies in the town of Tuapse comprised US\$ 9 million in the fourth quarter of 2011 and US\$ 9 million in the third quarter of 2011 and included to other transportation expenses.

(3) Other transportation expenses include cost of railroad and mixed transportation of petroleum products from refineries to tank farms and road transportation from tank farms to service stations as well as other transportation expenses. Other transportation expenses also include Rosneft expenses on crude oil swap deals net of effect from different prices.

The decrease in crude oil pipeline transportation cost per tonne of international sales was 3.9%, which was due to decrease in tariffs by up to 5.1% in US\$, partially offset by indexation of Transneft's tariffs.

The decrease in crude oil railroad and mixed transportation cost per tonne of international sales was 6.3%, which was mainly due to decrease in tariffs in US\$ terms.

The increase in crude oil pipeline transportation cost per tonne of supplies to refineries was 17.1% quarter-on-quarter, which was primarily due to change in logistics of supplies of crude oil to Rosneft's refineries. Particularly, crude oil from Tomskneft replaced delivery from Yugansk to Komsomolsk refinery. On the other hand delivery of crude oil from Yugansk replaced the respective volumes from Tomskneft to Achinsk refinery. This led to an increase in pipeline transportation expenses due to longer route from Yugansk to Achinsk refinery.

Simultaneously this resulted in respective mixed transportation expenses decrease due to shorter route from Tomskneft to Komsomolsk refinery.

The decrease in crude oil railroad and mixed transportation cost per tonne of domestic supplies was 18.1%, which was primarily due to a decrease in transportation tariffs in US\$ terms by 6.5% due to nominal RUB depreciation compared to US\$ by 6.3% and change in logistics of supplies of crude oil from Yugansk and Tomskneft to Rosneft's refineries. Increase in transportation volumes was due to completion of regular turnarounds at Komsomolsk refinery. This fact led to additional increase in transportation cost per tonne as costs of supplies to Komsomolsk refinery are above the average for the Company.

Pipeline transportation cost per tonne of petroleum product international sales decreased by 4.8%. The decrease was due to decrease in transportation tariffs in US\$ terms.

Railroad and mixed transportation cost per tonne of petroleum product international sales increased by 2.3%. The increase was due to seasonal change in the structure of the transportation routes after closing of river navigation period.

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 12 months ended December 31												% change between the twelve months ended December 31, 2011 and 2010			% change between the twelve months ended December 31, 2010 and 2009		
	2011				2010				2009				Volume, mln. tonnes	Cost, mln US\$	Cost per tonne	Volume, mln. tonnes	Cost, mln US\$	Cost per tonne
	Volume, mln. tonnes	Share in export volumes	Cost, mln US\$	Cost per tonne	Volume, mln. tonnes	Share in export volumes	Cost, mln US\$	Cost per tonne	Volume, mln. tonnes	Share in export volumes	Cost, mln US\$	Cost per tonne						
CRUDE OIL																		
International sales																		
Pipeline	61.54	96.3%	3,148	51.15	47.44	78.0%	2,016	42.50	41.54	73.8%	1,355	32.62	29.7%	56.2%	20.4%	14.2%	48.8%	30.3%
Railroad and mixed	2.37	3.7%	87	36.71	13.39	22.0%	1,043	77.89	14.77	26.2%	961	65.06	(82.3)%	(91.7)%	(52.9)%	(9.3)%	8.5%	19.7%
Transportation to refineries																		
Pipeline ⁽¹⁾	42.03		824	19.61	37.82		738	19.51	36.93		541	14.65	11.1%	11.7%	0.5%	2.4%	36.4%	33.2%
Railroad and mixed	6.16		805	130.68	6.55		777	118.63	6.95		639	91.94	(6.0)%	3.6%	10.2%	(5.8)%	21.6%	29.0%
PETROLEUM PRODUCTS																		
International sales																		
Pipeline ⁽²⁾	0.64	1.9%	48	75.00	1.10	4.2%	75	68.18	0.85	3.1%	49	57.65	(41.8)%	(36.0)%	10.0%	29.4%	53.1%	18.3%
Railroad and mixed	25.47	77.2%	1,689	66.31	18.01	68.1%	1,520	84.40	18.98	68.3%	1,370	72.18	41.4%	11.1%	(21.4)%	(5.1)%	10.9%	16.9%
Other transportation expenses⁽³⁾													(10.2)%			62.5%		
Total	138.21		7,329	53.02	124.31		6,980	56.15	120.02		5,414	45.11	11.2%	5.0%	(5.6)%	3.6%	28.9%	24.5%

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

(2) Rosneft exported 6.90 million tonnes (20.9% of total export volumes), 7.33 million tonnes (27.7% of total export volumes) and 7.96 million tonnes (28.6% of total export volumes) of petroleum products in 2011, 2010 and 2009, 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. Trans-shipment expenses for supplies in the town of Tuapse comprised US\$ 35 million in 2011, US\$ 35 million in 2010 and US\$ 39 million in 2009 and included to other transportation expenses.

(3) Other transportation expenses include cost of railroad and mixed transportation of petroleum products from refineries to tank farms and road transportation from tank farms to service stations as well as other transportation expenses. Other transportation expenses also include Rosneft expenses on crude oil swap deals net of effect from different prices.

Construction of Skovorodino - Daqing pipeline (branch of ESPO pipeline) was completed in the end of 2010. Rosneft replaced railroad deliveries of crude oil to China by pipeline supplies, which changed the structure of the transportation routes and allowed the Company to benefit from economies on transportation expenses.

The increase in crude oil pipeline transportation cost per tonne of international sales was 20.4% in 2011, which was due to an increase in tariffs by 15.1% – 19.7% in US\$ terms and the change in transportation routes used (particularly, start of deliveries of Vankor and Yugansk crude oil to China via ESPO).

The increase in crude oil pipeline transportation cost per tonne of export sales was 30.3% in 2010, which was due to an increase in tariffs by 24.2% – 25.6% in US\$ terms and the change in transportation routes used (particularly, start of deliveries of Vankor crude oil to exports through ESPO).

The decrease in crude oil railroad and mixed transportation cost per tonne of international sales was 52.9% in 2011, which was due to the cease of supplies of crude oil to China by mixed transport.

The increase in crude oil railroad and mixed transportation cost per tonne of export sales was 19.7% in 2010, which was due to tariffs growth in US\$ terms.

The increase in crude oil pipeline transportation cost per tonne of supplies to refineries was 0.5% in 2011, which was primarily due an increase in transportation tariffs by 14.7% - 15.7% in US\$ terms, which was primarily offset by the start of crude oil supplies to Ruhr Oel GmbH, where transportation costs are low due to short transportation distances in Europe.

The increase in crude oil pipeline transportation cost per tonne of domestic supplies was 33.2% in 2010 compared with 2009, which was due to tariffs growth by 23.6% - 27.4% in US\$ terms and change in crude oil supplies structure.

The increase in crude oil railroad and mixed transportation cost per tonne of domestic supplies was 10.2% in 2011, which was primarily due to an increase in transportation tariffs in US\$ terms by 12.5%, which was partially offset by the change in structure of transportation routes.

The increase in crude oil railroad and mixed transportation cost per tonne of domestic supplies was 29.0% in 2010, which was primarily due to an increase in transportation tariffs in US\$ terms.

In 2011 the increase in pipeline cost per tonne of petroleum product international sales was 10.0%, which was due to increase in tariffs by 8.7% - 11.9% in US\$ terms.

In 2011 the decrease in cost per tonne of petroleum product international sales via railroad and mixed transportation was equal to 21.4%. The decrease was due to start of petroleum products sales on the local market of Germany, where transportation costs are low due to shorter transportation routes.

In 2010 the increase in petroleum product pipeline cost per tonne of petroleum product export sales and railroad and mixed transportation cost per tonne of petroleum product export sales was 18.3% and 16.9%, respectively, which was due to increase in tariffs by 13.2% – 18.0% in US\$ terms.

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 fourth quarter of 2011 exploration expenses increased to US\$ 220 million compared with US\$ 60 million in the third quarter of 2011. The increase was due to dry exploratory wells write-off of in Eastern and Western Siberia for total amount of US\$ 106 million, increased expenses on geophysical and seismic works and other exploration works not associated with dry wells write-off.

In 2011 exploration expenses increased by 2.1% compared with 2010. The change in exploration expenses was due to increase in writing-off dry wells and increase in volumes of other exploratory works.

In 2010 exploration expenses increased by 35.1% compared with 2009. The change in exploration expenses was due to increase in volumes of exploratory works at Samaraneftegaz fields, Kurmangazy project, geophysical surveys at Krasnodarneftegaz, Yuganskneftegaz, Vankor region.

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 US\$ 1,619 million in the fourth quarter of 2011 compared to US\$ 1,549 million in the third quarter of 2011. The increase in the depreciation resulted mainly from the putting of new fixed assets into operation followed by increase in crude oil production volumes.

In 2011 depreciation, depletion and amortisation was US\$ 5,996 million compared with US\$ 5,597 million in 2010, which is an increase of 7.1%.

Taxes Other than Income Tax

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

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 between 3^d and 4th quarters</i>	<i>For 12 months ended December 31</i>			<i>% change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011 - 2010	2010-2009
(US\$ million, except %)								
Mineral extraction tax	3,865	3,794	1.9%	14,022	9,051	6,502	54.9%	39.2%
Excise tax	438	521	(15.9)%	1,873	1,105	893	69.5%	23.7%
Social security tax	98	132	(25.8)%	568	397	361	43.1%	10.0%
Property tax	98	91	7.7%	390	284	236	37.3%	20.3%
Land tax	7	7	-	28	22	16	27.3%	37.5%
Transportation tax	1	1	-	4	5	4	(20.0)%	25.0%
Interest and penalties and other payments	6	8	(25.0)%	26	56	49	(53.6)%	14.3%
Total taxes other than income tax	4,513	4,554	(0.9)%	16,911	10,920	8,061	54.9%	35.5%

Taxes other than income tax decreased by 0.9% to US\$ 4,513 million in the fourth quarter of 2011, compared with US\$ 4,554 million in the third quarter of 2011, mainly due to the decrease in the excise tax by 15.9% due to decrease in share of petroleum products subject to excises taxes in total volume of petroleum product sales, as well as from decrease in social security expenses due to new social taxation system.

Taxes other than income tax increased by 54.9% to US\$ 16,911 million 2011 in comparison with 2010. The increase in taxes resulted mainly from an increase in mineral extraction tax rate by 49.8% due to increase in crude oil price.

Taxes other than income tax increased by 35.5% to US\$ 10,920 million 2010 in comparison with US\$ 8,061 million in 2009. The increase in taxes resulted mainly from an increase in mineral extraction tax rate by 39.7% and from the rouble appreciation.

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 between 3^d and 4th quarters</i>	<i>For 12 months ended December 31</i>			<i>% change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011 - 2010	2010-2009
(US\$ million, except %)								
Average enacted mineral extraction tax rate	20.65	21.40	(3.5)%	20.73	13.84	9.91	49.8%	39.7%
Actual mineral extraction tax expense per barrel of crude oil produced	19.18	18.77	2.2%	17.62	11.62	8.93	51.6%	30.1%
Actual mineral extraction tax expense per barrel of oil equivalent produced	17.51	17.36	0.9%	16.18	10.68	8.15	51.5%	31.0%

The actual mineral extraction tax rate is lower than enacted tax rate for the period, primarily, due to the reduced rates for crude oil produced at fields with reserve depletion of over 80% and the zero rate for crude oil produced at the Vankor field, which was applied until accumulated production at the field reached 25 million tonnes in August, 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 between 3^d and 4th quarters</i>	<i>For 12 months ended December 31</i>			<i>% change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011-2010	2010-2009
	(US\$ million, except %)							
Export customs duty for crude oil	5,357	6,068	(11.7)%	20,847	13,031	9,441	60.0%	38.0%
Export customs duty for petroleum products	1,779	1,503	18.4%	6,034	3,712	2,690	62.6%	38.0%
Total export customs duties	7,136	7,571	(5.7)%	26,881	16,743	12,131	60.6%	38.0%

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

	<i>For 3 months ended</i>		<i>% change between 3^d and 4th quarters</i>	<i>For 12 months ended December 31</i>			<i>% change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011 - 2010	2010-2009
	(US\$ per barrel, except %)							
Average Urals price	108.63	111.50	(2.6)%	109.07	78.25	61.01	39.4%	28.3%
Average enacted export customs duty	55.18	60.49	(8.8)%	55.90	37.40	24.51	49.5%	52.6%
Hypothetical export customs duty calculated using the average Urals price for the period (i.e. without time lag)	54.18	60.23	(10.0)%	58.65	38.61	27.40	51.9%	40.9%
Actual average customs duty on exports subject to regular duty	55.37	60.42	(8.4)%	56.03	37.55	23.82	49.2%	57.6%

The actual average customs duty on exports subject to regular duty deviates from the enacted export customs duty due to different monthly export volumes. Starting from May 2011, export volumes from Vankor field are subject to regular customs duties.

Operating Income

As a result of the factors discussed above, operating income decreased by 16.1% to US 3,099 million, in the fourth quarter of 2011 compared with US\$ 3,693 million in the third quarter of 2011. As a percentage of total revenues, operating income was 12.9% in the fourth quarter of 2011 and 15.0% in the third quarter of 2011. As a percentage of total revenues, operating income before taxes other than income tax and export customs duty was 61.6% in the fourth quarter of 2011 and 64.2% in the third quarter of 2011.

Operating income increased by 17.6% to US\$ 15,880 million, in 2011 compared with US\$ 13,499 million in 2010. As a percentage of total revenues, operating income was 17.3% in 2011 and 21.4% in 2010. As a percentage of total revenues, operating income before taxes other than income tax and export customs duty was 64.9% and 65.3% in 2011 and 2010, respectively.

Other (Expenses)/Income, Net

Interest Income

In the fourth quarter of 2011 interest income amounted to US\$ 152 million in comparison with US\$ 155 million in the third quarter of 2011.

Interest income increased to US\$ 658 million in 2011 or by 20.3% compared with 2010. The increase was due to increase in the funds placed on deposits in 2011 compared with 2010.

Interest Expense

In the fourth quarter of 2011, interest expense decreased by 71.6% to US\$ 19 million compared with US\$ 67 million in the third quarter of 2011, which was mainly due the increase in interest capitalized and income resulting from interests SWAP operations.

In 2011, interest expense decreased by 44.8% to US\$ 320 million compared with US\$ 580 million in 2010, which is related to the decrease in interest accrued under valid loan agreements followed after the decrease in total debt and slight increase in interest capitalized in comparison to the prior period. It was partially mitigated by the increase in interest SWAP loss.

Loss on Disposal of Property, Plant and Equipment

From time to time, Rosneft disposes of property, plant and equipment. In the fourth quarter of 2011 and in the third quarter of 2011, Rosneft recorded a net loss of US\$ 78 million and US\$ 104 million on the disposal of property, plant and equipment, respectively.

In 2011, Rosneft recorded a net loss of US\$ 230 million on the disposal of property, plant and equipment compared to US\$ 156 million recorded in 2010. In 2009 Rosneft recorded a net loss of US\$ 350 million.

Equity share in affiliates' profits/(losses)

The equity share in affiliates' losses amounted to US\$ 192 million in the fourth quarter of 2011 compared with profits US\$ 213 million in the third quarter of 2011. The decrease resulted from the reduction in profits incurred by certain Rosneft's affiliates.

The equity share in affiliates' profits amounted to US\$ 577 million in 2011 compared with US\$ 60 million in 2010.

Other (expenses)/income, net

Other expenses, net, consist mainly of social expenditures and of write-offs of trade and other payables and receivables.

In the fourth quarter of 2011, other income, net, amounted to US\$ 260 million, compared to net losses of US\$ 120 million in the third quarter of 2011.

In 2011, other expenses, net, amounted to US\$ 260 million and in 2010 other losses, net, amounted to US\$ 120 million. In 2011 the loss was primarily attributed to one-off accrual in second quarter of expenses on agreements with regions and charity expenses.

Foreign Exchange Loss

Foreign exchange loss was US\$ 207 million in the fourth quarter of 2011 compared with foreign exchange loss of US\$ 358 million in the third quarter of 2011.

Foreign exchange loss was US\$ 649 million in 2011 compared with foreign exchange gain US\$ 32 million in 2010.

Income Tax

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

	<i>For 3 months ended</i>		<i>For 12 months ended December 31</i>		
	December 31, 2011	September 30, 2011	2011	2010	2009
Effective income tax rate for Rosneft under US GAAP	12%	18%	20%	20%	23%

Before the end of 2011 the Company historically does not pay taxes based on its consolidated income before taxes according to the Russian law. Income tax is calculated for each entity based on its profits in accordance with the Russian Tax Code.

To calculate the effective tax rate Rosneft follows the provisions of FASB ASC 740-270, Income Taxes. The effective tax rate for the reporting period is the best estimate of the annual tax rate based on the enacted tax rate (20%) adjusted for the estimated annual effect of permanent differences between US GAAP and Russian Tax Accounting Standards. The estimated tax rate may significantly depend on exchange rate fluctuations and vary significantly during the year.

In accordance with changes in Russian tax code effective from January 2012 the Company will have the option to become the “consolidation taxpayer” under certain conditions. The assessment of advantages from applying the status of “consolidation tax payer” will be made by the Company in the nearest future.

Net income attributable to noncontrolling interests

Net income attributable to noncontrolling interests was US\$ 6 million in the fourth quarter of 2011 compared to US\$ 40 million in the third quarter of 2011.

Net income attributable to noncontrolling interests was US\$ 137 million in 2011 compared to US\$ 272 million in 2010. The change resulted primarily from the decrease of ownership ratio and net income of certain Rosneft’s subsidiaries related to minorities.

Net Income

As a result of the factors discussed above net income increased by 7.7% to US\$ 2,992 million in the fourth quarter of 2011 from US\$ 2,778 million in the third quarter of 2011. As a percentage of revenues, net income was 12.5% and 11.3% in the fourth quarter of 2011 and third quarter of 2011, respectively.

As a result of the factors discussed above net income increased by 19.7% to US\$ 12,452 million in 2011 from US\$ 10,400 million in 2010. As a percentage of revenues, net income was 13.5% and 16.5% in 2011 and 2010, respectively. In 2009 net income amounted to US\$ 6,514 million.

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 between 4 and 3 quarters</i>		<i>For 12 months ended December 31</i>		<i>% change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011 – 2010	2010-2009
	(US\$ million)		times		(US\$ million)		times	
Net cash provided by operating activities	3,505	2,864	1,2	15,749	15,172	10,319	1,0	1.5
Net cash used in investing activities	(4,128)	(2,206)	1,9	(13,606)	(12,439)	(8,788)	1,1	1.4
Net cash used in financing activities	1,851	(1,440)	–	(988)	(558)	(877)	1,8	0.6

Operating Cash Flow

Net cash provided by operating activities amounted to US\$ 3,505 million in the fourth quarter of 2011 as compared to US\$ 2,864 million in the third quarter of 2011. The operating cash flow includes operations with trading securities as part of the Company's efforts to manage cash resources (net inflow of US\$ 57 million in the fourth quarter 2011 and US\$ 33 million in the third quarter of 2011). The adjusted net cash provided by the operating activity amounted to US\$ 3,562 million in the fourth quarter of 2011 and US\$ 2,897 million in the third of 2011. The decrease in the operating cash flow primarily resulted from the increase in working capital.

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 12 months ended</i>		<i>Change</i>
	December 31, 2011	September 30, 2011		December 31, 2011	December 31, 2010	
	(US\$ million)		Times	(US\$ million)		Times
Net cash provided by Operating activity	3,505	2,864	1,2	15,749	15,172	1,0
Effect from operation with trading securities	57	33	1,7	89	(262)	–
Adjusted net cash provided by operating activity	3,562	2,897	1,2	15,838	14,910	1,1

Increase in working capital by US\$ 768 million caused by the following factors:

- Increase in the prepaid expense by US\$ 1,057 million is related to prepayments of customs duties and transportation services, energy and other utilities for the first holiday weeks of January 2012;
- Decrease in the tax payable by US\$ 210 million (mainly income tax);

It was partially offset by the following factors:

- Decrease in trade receivable by US\$ 710 million was attributed to the proceeds under the export sales volumes took place in the previous quarter.

In 2011 net cash provided by the operating activity (adjusted for the result of the operations with trading securities of US\$ 89 million) amounted to US\$ 15,838 million. In 2010 net cash provided by the operating activity (adjusted for the result of the operations with trading securities of US\$ 262 million) amounted to US\$ 14,910 million. The increase in the operating cash flow compared with 2010 resulted from increase in the net income by 18.0%.

Net Cash Used in Investing Activities

Net cash used in investing activities was US\$ 4,128 million in the fourth quarter of 2011 compared to US\$ 2,206 million in the third quarter of 2011. The increase resulted mainly from the increase in capital expenditures and acquisition of additional share in subsidiaries and affiliates.

Net cash used in investing activities was US\$ 13,606 million in 2011 compared to US\$ 12,439 million in 2010. The increase resulted mainly from the increase in capital expenditures and acquisition of additional share in subsidiaries and affiliates

Net Cash Used in Financing Activities

Net cash provided by financing activities was US\$ 1,851 million in the fourth quarter of 2011 compared to US\$ 1,440 million of net cash used in the financing activities in the third quarter of 2011.

The increase in cash used in financing activities is related to proceeds of US\$ 2 billion long-term multicurrency loan from group of banks and US\$ 0.5 billion facility procuring the purchase of equipment. .

Net cash used in financing activities amounted to US\$ 988 million in 2011 in comparison to US\$ 558 million in 2010.

Capital Expenditures

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

	<i>For 3 months ended</i>		<i>% change between 4 and 3 quarters</i>	<i>For 12 months ended December 31</i>			<i>% change for 12 months ended December 31</i>	
	December 31, 2011	September 30, 2011	2011	2011	2010	2009	2011 – 2010	2010-2009
	(US\$ million, except %)							
Yuganskneftegaz	1,024	869	17.8%	3,267	2,500	2,252	30.7%	11.0%
Vankorneft	783	499	56.9%	2,913	2,122	2,531	37.3%	(16.2)%
Purneftegaz	195	141	38.3%	504	522	276	(3.4)%	89.1%
Severnaya Neft	80	43	86.0%	208	111	76	87.4%	46.1%
Samaraneftegaz	88	83	6.0%	295	217	156	35.9%	39.1%
Other ¹	297	269	10.4%	985	871	576	13.1%	51.2%
Total upstream segment	2,467	1,904	29.6%	8,172	6,343	5,867	28.8%	8.1%
The Company	8	1	700.0%	26	69	49	(62.3)%	40.8%
Tuapse refinery	615	506	21.5%	1,984	754	208	163.1%	262.5%
Komsomolsk refinery	38	76	(50.0)%	166	116	92	43.1%	26.1%
Angarsk refinery	116	32	262.5%	181	100	79	81.0%	26.6%
Achinsk refinery	75	35	114.3%	192	122	54	57.4%	125.9%
Syzran refinery	88	46	91.3%	162	111	77	45.9%	44.2%
Novokuibyshevsk refinery	114	25	356.0%	210	117	56	79.5%	108.9%
Kuibyshev refinery	52	55	(5.5)%	184	136	69	35.3%	97.1%
Marketing Business Units and others ²	331	130	154.6%	822	576	409	42.7%	40.8%
Total downstream	1,437	906	58.6%	3,927	2,101	1,093	86.9%	92.2%
Other activities³	267	119	124.4%	588	474	325	24.1%	45.8%
Subtotal capital expenditures	4,171	2,929	42.4%	12,687	8,918	7,285	42.3%	22.4%
Change in materials in capital expenditures	94	(161)	>100.0%	559	13	(33)	4,200.0%	>100.0%
Total capital expenditures	4,265	2,768	54.1%	13,246	8,931	7,252	48.3%	23.2%
Licence acquisition costs	53	60	(11.7)%	254	140	96	81.4%	45.8%

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.

Rosneft's total capital expenditures including material purchases increased by 54.1% to US\$ 4,265 million in the fourth quarter of 2011 compared to the third quarter of 2011. The increase in capital expenditures resulted from planning, budgeting and seasonal factors. In 2011 Rosneft's total capital expenditures including material purchases increased by 48.3% to US\$ 13,246 million compared with US\$ 8,931 million in 2010.

Upstream capital expenditures in the fourth quarter of 2011 increased by 29.6% compared with the third quarter of 2011 and amounted to US\$ 2,467 million. The increase was mainly due to the seasonal fluctuations of construction work on Vankor fields. In 2011 the upstream capital expenditures increased by 28.8% compared with 2010 and amounted to US\$ 8,172 million. In 2010 the upstream capital expenditures amounted to US\$ 6,343 million.

Downstream capital expenditures increased by US\$ 531 million or by 58.6% compared with the third quarter of 2011. The increase in capital expenditures was mainly driven by continued program for capacity upgrade and expansion at the refineries, including modernization of the Tuapse, Angarsk and Novokuibyshevsk refineries.

In 2011 downstream expenditures increased by US\$ 1,826 million or by 86.9% compared to 2010. The increase in downstream expenditures resulted from the works carried out as part of the project for primarily and secondary capacity upgrade and expansion at Tuapse refinery and upgrade of other refineries. In 2010 the capital expenditures amounted to US\$ 2,101 million.

Capital expenditures for other activities increased by 124.4%, to US\$ 267 million, in the fourth quarter of 2011, compared with US\$ 119 million in the third quarter of 2011. The increase resulted from the planned acquisition of drilling, transportation and other equipment. In 2011 the capital expenditures for other activities were US\$ 588 million compared to US\$ 474 million in 2010.

Since the fourth quarter of 2006, the Company's subsidiaries have been purchasing construction materials and selling such materials to contractors that provide construction and drilling services at subsidiaries' fields. The net increase in unused construction materials included in capital expenditures was US\$ 94 million in the fourth quarter of 2011 compared to net decrease of US\$ 161 million in the third quarter of 2011. In 2011, 2010 and 2009 the net change in unused construction materials were US\$ 559 million, US\$ 13 million and US\$ (33) million, respectively.

In the fourth quarter of 2011 the licence acquisition costs refer to the acquisition of three licences for exploration at Zagranichny, Santalovsky and Fateevsky blocks in Samara region for US\$ 26 million and licences for exploration in the sea of Okhotsk for US\$ 27 million.

In the third quarter of 2011 the licence acquisition costs of US\$ 60 million refer to the licence for exploration and extraction of hydrocarbon reserves in the sea of Okhotsk and at Padovsky block in Samara region.

Debt Obligations

Rosneft adjusted net debt increased to US\$ 15,864 million as of December 31, 2011 compared to US\$ 13,991 million as of September 30, 2011.

Rosneft's total loans and borrowings increased to US\$ 23,291 million as of December 31, 2011 from US\$ 21,452 million as of September 30, 2011. The increase resulted from drawing down of unsecured long term syndicated loan received from the group of foreign banks in the fourth quarter of 2011.

Long-term loans are generally secured by oil export contracts. As of December 31, 2011 and September 30, 2011, 75.6% and 84.9% respectively, of Rosneft's borrowings were secured by crude oil export contracts (excluding export to the CIS). As of December 31, 2011 and September 30, 2011, pledged oil exports constituted 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	December 31, 2011	September 30, 2011	December 31, 2010
Short term debt	4,734	4,960	5,498
Long term debt	18,557	16,492	18,057
Total debt	23,291	21,452	23,555
Cash and cash equivalents	(5,172)	(3,969)	(4,154)
Short-term bank deposits	(275)	(139)	(1,321)
Structured deposits	(979)	(2,263)	(3,791)
Short term promissory notes and other short-term liquid instruments	(1,001)	(1,090)	(627)
Adjusted net debt	15,864	13,991	13,662

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 12 months ended December 31		
	December 31, 2011	September 30, 2011	2011	2010	2009
EBITDA margin	19.8%	21.5%	23.9%	30.5%	29.0%
Adjusted net income margin	12.3%	11.2%	13.5%	16.6%	13.8%
Net debt to capital employed ratio	0.19	0.18	0.19	0.20	0.29
Net debt to annualised EBITDA	0.83	0.66	0.36	0.71	1.36
Current ratio	1.97	1.78	1.97	1.97	1.13
	US\$/bbl				
EBITDA/bbl	23.59	26.14	27.67	24.65	18.63
Upstream capital expenditure/bbl	12.24	9.42	10.27	8.14	8.06
Upstream operating expenses/bbl	3.16	3.09	3.07	2.83	2.57
Adjusted free cash flow before interest/bbl	(3.75)	0.34	2.94	7.49	4.73
	US\$/boe				
EBITDA/boe	21.53	24.18	25.42	22.66	17.00
Upstream capital expenditure/boe	11.18	8.71	9.43	7.48	7.35
Upstream operating expenses/boe	2.89	2.86	2.82	2.61	2.34
Adjusted free cash flow before interest/boe	(3.43)	0.32	2.70	6.89	4.32

The Company considers EBITDA/bbl, upstream operating expenses/bbl(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 US GAAP.

All the 'per unit of production' indicators are calculated by dividing the total amount in US\$ by the total production volume in bbl or boe and are not adjusted for the effect of changes in inventories.

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

Upstream Measures

	For 3 months ended		For 12 months ended December 31		
	December 31, 2011	September 30, 2011	2011	2010	2009
Upstream capital expenditures (US\$ million)	2,467	1,904	8,172	6,343	5,867
Upstream operating expenses (US\$ million)	637	624	2,445	2,208	1,869
Barrels of crude oil produced (million)	201.49	202.10	795.83	779.07	728.06
Barrels of oil equivalent produced (million)	220.73	218.51	866.37	847.51	797.83

Calculation of Adjusted Free Cash Flow

	For 3 months ended		For 12 months ended December 31		
	December 31, 2011	September 30, 2011	2011	2010	2009
Net cash provided by operating activities	3,505	2,864	15,749	15,172	10,319
Capital expenditures	(4,265)	(2,768)	(13,246)	(8,931)	(7,252)
Free cash flow	(760)	96	2,503	6,241	3,067
Trading securities operations	57	33	89	(262)	472
License acquisition costs	(53)	(60)	(254)	(140)	(96)
Adjusted free cash	(756)	69	2,338	5,839	3,443

Calculation of EBITDA Margin

	For 3 months ended		For 12 months ended December 31		
	December 31, 2011	September 30, 2011	2011	2010	2009
Operating income	3,099	3,693	15,880	13,499	9,128
Accretion expense	35	41	146	107	87
Depreciation, depletion and amortisation	1,619	1,549	5,996	5,597	4,350
EBITDA	4,753	5,283	22,022	19,203	13,565
Sales revenues	23,951	24,627	91,975	63,047	46,826
EBITDA margin	19.8%	21.5%	23.9%	30.5%	29.0%

Calculation of Adjusted Net Income Margin

	For 3 months ended		For 12 months ended December 31		
	December 31, 2011	September 30, 2011	2011	2010	2009
Net income	2,992	2,778	12,452	10,400	6,514
Effect from the assets impairment and interests SWAP	(40)	(20)	(81)	42	(42)
Adjusted net income	2,952	2,758	12,371	10,442	6,472
Sales revenues	23,951	24,627	91,975	63,047	46,826
Adjusted net income margin	12.3%	11.2%	13.5%	16.6%	13.8%

Current ratio

	For 12 months ended December 31		
	2011	2010	2009
	(US\$ million, except ratio)		
Current assets	25,642	23,043	15,169
Current liabilities	12,993	11,693	13,443
Current ratio	1.97	1.97	1.13

Calculation of Capital Employed and Related Indicators

	For 12 months ended December 31		
	2011	2010	2009
	(US\$ million)		
Short-term loans and current portion of long-term debt	4,734	5,498	7,838
Long-term debt	18,557	18,057	15,669
Cash and cash equivalents	(7,427)	(9,893)	(5,018)
Net debt⁽¹⁾	15,864	13,662	18,489
Shareholders' equity	65,761	54,535	44,831
Minority interest in subsidiaries' earnings	1,041	969	706
Equity	66,802	55,504	45,537
Capital employed	82,666	69,166	64,026
Average equity, including minority interest⁽²⁾	61,153	50,521	42,568
Average capital employed⁽³⁾	75,916	66,596	62,454

(1) The net debt estimation is set presented in "Debt obligations" section.

(2) Average equity including minority interest is calculated as a simple average of the equity including minority interest at the start and end of the given period.

(3) Average capital employed is calculated as a simple average of the capital employed at the start and the end of the given period.

Calculation of Return on Average Capital Employed (ROACE)

	For 12 months ended December 31		
	2011	2010	2009
		(US\$ million, except %)	
Operating income	15,880	13,499	9,128
Income tax expense	(3,117)	(2,644)	(2,000)
Return used for calculation of ROACE	12,763	10,855	7,128
Average capital employed	75,916	66,596	62,454
ROACE	16.8%	16.3%	11.4%

Calculation of Return on Average Equity (ROAE)

	For 12 months ended December 31		
	2011	2010	2009
		(US\$ million, except %)	
Adjusted net income	12,372	10,442	6,472
Average equity, including minority interest	61,153	50,521	42,568
ROAE, annualized where appropriate	20.2%	20.7%	15.2%