



ROSNEFT

O I L C O M P A N Y

OPEN JOINT STOCK COMPANY

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE QUARTERS ENDED JUNE 30 AND MARCH 31, 2010
AND FOR THE SIX MONTHS ENDED JUNE 30, 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 June 30, 2010 and 2009 (the "Interim Condensed 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, 2009 amounted to 22.86 billion barrels of oil equivalent, including 18.06 billion barrels of oil and 816 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 2.32 million barrels per day (average for the second quarter of 2010) and output of natural and associated gas is over 2.96 billion cubic meters per quarter (data for the second quarter of 2010).

Rosneft processes part of the crude oil produced at its seven refineries with total primary refining capacity of 1.1 million barrels per day. Rosneft's refinery throughput is 1.0 million barrels per day (average for the six months of 2010) which equals 43% of the Company's crude oil output. The remaining volumes of crude oil are mostly exported to Europe, Asia and CIS countries.

Part of the petroleum products produced by the Company is sold in Russia, both wholesale and through Rosneft's own retail network which comprises approximately 1,700 service stations in 39 regions of Russia. The remaining volumes (mainly fuel oil, diesel and naphtha) are exported to Europe, CIS and Asia.

Financial and Operating Highlights

	For 3 months ended		% change	For 6 months ended		% change
	June 30, 2010	March 31, 2010		June 30, 2010	June 30, 2009	
Revenues (US\$ million)	15,431	14,761	4.5%	30,192	19,211	57.2%
EBITDA (US\$ million)	4,745	4,443	6.8%	9,188	5,892	55.9%
Adjusted net income (US\$ million) ¹	2,513	2,447	2.7%	4,960	3,617	37.1%
Crude oil production (th. barrels per day)	2,315	2,288	1.2%	2,301	2,118	8.6%
Gas production (bcm)	2.96	3.27	(9.5)%	6.23	6.28	(0.8)%
Hydrocarbon production (th. boe per day)	2,506	2,501	0.2%	2,504	2,322	7.8%
Production of petroleum products (million tonnes)	11.16	12.06	(7.5)%	23.22	23.25	(0.1)%

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.

¹ Net income for the three months ended June 30, 2010 and March 31, 2010 is adjusted for effect of SWAP operations in the amount of US\$ 37 million and US\$ 16 million, respectively. In the six months of 2010 and 2009, net income adjusted for effect of SWAP operations amounted to US\$ 53 million and US\$ (55) million, respectively.

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.

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</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010		June 30, 2010	June 30, 2009	
World market	(US\$ per barrel)			(US\$ per barrel)		
Brent (dated)	78.30	76.24	2.7%	77.27	51.60	49.7%
Urals (average CIF Med and NWE)	76.92	75.26	2.2%	76.09	50.88	49.5%
Urals (FOB Primorsk)	75.31	73.37	2.6%	74.34	49.33	50.7%
Urals (FOB Novorossysk)	75.05	73.48	2.1%	74.27	49.41	50.3%
Dubai-Oman	78.21	76.02	2.9%	77.11	51.80	48.9%
	(US\$ per tonne)			(US\$ per tonne)		
Naphtha (av. FOB/CIF Med)	679.09	691.99	(1.9)%	685.54	423.99	61.7%
Naphtha (av. FOB Rotterdam/CIF NWE)	690.44	706.81	(2.3)%	698.63	434.65	60.7%
Naphtha (CFR Japan)	709.75	716.63	(1.0)%	713.19	462.18	54.3%
Fuel oil 3.5% (av. FOB/CIF Med)	437.14	440.65	(0.8)%	438.89	277.02	58.4%
Fuel oil 3.5% (av. FOB Rotterdam/CIF NWE)	432.77	441.43	(2.0)%	437.10	273.48	59.8%
High sulphur fuel oil 180 cst (FOB Singapore)	464.31	473.31	(1.9)%	468.81	299.95	56.3%
Gasoil 0.1% (av. FOB/CIF Med)	671.72	632.78	6.2%	652.25	456.67	42.8%
Gasoil 0.1% (av. FOB Rotterdam/CIF NWE)	670.79	632.69	6.0%	651.74	453.05	43.9%
Gasoil 0.5% (FOB Singapore)	664.62	629.87	5.5%	647.25	443.35	46.0%
Russian market (net of VAT, including excise tax)	(US\$ per tonne)			(US\$ per tonne)		
Crude oil	210.57	210.74	(0.1)%	210.66	142.14	48.2%
Fuel oil	254.00	238.20	6.6%	246.10	151.95	62.0%
Summer diesel	472.05	435.27	8.4%	453.66	372.57	21.8%
Winter diesel	493.04	532.01	(7.3)%	512.52	429.83	19.2%
High octane gasoline	694.88	635.03	9.4%	664.95	459.99	44.6%
Low octane gasoline	575.78	538.65	6.9%	557.22	388.80	43.3%

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 1,250 (excluding VAT) (US\$ 41.35 per thousand cubic meters) and RUB 1,279 (US\$ 42.80 per thousand cubic meters) in the second and first quarters of 2010, respectively. In the six months of 2010 and 2009 Rosneft's average gas sale price was RUB 1,266 (US\$ 42.12 per thousand cubic meters) and RUB 1,025 (US\$ 30.99 per thousand cubic meters), respectively.

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 6 months ended</i>	
	June 30, 2010	March 31, 2010	June 30, 2010	June 30, 2009
Rouble inflation (CPI) for the period	1.2%	3.2%	4.4%	7.4%
Change of the average invert exchange rate (RUB/US\$) compared to the previous period	(1.2)%	(1.4)%	10.0%	(27.6)%
US\$/RUB exchange rate at the end of the period	31.20	29.36	31.20	31.29
Average US\$/RUB exchange rate for the period	30.24	29.89	30.07	33.07
Real appreciation/(depreciation) of the RUB against the US\$ for the period ⁽¹⁾	(4.7)%	6.3%	1.2%	(16.1)%

Source: Central Bank of Russia, Federal State Statistics Service of Russia.

(1) Rosneft uses the following formula to calculate the real appreciation of the RUB against the US\$: ratio of the exchange rate at the beginning of the period to the exchange rate at the end of the period multiplied by the inflation index, minus 1.

Taxation

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010		June 30, 2010	June 30, 2009	
Mineral extraction tax						
Crude oil (RUB per tonne)	2,979	2,877	3.5%	2,928	1,873	56.3%
Natural gas (RUB per th. cubic meters)	147	147	-	147	147	-
Associated gas (RUB per th. cubic meters)	0	0	-	0	0	-
Export customs duty						
Crude oil (US\$ per tonne)	281.66	263.77	6.8%	272.72	122.63	122.4%
Light and middle distillates and gasoil (US\$ per tonne)	202.10	190.03	6.4%	196.07	94.93	106.5%
Liquid fuels (fuel oil) (US\$ per tonne)	108.87	102.37	6.3%	105.62	51.13	106.6%
Excise on petroleum products						
High octane gasoline (RUB per tonne)	3,992	3,992	-	3,992	3,629	10.0%
Low octane gasoline (RUB per tonne)	2,923	2,923	-	2,923	2,657	10.0%
Naphtha (RUB per tonne)	4,290	4,290	-	4,290	3,900	10.0%
Diesel (RUB per tonne)	1,188	1,188	-	1,188	1,080	10.0%
Lubricants (RUB per tonne)	3,246	3,246	-	3,246	2,951	10.0%

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010	%	June 30, 2010	June 30, 2009	%
Mineral extraction tax						
Crude oil (US\$ per tonne)	98.50	96.25	2.3%	97.38	56.64	71.9%
Natural gas (US\$ per th. cubic meters)	4.86	4.92	(1.2)%	4.89	4.45	9.9%
Excise on petroleum products						
High octane gasoline (US\$ per tonne)	132.01	133.56	(1.2)%	132.76	109.73	21.0%
Low octane gasoline (US\$ per tonne)	96.67	97.79	(1.2)%	97.21	80.34	21.0%
Naphtha (US\$ per tonne)	141.87	143.53	(1.2)%	142.67	117.93	21.0%
Diesel (US\$ per tonne)	39.29	39.75	(1.2)%	39.51	32.66	21.0%
Lubricants (US\$ per tonne)	107.34	108.60	(1.2)%	107.95	89.23	21.0%

Tax rates translated from tonnes to barrels:

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010	%	June 30, 2010	June 30, 2009	%
Mineral extraction tax on crude oil (US\$ per barrel)	13.47	13.16	2.3%	13.31	7.74	71.9%
Export duty on crude oil (US\$ per barrel)	38.51	36.06	6.8%	37.28	16.76	122.4%

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

	<i>For 3 months ended</i>				<i>For 6 months ended</i>			
	June 30, 2010		March 31, 2010		June 30, 2010		June 30, 2009	
	US\$ million	% of total revenue	US\$ million	% of total revenue	US\$ million	% of total revenue	US\$ million	% of total revenue
Total revenues	15,431	100.0%	14,761	100.0%	30,192	100.0%	19,211	100.0%
Export customs duty (for oil sales)	3,148	20.4%	3,015	20.4%	6,163	20.4%	3,057	15.9%
Export customs duty (for petroleum prod. sales)	907	5.9%	969	6.6%	1,876	6.2%	976	5.1%
Mineral extraction tax	2,192	14.2%	2,128	14.4%	4,320	14.3%	2,494	13.0%
Excise tax	283	1.8%	251	1.7%	534	1.7%	417	2.2%
Other taxes (including property tax)	211	1.4%	203	1.4%	414	1.4%	368	1.9%
Income tax	763	4.9%	653	4.4%	1,416	4.7%	523	2.7%
Total taxes	7,504	48.6%	7,219	48.9%	14,723	48.7%	7,835	40.8%

The mineral extraction tax and the export customs duty accounted for approximately 40.5% and 41.4% of Rosneft's total revenues in the second and first quarters of 2010, respectively. In the six months of 2010 and 2009 the mineral extraction tax and the export customs duty accounted for approximately 40.9% and 34.0% 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.

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.

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.

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 used for the calculation of ordinary export duty. For July 2010 the ordinary export duty rate is US\$ 34.1 per barrel, while special export duty rate is US\$ 9.6 per barrel.

In 2009 and in the first half of 2010 export duties were not payable on crude oil exports to CIS countries that are members of the Customs Union except for Belarus. In 2009 export customs duties were levied on crude oil exports to Belarus at the fractional rate of 0.356 of the ordinary rate.

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 depends on the type of the product: light (gasoline, diesel, jet) or dark (fuel oil).

Export customs duty on light petroleum products is calculated using the following formula: $0.438 * (\text{Price} * 7.3 - 109.5)$, where Price is the average Urals price in US\$ per barrel. Export customs duty on dark petroleum products is calculated using the following formula: $0.236 * (\text{Price} * 7.3 - 109.5)$.

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 respectively by Transneft and its subsidiary Transnefteproduct. 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 and Transnefteproduct'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 roubles and are not linked to the RUB/US\$ exchange rate.

The monopolies set tariffs for each separate route of the pipeline and railroad networks depending on the length of the relevant routes, transportation direction and other factors. The latest increases in tariffs were in the middle of 2009 and from January 1, 2010. The table below presents tariffs applied for major transportation routes used by Rosneft:

	For 3 months ended			For 6 months ended		
	June 30, 2010	March 31, 2010	Change	June 30, 2010	June 30, 2009	Change
	(RUB/tonne)	(RUB/tonne)	(%)	(RUB/tonne)	(RUB/tonne)	(%)
CRUDE OIL						
Domestic						
<i>Pipeline</i>						
Yugansk – Samara refineries	633.42	633.42	0.0%	633.42	517.91	22.3%
Samara – Samara refineries	40.47	40.47	0.0%	40.47	34.27	18.1%
Yugansk – Angarsk refinery	1,062.89	1,062.89	0.0%	1,062.89	879.52	20.8%
Tomsk – Achinsk refinery	290.78	290.78	0.0%	290.78	239.44	21.4%
<i>Pipeline and railroad</i>						
Yugansk – Komsomolsk refinery	3,591.07	3,579.97	0.3%	3,585.52	2,933.17	22.2%
Exports						
<i>Pipeline</i>						
Yugansk – Primorsk	1,145.55	1,145.55	0.0%	1,145.55	951.95	20.3%
Yugansk – Novorossysk	1,278.53	1,278.53	0.0%	1,278.53	1,074.53	19.0%
Vankor (Purpe)-Primorsk	1,436.30	1,436.30	0.0%	1,436.30	-	-
Vankor (Purpe)-Kozmino	1,598.00	1,598.00	0.0%	1,598.00	-	-
<i>Pipeline and railroad</i>						
Yugansk – China (through Meget)	2,856.77	2,852.27	0.2%	2,854.54	2,470.13	15.6%
PETROLEUM PRODUCT EXPORTS						
Diesel						
Samara refineries – Ventspils	1,582.00	1,555.55	1.7%	1,568.82	1,447.99	8.3%
Angarsk refinery – Nakhodka	3,615.65	3,615.65	0.0%	3,615.65	3,118.35	15.9%
Komsomolsk refinery – Nakhodka	1,419.03	1,419.03	0.0%	1,419.03	1,222.26	16.1%
Achinsk refinery – Tuapse	4,069.43	4,069.43	0.0%	4,069.43	3,509.90	15.9%
Fuel oil						
Samara refineries – Odessa	2,569.51	2,560.16	0.4%	2,564.86	2,304.34	11.3%
Angarsk refinery – Nakhodka	3,670.78	3,670.78	0.0%	3,670.78	3,165.41	16.0%
Komsomolsk refinery – Nakhodka	1,374.87	1,374.87	0.0%	1,374.87	1,185.58	16.0%
Achinsk refinery – Nakhodka	4,528.16	4,528.16	0.0%	4,528.16	3,904.77	16.0%
Naphtha						
Samara refineries – Tuapse	1,740.94	1,740.94	0.0%	1,740.94	1,499.49	16.1%
Achinsk refinery – Tuapse	3,995.98	3,995.98	0.0%	3,995.98	3,446.68	15.9%
Angarsk refinery – Nakhodka	3,512.37	3,512.37	0.0%	3,512.37	3,029.27	15.9%
Komsomolsk refinery – Nakhodka	1,393.50	1,393.50	0.0%	1,393.50	1,200.03	16.1%

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

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

	<i>For 3 months ended</i>			<i>For 6 months ended</i>		
	June 30, 2010	March 31, 2010	Change	June 30, 2010	June 30, 2009	Change
	(US\$/tonne)	(US\$/tonne)	(%)	(US\$/tonne)	(US\$/tonne)	(%)
CRUDE OIL						
Domestic						
<i>Pipeline</i>						
Yugansk – Samara refineries	20.94	21.19	(1.2)%	21.07	15.66	34.5%
Samara – Samara refineries	1.34	1.35	(0.7)%	1.35	1.04	29.8%
Yugansk – Angarsk refinery	35.14	35.56	(1.2)%	35.35	26.60	32.9%
Tomsk – Achinsk refinery	9.61	9.73	(1.2)%	9.67	7.24	33.6%
<i>Pipeline and railroad</i>						
Yugansk – Komsomolsk refinery	118.74	119.77	(0.9)%	119.25	88.70	34.4%
Exports						
<i>Pipeline</i>						
Yugansk – Primorsk	37.88	38.33	(1.2)%	38.10	28.79	32.3%
Yugansk – Novorossysk	42.28	42.77	(1.1)%	42.52	32.49	30.9%
Vankor(Purpe)-Primorsk	47.49	48.05	(1.2)%	47.77	-	-
Vankor(Purpe)-Kozmino	52.84	53.46	(1.2)%	53.15	-	-
<i>Pipeline and railroad</i>						
Yugansk – China (through Meget)	94.46	95.42	(1.0)%	94.94	74.70	27.1%
PETROLEUM PRODUCT EXPORTS						
Diesel						
Samara refineries – Ventspils	52.31	52.04	0.5%	52.18	43.79	19.2%
Angarsk refinery – Nakhodka	119.55	120.96	(1.2)%	120.25	94.30	27.5%
Komsomolsk refinery – Nakhodka	46.92	47.47	(1.2)%	47.19	36.96	27.7%
Achinsk refinery – Tuapse	134.56	136.15	(1.2)%	135.34	106.14	27.5%
Fuel oil						
Samara refineries – Odessa	84.96	85.65	(0.8)%	85.30	69.69	22.4%
Angarsk refinery – Nakhodka	121.38	122.81	(1.2)%	122.08	95.72	27.5%
Komsomolsk refinery – Nakhodka	45.46	46.00	(1.2)%	45.73	35.85	27.6%
Achinsk refinery – Nakhodka	149.73	151.49	(1.2)%	150.60	118.08	27.5%
Naphtha						
Samara refineries – Tuapse	57.57	58.24	(1.2)%	57.90	45.35	27.7%
Achinsk refinery – Tuapse	132.13	133.69	(1.2)%	132.90	104.23	27.5%
Angarsk refinery – Nakhodka	116.14	117.51	(1.2)%	116.82	91.61	27.5%
Komsomolsk refinery – Nakhodka	46.08	46.62	(1.2)%	46.35	36.29	27.7%

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 and the Caspian Pipeline Consortium pipeline in which Rosneft has a stake.

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.

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

	<i>For 3 months ended</i>			<i>For 6 months ended</i>		
	June 30, 2010	March 31, 2010	Change	June 30, 2010	June 30, 2009	Change
	(million of barrels)		(%)	(million of barrels)		(%)
Yuganskneftegaz (Western Siberia)	119.47	117.45	1.7%	236.92	240.62	(1.5)%
Samaraneftegaz (Central Russia)	18.69	18.48	1.1%	37.17	36.22	2.6%
Purneftegaz (Western Siberia)	13.26	13.00	2.0%	26.26	28.63	(8.3)%
Vankorneft (Eastern Siberia)	23.74	20.87	13.8%	44.61	0.45	9,813.3%
Severnaya Neft (Timan Pechora)	7.54	7.84	(3.8)%	15.38	17.98	(14.5)%
Sakhalin-1 (Far East) (net of royalty and government share)	2.16	2.35	(8.1)%	4.51	5.16	(12.6)%
Other	8.79	9.31	(5.6)%	18.10	20.50	(11.7)%
Crude oil production by fully and proportionately consolidated enterprises	193.65	189.30	2.3%	382.95	349.56	9.6%
Tomskneft (Western Siberia)	9.33	9.29	0.4%	18.62	20.02	(7.0)%
Udmurtneft (Central Russia)	5.78	5.68	1.8%	11.46	11.40	0.5%
Polar Lights (Timan Pechora)	0.66	0.68	(2.9)%	1.34	1.71	(21.6)%
Verkhnechonskneftegaz (Eastern Siberia)	1.21	0.93	30.1%	2.14	0.74	189.2%
Total share in production of joint ventures	16.98	16.58	2.4%	33.56	33.87	(0.9)%
Total crude oil production	210.63	205.88	2.3%	416.51	383.43	8.6%
Daily crude oil production (th. barrels per day)	2,315	2,288	1.2%	2,301	2,118	8.6%

In the second quarter of 2010 Rosneft's average daily crude oil production reached 2,315 th. barrels per day, which is an increase of 1.2% compared with the first quarter of 2010. The growth was primarily driven by continuing production ramp up at the Vankor field, which gave additional average production of 29 th. barrels per day compared with the first quarter of 2010. Crude oil production at the Vankor field averaged 259 th. barrels per day, 260 th. barrels per day and 264 th. barrels per day in April, May and June 2010, respectively.

Other growth drivers were Verkhnechonskneftegaz, Purneftegaz, Yuganskneftegaz, Samaraneftegaz and Udmurtneft. In Q2 2010 daily production at Verkhnechonsk field in Eastern Siberia, which was launched in 2008, was 15% ahead of plan due to higher than expected flow rates. The declining daily production trend at Yuganskneftegaz reverted in Q2 2010 due to higher than expected flow rates of new wells, more wells drilled within the planned budget and more efficient well interventions. Production at Purneftegaz grew quarter-on-quarter following a decline in the beginning of the year due to extremely low temperatures. Samaraneftegaz and Udmurtneft demonstrated production growth despite high level of reserve depletion due to efficient placement of new wells and application of advanced oil recovery methods.

In the six months of 2010 Rosneft's average daily crude oil production reached 2,301 th. barrels per day, an increase of 8.6% compared with the six months of 2009. The growth was driven primarily by commercial production launch at the Vankor field in July 2009 as well as production growth at Verkhnechonsk field and Samaraneftegaz fields.

Production of Gas

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

	<i>For 3 months ended</i>			<i>For 6 months ended</i>		
	June 30,	March 31,	Change	June 30,	June 30,	Change
	2010	2010		2010	2009	
	(bcm)		(%)	(bcm)	(%)	
Purneftegaz (Western Siberia)	0.89	0.93	(4.3)%	1.82	1.89	(3.7)%
Yuganskneftegaz (Western Siberia)	0.61	0.70	(12.9)%	1.31	1.16	12.9%
Krasnodarneftegaz (Southern Russia)	0.65	0.73	(11.0)%	1.38	1.53	(9.8)%
Samaraneftegaz (Central Russia)	0.11	0.10	10.0%	0.21	0.19	10.5%
Severnaya Neft (Timan Pechora)	0.07	0.07	-	0.14	0.15	(6.7)%
Sakhalin-1 (Far East) (net of royalty and government share)	0.08	0.10	(20.0)%	0.18	0.13	38.5%
Other	0.39	0.46	(15.2)%	0.85	0.82	3.7%
Gas production by fully and proportionately consolidated enterprises	2.80	3.09	(9.4)%	5.89	5.87	0.3%
Tomskneft (Western Siberia)	0.15	0.16	(6.3)%	0.31	0.39	(20.5)%
Udmurtneft (Central Russia)	0.01	0.01	-	0.02	0.01	25.8%
Polar Lights (Timan Pechora)	0.00	0.01	(15.2)%	0.01	0.01	-
Total share in production of joint ventures	0.16	0.18	(11.1)%	0.34	0.41	(17.1)%
Total gas production	2.96	3.27	(9.5)%	6.23	6.28	(0.8)%
Natural gas	1.11	1.26	(11.9)%	2.37	2.53	(6.3)%
Associated gas	1.85	2.01	(8.0)%	3.86	3.75	2.9%

* Production volume equals extracted volume minus flared volume.

In the second quarter of 2010 Rosneft's natural and associated gas production decreased to 2.96 bcm, or by 9.5% compared with the first quarter of 2010. The decrease resulted from seasonal demand fluctuations, as well as planned turnarounds at OJSC Sibur Holding gas processing plants.

In the six months of 2010 Rosneft's natural and associated gas production decreased by 0.8% compared with the six months of 2009, primarily as a result of required maintenance at Lugenetskaya compression station in the first half of 2010, 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 program.

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 at Yuganskneftegaz, Purneftegaz and Vankorneft.

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).

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

	<i>For 3 months ended</i>			<i>For 6 months ended</i>		
	June 30, 2010	March 31, 2010	Change	June 30, 2010	June 30, 2009	Change
	<i>(million of tonnes)</i>		<i>(%)</i>	<i>(million of tonnes)</i>		<i>(%)</i>
Crude oil processing at Rosneft's refineries	11.71	12.76	(8.2)%	24.47	24.56	(0.4)%
Product output:						
High octane gasoline	1.06	1.23	(13.8)%	2.29	2.33	(1.7)%
Low octane gasoline	0.39	0.39	-	0.78	0.69	13.0%
Naphtha	0.79	0.81	(2.5)%	1.60	1.80	(11.1)%
Diesel	3.91	4.22	(7.3)%	8.13	8.40	(3.2)%
Fuel oil	3.96	4.55	(13.0)%	8.51	8.10	5.1%
Jet	0.28	0.22	27.3%	0.50	0.53	(5.7)%
Petrochemicals	0.14	0.14	-	0.28	0.22	27.3%
Other	0.63	0.50	26.0%	1.13	1.18	(4.2)%
Total	11.16	12.06	(7.5)%	23.22	23.25	(0.1)%

In the second quarter of 2010 Rosneft's refinery throughput decreased by 8.2% compared with the first quarter of 2010. The decrease was due to planned turnarounds at a number of units of Tuapse, Kuibyshev, Novokuibyshevsk and Achinsk refineries and resulted in the change in output structure as detailed above. The increase in jet output resulted from the recovery of domestic demand for this product and seasonal decrease in demand for winter fuels.

The increase in production of fuel oil in the six months of 2010 compared with the same period of 2009 was due to a decrease of potential light fractions content in the oil processed at Kuibyshev, 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>					<i>For 6 months ended</i>				
	June 30, 2010		March 31, 2010		Change %	June 30, 2010		June 30, 2009		Change %
		% of total revenue		% of total revenue			% of total revenue		% of total revenue	
(US\$ million, except %)										
Revenues										
Oil and gas sales	8,604	55.8%	8,047	54.5%	6.9%	16,651	55.1%	9,884	51.4%	68.5%
Petroleum products and petrochemicals sales	6,454	41.8%	6,310	42.8%	2.3%	12,764	42.3%	8,753	45.6%	45.8%
Support services and other revenues	373	2.4%	404	2.7%	(7.7)%	777	2.6%	574	3.0%	35.4%
Total revenues	15,431	100.0%	14,761	100.0%	4.5%	30,192	100.0%	19,211	100.0%	57.2%
Cost and expenses										
Production and operating expenses	1,119	7.3%	1,064	7.2%	5.2%	2,183	7.2%	1,847	9.6%	18.2%
Cost of purchased oil, gas and petroleum products	634	4.1%	496	3.3%	27.8%	1,130	3.7%	784	4.1%	44.1%
General and administrative expenses	359	2.3%	370	2.5%	(3.0)%	729	2.4%	676	3.5%	7.8%
Pipeline tariffs and transportation costs	1,752	11.4%	1,764	12.0%	(0.7)%	3,516	11.6%	2,503	13.0%	40.5%
Exploration expenses	81	0.5%	58	0.4%	39.7%	139	0.5%	197	1.0%	(29.4)%
Depreciation, depletion and amortisation	1,348	8.7%	1,272	8.6%	5.9%	2,620	8.7%	1,992	10.4%	31.5%
Accretion expense	29	0.2%	25	0.2%	16.0%	54	0.3%	41	0.2%	31.7%
Taxes other than income tax	2,686	17.4%	2,582	17.5%	4.0%	5,268	17.4%	3,279	17.1%	60.7%
Export customs duty	4,055	26.3%	3,984	27.0%	1.8%	8,039	26.6%	4,033	21.0%	99.3%
Total cost and expenses	12,063	78.2%	11,615	78.7%	3.9%	23,678	78.4%	15,352	79.9%	54.2%
Operating income	3,368	21.8%	3,146	21.3%	7.1%	6,514	21.6%	3,859	20.1%	68.8%
Other (expenses)/income										
Interest income	124	0.8%	125	0.8%	(0.8)%	249	0.8%	188	1.0%	32.4%
Interest expense	(180)	(1.2)%	(162)	(1.1)%	11.1%	(342)	(1.1)%	(239)	(1.2)%	43.1%
Loss on disposal of property, plant and equipment	(25)	(0.2)%	(30)	(0.2)%	(16.7)%	(55)	(0.2)%	(50)	(0.3)%	10.0%
Gain on disposal of investments	8	0.1%	10	0.1%	(20.0)%	18	0.1%	18	0.1%	0.0%
Equity share in affiliates' profits	36	0.2%	32	0.2%	12.5%	68	0.3%	16	0.1%	325.0%
Dividends and (loss) from joint ventures	(6)	0.0%	0	0.0%	0.0%	(6)	0.0%	(6)	(0.0)%	0.0%
Other (expenses)/income, net	(21)	(0.1)%	29	0.2%	(172.4)%	8	0.0%	8	0.0%	0.0%
Foreign exchange gain/(loss)	15	0.1%	(5)	0.0%	(400.0)%	10	0.0%	407	2.1%	(97.5)%
Total other (expenses)/income	(49)	(0.3)%	(1)	0.0%	4,800%	(50)	(0.1)%	342	1.8%	(114.6)%
Income before income tax and minority interest	3,319	21.5%	3,145	21.3%	5.5%	6,464	21.4%	4,201	21.9%	53.9%
Income tax	(763)	(4.9)%	(653)	(4.4)%	16.8%	(1,416)	(4.7)%	(523)	(2.7)%	170.7%
Net income	2,556	16.6%	2,492	16.9%	2.6%	5,048	16.7%	3,678	19.1%	37.2%
Less:										
net income attributable to noncontrolling interests	(80)	(0.6)%	(61)	(0.4)%	31.1%	(141)	(0.4)%	(6)	(0.0)%	2,250%
Net income attributable to Rosneft	2,476	16.0%	2,431	16.5%	1.9%	4,907	16.3%	3,672	19.1%	33.6%
Other comprehensive income/(loss)	(7)	0.0%	7	0.0%	(200.0)%	-	0.0%	6	0.0%	(100.0)%
Comprehensive income	2,469	16.0%	2,438	16.5%	1.3%	4,907	16.3%	3,678	19.1%	33.4%

Revenues

Revenues were US\$ 15,431 million in the second quarter of 2010, a 4.5% increase compared to the first quarter of 2010. The increase reflected growth of crude oil sales volumes and average prices.

In the six months of 2010 revenues were 57.2% higher than in the six months of 2009, which was driven by substantial increase in average prices. For example, Urals price increased by 49.5% and the price for fuel oil rose by 62.0%.

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

	<i>For 3 months ended</i>					<i>For 6 months ended</i>				
	June 30, 2010		March 31, 2010		Change	June 30, 2010		June 30, 2009		Change
	% of total revenue	% of total revenue	% of total revenue	% of total revenue	%	% of total revenue	% of total revenue	% of total revenue	% of total revenue	%
(US\$ million, except %)										
Crude oil										
Export, excluding CIS	7,868	51.0%	7,681	52.0%	2.4%	15,549	51.5%	9,110	47.4%	70.7%
Europe and other directions	5,351	34.7%	5,378	36.4%	(0.5)%	10,729	35.5%	7,153	37.2%	50.0%
Asia	2,517	16.3%	2,303	15.6%	9.3%	4,820	16.0%	1,957	10.2%	146.3%
CIS	545	3.5%	210	1.4%	159.5%	755	2.5%	577	3.0%	30.8%
Domestic	93	0.6%	43	0.3%	116.3%	136	0.5%	34	0.2%	300.0%
Total crude oil	8,506	55.1%	7,934	53.7%	7.2%	16,440	54.5%	9,721	50.6%	69.1%
Gas	98	0.6%	113	0.8%	(13.3)%	211	0.7%	163	0.8%	29.4%
Petroleum products										
Export, excluding CIS	3,451	22.4%	3,690	25.0%	(6.5)%	7,141	23.7%	4,959	25.8%	44.0%
Europe and other directions	1,986	12.9%	2,188	14.8%	(9.2)%	4,174	13.9%	2,914	15.2%	43.2%
Asia	1,465	9.5%	1,502	10.2%	(2.5)%	2,967	9.8%	2,045	10.6%	45.1%
CIS	26	0.2%	48	0.3%	(45.8)%	74	0.2%	70	0.4%	5.7%
Domestic	2,676	17.3%	2,348	15.9%	14.0%	5,024	16.6%	3,490	18.2%	44.0%
Wholesale	1,939	12.5%	1,725	11.7%	12.4%	3,664	12.1%	2,511	13.1%	45.9%
Retail	737	4.8%	623	4.2%	18.3%	1,360	4.5%	979	5.1%	38.9%
Sales of bunker fuel to end-users	185	1.2%	122	0.9%	51.6%	307	1.0%	150	0.8%	104.7%
Total petroleum products	6,338	41.1%	6,208	42.1%	2.1%	12,546	41.5%	8,669	45.2%	44.7%
Petrochemical products	116	0.8%	102	0.7%	13.7%	218	0.7%	84	0.4%	159.5%
Support services and other revenues	373	2.4%	404	2.7%	(7.7)%	777	2.6%	574	3.0%	35.4%
Total sales	15,431	100.0%	14,761	100.0%	4.5%	30,192	100.0%	19,211	100.0%	57.2%

Sales Volumes

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

	For 3 months ended					For 6 months ended				
	June 30, 2010		March 31, 2010		Change	June 30, 2010		June 30, 2009		Change
	mln bbls	% of total volume	mln bbls	% of total volume	%	mln bbls	% of total volume	mln bbls	% of total volume	%
Crude oil										
Export, excluding CIS	103.58	51.0%	102.56	52.3%	1.0%	206.14	51.6%	182.65	49.3%	12.9%
Europe and other directions	71.61	35.3%	72.35	36.9%	(1.0)%	143.96	36.0%	144.54	39.0%	(0.4)%
Asia	31.97	15.7%	30.21	15.4%	5.8%	62.18	15.6%	38.11	10.3%	63.2%
CIS	9.22	4.5%	4.83	2.5%	90.9%	14.04	3.5%	15.36	4.1%	(8.6)%
Domestic	3.15	1.6%	1.46	0.7%	115.8%	4.61	1.2%	1.76	0.5%	161.9%
Total crude oil	115.95	57.1%	108.85	55.5%	6.5%	224.79	56.3%	199.77	53.9%	12.5%
	mln tonnes		mln tonnes		%	mln tonnes		mln tonnes		%
Crude oil										
Export, excluding CIS	14.16	51.0%	14.02	52.3%	1.0%	28.18	51.6%	24.97	49.3%	12.9%
Europe and other directions	9.79	35.3%	9.89	36.9%	(1.0)%	19.68	36.0%	19.76	39.0%	(0.4)%
Asia	4.37	15.7%	4.13	15.4%	5.8%	8.50	15.6%	5.21	10.3%	63.2%
CIS	1.26	4.5%	0.66	2.5%	90.9%	1.92	3.5%	2.10	4.1%	(8.6)%
Domestic	0.43	1.6%	0.20	0.7%	115.8%	0.63	1.2%	0.24	0.5%	161.9%
Total crude oil	15.85	57.1%	14.88	55.5%	6.5%	30.73	56.3%	27.31	53.9%	12.5%
Petroleum products										
Export, excluding CIS	6.38	23.0%	6.64	24.8%	(3.9)%	13.02	23.9%	13.82	27.2%	(5.8)%
Europe and other directions	3.93	14.2%	4.02	15.0%	(2.2)%	7.95	14.6%	8.43	16.6%	(5.7)%
Asia	2.45	8.8%	2.62	9.8%	(6.5)%	5.07	9.3%	5.39	10.6%	(5.9)%
CIS	0.04	0.1%	0.10	0.4%	(60.0)%	0.14	0.2%	0.21	0.4%	(33.3)%
Domestic	4.86	17.5%	4.69	17.5%	3.6%	9.55	17.5%	8.52	16.9%	12.1%
Wholesale	3.88	14.0%	3.84	14.3%	1.0%	7.72	14.1%	6.82	13.5%	13.2%
Retail	0.98	3.5%	0.85	3.2%	15.3%	1.83	3.4%	1.70	3.4%	7.6%
Sales of bunker fuel to end-users	0.45	1.6%	0.31	1.2%	45.2%	0.76	1.4%	0.51	1.0%	49.0%
Total petroleum products	11.73	42.2%	11.74	43.9%	(0.1)%	23.47	43.0%	23.06	45.5%	1.8%
Petrochemical products	0.19	0.7%	0.18	0.6%	5.6%	0.37	0.7%	0.32	0.6%	15.6%
Total crude oil and products	27.77	100.0%	26.80	100.0%	3.6%	54.57	100.0%	50.69	100.0%	7.7%
Gas	bcm		bcm			bcm		bcm		
Sales volumes	2.37		2.64		(10.2)%	5.01		5.26		(4.8)%

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>For 3 months ended</i>					<i>For 6 months ended</i>				
	June 30, 2010		March 31, 2010		Change	June 30, 2010		June 30, 2009		Change
	(US\$/barrel)	(US\$/tonne)	(US\$/barrel)	(US\$/tonne)		(US\$/barrel)	(US\$/tonne)	(US\$/barrel)	(US\$/tonne)	
Average export prices										
Crude oil, excluding CIS	75.96	555.65	74.89	547.86	1.4%	75.43	551.77	49.88	364.84	51.2%
Europe and other directions	74.72	546.58	74.33	543.78	0.5%	74.53	545.17	49.49	361.99	50.6%
Asia	78.73	575.97	76.23	557.63	3.3%	77.52	567.06	51.35	375.62	51.0%
Crude oil, CIS	59.11	432.54	43.48	318.18	35.9%	53.77	393.23	37.57	274.76	43.1%
Petroleum products, excluding CIS		540.91		555.72	(2.7)%		548.46		358.83	52.8%
Europe and other directions		505.34		544.28	(7.2)%		525.03		345.67	51.9%
Asia		597.96		573.28	4.3%		585.21		379.41	54.2%
Petroleum products, CIS		650.00		480.00	35.4%		528.57		333.33	58.6%
Average domestic prices										
Crude oil	29.52	216.28	29.45	215.00	0.6%	29.50	215.87	19.32	141.67	52.4%
Petroleum products		550.62		500.64	10.0%		526.07		409.62	28.4%
Wholesale		499.74		449.22	11.2%		474.61		368.18	28.9%
Retail		752.04		732.94	2.6%		743.17		575.88	29.0%
Gas (US\$/thousand cubic meter)		41.35		42.80	(3.4)%		42.12		30.99	35.9%
Sales of bunker fuel to end-users		411.11		393.55	4.5%		403.95		294.12	37.3%
Petrochemical products		610.53		566.67	7.7%		589.19		262.50	124.5%

Crude Oil Export Sales to non-CIS

Revenues from crude oil exports to non-CIS countries in the second quarter of 2010 were US\$ 7,868 million which is an increase of 2.4% compared to the first quarter of 2010. The growth reflected higher average export prices (a positive impact on revenues of US\$ 110 million) and a slight increase in sales volumes by 1.0% which had a favourable impact on revenues of US\$ 77 million.

In the six months of 2010 revenues from crude oil exports to non-CIS countries increased by 70.7% compared to the same period of 2009, which was driven by a 51.2% increase in average export prices (positive impact on revenues of US\$ 5,268 million) and a 12.9% increase in sales volumes (favourable impact on revenues of US\$ 1,171 million). Sales volumes growth was due to production launch at the Vankor field in Eastern Siberia.

Crude Oil Export Sales to CIS

In the second quarter of 2010 revenues from sales of crude oil to CIS were US\$ 545 million, 159.5% higher than in the first quarter of 2010. A 90.9% increase in sales volumes and an average price upturn of 35.9% led to revenues growth of US\$ 191 million and US\$ 144 million, respectively. Sales volumes growth was attributable to the start of deliveries to Ukraine due to planned turnarounds at Rosneft's refineries and slight increase in deliveries to Belarus following the intergovernmental agreement signed in the first quarter of 2010. Considerable growth in average price was due to increase in share of export volumes subject to regular customs duty rate.

In the six months of 2010 revenues from crude oil exports to CIS countries were US\$ 178 million higher in comparison with the same period of 2009, which is mainly attributable to an average price increase of 43.1% (positive impact on revenues of US\$ 227 million). A 8.6% sales volumes decrease had an unfavourable impact on revenues of US\$ 49 million. In the first quarter of 2010 Russia and Belarus agreed to apply an ordinary export customs duty to crude oil exports to Belarus and defined fixed annual volumes exempted from export customs duty. This resulted in decreased crude oil deliveries to Belarus in the six month of 2010 compared with the same period of 2009.

Domestic Crude Oil Sales

In the second quarter of 2010 domestic crude oil sales were US\$ 93 million, 116.3% higher than in the first quarter of 2010. The revenue growth is mainly attributable to a 115.8% increase in sales volumes which had a favourable impact on revenues of US\$ 49 million. Slight average prices upturn led to revenue increase of US\$ 1 million. Planned refineries turnarounds caused crude oil flows redirection from refineries to domestic and CIS markets.

In the six months of 2010 revenues from crude oil sales on domestic market were 300.0% higher compared to the same period of 2009. The growth was driven by a 161.9% increase in sales volumes (favorable impact on revenues of US\$ 55 million) as well as by a 52.4% increase in average prices (positive impact on revenues of US\$ 47 million).

Petroleum Product Export Sales to Non-CIS

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

	<i>For 3 months ended</i>						% change		
	June 30, 2010			March 31, 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	24	0.03	842.96	31	0.04	766.12	(22.6)%	(25.0)%	10.0%
Low octane gasoline	40	0.06	685.84	44	0.07	675.87	(9.1)%	(14.3)%	1.5%
Naphtha	528	0.77	687.87	559	0.80	698.10	(5.5)%	(3.8)%	(1.5)%
Diesel (Gasoil)	1,289	1.97	654.10	1,519	2.47	615.73	(15.1)%	(20.2)%	6.2%
Fuel oil	1,519	3.49	434.63	1,486	3.18	467.33	2.2%	9.7%	(7.0)%
Jet fuel	2	0.00	767.81	6	0.01	686.99	(66.7)%	(100.0)%	11.8%
Other	49	0.06	712.65	45	0.07	613.95	8.9%	(14.3)%	16.1%
Total	3,451	6.38	540.91	3,690	6.64	555.72	(6.5)%	(3.9)%	(2.7)%

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\$ 3,451 million in the second quarter of 2010, which is a decrease of 6.5% compared with the first quarter of 2010. A 2.7% decline in average price and a 3.9% decrease in sales volumes led to revenue reduction of US\$ 94 million and US\$ 145 million, respectively. The decline of sales volumes was due to redirection of product flows from international to domestic market following the seasonal increase in domestic demand. In the second quarter of 2010 due to start of river navigation period fuel oil logistics from Samara refineries changed together with the change of delivery basis from FOB to FCA. This resulted in the decrease of average price and growth of netback.

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

	<i>For 6 months ended</i>						% change		
	June 30, 2010			June 30, 2009					
	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	55	0.07	797.69	62	0.14	448.37	(11.3)%	(50.0)%	77.9%
Low octane gasoline	84	0.12	680.54	45	0.09	509.45	86.7%	33.3%	33.6%
Naphtha	1,087	1.57	693.10	738	1.75	421.59	47.3%	(10.3)%	64.4%
Diesel (Gasoil)	2,807	4.44	632.76	2,020	4.84	417.48	39.0%	(8.3)%	51.6%
Fuel oil	3,005	6.67	450.21	2,029	6.85	296.09	48.1%	(2.6)%	52.1%
Jet fuel	8	0.01	705.69	23	0.05	493.84	(65.2)%	(80.0)%	42.9%
Other	95	0.14	662.21	42	0.10	404.91	126.2%	40.0%	63.5%
Total	7,141	13.02	548.46	4,959	13.82	358.83	44.0%	(5.8)%	52.8%

In the six months of 2010 revenues from the export of petroleum products to non-CIS countries were 44.0% higher compared to the same period of 2009 which was driven by a 52.8% increase in average prices (positive impact on revenues of US\$ 2,469 million). Sales volumes decrease of 5.8% had a negative impact on revenues of US\$ 287 million and resulted from an increased export sales volumes in the first half of 2009 due to depressed demand for petroleum products on the domestic market.

Petroleum Product Export 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>						<i>% change</i>		
	June 30, 2010			March 31, 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	–	–	–	8	0.02	433.30	(100.0)%	(100.0)%	–
Low octane gasoline	–	–	–	3	0.01	389.63	(100.0)%	(100.0)%	–
Naphtha	–	–	–	–	–	–	–	–	–
Diesel	10	0.02	652.28	22	0.05	441.33	(54.5)%	(60.0)%	47.8%
Fuel oil	–	–	–	–	–	–	–	–	–
Jet fuel	–	–	–	–	–	–	–	–	–
Other	16	0.02	627.64	15	0.02	664.18	6.7%	0.0%	(5.5)%
Total	26	0.04	650.00	48	0.10	480.00	(45.8)%	(60.0)%	35.4%

Revenues from sales of petroleum products to CIS countries in the second quarter of 2010 were 45.8% lower than in the first quarter of 2010 and amounted to US\$ 26 million. The decrease was driven by sales volumes reduction of 60.0% (unfavourable impact on revenues of US\$ 29 million), which was partially offset by 35.4% upturn in average prices (a positive impact on revenues of US\$ 7 million). In the second quarter of 2010 the Company ceased the deliveries of petroleum products to Asian CIS countries due to the changes in customs legislation providing for levying of duties on petroleum product exports to these countries.

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

	<i>For 6 months ended</i>						<i>% change</i>		
	June 30, 2010			June 30, 2009			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	8	0.02	403.25	13	0.04	332.16	(38.5)%	(50.0)%	21.4%
Low octane gasoline	3	0.01	300.00	2	0.01	224.04	50.0%	0.0%	33.9%
Naphtha	–	–	–	2	0.01	346.70	(100.0)%	(100.0)%	–
Diesel	32	0.07	490.72	31	0.08	367.03	3.2%	(12.5)%	33.7%
Fuel oil	–	–	–	–	–	–	–	–	–
Jet fuel	–	–	–	5	0.01	401.00	(100.0)%	(100.0)%	–
Other	31	0.04	681.88	17	0.06	302.64	82.4%	(33.3)%	125.3%
Total	74	0.14	528.57	70	0.21	333.33	5.7%	(33.3)%	58.6%

Revenue increase of US\$ 4 million in the six months of 2010 in comparison with the same period of 2009 resulted from 58.6% upturn in average prices (positive impact on revenues of US\$ 27 million) which was partially offset by 33.3% decrease in sales volumes (negative impact on revenues of US\$ 23 million). Sales volumes decrease is attributable to the reduction of petroleum product deliveries to Asian CIS countries due to the changes in customs legislation providing for levying of duties on petroleum product exports to these countries.

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>		
	June 30, 2010			March 31, 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	1,013	1.32	767.37	874	1.23	709.62	15.9%	7.3%	8.1%
Low octane gasoline	216	0.36	602.39	171	0.32	540.68	26.3%	12.5%	11.4%
Naphtha	–	–	–	–	–	–	–	–	–
Diesel	1,043	2.03	513.11	829	1.62	513.00	25.8%	25.3%	0.0%
Fuel oil	86	0.35	244.59	244	0.98	247.72	(64.8)%	(64.3)%	(1.3)%
Jet fuel	173	0.31	549.53	37	0.08	457.19	367.6%	287.5%	20.2%
Other	145	0.49	303.36	193	0.46	416.65	(24.9)%	6.5%	(27.2)%
Total	2,676	4.86	550.62	2,348	4.69	500.64	14.0%	3.6%	10.0%

Revenues from sales of petroleum products on the domestic market were US\$ 2,676 million in the second quarter of 2010, which is an increase of 14.0% compared with the first quarter of 2010. Revenue growth was caused by a 10.0% increase in average prices (favourable impact on revenues of US\$ 243 million), as well as by a 3.6% increase in sales volumes (favourable impact on revenues of US\$ 85 million). Domestic sales volumes increase resulted from a seasonal increase in demand for petroleum products. Average price upturn was driven by a decreased share of fuel oil sales at lower prices.

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

	<i>For 6 months ended</i>						<i>% change</i>		
	June 30, 2010			June 30, 2009					
	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	1,887	2.55	739.97	1,295	2.28	568.30	45.7%	11.8%	30.2%
Low octane gasoline	387	0.68	570.29	279	0.64	433.52	38.7%	6.3%	31.5%
Naphtha	–	–	–	–	–	–	–	–	–
Diesel	1,872	3.65	512.50	1,399	3.36	415.92	33.8%	8.6%	23.2%
Fuel oil	330	1.33	247.82	129	0.84	154.21	155.8%	58.3%	60.7%
Jet fuel	210	0.39	531.87	125	0.27	456.49	68.0%	44.4%	16.5%
Other	338	0.95	360.21	263	1.13	233.48	28.5%	(15.9)%	54.3%
Total	5,024	9.55	526.07	3,490	8.52	409.62	44.0%	12.1%	28.4%

In the six months of 2010 revenues from sales of petroleum products on domestic market increased by 44.0% compared to the same period of 2009. This resulted from a 28.4% increase in average prices (positive impact on revenues of US\$ 1,112 million) and from a 12.1% increase in sales volumes (favourable impact on revenues of US\$ 422 million). Volumes growth was due to the demand recovery after its decline in 2009 due to the financial crisis.

Sales through commodity exchanges

The Company sells a wide range of petroleum products via commodity exchanges. In the second quarter of 2010 0.67 million tonnes were sold for US\$ 377 million and during the six month of 2010 1.66 million tonnes were sold for US\$ 843 million.

Sales of bunker fuel to end-users

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

Revenues from sales of bunker fuel in the second quarter of 2010 were US\$ 185 million, an increase of 51.6% in comparison with the first quarter of 2010, which was driven by start of river navigation period.

Revenues from sales of bunker fuel in the six months of 2010 were US\$ 307 million an increase of 104.7% compared to the same period of 2009.

Petrochemical Product Sales

Revenues from sales of petrochemical products in the second quarter of 2010 were US\$ 116 million, up 13.7% compared to the first quarter of 2010. The price upturn of 7.7% (positive impact on revenues of US\$ 8 million) was accompanied by a 5.6% increase in sales volumes (favourable impact on revenues of US\$ 6 million). Sales volumes increase as well as an average price upturn was a result of ongoing recovery of demand for petrochemical products.

A 159.5% growth in sales of petrochemical products in the six months of 2010 compared to the same period in 2009 was due to price increase of 124.5% and volume growth of 15.6%.

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 access to the Unified Gas Supply System (UGSS) and is the dominant gas supplier in Russia and the only exporter of gas.

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

	<i>For 3 months ended</i>			<i>For 6 months ended</i>		
	June 30, 2010	March 31, 2010	Change	June 30, 2010	June 30, 2009	Change
Revenue	(US\$ million)		%	(US\$ million)		%
Western Siberia	31	31	0.0%	62	52	19.2%
South Russia	48	52	(7.7)%	100	72	38.9%
Far East	8	12	(33.3)%	20	19	5.3%
European part of Russia	11	18	(38.9)%	29	20	45.0%
Total	98	113	(13.3)%	211	163	29.4%
Sales volumes	(bcm)			(bcm)		
Western Siberia	1.35	1.35	0.0%	2.70	2.87	(5.9)%
South Russia	0.74	0.85	(12.9)%	1.59	1.71	(7.0)%
Far East	0.14	0.20	(30.0)%	0.34	0.31	9.7%
European part of Russia	0.14	0.24	(41.7)%	0.38	0.37	2.7%
Total	2.37	2.64	(10.2)%	5.01	5.26	(4.8)%
Average price	(US\$/thousand of cubic metres)			(US\$/thousand of cubic metres)		
Western Siberia	23.20	22.72	2.1%	22.96	18.05	27.2%
South Russia	65.35	61.37	6.5%	63.22	42.18	49.9%
Far East	56.52	59.91	(5.7)%	58.52	59.78	(2.1)%
European part of Russia	78.82	79.44	(0.8)%	79.22	55.05	43.9%
Total	41.35	42.80	(3.4)%	42.12	30.99	35.9%

In the second quarter of 2010 revenues from gas sales were US\$ 98 million, 13.3% lower than in the first quarter of 2010. A 10.2% decrease in sales volumes as well as 3.4% decline in average prices led to revenue decrease of US\$ 12 million and US\$ 3 million, respectively. Sales volumes decrease was due to seasonal demand reduction. Change in delivery basis resulted in average price decline.

Revenue growth from gas sales of 29.4% in the six months of 2010 in comparison with the same period of 2009 was driven by increase in average prices of 35.9% (favourable impact on revenues of US\$ 56 million). Sales volumes decrease of 4.8% led to revenue reduction of US\$ 8 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 consolidated Income Statement.

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

	<i>For 3 months ended</i>					<i>For 6 months ended</i>				
	June 30, 2010		March 31, 2010		Change	June 30, 2010		June 30, 2009		Change
	%	%	%	%	%	%	%	%	%	%
	of total revenue		of total revenue		%	of total revenue		of total revenue		%
	(US\$ million, except %)									
Drilling services	15	4.0%	10	2.5%	50.0%	25	3.2%	11	1.9%	127.3%
Sales of materials	141	37.8%	142	35.1%	(0.7)%	283	36.4%	201	35.0%	40.8%
Repairs and maintenance services	28	7.5%	24	5.9%	16.7%	52	6.7%	51	8.9%	2.0%
Rent services	15	4.0%	14	3.5%	7.1%	29	3.7%	24	4.2%	20.8%
Construction services	18	4.8%	25	6.2%	(28.0)%	43	5.5%	25	4.4%	72.0%
Transport services	87	23.4%	82	20.3%	6.1%	169	21.8%	122	21.3%	38.5%
Electric power transmission	28	7.5%	34	8.4%	(17.6)%	62	8.0%	27	4.7%	129.6%
Other revenues	41	11.0%	73	18.1%	(43.8)%	114	14.7%	113	19.6%	0.9%
Total	373	100.0%	404	100.0%	(7.7)%	777	100.0%	574	100.0%	35.4%

Costs and Expenses

Production and Operating Expenses

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010	%	June 30, 2010	June 30, 2009	%
	(US\$ million, except %)					
Upstream	540	510	5.9%	1,050	852	23.2%
Downstream	354	353	0.3%	707	712	(0.7)%
Other	225	201	11.9%	426	283	50.5%
Total	1,119	1,064	5.2%	2,183	1,847	18.2%

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

Upstream production and operating expenses in the second quarter of 2010 increased to US\$ 540 million or by 5.9% compared with the first quarter of 2010. The increase was due to the increased crude oil production, decrease in intragroup inventory as well as the recovery of well workover volumes in the second quarter of 2010.

In the six months of 2010 upstream production and operating expenses increased to US\$ 1,050 million, or by 23.2% compared with the six months of 2009, when these expenses were US\$ 852 million. The growth was due to the nominal appreciation of the RUB against the US\$ by 10.0%, launch of commercial production at the Vankor field and cost inflation, which was below CPI.

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010	%	June 30, 2010	June 30, 2009	%
	(US\$ per bbl, US\$ per boe, except %)					
Expenses per bbl of crude oil produced	2.79	2.69	3.7%	2.74	2.44	12.3%
Expenses per boe of hydrocarbon produced	2.57	2.46	4.5%	2.51	2.22	13.1%

Rosneft's downstream expenses increased by 0.3% to US\$ 354 million in the second quarter of 2010 compared with US\$ 353 million in the first quarter of 2010. The increase resulted from an increase in cost of work and materials for refineries turnarounds, and was partially offset by the nominal depreciation of the RUB against the US\$ by 1.2%.

These expenses decreased by 0.7% in the six months of 2010 compared with the six months of 2009. The decrease resulted from a decrease in cost of work and materials for refineries turnarounds due to unevenness of these works during 2009 and 2010 as well from the cost-cutting initiatives and other factors.

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010	%	June 30, 2010	June 30, 2009	%
Operating expenses (US\$ million)	186	157	18.5%	343	338	1.5%
Operating expenses per tonne of product output (US\$/tonne)	16.66	13.02	28.0%	14.77	14.54	1.6%
Operating expenses per tonne of crude oil throughput (US\$/tonne)	15.88	12.30	29.1%	14.02	13.76	1.9%

Operating expenses of Rosneft's refineries increased to US\$ 186 million in the second quarter of 2010 compared with US\$ 157 million in the first quarter of 2010. The increase resulted from higher cost and volumes of work and materials for refineries turnarounds and increase in cost of heat and electric power at a number of refineries due to increase in tariffs and other factors.

These expenses increased by 1.5% in the six months of 2010 compared to US\$ 338 million in the six months of 2009. The increase resulted from the nominal appreciation of the RUB against the US\$ by 10.0%, which was partially offset by cost-cutting initiatives, lower cost of turnaround works at refineries and other factors.

Operating expenses related to other activities increased to US\$ 225 million in the second quarter of 2010, or by 11.9% compared with the first quarter of 2010. The increase followed the seasonal decrease in these expenses in the first quarter of 2010 and was due to increase in volumes of drilling, repair and maintenance services rendered to external partners.

In the six months of 2010 these expenses increased to US\$ 426 million compared with US\$ 283 million in the six months of 2009. The increase was primarily due to higher volumes of other activities (particularly, increase in electric power transmission and other services rendered, as well as an increase in sales of other inventories), accompanied by the increase in other revenues by 35.4%, and other factors.

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

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</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010	%	June 30, 2010	June 30, 2009	%
Cost of crude oil procured (US\$ million)	394	373	5.6%	767	614	24.9%
Volume of crude oil procured (million of barrels)	12.96	13.81	(6.2)%	26.77	29.51	(9.3)%
Cost of gas procured (US\$ million)	6	8	(25.0)%	14	14	-
Volume of gas procured (bcm)	0.10	0.14	(28.6)%	0.24	0.30	(20.0)%
Cost of petroleum product procured (US\$ million) ⁽¹⁾	234	115	103.5%	349	156	123.7%
Volume of petroleum product procured (million of tonnes)	0.41	0.21	95.2%	0.62	0.37	67.6%
Total cost of procured oil, gas and petroleum products and refining costs (US\$ millions)	634	496	27.8%	1,130	784	44.1%

(1) In the second quarter and first half of 2010 the average procurement price of petroleum products from third parties was higher than the average selling price of petroleum products due to differences in the mix of procured and sold petroleum products.

Rosneft purchases crude oil primarily from its affiliates to process it at own refineries. The structure of crude oil purchases is provided in the table below:

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010		%	June 30, 2010	
	(million bbl, except %)					
Tomskneft	9.72	8.47	14.8%	18.19	16.48	10.4%
Udmurtneft	2.32	4.40	(47.3)%	6.72	6.95	(3.3)%
Verhnechonskneftegaz	0.59	0.85	(30.6)%	1.44	0.71	102.8%
Surgutneftegaz	—	—	—	—	3.26	(100.0)%
Others	0.33	0.09	266.7%	0.42	2.11	(80.1)%
Total	12.96	13.81	(6.2)%	26.77	29.51	(9.3)%

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 income statement. In the second quarter and for the six months of 2010 these transactions were exercised with Gazpromneft and Bashneft, the volume of crude oil swaps amounted to 8.58 million barrels in the second quarter of 2010 and 19.22 million barrels in the six months of 2010, compared to 10.64 million barrels in the first quarter of 2010 and 22.71 million barrels in the six months of 2009, respectively. Rosneft’s estimated benefits from these transactions were US\$ 12 million in the second quarter of 2010 and US\$ 28 million in the six months of 2010.

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.

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

	<i>For 3 months ended</i>						<i>% change</i>		
	June 30, 2010			March 31, 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	140	0.20	702.18	47	0.07	648.49	197.9%	185.7%	8.3%
Low octane gasoline	8	0.01	572.63	3	0.01	481.36	166.7%	—	19.0%
Diesel	75	0.17	429.49	54	0.10	544.51	38.9%	70.0%	(21.1)%
Fuel oil	—	—	—	2	0.01	305.58	(100.0)%	(100.0)%	—
Jet fuel	—	—	—	—	—	—	—	—	—
Other	11	0.03	413.75	9	0.02	414.61	22.2%	50.0%	(0.2)%
Total	234	0.41	570.73	115	0.21	547.62	103.5%	95.2%	4.2%

The increase in volumes of petroleum product purchases in the second quarter of 2010 was due to a seasonal increase in supplies of diesel to agricultural enterprises and due to decrease of high octane gasoline production at own refineries due to planned turnarounds.

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

	<i>For 6 months ended</i>						% change		
	June 30, 2010			June 30, 2009			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	187	0.27	687.15	32	0.07	459.67	484.4%	285.7%	49.5%
Low octane gasoline	11	0.02	541.45	6	0.02	383.86	83.3%	0.0%	41.1%
Diesel	129	0.27	470.52	91	0.20	446.25	41.8%	35.0%	5.4%
Fuel oil	2	0.01	287.77	16	0.05	322.67	(87.5)%	(80.0)%	(10.8)%
Jet fuel	—	—	—	—	—	—	—	—	—
Other	20	0.05	435.49	11	0.03	440.39	81.8%	66.7%	(1.1)%
Total	349	0.62	562.90	156	0.37	421.62	123.7%	67.6%	33.5%

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. For example, price of fuel oil procured from third parties significantly exceeded its average sales price in the six months of 2009 due to purchase of 50 thousand tonnes of a special fuel oil (mixture of fuel oil and diesel) to meet obligations on fuel oil supplies to Asia. Rosneft made these purchases as it currently does not produce products with the required characteristics. Excluding this factor, the average purchase price of fuel oil amounted to US\$ 248.47 per tonne in the first half of 2009.

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 second quarter of 2010 were US\$ 359 million, 3.0% lower than in the first quarter of 2009. The decrease resulted mainly from rouble depreciation and reversal of certain bad debt allowances.

In the six months of 2010 general and administrative expenses amounted to US\$ 729 million compared to the US\$ 676 million in the six months of 2009.

Pipeline Tariffs and Transportation Costs

Transportation costs include costs to transport crude oil for refining and to end customers, and to deliver petroleum products from refineries to end customers (cost of pipeline and railroad transportation, handling, port fees, sea freight and other costs).

In the second quarter of 2010 Rosneft's transportation costs decreased to US\$ 1,752 million, or by 0.7% compared with the first quarter of 2010, which mainly resulted from increased volumes of petroleum products sold on FCA terms following the beginning of river navigation season, decrease in tariffs of natural monopolies by 0.7% – 1.2% in USD terms, and was partially offset by increased bunkering and retail business transportation costs due to volumes growth.

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>								<i>% change</i>		
	June 30, 2010				March 31, 2010				Volume	Cost	Cost per tonne sold
	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			
CRUDE OIL											
Export sales											
Pipeline	12.04	78.1%	503	41.78	11.37	77.5%	480	42.22	5.9%	4.8%	(1.0)%
Railroad and mixed	3.38	21.9%	265	78.40	3.31	22.5%	264	79.76	2.1%	0.4%	(1.7)%
Transportation to refineries and domestic sales											
Pipeline	10.28	—	243	23.64	10.95	—	255	23.29	(6.1)%	(4.7)%	1.5%
Railroad and mixed	1.75	—	193	110.29	1.62	—	181	111.73	8.0%	6.6%	(1.3)%
PETROLEUM PRODUCTS											
Export sales											
Pipeline ⁽¹⁾	0.28	4.3%	14	50.00	0.25	3.6%	13	52.00	12.0%	7.7%	(3.8)%
Railroad and mixed	4.32	65.6%	332	76.85	5.36	78.4%	429	80.04	(19.4)%	(22.6)%	(4.0)%
Other transportation expenses⁽²⁾											
			202				142			42.3%	
Total	32.05		1,752	54.66	32.86		1,764	53.68	(2.5)%	(0.7)%	1.8%

- Rosneft exported 1.99 million tonnes (30.1% of total export volumes) and 1.23 million tonnes (18.0% of total export volumes) of petroleum products in the second quarter of 2010 and in the first quarter of 2010, respectively, through its own pipeline in the town of Tuapse and under purchasing agreements, pursuant to which Rosneft does not bear transportation expenses directly. Expenses of the Tuapse pipeline are reflected in Rosneft's financial statements as operating expenses.
- Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to service stations as well as transportation expenses related to sales of bunker fuel.

The decrease in crude oil pipeline transportation cost per tonne of export sales was 1.0%, which was due to a decrease in tariffs by 1.1% - 1.2% in US\$ terms due to nominal RUB depreciation against US\$ by 1.2%.

The decrease in crude oil railroad and mixed transportation cost per tonne of export sales was 1.7%, which was mainly due to tariffs decrease in US\$ terms by 1.0%.

The increase in crude oil pipeline transportation cost per tonne of domestic supplies was 1.5%, which was due to a decrease in crude oil supplies to Kuibyshev refinery (transportation cost at this route is below average for the Company).

The decrease in crude oil railroad and mixed transportation cost per tonne of domestic supplies was 1.3%, which was primarily due to an decrease in transportation tariffs in US\$ terms by 0.9%.

The decrease 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 3.8% and 4.0%, respectively, which was due to decrease in tariffs by 1.2% in US\$ terms followed by the nominal RUB depreciation by 1.2% and change in the mix of transportation routes.

During the six months of 2010 Rosneft's transportation costs increased to US\$ 3,516 million, or by 40.5% compared with the six months of 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 19.2% – 34.5% in USD 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 6 months ended</i>								<i>% change</i>		
	June 30, 2010				June 30, 2009				Volume	Cost	Cost per tonne
	Volume, mln. tonnes	Share in export volumes	Cost, mln. US\$	Cost per tonne, US\$/t	Volume, mln. tonnes	Share in export volumes	Cost, mln. US\$	Cost per tonne, US\$/t			
CRUDE OIL											
Export sales											
Pipeline	23.41	77.8%	983	41.99	19.54	72.2%	579	29.63	19.8%	69.8%	41.7%
Railroad and mixed	6.69	22.2%	529	79.07	7.53	27.8%	458	60.82	(11.2)%	15.5%	30.0%
Transportation to refineries and domestic sales											
Pipeline	21.23	—	498	23.46	20.87	—	354	16.96	1.7%	40.7%	38.3%
Railroad and mixed	3.37	—	374	110.98	3.60	—	297	82.50	(6.4)%	25.9%	34.5%
PETROLEUM PRODUCTS											
Export sales											
Pipeline ⁽¹⁾	0.53	3.9%	27	50.94	0.59	4.2%	24	40.68	(10.2)%	12.5%	25.2%
Railroad and mixed	9.68	72.1%	761	78.62	10.02	71.0%	601	59.98	(3.4)%	26.6%	31.1%
Other transportation expenses⁽²⁾			344				190			81.1%	
Total	64.91		3 516	54.17	62.15		2 503	40.27	4.4%	40.5%	34.5%

(1) Rosneft exported 3.22 million tonnes (24.0% of total export volumes) and 3.50 million tonnes (24.8% of total export volumes) of petroleum products in the six months of 2010 and in the six months of 2009, respectively, through its own pipeline in the town of Tuapse and under purchasing agreements, pursuant to which Rosneft does not bear transportation expenses directly. Expenses of the Tuapse pipeline are reflected in Rosneft's financial statements as operating expenses.

(2) Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to service stations as well as transportation expenses related to sales of bunker fuel.

The increase in crude oil pipeline transportation cost per tonne of export sales was 41.7%, which was due to an increase in tariffs by 30.9% – 32.3% in US\$ terms and the change in transportation routes used (particularly, start of deliveries of Vankor crude oil to exports through ESPO, which is more expensive compared with the Yugansk - Primorsk route).

The increase in crude oil railroad and mixed transportation cost per tonne of export sales was 30.0%, which was due to tariffs growth in US\$ terms.

The increase in crude oil pipeline transportation cost per tonne of domestic supplies was 38.3%, which was due to tariffs growth by 29.8% - 34.5% 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 34.5%, which was primarily due to an increase in transportation tariffs in US\$ terms.

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 25.2% and 31.1%, respectively, which was due to increase in tariffs by 19.2% – 27.7% 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 second quarter of 2010 exploration expenses increased to US\$ 81 million, or by 39.7% compared with the first quarter of 2010. The increase reflected higher volumes of exploratory works at a number of blocks.

In the six months of 2010 exploration expenses decreased by 29.4% compared with the six months of 2009. The change in exploration expenses was due to decrease in volumes of exploratory works at Samaraneftegaz fields, Kurmangazy project as well as decreased number of written-off dry wells.

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\$ 1,348 million in the second quarter of 2010 compared to US\$ 1,272 million in the first quarter of 2010. The increase in the depreciation resulted mainly from the putting of new fixed assets into operation. In the six months of 2010 depreciation, depletion and amortisation was US\$ 2,620 million compared with US\$ 1,992 million in the six months of 2009, which is an increase of 31.5%.

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 “—Main 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 for the periods analysed:

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010	%	June 30, 2010	June 30, 2009	%
	(US\$ million, except %)					
Mineral extraction tax	2,192	2,128	3.0%	4,320	2,494	73.2%
Excise tax	283	251	12.7%	534	417	28.1%
Social security	115	120	(4.2)%	235	209	12.4%
Property tax	74	66	12.1%	140	107	30.8%
Land tax	5	5	0.0%	10	11	(9.1)%
Transportation tax	1	1	0.0%	2	2	0.0%
Interest, penalties and other payments	16	11	45.5%	27	39	(30.8)%
Total taxes other than income tax	2,686	2,582	4.0%	5,268	3,279	60.7%

Taxes other than income tax increased by 4.0% to US\$ 2,686 million in the second quarter of 2010, compared with US\$ 2,582 million in the first quarter of 2010, mainly due to the increase in mineral extraction tax rate by 2.3% and increase in the excise tax by 12.7%. The excise tax growth resulted from increase in share of petroleum products subject to excise taxes in total volume of petroleum product sales.

Taxes other than income tax increased by 60.7% to US\$ 5,268 million in the first half of 2010 in comparison with the same period of 2009.

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010	%	June 30, 2010	June 30, 2009	%
	(US\$, except %)					
Average enacted mineral extraction tax rate	13.47	13.16	2.3%	13.31	7.74	71.9%
Actual mineral extraction tax rate per barrel of crude oil produced	11.32	11.24	0.7%	11.28	7.13	58.2%
Actual mineral extraction tax rate per barrel of oil equivalent produced	10.43	10.26	1.7%	10.34	6.49	59.3%

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 will be applied until accumulated production at the field reaches 25 million tonnes.

Export Customs Duty

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

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010	%	June 30, 2010	June 30, 2009	%
	(US\$ million, except %)					
Export customs duty for crude oil	3,148	3,015	4.4%	6,163	3,057	101.6%
Export customs duty for petroleum products	907	969	(6.4)%	1,876	976	92.2%
Total export customs duties	4,055	3,984	1.8%	8,039	4,033	99.3%

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010	%	June 30, 2010	June 30, 2009	%
	(US\$ per barrel, except %)					
Average Urals price	76.92	75.26	2.2%	76.09	50.88	49.5%
Average enacted export customs duty	38.51	36.06	6.8%	37.28	16.76	122.4%
Hypothetical export customs duty calculated using the average Urals price for the period (i.e. without time lag)	37.75	36.67	2.9%	37.21	20.82	78.7%
Actual average customs duty on exports subject to regular duty	38.18	35.91	6.3%	37.03	16.12	129.7%
Actual average customs duty on all Rosneft exports (excluding Vankor)	35.26	33.92	4.0%	34.59	15.44	124.0%

The actual average customs duty on exports subject to regular duty deviates from the enacted export customs duty due to different monthly export volumes.

The actual average rate of export customs duty is lower than the enacted rate due to the customs duty preferences for exports to Belarus and Kazakhstan and export duty exemption for Sakhalin-1.

Operating Income

As a result of the factors discussed above, operating income increased by 7.1% to US\$ 3,368 million, in the second quarter of 2010 compared with US\$ 3,146 million in the first quarter of 2010. As a percentage of total revenues, operating income was 21.8% in the second quarter of 2010 and 21.3% in the first quarter of 2010. As a percentage of total revenues, operating income before taxes other than income tax and export customs duty was 65.5% and 65.8%, respectively, in the second quarter of 2010 and in the first quarter of 2010.

As a result of the factors discussed above, operating income increased by 68.8% to US\$ 6,514 million, in the first half of 2010 compared with US\$ 3,859 million in the same period of 2009. As a percentage of total revenues, operating income was 21.6% in the first half of 2010 and 20.1% in the first half of 2009. As a percentage of total revenues, operating income before taxes other than income tax and export customs duty was 65.6% and 58.1% in the six months of 2010 and 2009, respectively.

Other (Expenses)/Income, Net

Interest Income

Interest income remained practically unchanged in comparison with the first quarter of 2010 and amounted to US\$ 124 million in the second quarter of 2010.

Interest income increased to US\$ 249 million in the six months of 2010 or by 32.4% compared with the six months of 2009. The increase was due to increase in the funds placed on deposits in the six months of 2010 compared with the same period of 2009.

Interest Expense

Interest expense increased by 11.1% to US\$ 180 million in the second quarter of 2010 from US\$ 162 million in the first quarter of 2010, mainly due to the effect of interests SWAP operations. Interest expense increased by 43.1% to US\$ 342 million in the six months of 2010 from US\$ 239 million in the six months of 2009 due to the decrease in interests capitalized.

Loss on Disposal of Property, Plant and Equipment

From time to time, Rosneft disposes of property, plant and equipment. In the second quarter of 2010, Rosneft recorded a net loss of US\$ 25 million on the disposal of property, plant and equipment compared to US\$ 30 million recorded in the first quarter of 2010. In the six months of 2010, Rosneft recorded a net loss of US\$ 55 million on the disposal of property, plant and equipment compared to US\$ 50 million recorded in the six months of 2009.

Equity share in affiliates' profits

The equity share in affiliates' profits amounted to US\$ 36 million in the second quarter of 2010 compared with profits of US\$ 32 million in the first quarter of 2010. The increase in the equity share in affiliates' profits resulted from the increase in income incurred by certain Rosneft's affiliates.

The equity share in affiliates' profits amounted to US\$ 68 million in the six months of 2010 compared with profits of US\$ 16 million in the six months of 2009.

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 second quarter of 2010, other expenses, net, amounted to US\$ 21 million, compared to income of US\$ 29 million in the first quarter of 2010. In the first quarter of 2010 the increase mainly resulted from recognizing gain of unclaimed promissory notes with expired statutory limitations.

In the six months of 2010 and 2009, other income, net, amounted to US\$ 8 million.

Foreign Exchange Gain/(Loss)

Foreign exchange gain was US\$ 15 million in the second quarter of 2010 compared with the loss of US\$ 5 million in the first quarter of 2010. Foreign exchange gain was US\$ 10 million in the six months of 2010 compared with US\$ 407 million in the six months of 2009.

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 6 months ended</i>	
	June 30, 2010	March 31, 2010	June 30, 2010	June 30, 2009
Effective income tax rate for Rosneft under US GAAP	23%	21%	22%	12%

The Company does not pay taxes based on its consolidated income before taxes under Russian law. Income tax is calculated for each subsidiary based on its profits in accordance with Russian tax code.

To calculate the effective tax rate Rosneft follows the provisions of FASB ASC 740-270, Income Taxes (Interim reporting). The effective tax rate for the interim 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 vary significantly during the year.

Net income attributable to noncontrolling interests

Net income attributable to noncontrolling interests was US\$ 80 million in the second quarter of 2010 compared to US\$ 61 million in the first quarter of 2010. Net income attributable to noncontrolling interests was US\$ 141 million in the six months of 2010 compared to US\$ 6 million in the six months of 2009.

The change resulted, primarily, from the increase in the net income of certain Rosneft's subsidiaries related to minorities.

Net Income

As a result of the factors discussed above net income increased by 1.9% to US\$ 2,476 million in the second quarter of 2010 from US\$ 2,431 million in the first quarter of 2010. As a percentage of revenues, net income was 16.0% and 16.5% in the second quarter of 2010 and first quarter of 2010, respectively.

As a result of the factors discussed above net income increased by 33.6% to US\$ 4,907 million in the six months of 2010 from US\$ 3,672 million in the six months of 2009. As a percentage of revenues, net income was 16.3% and 19.1% in the six months of 2010 and 2009, respectively.

Liquidity and Capital Resources

Cash Flows

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010	times	June 30, 2010	June 30, 2009	times
	(US\$ million)					
Net cash provided by operating activities	4,895	2,287	2.1	7,182	4,742	1.5
Net cash used in investing activities	(3,128)	(1,734)	1.8	(4,862)	(3,316)	1.5
Net cash provided by/(used in) financing activities	66	(1,201)	19.2	(1,135)	(1,768)	(1.6)

Net Cash Provided by Operating Activities

Net cash provided by operating activities amounted to US\$ 4,895 million in the second quarter of 2010 as compared to US\$ 2,287 million in the first quarter of 2010. The operating cash flow includes operations with trading securities as part of the Company's efforts to manage cash resources (net outflow of US\$ 115 million in the second quarter 2010 and net inflow of US\$ 495 million in the first quarter of 2010). The adjusted net cash provided by the operating activity amounted to US\$ 5,010 million in the second quarter of 2010 and US\$ 1,792 million in the first quarter of 2010. The increase in the operating cash flow resulted primarily from a decrease in working capital by US\$ 1,500 million in the second quarter of 2010 following its increase by US\$ 1,806 million in the first quarter of 2010.

The decrease in working capital in the second quarter of 2010 was due to the following factors:

- Decrease in trade receivables by US\$ 1,327 million which was mainly due to collection of overdue export receivables;
- Decrease in advances issued (mainly customs prepayments) due to decrease in export customs duty rates in July (which is the base for the prepayments) in comparison with April 2010;
- Decrease in inventories by US\$ 225 million;

The decrease was partially offset by the following factors:

- Decrease in trade liabilities by US\$ 222 million;
- Decrease in the tax liabilities (particularly mineral extraction tax and VAT) by US\$ 95 million and decrease in other current and non current liabilities by US\$ 132 million.

In the six months of 2010 and 2009, the adjusted net cash provided by the operating activity amounted to US\$ 6,802 million and US\$ 5,047 million, respectively.

Net Cash Used in Investing Activities

Net cash used in investing activities was US\$ 3,128 million in the second quarter of 2010 compared to US\$ 1,734 million in the first quarter of 2010. The increase resulted mainly from the increase in capital expenditures and placements on bank deposits made in May-June 2010.

Net cash used in investing activities was US\$ 4,862 million in the six months of 2010 compared to US\$ 3,316 million in the six months of 2009.

Net Cash (Provided by)/Used in Financing Activities

Net cash provided by financing activities was US\$ 66 million in the second quarter of 2010 compared to US\$ 1,201 million of net cash used in financing activities in the first quarter of 2010. The increase in net cash provided by the financing activity in the second quarter of 2010 mainly resulted from the drawing of a tranche of long-term China Development Bank loan and receipt of new long term tranche from Credit Agricole Bank for financing of oil equipment to be used at Priobskoe field.

Net cash used in financing activities was US\$ 1,135 million in the six months of 2010 compared to US\$ 1,768 million in the six months of 2009.

Capital Expenditures

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 6 months ended</i>		<i>Change</i>
	June 30, 2010	March 31, 2010		June 30, 2010	June 30, 2009	
	(US\$ million)	(US\$ million)	(%)	(US\$ million)	(%)	
Yuganskneftegaz	642	504	27.4%	1,146	1,050	9.1%
Vankorneft	551	476	15.8%	1,027	1,266	(18.9)%
Purneftegaz	129	37	248.6%	167	85	96.4%
Severnaya Neft	33	22	50.0%	55	45	22.2%
Samaraneftegaz	65	30	116.7%	94	78	20.5%
Other ¹	241	151	59.6%	392	217	80.6%
Total upstream segment	1,661	1,220	36.1%	2,881	2,741	5.1%
The Company	1	19	(94.7)%	20	14	42.9%
Tuapse refinery	151	87	73.6%	238	81	193.8%
Komsomolsk refinery	32	15	113.3%	46	53	(13.2)%
Angarsk refinery	20	12	66.7%	33	35	(5.7)%
Achinsk refinery	33	20	65.0%	53	13	308.0%
Syzran refinery	18	10	80.0%	28	24	16.7%
Novokuibyshevsk refinery	20	21	(4.8)%	42	21	100.0%
Kuibyshev refinery	36	19	89.4%	55	14	292.9%
Marketing Business Units and others ²	109	66	65.2%	174	108	61.1%
Total downstream	420	269	56.1%	689	363	89.8%
Other activities³	82	143	(42.7)%	225	151	49.0%
Subtotal capital expenditures	2,163	1,632	32.5%	3,795	3,255	16.6%
Change in materials in capital expenditures	(72)	122	(159.0)%	50	132	(62.1)%
Total capital expenditures	2,091	1,754	19.2%	3,845	3,387	13.5%
Licence acquisition costs	3	—	100.0%	3	—	100.0%

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

2 Relating to companies providing processing and storage services.

3 Relating to other services companies.

Rosneft's total capital expenditures including material purchases increased by 19.2% or by US\$ 337 million to US\$ 2,091 million in the second quarter of 2010 compared to US\$ 1,754 million in the first quarter of 2010. The increase in capital expenditures resulted from planning, budgeting and seasonal factors.

Upstream capital expenditures increased in the second quarter of 2010 by 36.1% compared with the first quarter of 2010 and amounted to US\$ 1,661 million. The increase was driven by intensified construction works and higher volumes of equipment purchases at Vankor field, Yuganskneftegaz, Purneftegaz (mainly associated gas utilization equipment), Samaraneftegaz and others. In the first half of 2010 the upstream capital expenditures increased by 5.1% compared with the same period of 2009.

Downstream capital expenditures increased by US\$ 151 million or by 56.1% compared with the first quarter of 2010. Main works are carried out as part of the project for primarily and secondary capacity upgrade and expansion at the refineries. In the first half of 2010 downstream expenditures increased by 89.8%.

Capital expenditures for other activities decreased by 42.7%, to US\$ 82 million, in the second quarter of 2010, compared with US\$ 143 million in the first quarter of 2010. In the first half of 2010 the capital expenditures for other activities were US\$ 225 million.

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 decrease in unused construction materials included in capital expenditures was US\$ 72 million in the second quarter of 2010 compared to net increase of US\$ 122 million in the first quarter of 2010.

The licence acquisition costs refer to the acquisition of the exploration licence in the Okhotskoe sea.

Debt Obligations

Rosneft's total loans and borrowings decreased to US\$ 22,180 million as of June 30, 2010 from US\$ 22,212 million as of March 31, 2010.

Long-term loans are generally secured by oil export contracts. As of June 30, 2010 and March 31, 2010, 83.5% and 83.8% respectively, of Rosneft's borrowings were secured by crude oil export contracts (excluding export to the CIS). As of June 30, 2010 and March 31, 2010, pledged oil exports constituted 45.7% and 47.3%, respectively, of the total crude oil export sales for the analysed period (excluding export to the CIS).

Rosneft adjusted net debt amounted to US\$ 15,810 million as of June 30, 2010 compared to US\$ 18,534 million as of March 31, 2010.

The calculation of the adjusted net debt as of June 30, 2010, is disclosed in the following table:

As of the date	June 30, 2010	March 31, 2010	December 31, 2009
Short term debt	6,866	7,438	7,838
Long term debt	15,314	14,774	15,669
Total debt	22,180	22,212	23,507
Cash and cash equivalents	(3,134)	(1,382)	(1,997)
Short-term bank deposits	(1,389)	(931)	(1,184)
Structured deposits	(1,732)	(516)	(529)
Short term promissory notes and other short-term liquid securities	(115)	—	(475)
Total net debt	15,810	19,383	19,322
Medium term deposits	—	(849)	(833)
Adjusted net debt	15,810	18,534	18,489

Key Financial Ratios

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

	For 3 months ended		For 6 months ended	
	June 30, 2010	March 31, 2010	June 30, 2010	June 30, 2009
EBITDA margin	30.7%	30.1%	30.4%	30.7%
Adjusted net income margin	16.3%	16.6%	16.4%	18.8%
Net debt to capital employed ratio	0.24	0.28	0.24	0.31
Net debt to annualised EBITDA	0.83	1.04	0.86	1.63
Current ratio	1.36	1.20	1.36	0.82
	US\$/bbl			
EBITDA/bbl	24.50	23.47	23.99	16.86
Upstream capital expenditure/bbl	8.58	6.44	7.52	7.84
Upstream operating expenses/bbl	2.79	2.69	2.74	2.44
Adjusted free cash flow before interest/bbl	8.28	7.14	7.71	4.75
	US\$/boe			
EBITDA/boe	22.58	21.41	22.00	15.34
Upstream capital expenditure/boe	7.91	5.88	6.90	7.14
Upstream operating expenses/boe	2.57	2.46	2.51	2.22
Adjusted free cash flow before interest/boe	7.63	6.51	7.07	4.32

The Company considers EBITDA/bbl, upstream operating expenses/bbl 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 6 months ended	
	June 30, 2010	March 31, 2010	June 30, 2010	June 30, 2009
Upstream capital expenditures (US\$ million)	1,661	1,220	2,881	2,741
Upstream operating expenses (US\$ million)	540	510	1,050	852
Barrels of crude oil produced (million)	193.65	189.30	382.95	349.56
Barrels of oil equivalent produced (million)	210.12	207.48	417.60	384.09

Calculation of Adjusted Free Cash Flow

	For 3 months ended		For 6 months ended	
	June 30, 2010	March 31, 2010	June 30, 2010	June 30, 2009
	(US\$ million)			
Net cash provided by operating activities	4,895	2,287	7,182	4,742
Capital expenditures	(2,091)	(1,754)	(3,845)	(3,387)
Free cash flow	2,804	533	3,337	1,355
Trading securities operations	115	(495)	(380)	305
One-off receivables change*	(1,313)	1,313	—	—
License acquisition costs	(3)	—	(3)	—
Adjusted free cash	1,603	1,351	2,954	1,660

*One-off effect refers to overdue trade receivables in the amount of US\$ 1.3 billion related to Yukos Capital S.a. r.l. litigation, that were collected in April 2010.

Calculation of EBITDA Margin

	For 3 months ended		For 6 months ended	
	June 30, 2010	March 31, 2010	June 30, 2010	June 30, 2009
	(US\$ million, except %)			
Operating income	3,368	3,146	6,514	3,859
Accretion expense	29	25	54	41
Depreciation, depletion and amortisation	1,348	1,272	2,620	1,992
EBITDA	4,745	4,443	9,188	5,892
Total revenues	15,431	14,761	30,192	19,211
EBITDA margin	30.7%	30.1%	30.4%	30.7%

Calculation of Adjusted Net Income Margin

	For 3 months ended		For 6 months ended	
	June 30, 2010	March 31, 2010	June 30, 2010	June 30, 2009
	(US\$ million, except %)			
Net income	2,476	2,431	4,907	3,672
Effect from the interest SWAP	37	16	53	(55)
Adjusted net income	2,513	2,447	4,960	3,617
Sales revenues	15,431	14,761	30,192	19,211
Adjusted net income margin	16.3%	16.6%	16.4%	18.8%

Current ratio

	For 3 months ended	
	June 30, 2010	March 31, 2010
	(US\$ million, except ratio)	
Current assets	18,464	16,450
Current liabilities	13,574	13,711
Current ratio	1.36	1.20