



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS FOR THE QUARTERS ENDED SEPTEMBER 30, 2014 AND JUNE 30, 2014 AND  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013**

*The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended September 30, 2014 and 2013 and June 30, 2014 (the "**Interim Condensed Consolidated Financial Statements**"). Such terms as "**Rosneft**", "**Company**" and "**Group**" in their different forms in this report mean Rosneft Oil Company and its consolidated subsidiaries, its equity share in associates and joint ventures. 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 associates and joint ventures and 100% for fully consolidated subsidiaries.*

*Except as otherwise indicated, all amounts are provided in billions of RUB. All figures are rounded; however, figures per unit of production are provided based on the actual data.*

*To convert tonnes to barrels a 7.404 ratio is used. To convert thousands of cubic meters of gas to barrels of oil equivalent a 6.09 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 and in terms of hydrocarbon production. According to oil and gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers, as of December 31, 2013 proved hydrocarbon reserves amounted to 41.77 billion barrels of oil equivalent, including 30.78 billion barrels of crude oil and NGL and 1,867 billion cubic meters of marketable gas, on the basis of the standards set forth by the Society of Petroleum Engineers, Petroleum Reserves Management System ("PRMS").

Rosneft's crude oil and natural gas liquids (NGL) production amounts to 5.1 million boe per day and output of natural and associated gas is 14.15 billion cubic meters in the third quarter of 2014.

Rosneft's domestic refinery throughput is 0.23 million tons per day (average for the third quarter of 2014). Current utilization of the refining capacities is close to maximum adjusted for planned turnarounds and partial recovery of production at Achinsk refinery after accident. The remaining volumes of crude oil are mostly exported to Europe, Asia and CIS countries. Rosneft also holds a 50% stake in Ruhr Oel GmbH (ROG) where the Company processes both own and procured crude oil. Rosneft also processes crude oil, gas and petroleum products at external refineries (which are outside the Group).

## Financial and Operating Highlights

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 9 months ended</i>		<i>% change</i>
	<i>September 30, 2014</i>	<i>June 30, 2014</i>		<i>September 30, 2014</i>	<i>September 30, 2013</i>	
<b>Financial results, RUB billion</b>						
Revenues and equity share in profits of associates and joint ventures	1,382	1,435	(3.7)%	4,192	3,344	25.4%
EBITDA	276	304	(9.2)%	869	674	28.9%
Net income	1	172	(99.4)%	261	250 <sup>1</sup>	4.4%
Capital expenditures	133	133	-	370	378	(2.1)%
Adjusted free cash flow*	171	112	52.7%	404	152	165.8%
Net Debt	1,772	1,525	16.2%	1,772	1,926	(8.0)%
<b>Operational results</b>						
Hydrocarbon production (th. boe per day)	5,071	5,062	0.2%	5,073	4,831	5.0%
Crude oil and NGL production (th. barrels per day)	4,135	4,154	(0.5)%	4,162	4,187	(0.6)%
Gas production (th. boe per day)	936	908	3.1%	911	644	41.5%
Production of petroleum products in Russia (mln tonnes)	20.98	19.87	5.6%	61.66	54.32	13.5%
Production of petroleum products outside Russia (mln tonnes)	3.46	3.09	12.0%	9.76	9.00	8.4%

\*Excluding the effect of operations with trading securities and one-off effect from prepayments under long-term supply oil agreements of RUB 66 billion and RUB 497 billion in the third quarter of 2014 and in the nine months of 2014, respectively, and RUB 307 billion in the nine months of 2013.

<sup>1</sup>Excluding one-off effect from final estimation of the fair value of the acquired assets and liabilities of RUB 167 billion.

## **Significant events in the third quarter of 2014**

### **Rosneft Discovered a New Hydrocarbon Field in the Kara Sea**

Rosneft successfully completed the scheduled works of the drilling of the northernmost well in the world – the Universitetskaya-1 well in the Arctic. According to the results of the drilling Rosneft has made hydrocarbons discovery at the East-Prinovozemelskiy-1 license area.

### **Rosneft and North Atlantic Drilling Signed an Exchange of Assets Agreement**

Rosneft, Seadrill Limited and North Atlantic Drilling Limited (NADL) signed a Framework Agreement that envisages long-term cooperation in the sphere of oilfield development projects. The document foresees the acquisition by Rosneft of NADL shares through an exchange of assets and investments in NADL charter capital. The deal is implemented within the Rosneft's strategy aimed at strengthening and expanding its service business potential, increasing its technological capabilities and will allow the Company to acquire a fleet of platforms and drilling rigs for the conduction of on and offshore drilling operations. The cooperation will expand the field of activities of the Company in the sphere of designing and engineering of specialized marine equipment.

### **Rosneft and PDVSA Signed a Range of Agreements on Offshore Projects and Drilling Technologies**

Rosneft and PDVSA signed a Cooperation Agreement to implement offshore projects in Rio-Caribe and Mejillones blocks (Phase II of the Mariscal Sucre Project).

### **Achinsk refinery resumed crude refining on tight schedule**

Achinsk Oil refinery has recovered the processes of primary crude oil processing on a tight schedule, according to the plan of repair activities. From the 1st of September 2014 the enterprise has commenced production of the main types of oil products: straight-run gasoline, diesel fuel, marine fuel and jet fuel, as well as WLHF (wide light hydrocarbon fraction). In accordance with phased-stage plan of the reconstruction at Achinsk refinery that enables running at prefault production capacities, full petroleum products output is expected by the end of the year.

## **Macroeconomic factors affecting results of operations**

Main factors, affecting Rosneft's results of operations are:

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

Changes in prices, export customs duty and transport tariffs may have a significant impact on the mix of products and distribution channels the Company selects seeking to maximise netback prices of the produced crude oil.

## Changes in Crude Oil, Petroleum Product and Gas Prices

World crude oil prices are highly volatile and fluctuate depending on the global balance of supply and demand on the world crude oil market, political situation mainly in the oil producing regions of the world and other factors. Crude oil exported by Rosneft via the Transneft's (Russian pipeline monopoly) pipeline system is blended with crude oil of other producers that is of a different quality. The resulting Urals blend is traded at a discount to Brent. Crude oil exported via ESPO pipeline is sold at a price which is linked to the price of "Dubai" blend.

Petroleum product prices on 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 is different for different types of petroleum products.

The table below sets forth the average crude oil and petroleum product prices worldwide and in Russia in US\$ and RUB. The prices nominated in US\$ are translated into RUB at average US\$/RUB exchange rate for the respective period.

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 9 months ended</i>		<i>% change</i>
	<b>September 30, 2014</b>	<b>June 30, 2014</b>		<b>September 30, 2014</b>	<b>September 30, 2013</b>	
<b>World market</b>	<b>(US\$ per barrel)</b>		<b>%</b>	<b>(US\$ per barrel)</b>		<b>%</b>
Brent (dated)	101.9	109.6	(7.1)%	106.6	108.4	(1.7)%
Urals (average Med and NWE)	101.1	107.7	(6.1)%	105.1	107.5	(2.2)%
Urals (FOB Primorsk)	98.7	106.0	(7.1)%	103.4	106.2	(2.6)%
Urals (FOB Novorossiysk)	99.9	107.1	(6.7)%	104.2	106.9	(2.5)%
Dubai	101.5	106.1	(4.4)%	104.0	105.0	(1.0)%
	<b>(US\$ per tonne)</b>			<b>(US\$ per tonne)</b>		
Naphtha (av. FOB/CIF Med)	865	922	(6.2)%	894	875	2.2%
Naphtha (av. FOB Rotterdam/CIF NWE)	879	937	(6.1)%	909	892	2.0%
Naphtha (CFR Japan)	914	951	(4.0)%	933	913	2.2%
Fuel oil (av. FOB/CIF Med)	565	581	(2.8)%	575	598	(3.8)%
Fuel oil (av. FOB Rotterdam/CIF NWE)	556	576	(3.4)%	567	594	(4.5)%
High sulphur fuel oil 180 cst (FOB Singapore)	591	607	(2.5)%	602	621	(3.1)%
Gasoil (av. FOB/CIF Med)	864	905	(4.4)%	893	917	(2.7)%
Gasoil (av. FOB Rotterdam/CIF NWE)	865	909	(4.8)%	896	918	(2.4)%
Gasoil (FOB Singapore)	858	904	(5.1)%	888	907	(2.0)%
	<b>(th. RUB per barrel)</b>			<b>(th. RUB per barrel)</b>		
Brent (dated)	3.69	3.84	(3.9)%	3.77	3.43	10.0%
Urals (average Med and NWE)	3.66	3.77	(2.9)%	3.72	3.40	9.4%
Urals (FOB Primorsk)	3.57	3.71	(3.9)%	3.66	3.36	9.0%
Urals (FOB Novorossiysk)	3.62	3.75	(3.6)%	3.69	3.38	9.1%
Dubai	3.67	3.71	(1.1)%	3.68	3.32	10.8%
	<b>(th. RUB per tonne)</b>			<b>(th. RUB per tonne)</b>		
Naphtha (av. FOB/CIF Med)	31.3	32.3	(3.0)%	31.6	27.7	14.4%
Naphtha (av. FOB Rotterdam/CIF NWE)	31.8	32.8	(2.9)%	32.2	28.2	14.2%
Naphtha (CFR Japan)	33.1	33.3	(0.7)%	33.0	28.9	14.4%
Fuel oil (av. FOB/CIF Med)	20.4	20.3	0.5%	20.3	18.9	7.7%
Fuel oil (av. FOB Rotterdam/CIF NWE)	20.1	20.2	(0.2)%	20.1	18.8	6.9%
High sulphur fuel oil 180 cst (FOB Singapore)	21.4	21.2	0.8%	21.3	19.6	8.5%
Gasoil (av. FOB/CIF Med)	31.3	31.7	(1.2)%	31.6	29.0	8.9%
Gasoil (av. FOB Rotterdam/CIF NWE)	31.3	31.8	(1.6)%	31.7	29.0	9.2%
Gasoil (FOB Singapore)	31.1	31.6	(1.8)%	31.4	28.7	9.6%
<b>Russian market</b>	<b>(th. RUB per tonne)</b>			<b>(th. RUB per tonne)</b>		
(net of VAT, including excise tax)						
Crude oil	11.5	12.2	(5.5)%	11.8	10.5	12.2%
Fuel oil	9.7	9.7	0.0%	9.3	8.8	6.0%
Summer diesel	26.8	27.3	(1.6)%	26.7	25.1	6.6%
Winter diesel	29.4	28.2	4.4%	28.7	27.9	2.8%
Jet fuel	26.1	23.7	10.2%	25.1	23.2	7.9%
High octane gasoline	33.6	30.2	11.4%	30.8	26.9	14.3%
Low octane gasoline	29.4	27.5	7.0%	27.6	24.7	11.9%

Sources: average prices were calculated based on analytical agencies data

The difference between price movements denominated in US\$ and those denominated in RUB is explained by nominal RUB depreciation against US\$ by 3.4 % in the third quarter of 2014 compared to the second quarter of 2014 and nominal RUB depreciation against US\$ by 11.9% in the nine months of 2014 compared to the nine months of 2013.

The Russian Government regulates the price of the gas sold in Russia by Gazprom. While the regulated price is expected to continue to rise to a level closer to parity with export netbacks, it is currently still significantly below this level.

The regulated price has affected, and is likely to continue to affect, the pricing of Rosneft gas sales. Rosneft's average gas sales price (net of VAT) was RUB 2.79 thousand per thousand cubic meters and RUB 3.13 thousand per thousand cubic meters in the third quarter of 2014 and second quarter of 2014, respectively.

In the nine months of 2014 and 2013 the average gas sale price (net of VAT) was RUB 2.91 thousand and RUB 2.54 thousand per thousand cubic meters, respectively.

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

The US\$/RUB and EUR/RUB exchange rates and inflation in Russian Federation affect Rosneft's results as most of the Company's revenues from sales of crude oil and petroleum products are denominated in US\$, while most of the Company's expenses are denominated in RUB. Thus, the depreciation of the rouble positively affects Rosneft's operating income, while rouble appreciation has a negative effect.

The table below provides information on the exchange rates movements and inflation during the periods analyzed:

	<i>For 3 months ended</i>		<i>For 9 months ended</i>	
	<b>September 30, 2014</b>	<b>June 30, 2014</b>	<b>September 30, 2014</b>	<b>September 30, 2013</b>
Rouble inflation (CPI) for the period	1.5%	2.5%	6.3%	4.7%
Average RUB/US\$ exchange rate for the period	36.19	35.00	35.39	31.62
RUB/US\$ exchange rate at the end of the period	39.39	33.63	39.39	32.35
Average RUB/EUR exchange rate for the period	47.99	48.03	47.99	41.65
RUB/EUR exchange rate at the end of the period	49.95	45.83	49.95	43.65

Source: Central Bank of Russian Federation.

### Taxation

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

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 9 months ended</i>		<i>% change</i>
	<b>September 30, 2014</b>	<b>June 30, 2014</b>		<b>September 30, 2014</b>	<b>September 30, 2013</b>	
<b>Mineral extraction tax</b>						
Crude oil (RUB per tonne)	5,840	6,135	(4.8)%	6,017	5,282	13.9%
Associated gas (RUB per th. cubic meters)	0	0	-	0	0	-
<b>Export customs duty for crude oil</b>						
Crude oil (US\$ per tonne)	380.5	382.6	(0.5)%	383.9	389.7	(1.5)%
Crude oil (RUB per tonne)	13,772	13,392	2.8%	13,585	12,322	10.2%
Crude oil (RUB per barrel)	1,860	1,809	2.8%	1,835	1,674	9.6%
<b>Export customs duty for petroleum products</b>						
Gasoline (RUB per tonne)	12,393	12,052	2.8%	12,225	11,089	10.2%
Naphtha (RUB per tonne)	12,393	12,052	2.8%	12,225	11,089	10.2%
Light and middle distillates (RUB per tonne)	9,088	8,838	2.8%	8,965	8,132	10.2%
Diesel (RUB per tonne)	8,950	8,703	2.8%	8,828	8,132	8.6%
Liquid fuels (fuel oil) (RUB per tonne)	9,088	8,838	2.8%	8,965	8,132	10.2%

Starting from July 1, 2014 a new method of calculation is used for MET for natural gas and gas condensate, which involves the calculation of MET for each field depending on the complexity of production (for more details see "Mineral extraction tax").

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

Excise on petroleum products	From January 1	From July 1	2014	2015
	until June 30, 2013	until December 31, 2013		
<b>High octane gasoline (RUB per tonne)</b>				
High octane gasoline non-compliant with euro-3,4,5 (RUB per tonne)	10,100	10,100	11,110	13,332
High octane gasoline euro-3 (RUB per tonne)	9,750	9,750	10,725	12,879
High octane gasoline euro-4 (RUB per tonne)	8,560	8,960	9,916	10,858
High octane gasoline euro-5 (RUB per tonne)	5,143	5,750	6,450	7,750
<b>Naphtha (RUB per tonne)</b>	10,229	10,229	11,252	13,502
<b>Diesel (RUB per tonne)</b>				
Diesel below euro-3,4,5 (RUB per tonne)	5,860	5,860	6,446	7,735
Diesel euro-3 (RUB per tonne)	5,860	5,860	6,446	7,735
Diesel euro-4 (RUB per tonne)	4,934	5,100	5,427	5,970
Diesel euro-5 (RUB per tonne)	4,334	4,500	4,767	5,244
<b>Lubricants (RUB per tonne)</b>	7,509	7,509	8,260	9,086

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

	For 3 months ended		For 9 months ended	
	September 30, 2014	June 30, 2014	September 30, 2014	September 30, 2013
	RUB billion		RUB billion	
Total revenues	1,382	1,435	4,192	3,344
Total taxes*	717	787	2,242	1,785
<b>Effective tax burden, %</b>	<b>51.9%</b>	<b>54.8%</b>	<b>53.5%</b>	<b>53.4%</b>

\* Including export customs duty, mineral extraction tax, excise tax, income tax and other taxes.

The mineral extraction tax and the export customs duty accounted for approximately 47.8% and 48.3% of Rosneft's total revenues in the third quarter of 2014 and in the second quarter of 2014, respectively. In the nine months of 2014 and 2013 the mineral extraction tax and the export customs duty accounted for approximately 48.1% and 47.1 % of Rosneft's total revenues, respectively.

### Mineral Extraction Tax

The rate of mineral extraction tax (MET) for crude oil is linked to the Urals price in the international market and changes every month. It is calculated in US\$ per barrel of crude oil produced using average exchange rate established by the Central Bank of Russia for the respective month.

The mineral extraction tax rate in 2014 was calculated by multiplying the base rate of **RUB 493** (in 2013 base rate was **RUB 470**, in 2015 base rate will be – **RUB 530**, in 2016 – **RUB 559**) by the adjustment ratio of  $((P - 15) \times \text{Exchange rate} / 261)$ , where “P” 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, as well as factors which characterize the degree of depletion of a particular field, reserves of a particular field and the degree of difficulty of extraction.

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  $(3.8 - 3.5 \times \text{reserve depletion rate})$  is applied; the reduced rate therefore varies from 0.3 to 1.0 of the standard rate;
- the zero tax rate is applicable to high-viscosity crude oil;
- the zero tax rate is applicable during specific time period or for specific volumes of production (depending on what is achieved earlier) at fields in Yakutia, Irkutsk Region, Krasnoyarsk Territory, Nenets Autonomous District, Yamal Peninsula, Azov, Caspian and Black seas, sea of Okhotsk, offshore fields located to the north of the Arctic Circle (the exact time period and volume vary by region where the field is located);
- the reduced tax rate is applicable to crude oil produced at the fields with the volume of initial recoverable reserves being less than 5 million tonne and depletion level of reserves less or equal 0.05. For the calculation of reduced tax rate special coefficient characterising the volume of reserves for a specific field  $(0.125 \times \text{value of initial oil recoverable reserves} + 0.375)$  should be used;
- the zero tax rate is applicable at fields: Bazhenov, Abalak, Khadum, Domanic formations and the reduced rate is applicable at fields with permeability less than  $2 \times 10^{-3}$  square micrometres and Tyumen formation.



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, the Republic of Sakha (Yakutia) and Krasnoyarsk Territory are subject to zero mineral extraction tax rate which is applicable for the first 25 million tonnes of production or if not more than 10 years period for a production license and not more than 15 years period for an exploration and production license, on the territory of the Nenets Autonomous district, Yamalo-Nenets Autonomous district - for the first 15 million tonnes of production or if not more than 7 years period for a production license and not more than 12 years period for an exploration and production license.

In February 2014 accumulated production at Verkhnechonsk fields exceeded 25 million tonnes and starting from March 2014 the regular MET rate is applied.

The zero MET rate is applied for a number of Rosneft fields containing extra-viscous oil.

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

The Company has exploration and production licenses for the fields with hard to recover reserves. In accordance with the Federal Law № 213-FZ of July 23, 2013, starting from September 2013, special tax regime for these reserves was approved, which provide for tax exemption for the projects at the fields with hard to recover reserves, including Bazhenov, Abalak, Khadum, Domanic formations, and reduced tax rate for crude oil from deposits with permeability of less than  $2 \times 10^{-3}$  square micrometres and Tyumen formation.

On September 30, 2013 the amendments to tax law specifying tax regime for offshore projects in Russian Federation were approved. Following new tax amendments the offshore projects are categorised into one of four groups depending on its complexity and specifies MET rates for each project group ranging from 5% to 30% of hydrocarbon prices (natural gas projects of 3 and 4 groups of difficulty – 1.3% and 1.0%, respectively).

#### **Changes in gas mineral tax rate**

Starting from July 1, 2014 new formula is applied to MET rate calculation on natural gas and gas condensate.

In accordance with Tax Code of Russian Federation, base rate of MET for gas condensate is RUB 42 per 1 tonne and for natural gas – RUB 35 per 1 thousand cubic metres. Base rates are multiplied by basic rate of standard fuel unit (Sfu) and coefficient of degree of the complexity to recover natural gas and gas condensate. For the reporting period MET on natural gas and gas condensate amounted to RUB 2.9 billion and RUB 8.3 billion for the third quarter of 2014 and nine months of 2014 year, respectively.

Starting from January 1, 2015 the indicator of natural gas transportation costs will be included into MET calculation.

Tax rate calculated as described above, will be rounded to rouble. Fixed rate of mineral extraction tax for natural gas of RUB 471 per th. cubic meters was valid until July 1, 2014.

## **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 .....	US\$ 12.78 <i>plus</i> 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 <i>plus</i> 60% of the difference between the average Urals price in US\$ per tonne and US\$ 182.5 ( <b>since October 1, 2011 till December 31, 2013</b> )
	US\$ 29.2 <i>plus</i> 59% of the difference between the average Urals price in US\$ per tonne and US\$ 182.5 ( <b>since January 1 till December 31, 2014</b> )
	US\$ 29.2 <i>plus</i> 57% of the difference between the average Urals price in US\$ per tonne and US\$ 182.5 ( <b>since January 1 till December 31, 2015</b> )
	US\$ 29.2 <i>plus</i> 55% of the difference between the average Urals price in US\$ per tonne and US\$ 182.5 ( <b>since January 1, 2016</b> )

Starting from October 2011 the marginal export duty rate was reduced from 65% to 60% and is valid up to date. Starting from January 2014 the marginal export duty rate decreased to 59%.

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

The law on the introduction of a special tax regime in respect of projects on the continental shelf of the Russian Federation provides a full exemption of hydrocarbons produced at offshore fields from the export customs duties, which commercial production will start from January 1, 2016. Such an exemption is set for various terms depending on complexity of a field development project.

In accordance with Federal law № 5003-1 of May 21, 1993 the government of the Russian Federation is entitled to establish special formulas for calculating the rates of export customs duties on crude oil in respect of:

- high-viscous oil for a 10 years period starting from the date of application of the reduced export duty rate, but not later than January 1, 2023. The export customs duty rate is set at 10% of the established marginal export duty rate on oil.

- crude oil with special physical and chemical characteristics produced at certain crude oil fields located in Irkutsk, Krasnoyarsk regions, Sakha Yakutia, on shores and off shores. The export customs duty rate is set at 45% of the difference between the average Urals price denominated in US\$ per tonne and the amount of US\$ 365 per tonne.

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

Export duties are not payable on crude oil exports to CIS countries that are members of the Customs Union. Starting from January 1, 2012 zero export duty rate is applicable to the crude oil exports to Belarus as for export to Kazakhstan. No new amendments were introduced in 2014 in respect of regime of export customs duty on crude oil export to CIS.

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

Export customs duty on petroleum products (except liquefied petroleum gas, (LPG)) is set every month as the marginal export customs duty rate on crude oil multiplied by the estimated ratio depending on the type of petroleum product.

Export customs duty on LPG is based on the average price of LPG at Poland board (DAF Brest) denominated in US\$ per tonne for the period from the 15th day of the previous month to the 14th day (inclusive) of the current month.

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

Starting from October 2011 the export duty for light petroleum products (excluding gasoline and nafta) was lowered from 67% to 66% of export duty for crude oil. Starting from October, 2011 the export duty rate for dark petroleum products has been increased from 46.7% to 66% of export duty for crude oil. Export duty for naphtha and gasoline remained at 90% of crude oil export duty.

Starting from January 1, 2014 calculation of the export duty rate for diesel fuel applies lower factor 0.65 instead of 0.66.

The Russian government introduced for consideration to state authority the amendments to the Tax Code of the Russian Federation and other legislative acts of the Russian Federation providing for tax maneuver in the oil industry. The amendments enable three-year staged reduction of oil export duties in 1.7 times and petroleum export duties in 1.7-5 times and simultaneous increase in oil mineral extraction tax rate by 1.7 times and gas condensate - by 6.5 times.

## **Changes in Transport Tariffs of Pipeline and Railway Monopolies**

Rosneft transports most of its crude oil and petroleum products via pipeline network owned and operated by OJSC “AK “Transneft” (“Transneft”), which is a natural state-owned pipeline monopoly. Rosneft also transports crude oil and petroleum products via railway network mainly owned and operated by Russian railways (RZD), another natural state-owned monopoly.

The Federal Tariff Service (“FTS”), a governmental body regulating natural monopolies, sets Transneft’s base tariffs for transportation of crude oil and petroleum products in Russia, which include a dispatch tariff, a pumping tariff, loading, charge-discharge, transshipment and other tariffs. Tariffs for railroad transportation are also regulated by the FTS. The tariffs are set in roubles and are not linked to the exchange rate.

The FTS sets tariffs for each separate route of the pipeline networks depending on the length of the relevant routes, transportation direction and other factors, alternatively tariffs may be set for the entire route of the pipeline network. Tariffs for railroad transportation often depend on the type of cargo and the transportation route.

### *Recent changes of Transneft transportation tariffs*

#### *Petroleum products*

Starting from September 2014, Transneft increased tariffs for transportation of petroleum products in the direction of Primorsk on average by 3.0% in the third quarter 2014 compared to the second quarter of 2014.

Starting from November 8, 2013 a special multiplying ratio of 1.134 was introduced on the export transportation of stable natural gasoline via land border in the direction of the Baltic countries.

#### *Crude oil*

Starting from March 2, 2014 investment tariff for Purpe-Samotlor transportation route in the amount RUB 108.2 for 1 tone (excluding VAT) was implemented. The tariff is agreed by Transneft and Rosneft for 36 months period from the effective date of FTS decision about establishment of the tariff. (This tariff does not impact current tariffs for oil transportation by the branch of ESPO pipeline to China).

Starting from February 1, 2014 Transneft increased transit tariffs for crude oil transportation by 8.9% in Belarus.

In February 2013 Transneft increased transit tariffs for crude oil transportation by 9.7% in Belarus.

### *Recent changes in railroad transportation tariffs*

Starting from August 2014 there was increase in tariffs for export transportation for crude oil and petroleum products by 13.4% (except diesel and transportation via Kaliningrad district). Tariffs of diesel transportation in all direction (excluding transportation on Far East domestic market) increased by 12.5%.

The increase in railroad tariffs for export transportation of petroleum products on average was 6.4% in the third quarter of 2014 compared to the second quarter of 2014.

The table sets forth the Rosneft's average transportation tariffs applied to major transportation routes denominated in RUB for the respective periods excluding transshipment:

	<i>for 3 months ended</i>		<i>Change</i>	<i>for 9 months ended</i>		<i>Change</i>
	<b>September 30, 2014</b>	<b>June 30, 2014</b>		<b>September 30, 2014</b>	<b>September 30, 2013</b>	
	<b>(th. RUB/tonne)</b>		<b>(%)</b>	<b>(th. RUB/tonne)</b>		
<b>CRUDE OIL</b>						
<b>Domestic</b>						
<i>Pipeline</i>						
Yuganskneftegaz (Karkateevy)– Syzran refinery	0.85	0.85	–	0.85	0.85	–
Samaraneftegaz (Kuleshovka) – Saratov refinery	0.25	0.25	–	0.25	0.25	–
Vankorneft (Purpe) – Tuapse refinery	1.65	1.65	–	1.65	1.65	–
Samotlorneftegaz (Samotlor via Omsk) – Achinsk refinery	0.94	0.94	–	0.94	–	–
Varieganeftegaz (Bahilovskoe) – Achinsk refinery	0.53	0.53	–	0.53	–	–
Orenburgneft (Krotovka)– Novokuibyshev refinery	0.06	0.06	–	0.06	0.06	–
Orenburgneft (Pokrovka) – Saratov refinery	0.34	0.34	–	0.34	0.34	–
Samotlorneftegaz (Nizneartovsk) – Ryazan NPK	1.23	1.23	–	1.23	1.26	–
Uvatneftegaz (Demyanskoe) – Ryazan NPK	1.06	1.06	–	1.06	1.06	–
Samotlorneftegaz – Angarsk refinery (short route)	0.94	0.94	–	0.94	0.94	–
Yuganskneftegaz –Ryazan NPK	1.15	1.15	–	1.15	1.15	–
<i>Mixed transportation</i>						
Purneftegaz – Komsomolsk refinery (short route)	4.42	4.42	–	4.42	4.31	2.5%
Samotlor – Komsomolsk refinery	4.52	4.52	–	4.52	4.41	2.5%
Samotlorneftegaz – Komsomolsk refinery (short route)	4.04	4.04	–	4.04	3.93	2.8%
<b>Export</b>						
<i>Pipeline</i>						
Yuganskneftegaz (Karkateevy) – Port Primorsk	1.60	1.60	–	1.60	1.60	–
Yuganskneftegaz (Yuzny Bulyk) – Port Novorossiysk	1.59	1.59	–	1.59	1.59	–
Yuganskneftegaz (Karkateevy) – Port Ust-Luga	1.65	1.65	–	1.65	–	–
Samaraneftegaz (Kuleshovka) – Port Novorossiysk	0.85	0.85	–	0.85	0.85	–
Vankor (Purpe)-Kozmino	2.19	2.19	–	2.16	2.08	4.0%
Vankor (Purpe)- China	2.19	2.19	–	2.16	2.08	4.0%
Yuganskneftegaz (Karkateevy) – Germany	1.62	1.62	–	1.62	1.60	1.1%
Yuganskneftegaz (Yuzny Bulyk) – Poland	1.55	1.55	–	1.55	1.53	1.1%
Yuganskneftegaz (Yuzny Bulyk) – Belarus (Naftan)	1.49	1.49	–	1.49	1.48	0.5%
Yuganskneftegaz (Karkateevy) – Belarus (Naftan)	1.51	1.51	–	1.51	–	–
Verkhnechonskneftegaz (Talakan) – Kozmino	2.08	2.08	–	2.08	2.08	–
<i>Railroad and mixed transportation</i>						
Stavropolneftegaz – CPC (railroad transport)	0.72	0.72	–	0.72	0.72	–

	<i>for 3 months ended</i>		<i>Change</i>	<i>for 9 months ended</i>		<i>Change</i>
	<b>September 30,</b>	<b>June 30,</b>		<b>September 30,</b>	<b>September 30,</b>	
	<b>2014</b>	<b>2014</b>		<b>2014</b>	<b>2013</b>	
	<b>(th. RUB/tonne)</b>		<b>(%)</b>	<b>(th. RUB/tonne)</b>		
<b>PETROLEUM PRODUCTS EXPORT</b>						
<b>Diesel</b>						
Samara refineries – Ventspils	2.16	2.13	1.6%	2.14	2.04	4.9%
Angarsk refinery – Nakhodka	4.79	4.52	5.9%	4.61	4.44	3.8%
Komsomolsk refinery – Nakhodka	1.89	1.77	6.2%	1.81	1.74	4.0%
Achinsk refinery – Tuapse	5.43	5.10	6.3%	5.21	5.01	4.0%
RNPK – Ventspils	1.93	1.91	1.2%	1.91	1.83	4.3%
RNPK – Primorsk	1.83	1.76	3.5%	1.76	1.70	3.9%
YANOS – Primorsk	1.55	1.52	2.4%	1.51	1.45	4.1%
<b>Fuel oil</b>						
Samara group refineries - Odessa	2.16	2.05	5.5%	2.09	–	–
Angarsk refinery – Nakhodka	4.84	4.51	7.2%	4.62	4.43	4.2%
Komsomolsk refinery – Nakhodka	1.83	1.69	7.9%	1.74	1.67	4.3%
Achinsk refinery – Nakhodka	6.12	5.77	5.9%	5.89	5.68	3.7%
Ryazansky NPK – Ust-Luga	1.75	1.67	5.2%	1.70	1.67	1.5%
Ryazansky NPK – Estonia	2.03	1.93	5.3%	1.96	1.93	1.6%
SNPZ – Kerch	1.85	1.76	5.4%	1.80	1.76	1.9%
YANOS – Estonia	1.47	1.39	6.0%	1.42	1.39	1.9%
<b>Naphtha</b>						
Samara refineries – Tuapse	2.25	2.10	6.7%	2.15	2.07	4.2%
Achinsk refinery – Tuapse	5.32	4.94	7.5%	5.07	4.86	4.4%
Angarsk refinery – Nakhodka	4.59	4.27	7.6%	4.38	4.19	4.4%
Komsomolsk refinery – Nakhodka	1.85	1.74	6.5%	1.78	1.71	4.1%

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

Rosneft operates proprietary transportation and transshipment facilities. This allows optimisation of Company's logistics (netbacks). These facilities include: the Arkhangelsk, De-Kastri, Tuapse and Nakhodka export terminals, the Okha – Komsomolsk-on-Amur pipeline, Vankor-Purpe pipeline and the Caspian Pipeline Consortium ("CPC"). In CPC Rosneft has a 7.5% stake through a joint venture "Rosneft Shell Caspian Ventures Ltd" (Cyprus) (Rosneft owns 51%).

## **Business Segments and Intersegment sales**

Substantially most of all of Rosneft's operations and assets are located in the Russian Federation. As geographical regions of the Russian Federation have similar economic and legal characteristics, Rosneft does not present geographical segments separately. Rosneft also carries out projects outside Russia, including exploration and production projects in Algeria, the Gudautsky area in the Black Sea territorial waters of Abkhazia, United Arab Emirates, Canada, Brazil, Vietnam, Venezuela and USA and also stakes in refineries in Germany and Italy.

### **Operating Segments**

As at the reporting date the activities of Rosneft are divided into two main operating segments, based on the nature of their operations:

- Exploration and production (upstream). Geological exploration and development of fields and crude oil and gas production on the onshore and offshore of the territory of Russia and abroad and oil service Group companies; and
- Refining and distribution (downstream). Refining of crude oil, as well as the purchase, transportation, sale of crude oil and petroleum products to the third parties in Russia and abroad.

Other activities included in the "Corporate" segment and include banking, financial services and other activities.

## **Intersegment Sales**

Rosneft's two main business segments are interconnected: the majority of the revenues of one main segment is included in the expenses of the other main segment. In particular, Upstream Group companies provide operator services for Downstream Group companies segment, which sale part of crude oil on the domestic market or outside of Russia, and the remaining part is processed at own refineries or at refineries of affiliates and third parties. Refined petroleum products are then either sold by the Company through wholesale in international or domestic markets or sold to the Company's sale subsidiaries for subsequent wholesale and retail in Russia.

Intercompany sales present financial activity of segments as if the segments operate separately from each other within the vertically integrated company by using of transfer prices for settlements between segments. For the estimation of upstream revenues within vertical integrated company the price of Upstream (and the purchase price of Downstream) was recalculated using the export market price minus transport cost, minus export duty, dispatches and other expenses relating to current sales. As the result segments use the price established at oil gathering facility (point of sales) where Upstream dispatches the oil to Downstream.

## Financial performance by segments for the periods: third and second quarters of 2014

	Upstream		Downstream		Corporate		Total	
	Quarter III, 2014	Quarter II, 2014	Quarter III, 2014	Quarter II, 2014	Quarter III, 2014	Quarter II, 2014	Quarter III, 2014	Quarter II, 2014
<b>Revenues and equity share in (losses)/profits of associates and joint ventures</b>								
Oil and gas sales	–	–	717	757	–	–	717	757
Petroleum products and petrochemicals sales	–	–	647	654	–	–	647	654
Support services and other revenues	–	–	–	–	21	18	21	18
Equity share in (losses)/profits of associates and joint ventures	(3)	6	–	–	–	–	(3)	6
<i>Intersegment turnover</i>	544	597	–	–	–	–	–	–
<b>Total revenues and equity share in (losses)/profits of associates and joint ventures</b>	<b>541</b>	<b>603</b>	<b>1,364</b>	<b>1,411</b>	<b>21</b>	<b>18</b>	<b>1,382</b>	<b>1,435</b>
<b>Costs and expenses</b>								
Production and operating expenses	65	62	46	47	11	9	122	118
Cost of purchased oil, gas and petroleum products and refining costs	4	3	117	115	–	–	121	118
<i>Intersegment turnover</i>	–	–	544	597	–	–	–	–
General and administrative expenses	3	7	5	5	22	15	30	27
Pipeline tariffs and transportation costs	4	3	109	115	–	–	113	118
Exploration expenses	4	5	–	–	–	–	4	5
Depreciation, depletion and amortisation	95	89	21	15	–	5	116	109
Taxes other than income tax	257	272	41	39	5	4	303	315
Export customs duty	–	–	413	430	–	–	413	430
<b>Total cost and expenses</b>	<b>432</b>	<b>441</b>	<b>1,296</b>	<b>1,363</b>	<b>38</b>	<b>33</b>	<b>1,222</b>	<b>1,240</b>
<b>Operating income</b>	<b>109</b>	<b>162</b>	<b>68</b>	<b>48</b>	<b>(17)</b>	<b>(15)</b>	<b>160</b>	<b>195</b>
Finance income	–	–	–	–	9	6	9	6
Finance expenses	–	–	–	–	(61)	(10)	(61)	(10)
Other income	–	–	–	–	2	4	2	4
Other expenses	–	–	–	–	(13)	(10)	(13)	(10)
Foreign exchange differences	–	–	–	–	(95)	29	(95)	29
<b>Income before income tax</b>	<b>109</b>	<b>162</b>	<b>68</b>	<b>48</b>	<b>(175)</b>	<b>4</b>	<b>2</b>	<b>214</b>
Income tax	(22)	(32)	(13)	(10)	34	–	(1)	(42)
<b>Net income</b>	<b>87</b>	<b>130</b>	<b>55</b>	<b>38</b>	<b>(141)</b>	<b>4</b>	<b>1</b>	<b>172</b>
<b>EBITDA</b>	<b>204</b>	<b>251</b>	<b>89</b>	<b>63</b>	<b>(17)</b>	<b>(10)</b>	<b>276</b>	<b>304</b>



**Financial performance by segments for the periods: nine months ended of September 30, 2014 and 2013**

	Upstream		Downstream		Corporate		Total	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
<b>Revenues and equity share in profits/(losses) of associates and joint ventures</b>								
Oil and gas sales	–	–	2,203	1,716	–	–	2,203	1,716
Petroleum products and petrochemicals sales	–	–	1,933	1,576	–	–	1,933	1,576
Support services and other revenues	–	–	–	–	55	40	55	40
Equity share in profits of associates and joint ventures	1	12	–	–	–	–	1	12
<i>Intersegment turnover</i>	<i>1,711</i>	<i>1,373</i>	–	–	–	–	–	–
<b>Total revenues and equity share in profits/(losses) of associates and joint ventures</b>	<b>1,712</b>	<b>1,385</b>	<b>4,136</b>	<b>3,292</b>	<b>55</b>	<b>40</b>	<b>4,192</b>	<b>3,344</b>
<b>Costs and expenses</b>								
Production and operating expenses	182	140	129	105	27	23	338	268
Cost of purchased oil, gas and petroleum products and refining costs	12	–	351	312	–	–	363	312
<i>Intersegment turnover</i>	–	–	<i>1,711</i>	<i>1,373</i>	–	–	–	–
General and administrative expenses	18	14	14	15	52	50	84	79
Pipeline tariffs and transportation costs	13	–	335	281	–	–	348	281
Exploration expenses	13	11	–	–	–	–	13	11
Depreciation, depletion and amortisation	270	225	53	40	7	4	330	269
Taxes other than income tax	785	616	122	113	12	9	919	738
Export customs duty	–	–	1,258	981	–	–	1,258	981
<b>Total cost and expenses</b>	<b>1,293</b>	<b>1,006</b>	<b>3,973</b>	<b>3,220</b>	<b>98</b>	<b>86</b>	<b>3,653</b>	<b>2,939</b>
<b>Operating income</b>	<b>419</b>	<b>379</b>	<b>163</b>	<b>72</b>	<b>(43)</b>	<b>(46)</b>	<b>539</b>	<b>405</b>
Finance income	–	–	–	–	21	14	21	14
Finance expenses	–	–	–	–	(112)	(40)	(112)	(40)
Other income	–	–	–	–	64	207	64	207
Other expenses	–	–	–	–	(36)	(46)	(36)	(46)
Foreign exchange differences	–	–	–	–	(150)	(57)	(150)	(57)
<b>Income before income tax</b>	<b>419</b>	<b>379</b>	<b>163</b>	<b>72</b>	<b>(256)</b>	<b>32</b>	<b>326</b>	<b>483</b>
Income tax	(83)	(76)	(33)	(13)	51	23	(65)	(66)
<b>Net income</b>	<b>336</b>	<b>303</b>	<b>130</b>	<b>59</b>	<b>(205)</b>	<b>55</b>	<b>261</b>	<b>417</b>
<b>EBITDA</b>	<b>689</b>	<b>604</b>	<b>216</b>	<b>112</b>	<b>(36)</b>	<b>(42)</b>	<b>869</b>	<b>674</b>

## Upstream Operating Results

The segment includes Rosneft Group companies that provide operating services, the independent enterprises that produce oil, gas and gas condensate in Russia and abroad, the joint venture, and exploration units in Russia and abroad. The segment includes revenues generated by the transfer of oil, gas and NGL to downstream segment for subsequent sale to a third party, and all operating costs associated with production and exploration.

	<i>For 3 months ended</i>		<i>% change</i>	<i>For 9 months ended</i>		<i>% change</i>
	<b>September 30, 2014</b>	<b>June 30, 2014</b>		<b>September 30, 2014</b>	<b>September 30, 2013</b>	
<b>Operational results</b>						
Hydrocarbon production (th. boe per day)	5,071	5,062	0.2%	5,073	4,831	5.0%
Crude oil and NGL production (th. barrels per day)	4,135	4,154	(0.5)%	4,162	4,187	(0.6)%
Gas production (th.boe per day)	936	908	3.1%	911	644	41.5%
Hydrocarbon production (mln boe ) <sup>1</sup>	431.8	428.0	0.9%	1,283.0	1,063.9	20.6%
<b>Financial results, RUB billion</b>						
EBITDA	204	251	(18.7)%	689	604	14.1%
Capital expenditures <sup>2</sup>	88	88	–	251	241	4.1%
Upstream operating expenses	64.8	61.7	5.0%	181.9	140.2	29.7%
<b>Indicators per boe</b>						
EBITDA, RUB/boe	472	586	(19.5)%	537	568	(5.5)%
Capital expenditures, RUB/boe	204	206	(1.0)%	196	227	(13.7)%
Upstream operating expenses, RUB/boe	150	144	4.2%	142	132	7.6%
Upstream operating expenses, USD/boe	4.1	4.1	–	4.0	4.2	(4.8)%

<sup>1</sup>Excluding associates

<sup>2</sup>Refer to “Capital expenditures”

## Operating indicators

### Production of Crude Oil and NGL

Rosneft has main 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 and a 50% stake in JSC “Tomskneft” VNK, both accounted for using proportionate consolidation method. In addition, Rosneft participates in major production joint ventures accounted for using the equity method: Udmurtneft – 49.54%, Polar Lights – 50.0% and Slavneft – 49.94%. The Company also participates in international projects in Vietnam and Venezuela.

The following table sets forth Rosneft’s crude oil and NGL production<sup>1</sup>:

	For 3 months ended			For 9 months ended		Change
	September 30, 2014	June 30, 2014	Change	September 30, 2014	September 30, 2013	
	(million of barrels)			(million of barrels)		(%)
Yuganskneftegaz (Western Siberia)	120.1	119.1	0.8%	358.3	364.6	(1.7)%
Samaraneftegaz (Central Russia)	21.5	21.0	2.4%	63.4	60.4	5.0%
Purneftegaz (Western Siberia)	11.3	11.2	0.9%	33.7	35.7	(5.6)%
Vankorneft (Eastern Siberia)	41.1	40.6	1.2%	121.9	117.6	3.7%
Severnaya Neft (Timan Pechora)	5.2	5.2	–	15.7	17.2	(8.7)%
Sakhalin-1 (Far East) (net of royalty and government share)	2.0	2.6	(23.1)%	7.1	6.4	10.9%
Tomskneft (Western Siberia)	9.3	9.0	3.3%	27.3	27.9	(2.2)%
Samotlorneftegas (Western Siberia)	40.7	40.4	0.7%	122.2	92.7	31.8%
Orenburgneft (Central Russia)	36.5	36.5	–	109.5	80.6	35.9%
Verkhnechonskneftegaz (Eastern Siberia)	15.2	15.0	1.3%	44.7	30.1	48.5%
RN-Uvatneftegaz (Western Siberia)	18.9	18.5	2.2%	55.1	35.1	57.0%
Varyeganneftegaz (Western Siberia)	12.1	12.3	(1.6)%	37.2	29.4	26.5%
RN-Nyaganneftegaz (Western Siberia)	11.6	11.6	–	35.0	25.1	39.4%
Taas-Yuriakh (Eastern Siberia)	1.6	1.8	(11.1)%	5.0	–	100.0%
Other	8.8	8.3	6.0%	26.2	25.7	1.9%
<b>Total crude oil and NGL production by fully and proportionately consolidated enterprises</b>	<b>355.9</b>	<b>353.1</b>	<b>0.8%</b>	<b>1 062.3</b>	<b>948.5</b>	<b>12.0%</b>
Udmurtneft (Central Russia)	5.9	5.9	–	17.6	17.6	–
Polar Lights (Timan Pechora)	0.4	0.4	–	1.2	1.2	–
Verkhnechonskneftegaz (Eastern Siberia) <sup>2</sup>	–	–	–	–	3.1	(100.0)%
Slavneft	15.1	15.0	0.7%	45.0	32.8	37.2%
Other	3.1	3.6	(13.9)%	10.2	6.4	59.4%
<b>Total share in production of associates</b>	<b>24.5</b>	<b>24.9</b>	<b>(1.6)%</b>	<b>74.0</b>	<b>61.1</b>	<b>21.1%</b>
<b>Total crude oil and NGL production</b>	<b>380.4</b>	<b>378.0</b>	<b>0.6%</b>	<b>1,136.3</b>	<b>1,009.6</b>	<b>12.5%</b>
<b>Daily crude oil production (th. barrels per day)</b>	<b>4,135</b>	<b>4,154</b>	<b>(0.5)%</b>	<b>4,162</b>	<b>4,187</b>	<b>(0.6)%</b>

<sup>1</sup> For information: in 2013 all production volumes of new assets are included from the acquisition date.

<sup>2</sup> Before the date of acquisition of TNK assets.

In the third quarter of 2014 crude oil and NGL production increased by 0.6% compared to the second quarter of 2014 due to increased production at Samaraneftegaz and reached “plateau” at Uvat and Vankor. Verkhnechonskneftegaz reached the historical maximum of daily production (23.5 th. tonnes per day) due to infrastructure optimisation.

The Company Rosneft successfully completed the drilling of the northernmost well in the world – the Universitetskaya-1 well in the Arctic. According to the results of the drilling Rosneft has made an oil discovery at the East-Prinovozemelskiy-1 license area. The drilling was completed in record-breaking time - in one and a half month.

Despite unfavourable economic factors the Company strategically strengthens its own drilling service business and increases drilling intensity. In the third quarter of 2014 the Company closed the deal of acquisition of workover assets of Weatherford International plc in Russia and Venezuela, also the Company and Seadrill Limited and North Atlantic Drilling Limited (NADL) signed a Framework Agreement that expends long-term cooperation in the field of drilling projects.

Rosneft started production on the Northern Tip of Chayvo field on the Sakhalin Island. The drilling at this field is carried out with drilling rig Yasterb that enables drilling of the second well with length of approximately 11 km. In total, the field will be operated by a cluster of five wells.

In the nine months of 2014 oil and NGL production was driven mainly by the acquisition of new assets and also by the employment of new oil recovery technologies, including massive implementation of horizontal wells with multi-stage hydrofracturing.

## Production of Gas

The table below sets forth Rosneft's used gas\* production<sup>1</sup>:

	For 3 months ended			For 9 months ended		Change (%)
	September 30, 2014	June 30, 2014	Change (%)	September 30, 2014	September 30, 2013	
	(bcm)			(bcm)		
Purneftegaz (Western Siberia)	1.22	1.14	7.0%	3.45	3.11	10.9%
Yuganskneftegaz (Western Siberia)	1.16	1.09	6.4%	3.30	2.71	21.8%
Krasnodarneftegaz (Southern Russia)	0.72	0.69	4.3%	2.20	2.21	(0.5)%
Samaraneftegaz (Central Russia)	0.11	0.10	10.0%	0.30	0.37	(18.9)%
Severnaya Neft (Timan Pechora)	0.06	0.06	–	0.18	0.19	(5.3)%
Vankorneft (Eastern Siberia) <sup>2</sup>	1.54	1.20	28.3%	3.19	0.36	>100.0%
Sakhalin-1 (Far East) (net of royalty and government share)	0.07	0.09	(22.2)%	0.29	0.28	3.6%
Tomskneft (Western Siberia)	0.20	0.23	(13.0)%	0.63	0.62	1.6%
NGK ITERA (Western Siberia) <sup>3</sup>	2.76	2.68	3.0%	8.17	0.02	>100.0%
Samotlorneftegaz (Western Siberia)	1.29	1.44	(10.4)%	4.11	2.90	41.7%
Rospan International (Western Siberia)	0.98	0.97	1.0%	2.95	1.95	51.3%
Orenburgneft (Central Russia)	0.65	0.73	(11.0)%	2.14	1.39	54.0%
Varyeganneftegaz (Western Siberia)	0.70	0.78	(10.3)%	2.22	1.54	44.2%
RN-Nyaganneftegaz (Western Siberia)	0.38	0.38	–	1.11	0.74	50.0%
Other	0.43	0.52	(17.3)%	1.47	1.24	18.5%
<b>Total gas production by fully and proportionately consolidated enterprises</b>	<b>12.27</b>	<b>12.10</b>	<b>1.4%</b>	<b>35.71</b>	<b>19.63</b>	<b>81.9%</b>
Purgaz (NGK ITERA)	1.72	1.26	36.5%	4.69	3.51	33.6%
Sibneftegaz (NGK ITERA)	–	–	–	–	2.63	(100.0)%
Slavneft	0.11	0.11	–	0.31	0.21	47.6%
Other	0.05	0.05	–	0.16	0.12	33.3%
<b>Total share in production of associates</b>	<b>1.88</b>	<b>1.42</b>	<b>32.4%</b>	<b>5.16</b>	<b>6.47</b>	<b>(20.2)%</b>
<b>Total gas production</b>	<b>14.15</b>	<b>13.52</b>	<b>4.7%</b>	<b>40.87</b>	<b>26.10</b>	<b>56.6%</b>
Natural gas	7.08	6.51	8.8%	20.73	12.51	65.7%
Associated gas	7.07	7.01	0.9%	20.14	13.59	48.2%

\* Production volume equals extracted volume minus flared volume and gas used for NGL production.

<sup>1</sup> For information: in 2013 all production volumes of acquired assets are included from acquisition date.

<sup>2</sup> Including gas injection to maintain reservoir pressure.

<sup>3</sup> Include LLC Kynsko-Chaselskoye neftegaz, OJSC Bratskekgaz, starting from 3<sup>rd</sup> quarter 2013, OJSC Sibneftegaz from 2014.

In the third quarter of 2014 gas production was 14.15 bcm, increase by 4.7% compared to the second quarter of 2014. Gas production growth was performed mainly at Vankorneft and Purgaz.

The Company goes on implementing a program for increasing utilization of associated petroleum gas. In particular, on Vankor, the gas program execution included delivery of up to 2.8 bcm of gas to the UGSS with a planned load of up to 4.9 bcm of gas in 2015.

Currently, the development of the gas segment is one of the priority objectives of the Company.

In the nine months of 2014 the gas production increased by 56.6% compared to the nine months of 2013 that is mainly due to acquisition of new assets and implementation of program aimed at increasing associated gas utilisation rate.

## **Financial indicators**

### Equity share in (losses)/profits of associates and joint ventures

The equity share in losses of associates and joint ventures amounted to RUB 3 billion in the third quarter of 2014 in comparison with the profit in the amount of RUB 6 billion in the second quarter of 2014 mainly due to negative effect of Rouble depreciation on financial results of some joint ventures.

In the nine months of 2014 the equity share in profits of associates and joint ventures significantly decreased in comparison with the nine months of 2013. The decrease was mainly due to exemption of Verkhnechonskneftegaz equity results and incorporation of total Verkhnechonskneftegaz results into Company's consolidation from the date of acquisition.

### Upstream production and operating cost

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

Upstream production and operating expenses increased by 5.0% in the third quarter of 2014 compared with the second quarter of 2014 and amounted to RUB 64.8 billion. The growth of operating expenses was due to seasonal increase in equipment maintenance and repairs, supplies and materials and electricity expenses.

In the nine months of 2014 upstream production and operating expenses increased significantly compared with the nine months of 2013 due to incorporation of operating expenses of the acquired production units from the date of acquisition and increased electricity expenses.

In the third quarter of 2014 upstream operating expenses per boe increased by 4.2% up to 150 RUB/boe, mainly due to increase in oilfield services and electricity costs.

In the nine months of 2014 upstream operating expenses per boe increased by 7.6% up to 142 RUB/boe mainly due to increase in electricity tariff and volumes of geological wellworks.

### Gas procurement

In the third quarter of 2014 gas procurement that refers to resale on domestic and international markets amounted to RUB 4 billion in comparison with RUB 3 billion in the second quarter of 2014.

### Exploration Expenses

Exploration expenses mainly relate to exploratory drilling, seismic and other geological and geophysical works. Exploratory drilling costs are generally capitalised if commercial reserves of crude oil and gas are discovered or expensed in the current period in the event of unsuccessful exploration results.

In the third quarter of 2014 exploration expenses amounts to RUB 4 billion in comparison with RUB 5 billion in the second quarter of 2014.

In the nine months of 2014 exploration expenses increased by 18.2 % compared with the nine months of 2013 due to the incorporation of new assets expenses from the acquisition date.

### Mineral extraction tax

The amount of mineral extraction tax was RUB 248 billion in the third quarter of 2014 compared with RUB 263 billion in the second quarter of 2014. The decrease in mineral extraction tax was mainly due to reduction of the base rate.

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

	<i>For 3 months ended</i>			<i>For 9 months ended</i>		
	<b>September 30, 2014</b>	<b>June 30, 2014</b>	<i>change</i>	<b>September 30, 2014</b>	<b>September 30, 2013</b>	<i>change</i>
	<b>RUB th.</b>		<b>%</b>	<b>RUB th.</b>		<b>%</b>
Average enacted mineral extraction tax rate	5.84	6.14	(4.8)%	6.02	5.28	13.9%
Actual mineral extraction tax expense per tonne of oil equivalent produced*	4.33	4.52	(4.2)%	4.43	4.17	6.3%

\*Including consolidated oil and gas volumes.

The actual mineral extraction tax rate is lower than generally established tax rates for the analysed periods primarily due to the reduced rates for crude oil produced at fields with reserve depletion of over 80% and the volume of hard-to-recover oil, also due to application of zero mineral extraction tax rate in the Irkutsk and the Krasnoyarsk regions until its accumulated production exceeds 25 million tonnes.

## Downstream Operating Results

The segment includes Group companies that provide services for oil and gas processing, petrochemical production in Russia and abroad, joint ventures, sales units of oil, gas and petroleum products to counterparties in Russia and abroad. The segment includes revenue generated from the sale of oil, gas, petrochemical products and petroleum products to a third party, and all operating costs associated with processing, trading and logistics.

	For 3 months ended			For 9 months ended		
	September 30, 2014	June 30, 2014	Change, %	September 30, 2014	September 30, 2013	Change, %
<b>Operating results</b>						
Crude oil processing at refineries, mln. tn	25.10	23.62	6.3%	73.59	65.47	12.4%
<i>Processing at Company's own refineries in Russia, mln.tn</i>	19.68	18.77	4.8%	58.19	52.47	10.9%
<i>Processing at Company's own refineries outside Russia, mln.tn</i>	2.67	2.43	9.9%	7.75	7.82	(0.9)%
<i>Processing at Associate's refineries</i>	2.75	2.42	13.6%	7.65	5.18	47.7%
<b>Financial results, RUB billion</b>						
EBITDA	89	63	41.3%	216	112	92,9%
Capital expenditures <sup>1</sup>	39	42	(7.1)%	105	119	(11.8)%
Operating expenses for processing in Russia	16,6	16.1	3.1%	47,7	39.4	21.1%
Operating expenses for processing outside Russia	4,6	4.4	4.5%	13,0	11.7	11.1%
<b>Indicators per tonne of the output</b>						
EBITDA, RUB per tonne	3,982	2,972	34.0%	3,276	1,858	76,3%
Capital expenditure, RUB per tonne	1,745	1,982	(12.0)%	1,592	1,973	(19.3)%
Operating expenses for processing in Russia, RUB per tonne <sup>2</sup>	813	857	(5.1)%	808	750	7.7%
Operating expenses for processing outside Russia, RUB per tonne <sup>2</sup>	1,733	1,808	(4.1)%	1,680	1,501	11.9%

<sup>1</sup> Refer to "Capital expenditures"

<sup>2</sup> Calculated from unrounded data

## Operating indicators

### Petroleum Product Output

Rosneft processes produced and procured crude oil at its refineries: the Tuapse refinery on the Black Sea in the South of Russia, the Komsomolsk refinery in the Russian Far East, the Achinsk and Angarsk refineries in Eastern Siberia and the Kuibyshev, Novokuibyshevsk and Syzran refineries in the Samara region (European part of Russia), the Saratov refinery and the Ryazan refinery. Rosneft also owns production capacity at four Ruhr Oel GmbH (ROG) refineries in Germany. The Company also processes and procures crude oil outside Russia, in Belarus.

The following table sets forth Rosneft's crude oil processing and petroleum product output volumes.<sup>1</sup>

	<i>For 3 months ended</i>		<i>change</i>	<i>For 9 months ended</i>		<i>change</i>
	<b>September 30,</b>	<b>June 30,</b>		<b>September 30,</b>	<b>September 30,</b>	
	<b>2014</b>	<b>2014</b>		<b>2014</b>	<b>2013</b>	
	<i>(million of tonnes)</i>		<i>(%)</i>	<i>(million of tonnes)</i>		<i>(%)</i>
Crude oil processing at refineries in Russia	21.68	20.56	5.4%	63.82	56.37	13.2%
Crude oil processing at refineries outside Russia	3.42	3.06	11.8%	9.77	9.10	7.4%
<i>including crude oil processing at Ruhr Oel GmbH (ROG)</i>	2.67	2.43	9.9%	7.75	7.82	(0.9)%
<i>including crude oil processing in Belarus</i>	0.75	0.63	19.0%	2.02	1.28	57.8%
<b>Total Group crude oil processing</b>	<b>25.10</b>	<b>23.62</b>	<b>6.3%</b>	<b>73.59</b>	<b>65.47</b>	<b>12.4%</b>
<b>Petroleum product output:</b>						
High octane gasoline	2.57	2.26	13.7%	7.70	7.28	5.8%
Low octane gasoline	0.05	0.03	66.7%	0.13	0.13	-
Naphtha	1.50	1.43	4.9%	4.24	3.31	28.1%
Diesel	6.74	6.36	6.0%	19.90	17.44	14.1%
Fuel oil	6.83	6.72	1.6%	20.65	18.27	13.0%
Jet fuel	0.99	0.87	13.8%	2.60	2.22	17.1%
Petrochemicals	0.17	0.20	(15.0)%	0.56	0.48	16.7%
Other*	2.13	2.00	6.5%	5.88	5.19	13.3%
<b>Product output at Rosneft's own refineries in Russia</b>	<b>20.98</b>	<b>19.87</b>	<b>5.6%</b>	<b>61.66</b>	<b>54.32</b>	<b>13.5%</b>
Product output at refineries outside Russia	<b>3.46</b>	<b>3.09</b>	<b>12.0%</b>	<b>9.76</b>	<b>9.00</b>	<b>8.4%</b>
<i>including crude oil output at Ruhr Oel GmbH (ROG)</i>	2.77	2.51	10.4%	7.90	7.81	1.2%
<i>including product output in Belarus</i>	0.69	0.58	19.0%	1.86	1.19	56.3%
<b>Total Group product output</b>	<b>24.44</b>	<b>22.96</b>	<b>6.4%</b>	<b>71.42</b>	<b>63.32</b>	<b>12.8%</b>

\*including production of petroleum products at gas refineries

<sup>1</sup> For information: in 2013 all production volumes of acquired assets are included from acquisition date.

In the third quarter of 2014 Rosneft's total refinery throughput amounts to 25.10 mln tonnes, higher by 6.3% compared with the second quarter of 2014. The refinery throughput inside Russia increased by 5.4% mainly due to decreased periods of planned turnarounds at refineries.

Starting from September 1, 2014 Achinsk refinery started production of the main types of oil products: straight-run gasoline, diesel fuel, marine fuel and jet fuel, as well as WLHF (wide light hydrocarbon fraction). Concurrently with the primary crude processing plant a VT-Bitumen unit, producing petroleum bitumen, started operating. The production volume will be increased in months to come.

In the third quarter of 2014 processing volume at German refineries increased by 9.9% compared to the second quarter of 2014 due to completion of planned turnaround of production unit in June 2014.

The volume of crude oil processing increased by 10.9% at Rosneft's refineries in Russia in the nine months 2014 compared to the nine months of 2013, due to large-scale upgrade refinery program and new assets acquisition.



## Financial indicators

### Revenues and equity share in (losses)/profits of associates and joint ventures<sup>1</sup>

In the third quarter of 2014 revenues and equity share in (losses)/profits of associates and joint ventures amounted to RUB 1,382 billion which is 3.7% downturn in comparison with the second quarter of 2014, caused by the decrease in international crude oil and petroleum products sales volume to non-CIS, accompanied by worldwide decline of crude oil and petroleum products prices.

For the nine months of 2014 revenues and equity share in (losses)/profits of associates and joint ventures increased by 25.4% compared to the same period of 2013, which was mostly driven by export sales volumes growth due to acquisition of new assets and increase in prices denominated in RUB.

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

	<i>For 3 months ended</i>			<i>change</i>	<i>For 9 months ended</i>			<i>change</i>		
	September 30, 2014		June 30, 2014		September 30, 2014		September 30, 2013			
	% of total revenue		% of total revenue			% of total revenue			% of total revenue	
In billion of RUB, except %										
<b>Crude oil</b>										
International Sales to non-CIS	624	45.0%	666	46.4%	(6.3)%	1,918	45.8%	1,508	45.0%	27.2%
Europe and other directions	408	29.4%	457	31.8%	(10.7)%	1,277	30.5%	1,123	33.5%	13.7%
Asia	216	15.6%	209	14.6%	3.3%	641	15.3%	385	11.5%	66.5%
International sales to CIS	23	1.7%	30	2.1%	(23.3)%	80	1.9%	87	2.6%	(8.0)%
Domestic sales	29	2.1%	25	1.7%	16.0%	87	2.1%	59	1.8%	47.5%
<b>Total crude oil</b>	<b>676</b>	<b>48.8%</b>	<b>721</b>	<b>50.2%</b>	<b>(6.2)%</b>	<b>2,085</b>	<b>49.8%</b>	<b>1,654</b>	<b>49.4%</b>	<b>26.1%</b>
<b>Gas</b>	<b>41</b>	<b>3.0%</b>	<b>36</b>	<b>2.5%</b>	<b>13.9%</b>	<b>118</b>	<b>2.8%</b>	<b>62</b>	<b>1.9%</b>	<b>90.3%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	354	25.6%	395	27.5%	(10.4)%	1,115	26.5%	843	25.1%	32.3%
Europe and other directions	272	19.7%	309	21.5%	(12.0)%	860	20.4%	636	18.9%	35.2%
Asia	82	5.9%	86	6.0%	(4.7)%	255	6.1%	207	6.2%	23.2%
International Sales to CIS	14	1.0%	10	0.7%	40.0%	49	1.2%	59	1.8%	(16.9)%
Domestic sales	229	16.6%	202	14.1%	13.4%	628	15.0%	564	16.9%	11.3%
Wholesale	124	9.0%	107	7.5%	15.9%	342	8.2%	323	9.7%	5.9%
Retail	105	7.6%	95	6.6%	10.5%	286	6.8%	241	7.2%	18.7%
Sales of bunker fuel to end-users	23	1.7%	19	1.3%	21.1%	57	1.4%	43	1.3%	32.6%
<b>Total petroleum products</b>	<b>620</b>	<b>44.9%</b>	<b>626</b>	<b>43.6%</b>	<b>(1.0)%</b>	<b>1,849</b>	<b>44.1%</b>	<b>1,509</b>	<b>45.1%</b>	<b>22.5%</b>
<b>Petrochemical products</b>	<b>27</b>	<b>2.0%</b>	<b>28</b>	<b>2.0%</b>	<b>(3.6)%</b>	<b>84</b>	<b>2.0%</b>	<b>67</b>	<b>2.0%</b>	<b>25.4%</b>
International sales	23	1.7%	23	1.7%	0.0%	71	1.7%	59	1.8%	20.3%
Domestic sales	4	0.3%	5	0.3%	(20.0)%	13	0.3%	8	0.2%	62.5%
<b>Support services and other revenues</b>	<b>21</b>	<b>1.5%</b>	<b>18</b>	<b>1.3%</b>	<b>16.7%</b>	<b>55</b>	<b>1.3%</b>	<b>40</b>	<b>1.2%</b>	<b>37.5%</b>
<b>Equity share in (losses)/profits of associates and joint ventures</b>	<b>(3)</b>	<b>(0.2)%</b>	<b>6</b>	<b>0.4%</b>	<b>(150.0)%</b>	<b>1</b>	<b>0.0%</b>	<b>12</b>	<b>0.4%</b>	<b>(91.7)%</b>
<b>Total sales</b>	<b>1,382</b>	<b>100.0%</b>	<b>1,435</b>	<b>100.0%</b>	<b>(3.7)%</b>	<b>4,192</b>	<b>100.0%</b>	<b>3,344</b>	<b>100.0%</b>	<b>25.4%</b>

\*The difference between percentages presented in the above table and other section is a result of rounding

<sup>1</sup> Under IFRS consolidated financial statements

## Sales Volumes

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 9 months ended</i>		<i>Change</i>				
	<b>September 30, 2014</b>			<b>September 30, 2013</b>						
	<b>mln bbls</b>	<b>% of total volume</b>		<b>mln bbls</b>	<b>% of total volume</b>		<b>%</b>			
<b>Crude oil</b>										
International Sales to non-CIS	179.2	46.8%	185.0	47.3%	(3.1)%	539.0	46.5%	463.8	45.2%	16.2%
Europe and other directions	115.5	30.2%	125.1	32.0%	(7.7)%	353.9	30.5%	336.4	32.8%	5.2%
Asia	63.7	16.6%	59.9	15.3%	6.3%	185.1	16.0%	127.4	12.4%	45.3%
International Sales to CIS	13.3	3.5%	15.5	4.0%	(14.2)%	42.9	3.7%	51.5	5.0%	(16.7)%
Domestic	17.0	4.4%	12.6	3.2%	34.9%	48.1	4.2%	37.5	3.6%	28.3%
<b>Total crude oil</b>	<b>209.5</b>	<b>54.7%</b>	<b>213.1</b>	<b>54.5%</b>	<b>(1.7)%</b>	<b>630.0</b>	<b>54.4%</b>	<b>552.8</b>	<b>53.8%</b>	<b>14.0%</b>
<b>Crude oil</b>	<b>mln tonnes</b>		<b>mln tonnes</b>			<b>mln tonnes</b>		<b>mln tonnes</b>		
International Sales to non-CIS	24.2	46.8%	25.0	47.3%	(3.1)%	72.8	46.5%	63.0	45.2%	16.2%
Europe and other directions	15.6	30.2%	16.9	32.0%	(7.7)%	47.8	30.5%	45.7	32.8%	5.2%
Asia	8.6	16.6%	8.1	15.3%	6.3%	25.0	16.0%	17.3	12.4%	45.3%
International Sales to CIS	1.8	3.5%	2.1	4.0%	(14.2)%	5.8	3.7%	7.0	5.0%	(16.7)%
Domestic sales	2.3	4.4%	1.7	3.2%	34.9%	6.5	4.2%	5.1	3.6%	28.3%
<b>Total crude oil</b>	<b>28.3</b>	<b>54.7%</b>	<b>28.8</b>	<b>54.5%</b>	<b>(1.7)%</b>	<b>85.1</b>	<b>54.4%</b>	<b>75.1</b>	<b>53.8%</b>	<b>14.0%</b>
<b>Petroleum products</b>										
International Sales to non-CIS	13.0	25.1%	14.5	27.3%	(10.3)%	40.8	26.1%	34.8	24.8%	17.2%
Europe and other directions	10.1	19.5%	11.6	21.8%	(12.9)%	31.9	20.4%	26.5	18.9%	20.4%
Asia	2.9	5.6%	2.9	5.5%	0.0%	8.9	5.7%	8.3	5.9%	7.2%
International Sales to CIS	0.4	0.8%	0.3	0.6%	33.3%	1.7	1.1%	2.2	1.6%	(22.7)%
Domestic sales	8.1	15.6%	7.5	14.2%	8.0%	23.3	14.9%	23.0	16.5%	1.3%
Wholesale	5.1	9.8%	4.7	8.9%	8.5%	15.0	9.6%	15.6	11.2%	(3.8)%
Retail	3.0	5.8%	2.8	5.3%	7.1%	8.3	5.3%	7.4	5.3%	12.2%
Sales of bunker fuel to end-users	1.2	2.3%	1.0	1.9%	20.0%	3.0	1.9%	2.4	1.7%	25.0%
<b>Total petroleum products</b>	<b>22.7</b>	<b>43.8%</b>	<b>23.3</b>	<b>44.0%</b>	<b>(2.6)%</b>	<b>68.8</b>	<b>44.0%</b>	<b>62.4</b>	<b>44.6%</b>	<b>10.3%</b>
<b>Petrochemical products</b>	<b>0.8</b>	<b>1.5%</b>	<b>0.8</b>	<b>1.5%</b>	<b>0.0%</b>	<b>2.5</b>	<b>1.6%</b>	<b>2.3</b>	<b>1.6%</b>	<b>8.7%</b>
International sales	0.5	0.9%	0.6	1.1%	(8.0)*%	1.7	1.1%	1.7	1.2%	3.1*%
Domestic sales	0.3	0.6%	0.2	0.4%	8.6*%	0.8	0.5%	0.6	0.4%	31.2*%
<b>Total crude oil and products</b>	<b>51.8</b>	<b>100.0%</b>	<b>52.9</b>	<b>100.0%</b>	<b>(2.1)%</b>	<b>156.4</b>	<b>100.0%</b>	<b>139.8</b>	<b>100.0%</b>	<b>11.9%</b>
<b>Gas</b>	<b>bcm</b>		<b>bcm</b>			<b>bcm</b>		<b>bcm</b>		
<b>Sales Volumes</b>	<b>14.70</b>		<b>11.32</b>		<b>29.9%</b>	<b>40.46</b>		<b>24.52</b>		<b>65.0%</b>

\*Calculated from unrounded data

## **Average Crude Oil and Petroleum Product Sales Prices**

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

	<i>For 3 months ended</i>					<i>change</i>	<i>For 9 months ended</i>				<i>change</i>
	<b>September 30, 2014</b>		<b>June 30, 2014</b>		<b>September 30, 2014</b>		<b>September 30, 2013</b>				
	<b>(th.RUB/ barrel)</b>	<b>(th.RUB/ tonne)</b>	<b>(th.RUB/ barrel)</b>	<b>(th.RUB/ tonne)</b>	<b>(th.RUB/ barrel)</b>		<b>(th.RUB/ tonne)</b>	<b>(th.RUB/ barrel)</b>	<b>(th.RUB/ tonne)</b>	<b>%</b>	
<b>Average prices on foreign markets</b>											
Crude oil, excluding CIS	3.49	25.9	3.61	26.7	(3.0)%	3.56	26.4	3.25	23.9	10.5%	
Europe and other directions	3.54	26.2	3.67	27.1	(3.3)%	3.62	26.8	3.33	24.5	9.4%	
Asia	3.41	25.2	3.49	25.8	(2.3)%	3.46	25.6	3.02	22.3	14.8%	
Crude oil, CIS	1.73	12.8	1.93	14.3	(10.5)%	1.86	13.8	1.70	12.5	10.4%	
Petroleum products, non- CIS		27.1		27.4	(1.1)%		27.3		24.3	12.3%	
Europe and other directions		26.8		26.9	(0.4)%		27.0		24.0	12.5%	
Asia		28.2		29.1	(3.1)%		28.6		25.0	14.4%	
Petroleum products, CIS		35.7		34.2	4.4%		28.3		26.9	5.2%	
<b>Average domestic prices</b>											
Crude oil	1.74	12.9	1.89	14.0	(7.9)%	1.81	13.4	1.58	11.7	14.5%	
Petroleum products		28.3		27.3	3.7%		27.0		24.5	10.2%	
Wholesale		24.0		23.3	3.0%		22.8		20.8	9.6%	
Retail		35.6		34.0	4.7%		34.6		32.5	6.5%	
Gas (th.rub. /th. cubic meter)		2.79		3.13	(10.9)%		2.91		2.54	14.6%	
Sales of bunker fuel to end-users		19.1		18.9	1.1%		18.7		18.0	3.9%	
Petrochemical products		36.0		34.1	5.6%		33.9		30.1	12.6%	
International sales		43.9		41.1	6.8%		41.3		35.6	16.0%	
Domestic sales		19.0		19.1	(0.5)%		17.4		14.4	20.8%	

*\*average price is calculated from unrounded figures*

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

Revenues from international crude oil sales to non-CIS countries in the third quarter of 2014 amounted to RUB 624 billion compared to RUB 666 billion in the second quarter of 2014. Revenue reduction by RUB 21 billion was due to decrease in sales volumes by 3.1% accompanied by 3.0% downturn of average crude oil price (negative effect on revenue of RUB 21 billion). The decrease in export sales volumes was due to redirection of crude oil volumes to processing.

For the nine months of 2014 revenues from international crude oil sales to non-CIS countries increased by 27.2% compared to the same period of 2013 and amounted to RUB 410 billion. Sales volumes growth by 16.2% (positive impact on revenues of RUB 234 billion) was accompanied by an increase in average prices by 10.5% (favourable impact on revenues of RUB 176 billion).

The deviation between sales prices on the Asian markets and average world market prices (Dubai) in the third quarter of 2014 was due to regular delivery of 6.0 million tonnes (44.42 million barrels) of crude oil per year to Transneft under the contract signed in 2009. These volumes are sold to Transneft for further delivery to China, under the basis of equal profitability with Company's direct export to China. These volumes are included in total Company's international crude oil sales to non-CIS, at a price that is free from export custom duty.

Share of sales to Transneft in the total volume of oil supplies to the Asian region slightly increased in the third quarter of 2014. Excluding revenues from crude oil sales to Transneft (RUB 21 billion) in the third quarter of 2014 the average sales price on the Asian markets in comparison with the second quarter of 2014 decreased by 1.9% and amounted to RUB 3.74 thousand per barrel.

For the nine months of 2014 compared with the nine months of 2013 the average sales price on Asian markets excluding revenues from crude oil sales to Transneft increased by 9.2%.

## International Crude Oil Sales to CIS

Revenue from sales of crude oil to CIS in the third quarter of 2014 reduced by 23.3% compared to the second quarter of 2014 and amounted to RUB 23 billion. The decrease was due to sale volumes downturn of 14.2% and decline of average sales price by 10.5% (negative effect of RUB 4 billion and 3 billion, accordingly).

For the nine months of 2014 revenues from international crude oil sales to CIS countries dropped by 8.0% in comparison with the nine months of 2013, which was mainly attributable to downturn of crude oil sales volume of by 16.7% (unfavourable impact on revenues of RUB 15 billion) and was partially offset by average price upturn of 10.4% (favourable impact on revenues of RUB 8 billion).

## Domestic Sales of Crude Oil

Revenue from domestic sales of crude oil in the third quarter of 2014 increased by 16.0% compared to the second quarter 2013 and amounted to RUB 29 billion. The growth of sales volume on the domestic market by 34.9% (favourable impact on revenues of RUB 7 billion) was partially offset by downturn of average crude oil price by 7.9% (negative impact on revenues of RUB 3 billion).

For the nine months of 2014 revenues from domestic sales of crude oil were 47.5% higher compared to nine months of 2013 and amounted to RUB 87 billion. Sales volumes growth by 28.3% (positive impact on revenues of RUB 16 billion) was accompanied by an increase in average prices by 14.5% (favourable impact on revenues of RUB 12 billion).

## International Petroleum Product Sales to Non-CIS

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold to non-CIS countries in the third and second quarters of 2014:

	<i>For 3 months ended</i>						<i>% change</i>		
	September 30, 2014			June 30, 2014			RUB billion	million of tonnes	Average price th. RUB/tonne
	RUB billion	million of tonnes	Average price th. RUB/tonne	RUB billion	million of tonnes	Average price th. RUB/tonne			
High octane gasoline	3	0.1	37.9	4	0.1	33.9	(25.0)%	0.0%	11.8%
Low octane gasoline	1	0.0	36.0	1	0.0	34.8	0.0%	–	3.4%
Naphtha	28	0.9	32.2	33	1.0	33.0	(15.2)%	(10.0)%	(2.4)%
Diesel (Gasoil)	115	3.6	31.1	132	4.3	31.6	(12.9)%	(16.3)%	(1.6)%
Fuel oil	121	5.6	21.4	136	6.3	21.8	(11.0)%	(11.1)%	(1.8)%
Jet fuel	0	0.0	40.3	0	0.0	35.9	–	–	12.3%
Other	14	0.5	30.6	21	0.7	31.0	(33.3)%	(28.6)%	(1.3)%
<b>Total petroleum products exported to non-CIS</b>	<b>282</b>	<b>10.7</b>	<b>26.2</b>	<b>327</b>	<b>12.4</b>	<b>26.8</b>	<b>(13.7)%</b>	<b>(13.7)%</b>	<b>(2.2)%</b>
<i>Petroleum products sold from ROG refineries</i>	72	2.3	31.4	65	2.0	31.6	10.8%	15.0%	(0.6)%
<i>Petroleum products purchased and sold outside Russia</i>	0	0.0	–	3	0.1	31.8	(100.0)%	(100.0)%	–
<b>Total</b>	<b>354</b>	<b>13.0</b>	<b>27.1</b>	<b>395</b>	<b>14.5</b>	<b>27.4</b>	<b>(10.4)%</b>	<b>(10.3)%</b>	<b>(1.1)%</b>

Revenue from the international sales of petroleum products to non-CIS countries were RUB 354 billion in the third quarter of 2014, which is 10.4% lower compared to the second quarter of 2014. The decrease mainly resulted from sales volumes reduction of 10.3% (unfavourable impact of RUB 41 billion).

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold to non-CIS countries in the nine months of 2014 and 2013:

	<i>For 9 months ended</i>						<i>% change</i>		
	September 30, 2014			September 30, 2013			RUB billion	million of tonnes	Average price th.RUB/tonne
	RUB billion	million of tonnes	Average price th.RUB/tonne	RUB billion	million of tonnes	Average price th.RUB/tonne			
High octane gasoline	16	0.5	33.8	13	0.4	29.3	23.1%	25.0%	15.4%
Low octane gasoline	3	0.0	35.3	1	0.0	35.4	200.0%	–	(0.3)%
Naphtha	89	2.8	32.4	89	3.2	28.2	0.0%	(12.5)%	14.9%
Diesel (Gasoil)	365	11.6	31.5	233	8.1	28.8	56.7%	43.2%	9.4%
Fuel oil	383	17.6	21.7	288	15.4	18.9	33.0%	14.3%	14.8%
Jet fuel	0	0.0	38.9	2	0.0	37.4	(100.0)%	–	4.0%
Other	51	1.7	0.0	28	1.1	25.0	82.1%	54.5%	-100%
<b>Total petroleum products exported to non-CIS</b>	<b>907</b>	<b>34.2</b>	<b>26.6</b>	<b>654</b>	<b>28.2</b>	<b>23.3</b>	<b>38.7%</b>	<b>21.3%</b>	<b>14.2%</b>
<i>Petroleum products sold from ROG refineries</i>	201	6.4	31.3	180	6.3	28.4	11.7%	1.6%	10.2%
<i>Petroleum products purchased and sold outside Russia</i>	7	0.2	31.9	9	0.3	29.9	(22.2)%	(33.3)%	6.7%
<b>Total</b>	<b>1,115</b>	<b>40.8</b>	<b>27.3</b>	<b>843</b>	<b>34.8</b>	<b>24.3</b>	<b>32.3%</b>	<b>17.2%</b>	<b>12.3%</b>

For the nine months of 2014 revenues from sales of petroleum products to non-CIS countries were 32.3% higher compared to the nine months of 2013. Increase in sales volumes by 17.2 % (favourable impact on revenues of RUB 145 billion) was accompanied by upturn in average price by 12.3% (positive impact on revenues of RUB 127 billion).

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

Revenues from sales of petroleum products to CIS countries were RUB 14 billion in the third quarter of 2014, which is 40.0% higher compared to the second quarter of 2014. 33.3% growth of petroleum products sales volumes (positive impact on revenues of RUB 3 billion) was accompanied by an increase in average prices by 4.4% (favorable impact on revenues of RUB 1 billion).

Revenues from sales of petroleum products to CIS countries for the nine months of 2014 were 16.9% or RUB 10 billion lower than for the nine months of 2013. The decrease was due to downturn in sales volumes of 22.7% (unfavorable impact on revenues of RUB 13 billion) which was partially offset by growth of average prices by 5.2% (positive impact on revenues of RUB 3 billion).

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

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold in Russia in the third quarter of 2014 and second quarter of 2014:

	<i>For 3 months ended</i>						<i>% change</i>		
	September 30, 2014			June 30, 2014			RUB billion	million of tonnes	Average price th. RUB/tonne
	RUB billion	million of tonnes	Average price th. RUB/tonne	RUB billion	million of tonnes	Average price th. RUB/tonne			
High octane gasoline	107	2.9	36.6	92	2.7	34.7	16.3%	7.4%	5.5%
Low octane gasoline	0	0.0	31.1	1	0.0	30.5	(100.0)%	–	2.0%
Diesel (Gasoil)	70	2.4	29.8	65	2.2	30.2	7.7%	9.1%	(1.3)%
Fuel oil	7	0.5	11.1	6	0.6	11.0	16.7%	(16.7)%	0.9%
Jet fuel	28	1.0	28.4	23	0.8	27.5	21.7%	25.0%	3.3%
Other	17	1.3	13.8	15	1.2	12.8	13.3%	8.3%	7.8%
<b>Total</b>	<b>229</b>	<b>8.1</b>	<b>28.3</b>	<b>202</b>	<b>7.5</b>	<b>27.3</b>	<b>13.4%</b>	<b>8.0%</b>	<b>3.7%</b>

Revenues from sales of petroleum products on the domestic market were RUB 229 billion in the third quarter of 2014, which is 13.4% higher compared to the second quarter of 2014. 3.7% growth of average prices (positive impact on revenues of RUB 11 billion) was accompanied by the increase in petroleum products sales volumes by 8.0% due to seasonal factors (favorable impact on revenues of RUB 16 billion).

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold in Russia in the nine months of 2014 and nine months of 2013:

	<i>For 9 months ended</i>						<i>% change</i>		
	September 30, 2014			September 30, 2013			RUB billion	million of tonnes	Average price th.RUB/tonne
	RUB billion	million of tonnes	Average price th.RUB/tonne	RUB billion	million of tonnes	Average price th.RUB/tonne			
High octane gasoline	288	8.3	34.5	238	7.7	31.1	21.0%	7.8%	10.9%
Low octane gasoline	2	0.0	29.7	3	0.1	23.0	(33.3)%	(100.0)%	29.1%
Diesel (Gasoil)	204	6.9	30.0	217	7.8	27.9	(6.0)%	(11.5)%	7.5%
Fuel oil	18	1.7	10.4	12	1.2	10.2	50.0%	41.7%	2.0%
Jet fuel	70	2.5	28.0	54	2.2	24.6	29.6%	13.6%	13.8%
Other	46	3.9	12.1	40	4.0	10.0	15.0%	(2.5)%	21.0%
<b>Total</b>	<b>628</b>	<b>23.3</b>	<b>27.0</b>	<b>564</b>	<b>23.0</b>	<b>24.5</b>	<b>11.3%</b>	<b>1.3%</b>	<b>10.2%</b>

Revenues from sales of petroleum products on the domestic market in the nine months of 2014 were 11.3% or RUB 64 billion higher than in the nine months of 2013. The increase was due to 10.2% upturn in average prices (favorable impact on revenues of RUB 57 billion) and 1.3% sales volumes growth (positive impact on revenues of RUB 7 billion).

The Company extended its customer base of jet fuelling (high premium margin sales) due to new assets acquisition. Sales volumes of jet fuel in the nine months of 2014 increased by 13.6% in comparison with the same period in 2013.

### **Sales of bunker fuel**

The Company sells bunker fuel (fuel oil, low-viscosity marine fuel and diesel fuel) in the seaport (the Far East, the North and South of the European part of Russia) and river ports (the Volga-don basin and in the rivers of Western Siberia) of the Russian Federation as well as in ports outside the Russian Federation.

Revenues from sales of bunker fuel in the third quarter of 2014 were RUB 23 billion, an increase of 21.1% in comparison with the second quarter of 2014, which is mainly attributable to seasonal factor (navigation period).

Revenues from sales of bunker fuel in the nine months of 2014 increased by 32.6% or RUB 14 billion in comparison with the nine months of 2013.

### **Petrochemical Product Sales**

Revenues from sales of petrochemical products in the third quarter of 2014 were RUB 27 billion. The decrease was 3.6% or RUB 1 billion compared to the second quarter of 2014. Petrochemical product sales on domestic market decreased by RUB 1 billion due to reduction of average sales price by 0.5% (unfavorable impact on revenues of RUB 4 billion) which was partially offset by 8.6% sales volume upturn (positive impact on revenues of RUB 3 billion). Revenue from petrochemical product international sales remained unchanged. Sales volumes of petrochemical product from Ruhr Oel GmbH (ROG) in the third quarter 2014 in comparison to the second quarter 2014 remained approximately unchanged and amounted to 0.5 mln tonnes.

In the nine months of 2014, revenues from sales of petrochemical products increased by 25.4% compared to the nine months of 2013, which was due to 8.7% sales volume growth (positive impact on revenues of RUB 3 billion) and 12.6% average price upturn (favorable impact on revenues of RUB 14 billion). In the nine months of 2014 sales volumes of petrochemical product from Ruhr Oel GmbH (ROG) slightly decreased and amounted to 1.5 mln tonnes in comparison with 1.6 mln tonnes in the nine months of 2013.

## Gas Sales

The Company strategy envisages gas business expansion on the Russian domestic market. Rosneft's supply of gas has been limited to date. Gazprom is a dominant gas supplier and controls the Uniform Gas Supply System with the domestic market share of more than 70%.

In order to increase its share on the domestic market Rosneft is currently implementing gas program aimed at extension of contracts portfolio and effective diversification of distribution channels. Consolidation of NGK "Itera" LLC contributed to entering the market of end-users in the premium Russian regions and resulted in increased gas supply to final industrial and household consumers.

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

	<i>For 3 months ended</i>		<i>Change</i>	<i>For 9 months ended</i>		<i>Change</i>
	<b>September 30, 2014</b>	<b>June 30, 2014</b>		<b>September 30, 2014</b>	<b>September 30, 2013</b>	
<b>Revenue</b>	<b>(RUB billion)</b>		<b>%</b>	<b>(RUB billion)</b>		<b>%</b>
Western Siberia	19.1	16.1	18.6%	61.0	27.8	119.4%
South Russia	2.5	2.4	4.2%	7.6	6.8	11.8%
Far East	0.3	0.3	0.0%	1.1	0.9	22.2%
European part of Russia and other directions	18.7	16.0	16.9%	46.4	20.6	125.2%
Outside Russian Federation	0.4	0.7	(42.9)%	1.7	6.2	(72.6)%
<b>Total</b>	<b>41.0</b>	<b>35.5</b>	<b>15.5%</b>	<b>117.8</b>	<b>62.3</b>	<b>89.1%</b>
<b>Sales volumes</b>	<b>(bcm)</b>		<b>%</b>	<b>(bcm)</b>		<b>%</b>
Western Siberia	8.25	5.36	53.9%	23.32	13.71	70.1%
South Russia	0.73	0.69	5.8%	2.24	2.25	(0.4)%
Far East	0.10	0.13	(23.1)%	0.41	0.42	(2.4)%
European part of Russia and other directions	5.49	4.93	11.4%	13.97	7.34	90.3%
Outside Russian Federation	0.13	0.21	(38.1)%	0.52	0.80	(35.0)%
<b>Total</b>	<b>14.70</b>	<b>11.32</b>	<b>29.9%</b>	<b>40.46</b>	<b>24.52</b>	<b>65.0%</b>
<b>Average price</b>	<b>(th. RUB/th. cubic metres)</b>		<b>%</b>	<b>(th. RUB/th. cubic metres)</b>		<b>%</b>
Western Siberia	2.32	3.00	(22.7)%	2.61	1.96	33.2%
South Russia	3.48	3.40	2.4%	3.41	3.04	12.2%
Far East	2.58	2.51	2.8%	2.54	2.27	11.9%
European part of Russia and other directions	3.40	3.24	4.9%	3.31	2.87	15.3%
Outside Russian Federation	3.49	3.42	2.0%	3.42	7.74	(55.8)%
<b>Average group price</b>	<b>2.79</b>	<b>3.13</b>	<b>(10.9)%</b>	<b>2.91</b>	<b>2.54</b>	<b>14.6%</b>

\*average price is calculated from unrounded figures

In the third quarter of 2014 revenues from gas sales increased in comparison with second quarter 2014 and amounted to RUB 41.0 billion. A growth of sales volume by 29.9% (favourable impact of RUB 11 billion) was due to increased sales to regional distributors and premium channels in energy sector partially offset by decrease in average price by 10.9% (negative impact on revenues of RUB 6 billion).

Gas sales growth of RUB 55.5 billion in the nine months of 2014 in comparison with the nine months of 2013 was driven by oil-well gas production efficiency and by the acquisition NGK "Itera" LLC assets.

## Support Services and Other Revenues

Rosneft owns service companies which render drilling, construction, repair and other services mainly to the companies within the Group. Revenues from services rendered to third parties are reported in the consolidated statements of comprehensive income.

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

	<i>For 3 months ended</i>			<i>Change</i>	<i>For 9 months ended</i>			<i>Change</i>		
	<b>September 30, 2014</b>		<b>June 30, 2014</b>		<b>September 30, 2014</b>		<b>September 30, 2013</b>			
	<b>% of total revenue</b>	<b>% of total revenue</b>	<b>% of total revenue</b>		<b>% of total revenue</b>	<b>% of total revenue</b>	<b>% of total revenue</b>			
	<b>(RUB billion, except %)</b>									
Drilling services	3.9	18.8%	3.2	17.6%	21.9%	8.0	14.6%	2.0	5.0%	300.0%
Sales of materials	7.5	36.0%	5.8	31.9%	29.3%	17.9	32.8%	9.2	22.9%	94.6%
Repairs and maintenance services	1.2	5.8%	0.8	4.4%	50.0%	2.5	4.6%	1.3	3.2%	92.3%
Rent services	1.0	4.8%	0.7	3.8%	42.9%	2.7	4.9%	2.6	6.5%	3.8%
Construction services	0.1	0.5%	0.2	1.1%	(50.0)%	0.4	0.7%	0.3	0.7%	33.3%
Transport services	2.2	10.6%	2.6	14.3%	(15.4)%	7.3	13.3%	6.0	14.9%	21.7%
Sales of electric and heat power	2.2	10.6%	1.9	10.4%	15.8%	6.7	12.2%	3.7	9.2%	81.1%
Other revenues	2.7	12.9%	3.0	16.5%	(10.0)%	9.2	16.9%	15.1	37.6%	(39.1)%
<b>Total</b>	<b>20.8</b>	<b>100.0%</b>	<b>18.2</b>	<b>100.0%</b>	<b>14.3%</b>	<b>54.7</b>	<b>100.0%</b>	<b>40.2</b>	<b>100.0%</b>	<b>36.1%</b>

Support services and other revenues were 14.3% higher in the third quarter of 2014 compared to the second quarter of 2014 and amounted to RUB 20.8 billion. In the third quarter of 2014 the Company has completed the acquisition of a 100% share in 8 entities engaged in provision of drilling and workover services in Russia and Venezuela, from Weatherford International plc. The completion of the deal will allow the Company to strengthen its position in drilling and workover services market and increases efficiency of drilling and hydrocarbons production.

Support services and other revenues were 36.1% higher in the nine months of 2014 compared with the nine months of 2013.

## Downstream production and operating cost

Downstream operating expenses decreased by 2.1% in the third quarter of 2014 compared with the second quarter of 2014 and amounted to RUB 46 billion mainly due to seasonal accumulation of intragroup inventories (according to the accounting principles operating expenses are adjusted for all the expenses associated with the change in intragroup inventories).

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

	<i>For 3 months ended</i>			<i>Change, %</i>	<i>For 9 months ended</i>			<i>Change, %</i>
	<b>September 30, 2014</b>	<b>June 30, 2014</b>			<b>September 30, 2014</b>	<b>September 30, 2013</b>		
<b>Operating expenses at refineries in Russia (RUB billion)</b>	<b>16.61</b>	<b>16.09</b>		<b>3.2%</b>	<b>47.67</b>	<b>39.36</b>		<b>21.1%</b>
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)*	836	886		(5.6)%	835	777		7.5%
Operating expenses per tonne of crude oil throughput (RUB per tonne)*	813	857		(5.1)%	808	750		7.7%
<b>Operating expenses at refineries outside Russia (RUB billion)**</b>	<b>4.63</b>	<b>4.39</b>		<b>5.5%</b>	<b>13.02</b>	<b>11.74</b>		<b>10.9%</b>
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,671	1,749		(4.5)%	1,648	1,502		9.7%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,733	1,808		(4.1)%	1,680	1,501		11.9%
<b>Total operating expenses at Rosneft's refineries (RUB billion)</b>	<b>21.24</b>	<b>20.48</b>		<b>3.7%</b>	<b>60.69</b>	<b>51.10</b>		<b>18.8%</b>

\*Achinsk refinery workshops expenses incurred in the period of accident liquidation were excluded from calculation of operating expenses per tonne.

\*\*Refineries outside Russia also procured for processing the additives and materials: in the third quarter of 2014 – RUB 8.03 billion, in the second quarter of 2014 – in the amount of RUB 9.56 billion, in the nine months of 2014 – RUB 25.91 billion, in the nine months of 2013 – RUB 23.35 billion.



Operating expenses of Rosneft's refineries were RUB 21.24 billion in the third quarter of 2014, which is an increase of 3.7% compared with the second quarter of 2014.

In comparison with the nine months of 2013 operating expenses of Rosneft's refineries in the nine months of 2014 increased by 18.8% due to incorporation of expenses of new assets from the acquisition date in 2013.

Operating expenses of Rosneft's refineries in Russia were RUB 16.61 billion in the third quarter of 2014 and increased by 3.2% compared with the second quarter of 2014. The increase resulted mainly from increased maintenance expenses due to unscheduled turnarounds at Achinsk refinery, electricity and materials and supplies growth.

In the nine months of 2014 operating expenses of Rosneft's refineries in Russia increased by 21.1% in comparison with RUB 39.36 billion in the nine months of 2013, mainly as a result of incorporation of expenses of new assets from the acquisition date in 2013.

Operating expenses of Rosneft's refineries outside of Russia increased in the third quarter of 2014 by 5.5% in comparison with the second quarter of 2014 due to increased volumes of crude oil processing and petroleum product output.

Operating expenses of Rosneft's refineries outside of Russia increased in the nine months of 2014 by 10.9% in comparison with the nine months of 2013 due RUB depreciation which had negative impact on operating expenses denominated in EUR currency at Rosneft's units outside Russia.

Operating costs per tonne of crude oil throughput of Rosneft's refineries outside Russia due to more wide range of produced petroleum products and specifically petrochemicals, and also higher Nelson index (more complicated technological production process).

Operating costs per tonne of crude oil throughput of Rosneft's refineries in Russia in the nine months of 2014 increased by 7.7% compared with the nine months of 2013 and amounted to 808 RUB per tonne. Growth was mainly due to increase in maintenance expenses and electricity expenses.

Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia were 1,680 RUB per tonne in the nine months of 2014 which is an increase of 11.9 % compared with the nine months of 2013. The increase in operating expenses per tonne of crude oil throughput was mainly due to RUB depreciation which had negative impact on operating expenses denominated in EUR currency at Rosneft's units outside Russia.

## Cost of Purchased Oil, Gas and Petroleum Products and Refining Costs<sup>1</sup>

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

	For 3 months ended			For 9 months ended		
	September 30, 2014	June 30, 2014	change %	September 30, 2014	September 30, 2013	change %
<b>Crude oil procurement</b>						
Cost of crude oil procured (RUB billion)	100	97	3.1%	297	246	20.7%
including Domestic market	36	37	(2.7)%	109	77	41.6%
International market	64	60	6.7%	188	169	11.2%
Volume of crude oil procured (million of barrels)	40.7	38.8	4.9%	118.0	103.5	14.0%
including Domestic market	23.5	23.2	1.3%	68.3	55.1	24.0%
International market	17.2	15.6	10.3%	49.7	48.4	2.7%
<b>Inventory revaluation write-off (RUB billion)</b>	-	-	-	-	14	(100.0)%
<b>Gas procurement <sup>2</sup></b>						
Cost of gas procured (RUB billion)	4.1	3.5	17.1%	16.9	13.7	23.4%
Volume of gas procured (bcm)	2.62	2.10	24.8%	9.41	8.41	11.9%
<b>Petroleum products procurement</b>						
Cost of petroleum product procured (RUB billion) <sup>3</sup>	9	10	(10.0)%	29	28	3.6%
Volume of petroleum product procured (million of tonnes)	0.34	0.35	(2.9)%	1.06	1.02	3.9%
<b>Crude oil, gas and petroleum products refining services</b>						
Cost of refining of crude oil under processing agreements (RUB billion)	7.7	7.3	5.5%	20.1	10.5	91.4%
Volumes of crude oil refined under processing agreements (million of tonnes)	0.8	0.8	-	2.3	3.4	(32.4)%
Volumes of refining of gas under processing agreements (bcm)	2.5	2.6	(3.8)%	6.2	3.0	>100.0%
Volumes of refining of petroleum products under processing agreements (million of tonnes)	2.2	1.9	15.8%	6.2	2.1	>100.0%
<b>Total cost of procured oil, gas and petroleum products and refining costs (RUB billion)</b>	<b>121</b>	<b>118</b>	<b>2.5%</b>	<b>363</b>	<b>312</b>	<b>16.3%</b>

<sup>3</sup> Average procurement price of petroleum products from third parties may be higher than the average selling price of petroleum products due to differences in the mix of procured and sold petroleum products.

<sup>1</sup> Cost of purchases under IFRS consolidated financial statements

<sup>2</sup> Disclosure of gas procurement in section "Upstream .Financial indicators. Gas procurement".

### Crude oil procurement

Rosneft purchases crude oil primarily from its associates to process it at own refineries and also to export. Rosneft procures crude oil on the international market to supply it to Ruhr Oel GmbH (ROG) refineries.

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

	For 3 months ended			For 9 months ended		
	September 30, 2014	June 30, 2014	change (%)	September 30, 2014	September 30, 2013	change (%)
	million bbl			million bbl		
International market	17.2	15.6	10.3%	49.7	48.4	2.7%
Udmurtneft	6.6	6.6	-	18.5	14.5	27.6%
Slavneft	14.6	12.5	16.8%	39.7	32.9	20.7%
Others	2.3	4.1	(43.9)%	10.1	7.7	31.2%
<b>Total</b>	<b>40.7</b>	<b>38.8</b>	<b>4.9%</b>	<b>118.0</b>	<b>103.5</b>	<b>14.0%</b>

Rosneft performs oil swap operations in order to optimize transportation costs of deliveries to refineries. Revenues and costs related to these operations are shown on a net basis in the "Pipeline tariffs and Transportation costs" line of the consolidated statement of comprehensive income in previous periods.

In the nine months of 2014 the volume of swap was 0.8 mln tons. Effect from swap operations in the amount of RUB 0.9 billion is presented on a net basis in the "Pipeline tariffs and Transportation costs" of comprehensive income.

### ***Petroleum products procurement***

Petroleum products from third parties are procured primarily to cover current needs of Rosneft's retail subsidiaries. Procurement of petroleum products is exposed to seasonal fluctuations of volumes and mix. Procurement prices may significantly vary depending on regional markets. Petroleum products outside Russia were purchased primarily for sale in Germany.

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

<i>Petroleum products procurement in Russia</i>	<i>For 3 months ended</i>						<i>% change</i>		
	<b>September 30, 2014</b>			<b>June 30, 2014</b>			<b>RUB billion</b>	<b>million of tonnes</b>	<b>Average price th. RUB/tonne</b>
	<b>RUB billion</b>	<b>million of tonnes</b>	<b>Average price th. RUB/tonne</b>	<b>RUB billion</b>	<b>million of tonnes</b>	<b>Average price th. RUB/tonne</b>			
High octane gasoline	4	0.13	32.0	2	0.08	31.7	100.0%	62.5%	0.9%
Diesel	2	0.09	28.8	3	0.10	28.3	(33.3)%	(10.0)%	1.8%
Fuel oil	1	0.07	14.1	1	0.03	13.6	-	>100.0%	3.7%
Jet fuel	0	0.00	28.6	0	0.00	27.3	-	-	4.8%
Other	2	0.05	22.1	0	0.01	29.6	100.0%	>100.0%	(25.3)%
<b><i>Petroleum products procured outside Russia</i></b>	<b>0</b>	<b>0.00</b>	<b>26.7</b>	<b>4</b>	<b>0.13</b>	<b>32.1</b>	<b>&gt;(100.0)%</b>	<b>(100.0)%</b>	<b>(16.8)%</b>
<b>Total</b>	<b>9</b>	<b>0.34</b>	<b>25.9</b>	<b>10</b>	<b>0.35</b>	<b>29.1</b>	<b>(10.0)%</b>	<b>(2.9)%</b>	<b>(11.0)%</b>

The volume of petroleum product procured in the third quarter of 2014 decreased slightly due to full supply from own resources.

The table below sets forth Rosneft's costs, volumes and average prices per tonne of petroleum products procured from third parties in the nine months of 2014 and 2013:

<i>Petroleum products procurement in Russia</i>	<i>For 9 months ended</i>						<i>% change</i>		
	<b>September 30, 2014</b>			<b>September 30, 2013</b>			<b>RUB billion</b>	<b>million of tonnes</b>	<b>Average price th. RUB/tonne</b>
	<b>RUB billion</b>	<b>million of tonnes</b>	<b>Average price th. RUB/tonne</b>	<b>RUB billion</b>	<b>million of tonnes</b>	<b>Average price th. RUB/tonne</b>			
High octane gasoline	8	0.25	31.8	5	0.19	27.8	60.0%	31.6%	14.4%
Diesel	8	0.29	28.4	3	0.11	27.1	>100.0%	>100.0%	5.0%
Fuel oil	2	0.17	13.6	0	0.03	11.9	100.0%	100.0%	14.3%
Jet fuel	1	0.02	25.7	2	0.06	26.0	(50.0)%	(66.7)%	(1.2)%
Other	2	0.07	24.8	2	0.07	22.8	-	-	9.0%
<b><i>Petroleum products procured outside Russia</i></b>	<b>8</b>	<b>0.26</b>	<b>31.9</b>	<b>16</b>	<b>0.56</b>	<b>28.5</b>	<b>(50.0)%</b>	<b>(53.6)%</b>	<b>11.9%</b>
<b>Total</b>	<b>29</b>	<b>1.06</b>	<b>27.4</b>	<b>28</b>	<b>1.02</b>	<b>27.3</b>	<b>3.6%</b>	<b>3.9%</b>	<b>0.4%</b>

Average purchase prices may be different from average sale prices depending on different regional structure of purchases (mix structure) and sales and difference in quality of the petroleum products.

### ***Petroleum products procurement outside Russia***

Petroleum products procured outside Russia amounted to RUB 0 billion (0.0 million tonnes) and RUB 4 billion (0.13 million tonnes) in the third quarter of 2014 and the second quarter of 2014, respectively.

Petroleum products procured outside Russia in the nine months of 2014 was RUB 8 billion (0.26 mln tonnes) in comparison with RUB 16 billion (0.56 million tonnes) in the nine months of 2013.

### ***Gas procurement and crude oil and gas processing, petroleum products processing***

Starting from April 2014, associated petroleum gas sales to Sibur Holding and purchases of dry stripped gas from "Sibur" are presented on a net basis in the Company's financial statements in processing costs in the amount of RUB 4.9 billion in the nine months of 2014.

Gas purchases amounted to RUB 4.1 billion in the third quarter of 2014, an increase of 17.1% compared with the second quarter of 2014 due to seasonal factor (planned increased consumption in winter period).

In the third quarter of 2014 in the structure of the external processing the volumes of petroleum products output increased due to putting into operations of two production units at Yanos refinery in July 2014 after turnarounds. The crude oil processing services are rendered mostly by Yanos and Mozyr refineries.

Crude oil and gas processing expenses increased in the nine months of 2014 in comparison with the nine months of 2013 by 91.4% due to incorporation of new assets in 2013.

## **Pipeline Tariffs and Transportation Costs**

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

In the third quarter of 2014 Rosneft's transportation costs reduced by 4.2% and amounted to RUB 113 billion compared to the second quarter of 2014. The decrease in transportation costs was due to the reduction of export volumes.

In the nine months of 2014 Rosneft's transportation costs increased by 23.8% compared to the nine months of 2013. The growth in transportation costs was due to transportation volumes growth and increased tariffs.

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

	<i>For 3 months ended</i>								<i>% change</i>		
	September 30, 2014				June 30, 2014				Volume	Cost	Cost per tonne
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t			
<b>CRUDE OIL</b>											
<b>International sales</b>											
Pipeline	24.6	94.6%	39.5	1.61	25.7	94.8%	41.1	1.60	(4.3)%	(3.9)%	0.6%
Railroad and mixed	1.4	5.4%	3.3	2.58	1.4	5.2%	3.6	2.67	-	(8.3)%	(3.4)%
<b>Transportation to refineries</b>											
Pipeline <sup>1</sup>	23.0		19.3	0.84	21.4		17.6	0.82	7.5%	9.7%	2.4%
Railroad and mixed	1.8		6.7	3.64	1.7		7.0	4.04	5.9%	(4.3)%	(9.9)%
<b>PETROLEUM PRODUCTS</b>											
<b>International sales</b>											
Pipeline	1.0	6.8%	2.2	2.25	1.1	6.8%	2.4	2.23	(9.1)%	(8.3)%	0.9%
Railroad and mixed	11.8	79.7%	23.5	1.98	12.9	79.6%	28.0	2.16	(8.5)%	(16.1)%	(8.3)%
Pipeline and FCA <sup>2</sup>	2.0	13.5%			2.2	13.6%			(9.1)%		
<b>Other transportation expenses<sup>3</sup></b>											
			18				18			<b>0.0%</b>	
<b>Total</b>	<b>65.6</b>		<b>113</b>		<b>66.4</b>		<b>118</b>		<b>(1.2)%</b>	<b>(4.2)%</b>	

<sup>1</sup> Including crude oil purchased on international market, which was directed to Ruhr Oel GmbH (ROG).

<sup>2</sup> Rosneft exported part of petroleum products in the second and third quarters of 2014 through its own pipeline in the town of Tuapse, and on FCA terms, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

<sup>3</sup> Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to fuel filling stations.

Crude oil pipeline transportation cost per tonne of international sales in the third quarter of 2014 was approximately the same with one in the second quarter of 2014.

The decrease in crude oil railroad and mixed transportation cost per tonne of international sales was 3.4% due to increased logistic efficiency.

Crude oil pipeline transportation cost per tonne of supplies to refineries remained increased by 2.4% in the third quarter of 2014 compared to the second quarter of 2014 which was due to change in transportation structure.

Crude oil railroad and mixed transportation cost per tonne of supplies to refineries in the third quarter of 2014 decreased by 9.9% compared to the second quarter of 2014 due to increased logistic efficiency.

The increase in pipeline cost per tonne of petroleum product international sales was 0.9% in the third quarter of 2014 compared to the previous quarter mainly due to change in logistic structure.

Railroad and mixed transportation cost per tonne of petroleum product international sales decreased by 8.3% in the third quarter of 2014 compared to the second quarter of 2014 due to increased dispatches by river and decreased share of more expensive railroad routes.

The table below sets forth comparison for costs per tonne of crude oil and petroleum products transported by pipeline, railway and mixed transportation in the 9 months of 2014 and 2013:

	<i>For 9 months ended</i>								<i>% change</i>		
	September 30, 2014				September 30, 2013				Volume	Cost	Cost per tonne
	Volume, mln. tonnes	Share in export volumes	Cost, bln. RUB	Cost per tonne, th.RUB/t	Volume, mln. tonnes	Share in export volumes	Cost, bln. RUB	Cost per tonne, th.RUB/t			
<b>CRUDE OIL</b>											
<b>International sales</b>											
Pipeline	74.2	94.4%	118.9	1.60	66.6	95.1%	111.3	1.67	11.4%	6.8%	(4.2)%
Railroad and mixed	4.4	5.6%	11.0	2.60	3.4	4.9%	6.9	2.08	29.4%	59.4%	25.0%
<b>Transportation to refineries</b>											
Pipeline <sup>1</sup>	67.6		55.9	0.83	52.5		36.8	0.70	28.8%	51.9%	18.6%
Railroad and mixed	5.1		20.6	3.97	4.5		16.6	3.68	13.3%	24.1%	7.9%
<b>PETROLEUM PRODUCTS</b>											
<b>International sales</b>											
Pipeline	3.1	6.7%	6.8	2.22	2.9	7.2%	6.1	2.15	6.9%	11.5%	3.3%
Railroad and mixed	37.7	80.9%	82.1	2.17	28.6	71.1%	52.7	1.85	31.8%	55.8%	17.3%
Pipeline and FCA <sup>2</sup>	5.8	12.4%			8.7	21.6%			(33.3)%		
<b>Other transportation expenses <sup>3</sup></b>											
			53				50			<b>6.0%</b>	
<b>Total</b>	<b>197.9</b>		<b>348</b>		<b>167.2</b>		<b>281</b>		<b>18.4%</b>	<b>23.8%</b>	

<sup>1</sup> Including crude oil purchased on international market, which was directed to Ruhr Oel GmbH.

<sup>2</sup> Rosneft exported part of petroleum products in the nine months of 2014 and nine months of 2013 through its own Tuapse pipeline and on FCA terms, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

<sup>3</sup> Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to fuel filling stations. Other transportation expenses also include Rosneft expenses on crude oil swap deals excluding economy in price.

In the nine months of 2014 the decrease in crude oil pipeline transportation cost per tonne of international sales was 4.2% in comparison with the nine months of 2013 due to increase in share of short routes.

In the nine months of 2014 crude oil railroad and mixed transportation cost per tonne of international sales increased by 25.0% in comparison with the nine months of 2013 which was due to change in structure of railroad transportation routes.

In the nine months of 2014 crude oil pipeline transportation cost per tonne of supplies to refineries increased by 18.6% as a result of change in structure of transportation routes.

In the nine months of 2014 the increase in crude oil railroad and mixed transportation cost per tonne of supplies to refineries was 7.9% due to change in transportation mix.

In the nine months of 2014 the increase in pipeline cost per tonne of petroleum product international sales was 3.3% as a result of change in logistics.

The increase in the nine months of 2014 in railroad and mixed cost per tonne of petroleum product international sales was 17.3% in comparison with the nine months of 2013 due to change in structure of transportation routes and increased tariffs.

## Excise tax

In the third quarter of 2014 excise tax was RUB 36 billion in comparison with RUB 33 billion in the second quarter of 2014. The increase was due to growth of sales volume of petroleum products subject to excise tax.

Excises amount in the nine months of 2014 was RUB 105 billion increased by 7.1% in comparison with the nine months of 2013 due to sale growth of petroleum products subject to excise tax and increase in excise base rate.

## Export Customs Duty

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

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

	<i>For 3 months ended</i>			<i>change</i>	<i>For 9 months ended</i>		<i>change</i>
	<i>September 30, 2014</i>	<i>June 30, 2014</i>			<i>September 30, 2014</i>	<i>September 30, 2013</i>	
	<b>RUB billion</b>		<b>%</b>	<b>RUB billion</b>		<b>%</b>	
Export customs duty for crude oil	307	315	(2.5%)	924	725	27.4%	
Export customs duty for gas	–	–	–	–	1	(100.0)%	
Export customs duty for petroleum products	106	115	(7.8%)	334	255	31.0%	
<b>Total export customs duties</b>	<b>413</b>	<b>430</b>	<b>(4.0%)</b>	<b>1,258</b>	<b>981</b>	<b>28.2%</b>	

Export customs duty decrease of 4.0 % in the third quarter of 2014 compared to the second quarter of 2014 was due to export volumes decrease partially offset by time export duty lag effect. In the third quarter of 2014 the Ministry of Economic Development of the Russian Federation published revised export customs duty rates for January 2014. Downturn effect from the revision of export customs duty rate of prior period amounted to RUB 2.4 billion in the third quarter of 2014.

In the nine months of 2014 export customs duty growth was 28.2% compared to the nine months of 2013 due to the increase in export volumes and customs duty rate rouble denominated.

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

	<i>For 3 months ended</i>			<i>change</i>	<i>For 9 months ended</i>		<i>change</i>
	<i>September 30, 2014</i>	<i>June 30, 2014</i>			<i>September 30, 2014</i>	<i>September 30, 2013</i>	
	<b>RUB th/tonne</b>		<b>%</b>	<b>RUB th/tonne</b>		<b>%</b>	
Average Urals price	26.68	27.50	(3.0)%	27.15	25.57	6.2%	
Average enacted export customs duty	13.77	13.39	2.8%	13.58	12.32	10.2%	
Hypothetical export customs duty*	12.90	13.55	(4.8)%	13.25	12.57	5.4%	
Average customs duty on crude oil exports to non-CIS countries subject to regular rate (th. RUB/tonne)	13.76	13.38	2.8%	13.59	12.28	10.7%	

\*Hypothetical customs duty is calculated using the average Urals price for the period (i.e. without time lag).

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

## Operating results of segment “Corporate and others”

Segment includes the Group companies that provide services to corporate services, as well as banks and other.

	<i>For 3 months ended</i>		<i>Change, %</i>	<i>For 9 months ended</i>		<i>Change, %</i>
	<i>September 30, 2014</i>	<i>June 30, 2014</i>		<i>September 30, 2014</i>	<i>September 30, 2013</i>	
<b>Financial results, RUB billion</b>						
EBITDA	(17)	(10)	(70.0)%	(36)	(42)	14.3%
Operating cost	11	9	17.6 <sup>1</sup> %	27	23	14.4 <sup>1</sup> %
Capital expenditures <sup>2</sup>	5	2	150.0%	11	9	22.2%

<sup>1</sup> Change % calculated from unrounded data

<sup>2</sup> Refers to “Capital expenditures”

## Financial indicators

### Operating cost of the segment “Corporate and others”

Production and operating expenses related to the segment «Corporate» increased by 17.6% in the third quarter of 2014 compared to the second quarter of 2014 due to higher volumes of repairs and maintenance services, rent services, sales of materials and drilling services provided to third parties.

## Selected indicators of the consolidated financial statement

### Costs and Expenses

#### General and Administrative Expenses

General and administrative expenses include wages, salaries and social benefits (except for wages of technical staff of production and refining entities), banking commissions, third-party fees for professional services, insurance expenses (except for insurance of oil and gas production and refining entities), maintenance of social infrastructure, lease expenses, allowances for doubtful accounts and other general expenses.

General and administrative expenses in the third quarter of 2014 amounted to RUB 30 billion. The company strengthened control over administrative expenses.

In the nine months of 2014 general and administrative expenses were RUB 84 billion, which is 6.3% higher than in the nine months of 2013 due to incorporation of expenses of the new assets from the date of acquisition in 2013.

#### Depreciation, Depletion and Amortisation

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

Depreciation, depletion and amortisation were RUB 116 billion in the third quarter of 2014 compared to RUB 109 billion in the second quarter of 2014. The increase of RUB 7 billion was due to putting into operations of new oil and processing fixed assets.

In the nine months of 2014 depreciation, depletion and amortisation increased by 22.7% compared with the nine months of 2013 due to the incorporation of new assets from the acquisition date.

## **Taxes Other than Income Tax**

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

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

	<i>For 3 months ended</i>			<i>For 9 months ended</i>		
	<i>September 30, 2014</i>	<i>June 30, 2014</i>	<i>change</i>	<i>September 30, 2014</i>	<i>September 30, 2013</i>	<i>change</i>
	<b>RUB billion</b>		<b>%</b>	<b>RUB billion</b>		<b>%</b>
Mineral extraction tax	248	263	(5.7)%	758	596	27.2%
Excise tax	36	33	9.1%	105	98	7.1%
Social security tax	9	11	(18.2)%	30	24	25.0%
Property tax	7	7	-	21	16	31.3%
Interest, penalties and other payments to budget	3	1	>100.0%	5	4	25.0%
<b>Total taxes other than income tax</b>	<b>303</b>	<b>315</b>	<b>(3.8)%</b>	<b>919</b>	<b>738</b>	<b>24.5%</b>

Taxes other than income tax were RUB 303 billion and decreased by 3.8% in the third quarter of 2014, compared with RUB 315 billion in the second quarter of 2014 mainly due to decreased mineral extraction tax resulted from rate reduction. The decrease was partially compensated by excise duty growth from sales volumes of petroleum products subject to excise duty.

Taxes other than income tax in the nine months of 2014 were RUB 919 billion in comparison with RUB 738 billion in the nine months of 2013. The increase was mostly due to indexation of the base rate of mineral extraction tax in 2014 and consolidation of new assets in 2013 from the date of acquisition.

## **Finance Income and Expenses**

Finance income and expenses include interest received on deposits, deposit certificates and loans issued, interest paid on loans and borrowings received, results from changes in fair value of financial assets measured at fair value, results from operations with derivative financial instruments, increase in provision due to unwinding of discount, results from disposal of financial assets and other finance income and expenses.

In the third quarter of 2014 net finance expenses amounted to RUB 52 billion. Net finance expenses increased by RUB 48 billion in the third quarter of 2014 compared to the second quarter of 2014 mainly due to negative changes in fair value of cross-currency rate swap and forward contracts. In the third quarter of 2014 the net loss from operations with derivative financial instruments in the amount of RUB 39 billion includes an unrealized loss from changes in fair value measurements in the amount of RUB 42 billion and a realized gain in the form of net payments in the amount of RUB 3 billion. The loss from changes in fair value of derivative financial instruments is due to RUB depreciation<sup>1</sup> against USD at the end of the period.

Net finance expenses increased by RUB 65 billion in the nine months of 2014 compared to the nine months of 2013. The increase is mainly attributable to the net loss from operations with derivative financial instruments (including an unrealized loss from changes in fair value measurements and a realized gain in the form of net payments) and the increase in interest expenses, including interest expenses for the use of funds under terms of prepayment agreements.

<sup>1</sup>Fair value is estimated at forecasted exchange rate at the closing date.

## **Other income and other expenses**

In the third quarter of 2014 other income amounted to RUB 2 billion compared to RUB 4 billion in the second quarter of 2014.

In the nine months of 2014 other income amounted to RUB 64 billion. In the nine months of 2013 other income was RUB 207 billion including the final fair value estimation of new assets acquired.

In the third quarter of 2014 other expenses amounted to RUB 13 billion compared to RUB 10 billion in the second quarter of 2014. Other expenses mainly include expenses on liquidation of fixed assets in the course of operating activities and other expenses.

In the nine months of 2014 and 2013 other expenses amounted to RUB 36 billion and RUB 46 billion respectively.



### **Foreign Exchange (Loss) / Gain**

Foreign exchange effect is mostly attributed to monthly revaluation of assets and liabilities denominated in foreign currency at the exchange rate at the end of the period.

Foreign exchange loss was RUB 95 billion in the third quarter of 2014 compared with foreign exchange gain of RUB 29 billion in the second quarter of 2014. This change was attributed to revaluation of assets and obligations denominated in foreign currency as a result of the significant depreciation of the RUB against the US\$ in the third quarter of 2014.

Foreign exchange loss in the nine months of 2014 was RUB 150 billion in comparison with foreign exchange loss in the amount of RUB 57 billion in the nine months of 2013.

### **Income Tax**

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

	<i>For 3 months ended</i>		<i>For 9 months ended</i>	
	<b>September 30, 2014</b>	<b>June 30, 2014</b>	<b>September 30, 2014</b>	<b>September 30, 2013</b>
Effective income tax rate for Rosneft under IFRS	20.0%	19,6%	19,9%	23,7%*

*\*Excluding the effect of fair value estimation and initial revaluation surplus of non-controlling interests in Verkhnechonskneftegaz.*

The Company applies the provisions of IAS 12 "Income taxes" to determine effective tax rate. The effective tax rate in the nine months of 2014 was 19.9 %.

The income tax expense amounted to RUB 1 billion in the third quarter of 2014.

In accordance with Statement of comprehensive income, in the nine months of 2014 income tax expense was RUB 65 billion and RUB 66 billion in the nine months of 2013.

### **Net Income**

As a result of the factors discussed above, net income amounted to RUB 1 billion compared to the net income of RUB 172 billion in the second quarter of 2014. Net income was impacted by the growth of negative effect from currency liabilities revaluation, and increase in finance expenses in the third quarter of 2014.

Net income amounted to RUB 261 billion in the nine months of 2014, excluding the effect of foreign exchange loss net income amounted to RUB 411 billion. In the nine months of 2013 net income was RUB 250 billion (excluding one-off effect from final estimation of the fair value of the acquired assets and liabilities of RUB 167 billion).

## 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 9 months ended</i>		<i>change</i>
	<i>September 30, 2014</i>	<i>June 30, 2014</i>		<i>September 30, 2014</i>	<i>September 30, 2013</i>	
	<i>(RUB billion)</i>		<i>times</i>	<i>(RUB billion)</i>		<i>times</i>
Net cash provided by operating activities	366	244	1.50	1,268	836	1.52
Net cash used in investing activities	(229)	(282)	0.81	(856)	(1 858)	0.46
Net cash from/(used in) financing activities	(148)	(37)	4	(589)	957	–

### Operating Cash Flow

Net cash provided by operating activities amounted to RUB 366 billion in the third quarter of 2014 compared to RUB 244 billion in the second quarter of 2014. Operating cash flow includes operations with trading securities as part of the Company's efforts to manage cash resources (net outflow of RUB 4 billion in the third quarter of 2014 and net outflow of RUB 1 billion in the second quarter of 2014).

The adjusted for the above operations net cash provided by operating activity amounted to RUB 370 billion in the third quarter of 2014 (adjusted for operations with trading securities in the amount of RUB 4 billion), RUB 245 billion in the second quarter of 2014 (adjusted for operations with trading securities in the amount of RUB 1 billion).

Net cash provided by operating activities amounted to RUB 1,271 billion in the nine months of 2014 (adjusted for operations with trading securities in the amount of RUB 3 billion) in comparison with RUB 837 billion in the nine months of 2013 (adjusted for operations with trading securities in the amount of RUB 1 billion).

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

	<i>For 3 months ended</i>		<i>change</i>	<i>For 9 months ended</i>		<i>change</i>
	<i>September 30, 2014</i>	<i>June 30, 2014</i>		<i>September 30, 2014</i>	<i>September 30, 2013</i>	
	<i>(RUB billion)</i>		<i>times</i>	<i>(RUB billion)</i>		<i>times</i>
<b>Net cash provided by operating activity</b>	<b>366</b>	<b>244</b>	<b>1.50</b>	<b>1,268</b>	<b>836</b>	<b>1.52</b>
Effect from operation with trading securities	4	1	4	3	1	3
<b>Adjusted net cash provided by operating activity</b>	<b>370</b>	<b>245</b>	<b>1.51</b>	<b>1,271</b>	<b>837</b>	<b>1.52</b>
<i>One off effect from receipts under long term oil contracts</i>	<i>66</i>	<i>–</i>	<i>–</i>	<i>497</i>	<i>307</i>	<i>1.62</i>
<b>Adjusted net cash provided by operating activity before change in working capital</b>	<b>304</b>	<b>245</b>	<b>1.24</b>	<b>774</b>	<b>530</b>	<b>1.46</b>

In the third quarter of 2014 operating cash flow increased in 1.5 times compared to the second quarter of 2014. Despite unfavorable macroeconomic environment the Company continues to generate a positive cash flow through effective working capital management.

### Investing Activities

Net cash used in investing activities was RUB 229 billion in the third quarter of 2014, compared to RUB 282 billion in the second quarter of 2014. The decrease in cash used in investing activities was due to decrease in acquisition of long-term assets while capital expenditures remained unchanged in the third quarter of 2014.

Net cash used in investing activities was RUB 856 billion in the nine months of 2014 and RUB 1,858 billion in the nine months of 2013 including cash used for TNK acquisition of RUB 1,195 billion in 2013.

## Capital Expenditures

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

	<i>For 3 months ended</i>		<i>change</i>	<i>For 9 months ended</i>		<i>change</i>
	<i>September 30,</i>	<i>June 30,</i>		<i>September 30,</i>	<i>September 30,</i>	
	<i>2014</i>	<i>2014</i>		<i>2014</i>	<i>2013</i>	
	<i>(RUB billion)</i>		<i>%</i>	<i>(RUB billion)</i>		<i>%</i>
LLC "RN-Yuganskneftegaz"	21	25	(16.0)%	69	70	(1.4)%
JSC "Vankorneft"	7	7	–	22	51	(56.9)%
LLC "RN- Uvatneftegaz" *	2	5	(60.0)%	14	17	(17.6)%
JSC "Orenburgneft"	6	7	(14.3)%	18	15	20.0%
Projects on Sakhalin	5	4	25.0%	13	11	18.2%
JSC "Samotlorneftegaz"	5	5	–	13	7	85.7%
LLC "RN-Purneftegaz"	6	5	20.0%	13	13	–
JSC "Samaraneftegaz"	4	3	33.3%	10	9	11.1%
JSC "Verkhnechonskneftegaz"	5	5	–	13	10	30.0%
JSC "Tomskneft" VNK	1	2	(50.0)%	5	5	–
JSC "Rospan International"	4	3	33.3%	11	4	175.0%
LLC "RN-Severnaya Neft"	1	2	(50.0)%	4	3	33.3%
JSC "RN- Nyaganneftegaz"	2	2	–	5	3	66.7%
LLC "JV "Vanyoganneft"	1	–	–	2	2	–
Other	18	13	38.5%	39	21	85.7%
<b>Total upstream segment</b>	<b>88</b>	<b>88</b>	<b>0.0%</b>	<b>251</b>	<b>241</b>	<b>4.1%</b>
JSC "NK "Rosneft"	–	–	–	–	–	–
Tuapse refinery	11	16	(31.3)%	32	37	(13.5)%
Novokuibyshevsk refinery	4	4	–	11	13	(15.4)%
Kuibyshev refinery	2	4	(50.0)%	9	11	(18.2)%
Angarsk refinery	4	2	100.0%	8	10	(20.0)%
Achinsk refinery	2	3	(33.3)%	7	9	(22.2)%
Syzran refinery	3	4	(25.0)%	10	10	–
Ryazan refinery	2	3	(33.3)%	6	6	–
Saratov refinery	–	1	(100.0)%	1	1	–
Komsomolsk refinery	1	3	(66.7)%	6	9	(33.3)%
Other refineries	10	2	400.0%	15	13	15.4%
Marketing Business Units and others	1	1	–	3	9	(66.7)%
<b>Total downstream segment</b>	<b>40</b>	<b>43</b>	<b>(7.0)%</b>	<b>108</b>	<b>128</b>	<b>(15.6)%</b>
<b>Other activities</b>	<b>5</b>	<b>2</b>	<b>150.0%</b>	<b>11</b>	<b>9</b>	<b>22.2%</b>
<b>Total capital expenditures</b>	<b>133</b>	<b>133</b>	<b>0.0%</b>	<b>370</b>	<b>378</b>	<b>(2.1)%</b>
<b>License acquisition costs</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>8</b>	<b>8</b>	<b>–</b>

\* Capital expenditures of LLC "RN- Uvatneftegaz" were reduced by government grants received in the amount of RUB 4 billion, RUB 1 billion and RUB 5 billion for the third quarter, the second quarter and the nine months of 2014 respectively.

In the third quarter of 2014 total capital expenditures (including construction material purchases) were equal to the second quarter capital expenditures and amounted to RUB 133 billion.

In the nine months of 2014 total capital expenditures (including construction material purchases) were RUB 370 billion in comparison with RUB 378 billion in the nine months of 2013. The Company performs optimization of capital expenditures, however the increase in capital expenditures is expected in the fourth quarter of 2014 due to seasonal factor.

In the third quarter of 2014 upstream capital expenditures (including construction material purchases) were equal to the second quarter upstream capital expenditures and amounted to RUB 88 billion. The Company maintained a stable level of contracting and execution of works, however the increase in capital expenditures is expected in the fourth quarter of 2014 due to seasonal factor.

In the nine months of 2014 upstream capital expenditures amounted to RUB 251 billion compared with RUB 241 billion in the nine months of 2013. Works performed in the nine months of 2014 mainly relate to completion of an active stage of development of oil field infrastructure on a number of Greenfields and Brownfields of the Company, development of gas projects in Krasnodar and exploration drilling in Yamal and Irkutsk region.

Downstream capital expenditures decreased by 7.0% to RUB 40 billion in the third quarter of 2014, compared with RUB 43 billion in the second quarter of 2014. Capital expenditures of refineries decreased to RUB 39 billion compared with RUB 42 billion in the second quarter of 2014. In the third quarter of 2014 as part of the upgrade program the second delivery of bulk equipment took place at Syzran refinery, the Company started the implementation of the project to construct an offshoot of the Eastern Siberia – Pacific Ocean (ESPO) trunk pipeline linking to Komsomolsk refinery, an isomerization unit was launched at Kuibyshev refinery.

Downstream capital expenditures in the nine months of 2014 were equal to RUB 108 billion, including capital expenditures of refineries in the amount of RUB 105 billion, in comparison with RUB 128 billion, including capital expenditures of refineries in the amount of RUB 119 billion, in the nine months of 2013. Works performed in the nine months of 2014 mainly relate to continued programme for capacity upgrade and expansion at Rosneft's refineries in order to completely switch to production of the Euro-5 motor fuels, including extension of capacities of Tuapse refinery and preliminary works at VNHK. The increase in capital expenditures is expected in the fourth quarter of 2014 due to seasonal factor.

Capital expenditures for other activities that were related to planned acquisition of transportation and other equipment were equal to RUB 5 billion in the third quarter of 2014, compared with RUB 2 billion in the second quarter of 2014. Capital expenditures for other activities were equal to RUB 11 billion in the nine months of 2014 compared with RUB 9 billion in the nine months of 2013.

The Company retrospectively changed the presentation of changes in stock of materials for capital expenditure. The changes in stock of materials for capital expenditure were reclassified from the line "Increase/(decrease) in stock of materials for capital expenditure" to the line presenting capital expenditures of respective subsidiary of the Company, which holds these materials. The amounts reclassified are presented below:

	<i>For 9 months ended</i>
	<b>September 30, 2013</b>
	<b>RUB billion</b>
Upstream segment	(4)
Downstream segment	3
Other activities	(2)
<b>Total increase/(decrease) in stock of materials for capital expenditure</b>	<b>(3)</b>

The license acquisition costs in the nine months of 2014 in the amount of RUB 8 billion refer to acquisition of licenses for research, exploration and production at blocks located in the Khanty-Mansi Autonomous Area, Yamal-Nenets Autonomous Area, Krasnoyarsk region and in the Okhotsk Sea.

### **Financing activities**

Net cash used in financing activities was RUB 148 billion in the third quarter of 2014 compared to RUB 37 billion of net cash used in financing activities in the second quarter of 2014. The increase was mainly due to pay off dividends declared for 2013.

Net cash used in financing activities in the nine months of 2014 was RUB 589 billion compared with RUB 957 billion of net cash provided by financing activities in the nine months of 2013 that was as a result of raising funds to finance the acquisition of TNK assets in the amount of USD 31.04 billion.

## Debt Obligations

Rosneft net debt amounts was RUB 1,772 billion as of September 30, 2014 compared to RUB 1,525 billion as of June 30, 2014. The Company provides stable repayments of short-term and long-term liabilities and reduced the debt burden compared with the level as of September 30, 2013.

Rosneft's total loans and borrowings was RUB 2,507 billion as of September 30, 2014 compared to RUB 2,179 billion as of June 30, 2014. The increase was mainly attributable to effect of revaluation of debt denominated in foreign currency.

Portion of Rosneft's long-term loans are secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts are normally provided the lender with an express right of claim for contractual revenue in the amount of failing loan repayments.

As of September 30, 2014, June 30, 2014 and September 30, 2013: 26.1%, 26.1%, 23.2% respectively, of Rosneft's borrowings were secured by crude oil export contracts (excluding exports to the CIS).

As of September 30, 2014, June 30, 2014 and September 30, 2013 pledged oil exports constituted 4.2%, 4.2% and 5.2%, respectively, of the total crude oil export sales for the analysed period (excluding export to the CIS).

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

<b>As of the date</b>	<b>September 30, 2014</b>	<b>June 30, 2014</b>	<b>September 30, 2013</b>
	<b>RUB billion</b>		
Short term debt	1,051	862	522
Other short-term liabilities	63	21	14
Long-term debt	1,456	1,317	1,851
Other long-term liabilities	12	9	9
<b>Total debt</b>	<b>2,582</b>	<b>2,209</b>	<b>2,396</b>
Cash and cash equivalents	139	142	246
Other short-term financial assets	671	542	224
<b>Net debt</b>	<b>1,772</b>	<b>1,525<sup>1</sup></b>	<b>1,926<sup>1</sup></b>

<sup>1</sup>Revised data of previous periods

## Key Financial Ratios

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

	<i>For 3 months ended</i>		<i>For 9 months ended</i>	
	<b>September 30, 2014</b>	<b>June 30, 2014</b>	<b>September 30, 2014</b>	<b>September 30, 2013</b>
Adjusted EBITDA margin	20.0%	21.2%	20.8%	20.8%
Net income margin	0.1%	12.0%	6.2%	12.5%
Net debt to annualised EBITDA	1.55	1.29*	1.55	1.91*
Current ratio	1.07	1.05	1.07	1.32
	RUB per bbl			
Adjusted EBITDA/bbl	778	861	819	733
Upstream capital expenditure/bbl	247	249	236	254
Upstream operating expenses/bbl	182	175	171	148
Free cash flow before interest/bbl	480	317	380	160
	RUB per boe			
Adjusted EBITDA/boe	642	710	678	653
Upstream capital expenditure/boe	204	206	196	227
Upstream operating expenses/boe	150	144	142	132
Free cash flow before interest/boe	396	262	315	143

\*Revised data

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

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

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

### *Upstream Measures<sup>1</sup>*

	<i>For 3 months ended</i>		<i>For 9 months ended</i>	
	<b>September 30, 2014</b>	<b>June 30, 2014</b>	<b>September 30, 2014</b>	<b>September 30, 2013</b>
Crude oil and NGL production (mln bbl)	355.9	353.1	1,062.3	948.5
Crude oil and NGL and gas production (mln boe)	431.8	428.0	1,283.0	1,063.9

<sup>1</sup>Excluding share in production of associates

### *Calculation of Adjusted Free Cash Flow*

	<i>For 3 months ended</i>		<i>For 9 months ended</i>	
	<b>September 30, 2014</b>	<b>June 30, 2014</b>	<b>September 30, 2014</b>	<b>September 30, 2013</b>
	RUB billion			
Net cash provided by operating activities	366	244	1,268	836
Capital expenditures	(133)	(133)	(370)	(378)
Trading securities operations*	4	1	3	1
One-off effect from receipts under long term oil contracts	(66)	-	(497)	(307)
<b>Adjusted free cash flow</b>	<b>171</b>	<b>112</b>	<b>404</b>	<b>152</b>

\*In accordance with Interim consolidated statement of cash flows "Acquisition and proceeds from trading security".

### *Calculation of adjusted EBITDA Margin*

	<i>For 3 months ended</i>		<i>For 9 months ended</i>	
	<b>September 30, 2014</b>	<b>June 30, 2014</b>	<b>September 30, 2014</b>	<b>September 30, 2013</b>
	RUB billion, except %			
Operating income	160	195	539	405
Depreciation, depletion and amortisation	116	109	330	269
<b>EBITDA</b>	<b>276</b>	<b>304</b>	<b>869</b>	<b>674</b>
One-off effect	1 <sup>1</sup>	-	1 <sup>1</sup>	21
<b>Adjusted EBITDA</b>	<b>277</b>	<b>304</b>	<b>870</b>	<b>695</b>
Sales revenues	1,382	1,435	4,192	3,344
<b>Adjusted EBITDA margin</b>	<b>20.0%</b>	<b>21.2%</b>	<b>20.8%</b>	<b>20.8%</b>

<sup>1</sup>One-off effect from the recognition of commission expenses under long term oil contracts.

### *Calculation of Net Income Margin*

	<i>For 3 months ended</i>		<i>For 9 months ended</i>	
	<b>September 30, 2014</b>	<b>June 30, 2014</b>	<b>September 30, 2014</b>	<b>September 30, 2013</b>
	<b>RUB billion, except %</b>			
<b>Net income</b>	<b>1</b>	<b>172</b>	<b>261</b>	<b>417</b>
Revenues	1,382	1,435	4,192	3,344
<b>Net income margin</b>	<b>0.1%</b>	<b>12.0%</b>	<b>6.2%</b>	<b>12.5%</b>

### *Current ratio*

	<i>For 3 months ended</i>		<i>For 9 months ended</i>	
	<b>September 30, 2014</b>	<b>June 30, 2014</b>	<b>September 30, 2014</b>	<b>September 30, 2013</b>
	<b>RUB billion, except ratio</b>			
Current assets	1,916	1,710	1,916	1,402
Current liabilities	1,789	1,622	1,789	1,059
<b>Current ratio</b>	<b>1.07</b>	<b>1.05</b>	<b>1.07</b>	<b>1.32</b>