



Rosneft Oil Company

Consolidated Financial Statements

December 31, 2011

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Independent auditors' report

To the Shareholders and the Board of Directors
of Rosneft Oil Company

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company") which comprise the consolidated balance sheet as at December 31, 2011, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company as at December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information accompanying the consolidated financial statements which has been disclosed as Supplementary oil and gas disclosure on page 84 is presented for purposes of additional analysis and is not within the scope of International Financial Reporting Standards. Such information has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2011, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, prepared in conformity with accounting principles generally accepted in the United States of America, and in our report dated February 3, 2012 we expressed an unqualified opinion on those consolidated financial statements.

Ernst & Young LLC

March 1, 2012

Rosneft Oil Company
Consolidated Balance Sheet
(in billions of Russian rubles)

	Notes	As of December 31,			As of January 1,
		2011	2010	2009	2009
ASSETS					
Current assets:					
Cash and cash equivalents	18	166	127	60	40
Restricted cash	18	4	1	1	–
Financial assets	19	150	211	76	50
Accounts receivable, net of allowance of RUB 5, RUB 4, RUB 3 and RUB 4, respectively	20	217	155	120	89
Inventories	21	126	65	56	44
Prepayments and other current assets	22	152	137	137	150
Total current assets		815	696	450	373
Non-current assets:					
Property, plant and equipment	23	2,231	2,051	1,983	1,936
Intangible assets	24	22	23	24	20
Financial assets	25	34	28	47	18
Investments in associates and joint ventures	26	114	63	68	64
Bank loans granted, net of allowance of RUB 1.0, RUB 0.4, RUB 0.5 and RUB 0.4, respectively		13	9	10	10
Deferred tax assets	15	13	9	10	8
Goodwill	24	132	132	132	132
Other non-current non-financial assets	27	3	2	1	1
Total non-current assets		2,562	2,317	2,275	2,189
Assets held for sale	25	–	2	–	–
Total assets		3,377	3,015	2,725	2,562
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Accounts payable and accrued liabilities	28	181	113	104	89
Loans and borrowings	29	152	167	237	414
Finance lease liabilities	29	1	1	1	1
Liabilities related to derivative instruments	30	4	6	5	6
Income tax liabilities		3	6	4	3
Other tax liabilities	31	66	53	45	28
Provisions	32	6	5	8	2
Other current liabilities		1	1	1	1
Total current liabilities		414	352	405	544
Non-current liabilities:					
Loans and borrowings	29	596	549	472	293
Finance lease liabilities	29	5	3	3	3
Deferred tax liabilities	15	234	240	268	276
Provisions	32	57	47	21	21
Other non-current liabilities	34	2	32	41	45
Total non-current liabilities		894	871	805	638
Liabilities related to assets held for sale	25	–	1	–	–
Equity:					
Share capital	35	1	1	1	1
Treasury shares	35	(224)	(221)	(221)	(221)
Additional paid-in capital	35	386	396	396	396
Other reserves		(5)	(5)	(2)	(1)
Retained earnings		1,877	1,588	1,317	1,181
Total shareholders' equity		2,035	1,759	1,491	1,356
Non-controlling interests	16	34	32	24	24
Total equity		2,069	1,791	1,515	1,380
Total liabilities and equity		3,377	3,015	2,725	2,562

President



E.Y. Khudainatov

March 1, 2012

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Rosneft Oil Company

Consolidated Statement of Comprehensive Income

(in billions of Russian rubles, except earnings per share data)

	Notes	For the years ended December 31,		
		2011	2010	2009
Revenues				
Oil and gas sales	7	1,392	1,056	779
Petroleum products and petrochemicals sales	7	1,265	810	653
Support services and other revenues		45	49	40
Total revenues		2,702	1,915	1,472
Costs and expenses				
Production and operating expenses		189	144	128
Cost of purchased oil, gas and petroleum products and refining costs		298	72	59
General and administrative expenses		52	51	45
Pipeline tariffs and transportation costs		216	212	171
Exploration expenses		13	14	11
Depreciation, depletion and amortization		213	202	168
Taxes other than income tax	8	498	331	254
Export customs duty	9	790	509	379
Total costs and expenses		2,269	1,535	1,215
Operating income		433	380	257
Finance income	10	20	20	16
Finance expenses	11	(19)	(21)	(24)
Equity share in profits of associates and joint ventures	26	16	4	6
Other expenses	12	(45)	(24)	(43)
Income before income tax		405	359	212
Income tax expense	15	(86)	(58)	(57)
Net income		319	301	155
Other comprehensive income				
Foreign exchange differences on translation of foreign operations		(1)	(3)	(1)
Income from changes in fair value of financial assets available-for-sale, net of tax		1	–	–
Total other comprehensive income, net of tax		–	(3)	(1)
Total comprehensive income, net of tax		319	298	154
Net income				
attributable to shareholders of Rosneft		316	293	155
attributable to non-controlling interests		3	8	–
Total comprehensive income, net of tax		316	290	154
attributable to shareholders of Rosneft		316	290	154
attributable to non-controlling interests		3	8	–
Net income attributable to Rosneft per common share (in RUB)				
– basic and diluted	17	32.95	30.53	16.15

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Rosneft Oil Company

Consolidated Statement of Changes in Shareholders' Equity

(in billions of Russian rubles, except share amounts)

	Number of shares (millions)	Share capital	Additional paid-in capital	Treasury shares	Other reserves	Retained earnings	Total shareholders' equity	Non- controlling interests	Total equity
Balance at January 1, 2009	9,598	1	396	(221)	(1)	1,181	1,356	24	1,380
Net income for the year	–	–	–	–	–	155	155	–	155
Other comprehensive income	–	–	–	–	(1)	–	(1)	–	(1)
Total comprehensive income	–	–	–	–	(1)	155	154	–	154
Purchase of shares (Note 35)	(1)	–	–	–	–	–	–	–	–
Dividends declared on common stock	–	–	–	–	–	(19)	(19)	–	(19)
Balance at December 31, 2009	9,597	1	396	(221)	(2)	1,317	1,491	24	1,515
Net income for the year	–	–	–	–	–	293	293	8	301
Other comprehensive income	–	–	–	–	(3)	–	(3)	–	(3)
Total comprehensive income	–	–	–	–	(3)	293	290	8	298
Sale of shares (Note 35)	2	–	–	–	–	–	–	–	–
Dividends declared on common stock	–	–	–	–	–	(22)	(22)	–	(22)
Balance at December 31, 2010	9,599	1	396	(221)	(5)	1,588	1,759	32	1,791
Net income for the year	–	–	–	–	–	316	316	3	319
Other comprehensive income	–	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	316	316	3	319
Purchase of shares (Note 35)	(11)	–	–	(3)	–	–	(3)	–	(3)
Dividends declared on common stock	–	–	–	–	–	(27)	(27)	–	(27)
Change in ownership interests in subsidiaries (Note 35)	–	–	(10)	–	–	–	(10)	(1)	(11)
Balance at December 31, 2011	9,588	1	386	(224)	(5)	1,877	2,035	34	2,069

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Rosneft Oil Company
Consolidated Statement of Cash Flows
(in billions of Russian rubles)

	Notes	For the years ended December 31,		
		2011	2010	2009
Operating activities				
Net income		319	301	155
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion and amortization		213	202	168
Loss on disposal of non-current assets		19	15	17
Dry hole costs		4	4	6
Foreign exchange loss		31	–	10
Gain on extinguishment of promissory notes	29	–	(5)	(7)
Equity share in profits of associates and joint ventures	26	(16)	(4)	(6)
Finance expenses	11	19	21	24
Finance income	10	(20)	(20)	(16)
Income tax expense	15	86	58	57
Gain from assets and liabilities write-off, net		(10)	–	–
Loss/(gain) on bad debt allowance		2	1	(1)
Changes in operating assets and liabilities:				
Increase in accounts receivable, gross		(88)	(22)	(25)
Increase in restricted cash		(3)	–	(1)
Increase in inventories		(61)	(9)	(12)
(Increase)/decrease in prepayments and other current assets		(15)	–	13
Increase in accounts payable and accrued liabilities		82	13	15
Increase in other tax liabilities		20	11	13
Increase in current provisions		1	–	7
(Decrease)/increase in other current liabilities		(4)	1	(1)
Decrease in other non-current liabilities		(10)	(9)	(4)
Long-term bank loans granted		(53)	(105)	(40)
Repayment of long-term bank loans granted		48	106	40
Acquisition of trading securities		(64)	(34)	(32)
Proceeds from sale of trading securities		68	27	18
Net cash provided by operating activities before income tax and interest		568	552	398
Income tax payments		(102)	(86)	(51)
Interest received		13	5	3
Dividends received		8	7	5
Net cash provided by operating activities		487	478	355

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Rosneft Oil Company
Consolidated Statement of Cash Flows (continued)
(in billions of Russian rubles)

	For the years ended December 31,			
	Notes	2011	2010	2009
Investing activities				
Capital expenditures		(391)	(264)	(235)
Acquisition of licenses		(7)	(4)	(3)
Acquisition of rights to use trademarks “Sochi 2014”		(1)	(1)	(3)
Acquisition of short-term financial assets		(99)	(152)	(100)
Proceeds from sale of short-term financial assets		187	64	79
Acquisition of short-term notes receivable		(35)	(8)	–
Proceeds from sale of short-term notes receivable		10	–	–
Acquisition of long-term financial assets		(5)	(9)	(81)
Proceeds from sale of long-term financial assets		–	5	23
Acquisition of associates and joint ventures		(47)	–	–
Sale of property, plant and equipment		2	1	1
Margin call deposit placed		–	–	(9)
Margin call deposit returned		–	–	38
Placements under reverse REPO agreements		(31)	(12)	(1)
Receipts under reverse REPO agreements		23	1	–
Net cash used in investing activities		(394)	(379)	(291)
Financing activities				
Proceeds from short-term loans and borrowings		25	5	30
Repayment of short-term loans and borrowings		(17)	(20)	(223)
Proceeds from long-term loans and borrowings		124	187	371
Repayment of long-term loans and borrowings		(123)	(163)	(183)
Acquisition of non-controlling interests in subsidiaries		(11)	–	–
Dividends paid to shareholders		(27)	(22)	(19)
Dividends paid to non-controlling shareholders in subsidiaries		–	–	(1)
Cash paid for acquisition of treasury shares		(3)	–	–
Interest paid		(24)	(19)	(20)
Net cash used in financing activities		(56)	(32)	(45)
Net increase in cash and cash equivalents		37	67	19
Cash and cash equivalents at beginning of period		127	60	40
Effect of foreign exchange on cash and cash equivalents		2	–	1
Cash and cash equivalents at end of period		166	127	60

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Rosneft Oil Company
Notes to the Consolidated Financial Statements
December 31, 2011

(all amounts in tables are in billions of Russian rubles, except as noted otherwise)

1. General

Open Joint Stock Company ("OJSC") Rosneft Oil Company ("Rosneft") and its subsidiaries (collectively, the "Company") are principally engaged in exploration, development, production and sale of crude oil and gas and refining, transportation and sale of petroleum products in the Russian Federation and in certain international markets.

Rosneft State Enterprise was incorporated as an open joint stock company on December 7, 1995. All assets and liabilities previously managed by Rosneft State Enterprise were transferred to the Company at their book value effective on that date together with the Government of the Russian Federation ("State") ownership in other privatized oil and gas companies. The transfer of assets and liabilities was made in accordance with Russian Government Resolution No. 971 dated September 29, 1995, *On the Transformation of Rosneft State Enterprise into an Open Joint Stock Company "Oil Company Rosneft"*. Such transfers represented a reorganization of assets under the common control of the State and, accordingly, were accounted for at their book value. In 2005, the State contributed the shares of Rosneft to the share capital of OJSC Rosneftegaz. As of December 31, 2005, 100% of the shares of Rosneft less one share were owned by OJSC Rosneftegaz and one share was owned by the Russian Federation Federal Agency for the Management of Federal Property. Subsequently, OJSC Rosneftegaz's ownership interest decreased through additional issuance of shares during Rosneft's Initial Public Offering ("IPO") in Russia, issuance of Global Depository Receipts ("GDR") for the shares on London Stock Exchange and the share swap realized during the merger of Rosneft and certain subsidiaries during 2006. As of December 31, 2011 OJSC Rosneftegaz's ownership interest in Rosneft was 75.16%.

Under Russian legislation, natural resources, including oil, gas, precious metals and minerals and other commercial minerals situated in the territory of the Russian Federation are the property of the State until they are extracted. Law of the Russian Federation No. 2395-1, *On Subsurface Resources*, regulates relations arising in connection with the geological study, and the use and protection of subsurface resources in the territory of the Russian Federation. Pursuant to the law, subsurface resources may be developed only on the basis of a license. A license is issued by the regional governmental body and contains information on the site to be developed, the period of activity, as well as financial and other conditions. The Company holds licenses issued by competent authorities for geological studies, exploration and development of oil and gas blocks and fields in areas where its subsidiaries are located.

The Company is subject to export quotas set by the Russian Federation State Pipeline Commission to allow equal access to the limited capacity of oil pipeline system owned and operated by OJSC Transneft. The Company exports certain quantities of crude oil bypassing Transneft system thus achieving higher export capacity. In 2011, 2010 and 2009, the Company's export sales were approximately 58%, 57% and 57% of produced crude oil, respectively. The remaining production was processed at the Company's refineries for further sale on domestic and international markets.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including all International Financial Reporting Standards ("IFRS") and Interpretations issued by the International Accounting Standards Board ("IASB") and effective in the reporting period, and are fully compliant therewith.

These consolidated financial statements have been prepared on a historical cost basis, except certain financial assets and liabilities measured at fair value (Note 36).

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

2. Basis of preparation (continued)

Rosneft and its subsidiaries maintain their books and records in accordance with statutory accounting and taxation principles and practices applicable in respective jurisdictions. These consolidated financial statements were derived from the Company's statutory books and records.

For all periods up to and including the year ended December 31, 2011, the Company prepared its financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). These consolidated financial statements for the year ended December 31, 2011 are the first the Company has prepared in accordance with IFRS. Refer to Note 41 for information on how the Company adopted IFRS.

The Company's consolidated financial statements are presented in billions of Russian rubles ("RUB"), unless otherwise indicated.

The consolidated financial statements were approved and authorized for issue by the President of the Company on March 1, 2012.

Subsequent events have been evaluated through March 1, 2012, the date these consolidated financial statements were issued.

3. Significant accounting policies

The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the Company's statutory books, which are appropriate to present the financial position, results of operations and cash flows in accordance with IFRS. The principal adjustments relate to: (1) recognition of certain expenses; (2) valuation and depreciation of property, plant and equipment; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) accounting for the time value of money; (6) accounting for investments in oil and gas property and conveyances; (7) consolidation principles; (8) recognition and disclosure of guarantees, contingencies, commitments and certain assets and liabilities; (9) accounting for asset retirement (decommissioning) obligations; (10) business combinations and goodwill; (11) accounting for derivative instruments.

The consolidated financial statements include the accounts of majority-owned, controlled subsidiaries and special-purpose entities where the Company holds a beneficial interest. All significant intercompany transactions and balances have been eliminated. The equity method is used to account for investments in associates in which the Company has the ability to exert significant influence over the associates' operating and financial policies. The investments in entities where the Company holds the majority of shares, but does not exercise control, are also accounted for using the equity method. Investments in other companies are accounted for at fair value.

Business combinations, goodwill and other intangible assets

Acquisitions by the Company of controlling interests in third parties (or interest in their charter capital) are accounted for using the acquisition method.

Acquisition date is the date when effective control over the acquiree passes to the Company.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

Business combinations, goodwill and other intangible assets (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of comprehensive income.

Intangible assets that have a finite useful life are amortized using the straight-line method over the shorter of their useful life or the term established by legislation.

Associates

Investments in associates are accounted for using the equity method unless they are classified as non-current assets held for sale. Under this method, the carrying value of investments in associates is initially recognized at the acquisition cost.

The carrying value of investments in associates is increased or decreased by the Company's reported share in profit and loss and other comprehensive income of the investee after the acquisition date. The Company's share in profit and loss and other comprehensive income of an associate is recognized in the Company's consolidated statement of comprehensive income as profit and loss and other comprehensive income, respectively. Dividends paid by the associate are accounted for as a reduction of the carrying value of investments.

The Company's share in losses of associates includes the carrying value of the investment in these associates as well as other long-term investments that are, in substance, investments in associates, such as loans. If the share in losses exceeds the carrying value of the investment in associates and the value of other long-term investments related to investments in these associates, the Company ceases to recognize its share in losses when the carrying value reaches zero. Any additional losses are provided for and liabilities are recognized only to the extent that the Company has legal or constructive obligations or has made payments on behalf of the associate.

If the associate subsequently makes profits, the Company resumes recognizing its share in these profits only after its share of the profits equals the share of losses not recognized.

The carrying value of investments in associates is tested for impairment by reconciling its recoverable amount (the higher of its value in use and fair value less costs to sell) to its carrying value, whenever impairment indicators are identified.

Joint ventures

The Company participates in joint ventures either in the form of jointly controlled entities or jointly controlled operations.

Jointly controlled entities imply establishing a legal entity where the Company and other participants have respective equity interests. Equity interests in jointly controlled entities are accounted for under the equity method.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

Joint ventures (continued)

The Company's share in net profit or loss of jointly controlled entities is recognized in the consolidated statement of comprehensive income as profit or loss from the date that joint control commences until the date that joint control ceases.

A jointly controlled operations involve the use of assets and other resources of venturers rather than the establishment of a legal entity independent of its venturers. Each venturer uses its own property, plant and equipment and inventories. It is also responsible for its expenses and liabilities and raising funds for which it becomes liable. The Company accounts for the assets it controls, the expenses and liabilities it incurs, and the share of income from the sale of goods or services by the joint venture.

Cash and cash equivalents

Cash represents cash on hand, in the Company's bank accounts, in transit and interest bearing deposits which can be effectively withdrawn at any time without prior notice or penalties reducing the principal amount of the deposit. Cash equivalents are highly liquid, short-term investments that are readily convertible to known amounts of cash and have original maturities of three months or less from their date of purchase. They are carried at cost plus accrued interest, which approximates fair value. Restricted cash is presented separately in the consolidated balance sheet if its amount is significant.

Financial assets

The Company recognizes financial assets on its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial assets are recognized initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

When financial assets are recognized initially, they are classified as following: (1) financial assets at fair value through profit or loss, (2) loans issued and accounts receivable, (3) financial assets held to maturity, (4) financial assets available for sale, as appropriate.

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as financial assets at fair value through profit or loss at initial recognition. Financial assets held for trading are those which are acquired principally for the purpose of sale or repurchase in the near future or are part of a portfolio of identifiable financial instruments that have been commonly managed and for which there is evidence of a recent pattern of actual short term profit taking, or which are derivative instruments (unless the derivative instrument is defined as an effective hedging instrument). Financial assets at fair value through profit or loss are classified in the consolidated balance sheet as current assets and changes in the fair value are recognized in the consolidated statement of comprehensive income as Finance income or Finance expenses.

All derivative instruments are recorded in the consolidated balance sheet at fair value in either current financial assets, non-current financial assets, current liabilities related to derivative instruments, non-current liabilities related to derivative instruments. Recognition and classification of a gain or loss that results from recognition of an adjustment of a derivative instrument at fair value depends on the purpose for issuing or holding the derivative instrument. Gains and losses from derivatives that are not accounted for as hedges under International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*, are recognized immediately in the consolidated statement of comprehensive income.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

Financial assets (continued)

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Subsequent to initial recognition, the fair value of financial assets at fair value that are quoted in an active market is defined as bid prices for assets and ask prices for issued liabilities as of the measurement date.

If no active market exists for financial assets, the Company measures the fair value using the following methods:

- ▶ analysis of recent transactions with peer instruments between independent parties;
- ▶ current fair value of similar financial instruments;
- ▶ discounting future cash flows.

The discount rate reflects a minimum return on investment an investor is willing to accept before starting an alternative project, given its risk and the opportunity cost of forgoing other projects.

Loans issued and accounts receivable include non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, not classified as financial assets held for trading and have not been designated as at fair value through profit or loss or available for sale. If the Company cannot recover all of its initial investment in the financial asset due to reasons other than deterioration of its quality, the financial asset is not included in this category. After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognized in the consolidated statement of comprehensive income in Finance expenses.

The Company does not classify financial assets as held to maturity if, during either the current financial year or the two preceding financial years, the Company has sold, transferred or exercised a put option on more than an insignificant (in relation to the total) amount of such investments before maturity unless: (1) such financial asset was close enough to maturity or call date so that changes in the market rate of interest did not have a significant effect on the financial asset's fair value; (2) after substantially all of the financial asset's original principal had been collected through scheduled payments or prepayments; or (3) due to an isolated non-recurring event that is beyond the Company's control and could not have been reasonably anticipated by the Company.

Dividends and interest income are recognized in the consolidated statement of comprehensive income on an accrual basis. The amount of accrued interest income is calculated using effective interest rate.

All other financial assets not included in the other categories are designated as financial assets available for sale. Specifically, shares of other companies not included in the first category are designated as available for sale. In addition, the Company may include any financial asset in this category at the initial recognition.

Financial liabilities

The Company recognizes financial liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial liabilities are recognized initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

Financial liabilities (continued)

When financial liabilities are recognized initially, they are classified as following:

- ▶ financial liabilities at fair value through profit or loss;
- ▶ other financial liabilities.

Financial liabilities at fair value through profit or loss are financial liabilities held for trading unless such liabilities are linked to delivery of unquoted equity instruments.

At the initial recognition, the Company may include in this category any financial liability, except equity instruments that are not quoted in an active market and whose fair value cannot be reliably measured. However, subsequent to initial recognition, the liability cannot be reclassified.

Financial liabilities not classified as financial liabilities at fair value through profit or loss are designated as other financial liabilities. Other financial liabilities include, inter alia, trade and other accounts payable, loans and borrowings payable.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the consolidated statement of comprehensive income. Other financial liabilities are carried at amortized cost.

The Company derecognizes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying value of a financial liability (or a part of a financial liability) extinguished or transferred to another party and the redemption value, including any transferred non-monetary assets and assumed liabilities, is recognized in profit or loss. Any previously recognized components of other comprehensive income pertaining to this financial liability are also included in the financial result and are recognized as gains and losses for the period.

Earnings per share

Basic earnings per share is calculated by dividing net earnings attributable to common shares by the weighted average number of common shares outstanding during the corresponding period. In the absence of any securities-to-shares conversion transactions, the amount of basic earnings per share stated in these consolidated financial statements is equal to the amount of diluted earnings per share.

Inventories

Inventories consisting primarily of crude oil, petroleum products, petrochemicals and materials and supplies are accounted for at the weighted average cost unless net realisable value is less than cost. Materials that are used in the production are not written down below cost if the finished products in which they will be incorporated are expected to be sold above cost.

Repurchase and resale agreements

Securities sold under agreements to repurchase ("REPO") and securities purchased under agreements to resell ("reverse REPO") generally do not constitute a sale for accounting purposes of the underlying securities, and so are treated as collateralized financing transactions. Interest paid or received on all REPO and reverse REPO transactions is recorded in Finance expense or Finance income, respectively, at the contractually specified rate using the effective interest method.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

Exploration and production assets

Exploration and production assets include exploration and evaluation assets, mineral rights and oil and gas properties (development assets and production assets).

Exploration and evaluation costs

The Company recognizes exploration and evaluation costs using the successful efforts method as permitted by IFRS 6, *Exploration for and Evaluation of Mineral Resources*. Under this method, all costs related to exploration and evaluation (license acquisition costs, exploration and appraisal drilling) are temporarily capitalized in cost centers by field (well) until the drilling program results in discovering economically feasible oil and gas reserves.

The length of time necessary for this determination depends on the specific technical or economic difficulties in assessing the recoverability of the reserves. If a determination is made that the well did not encounter oil and gas in economically viable quantities, the well costs are expensed to Exploration expenses in the consolidated statement of comprehensive income.

Exploration and evaluation costs, except for costs associated with seismic, topographical, geological, geophysical surveys, are initially capitalized as exploration and evaluation. Exploration and evaluation assets are recognized at cost less impairment, if any, as property, plant and equipment until the existence (or absence) of commercial reserves has been established. Exploration and evaluation assets are subject to technical, commercial and management review as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, resulting impairment loss is measured.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as oil and gas properties (development assets). However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

Development and production

Oil and gas properties (development assets) are accounted for on a field-by-field basis and represent (1) capitalized costs to develop discovered commercial reserves and to put fields into production, and (2) exploration and evaluation costs incurred to discover commercial reserves reclassified from exploration and evaluation assets to oil and gas properties (development assets) following discovery of commercial reserves.

Oil and gas properties (development assets) costs include the expenditures to acquire such assets, directly identifiable overhead expenses, capitalized financing costs and related asset retirement (decommissioning) obligation costs. Oil and gas properties (development assets) are generally recognized as construction in progress.

Following commencement of commercial production, oil and gas properties (development assets) are reclassified as oil and gas properties (production assets).

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

Other property, plant and equipment

Property, plant and equipment are stated at historical cost as of the acquisition date, except for property, plant and equipment acquired prior to January 1, 2009, which is stated at deemed cost, net of accumulated depreciation and impairment. The cost of maintenance, repairs, and replacement of minor items of property is charged to operating expenses. Renewals and betterments of assets are capitalized.

Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

Depreciation, depletion and amortization

Oil and gas properties are depleted using unit-of-production method on a field-by-field basis starting from the commencement of commercial production.

In applying the unit-of-production method to mineral licenses, the depletion rate is based on total proved reserves. In applying the unit-of-production method to other oil and gas properties (including construction in progress), the depletion rate is based on proved developed reserves.

Other property, plant and equipment are depreciated using the straight line method over their estimated useful lives from the time they are ready for use, except for catalysts which are amortized using the unit-of-production method.

Components of other property, plant and equipment and respective estimated useful life are as follows:

Buildings and structures	30-45 years
Plant and machinery	5-25 years
Vehicles and other property, plant and equipment	6-10 years
Service vessels	20 years
Offshore drilling assets	20 years

Land generally has an indefinite useful life and, thus, is not depreciated.

Land leasehold rights are amortized on a straight line basis over their expected useful life, which averages 20 years.

Impairment of non-current assets

The Company assesses at each balance sheet date whether there is any indication that an asset or cash-generating unit may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset or cash-generating unit.

In assessing whether there is any indication that an asset may be impaired, the Company considers internal and external sources of information. It considers at least the following:

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

Impairment of non-current assets (continued)

External sources of information:

- ▶ during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- ▶ significant changes with an adverse effect on the Company have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Company or in the market to which an asset is dedicated;
- ▶ market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- ▶ the carrying amount of the net assets of the Company is more than its market capitalization.

Internal sources of information:

- ▶ evidence is available of obsolescence or physical damage of an asset;
- ▶ significant changes with an adverse effect on the Company have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used (e.g., the asset becoming idle and reassessing the useful life of an asset as finite rather than indefinite);
- ▶ information on dividends from a subsidiary, joint venture or associate;
- ▶ evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. Such evidence includes the existence of:
 - cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;
 - actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted;
 - a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset;
 - operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

The following factors indicate that exploration and evaluation assets may be impaired:

- ▶ the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- ▶ substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- ▶ exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area;
- ▶ sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

Impairment of non-current assets (continued)

The recoverable amount of an asset or a cash-generating unit is the higher of:

- ▶ value in use of an asset (cash-generating unit) *and*
- ▶ fair value of an asset (cash-generating unit) less costs to sell.

If the asset does not generate cash inflows that are largely independent of those from other assets, its recoverable amount is determined for the asset's cash-generating unit.

The Company initially measures the value in use of a cash-generating unit. When the carrying amount of a cash-generating unit is greater than its value in use, the Company measures the unit's fair value for the purpose of measuring the recoverable amount; otherwise no impairment loss is recognized.

Value in use is determined by discounting the estimated value of the future cash inflows expected to be derived from the asset or cash-generating unit, including cash inflows from its sale. The value of the future cash inflows from a cash-generating unit is determined based on the forecast approved by management of the business unit to which the unit in question pertains.

Impairment of financial assets

At each balance sheet date the Company analyzes whether there is objective evidence of impairment for all categories of financial assets, except those recorded at fair value through profit or loss. Evidence of impairment is a significant or prolonged decline in fair value of financial assets below their cost.

Capitalized interest

Interest expense related to the use of borrowed funds used for capital construction projects and acquisition of property, plant and equipment is capitalized provided that such interest expense could have been avoided if the Company had not made capital investments. Interest is capitalized only during the period when construction activities are actually in progress and until the resulting properties are put into operation.

Leasing agreements

Leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the asset, are classified as financial lease and are capitalized at the inception of the lease at the fair value of the leased property or, if it is lower than the cost, at the present value of the minimum lease payments. Lease payments are apportioned between the finance expenses and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liabilities. Finance expenses are charged directly to the consolidated statement of comprehensive income.

Leased property, plant and equipment are accounted for using the same policies as applied to the Company's own assets. In determining the useful life of a leased item of property, plant and equipment, consideration is given to the probability of transfer of title to the lessee at the end of the lease term.

If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. Where such certainty exists, the asset is depreciated over its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

Asset retirement (decommissioning) obligations

The Company has asset retirement (decommissioning) obligations associated with its core business activities. The nature of the assets and potential obligations are as follows:

The Company's exploration, development and production activities involve the use of wells, related equipment and operating sites, oil gathering and treatment facilities, tank farms and in-field pipelines. Generally, licenses and other regulatory acts require that such assets be decommissioned upon the completion of production. According to these requirements, the Company is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Company's estimates of these obligations are based on current regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Company using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability.

In accordance with IFRS Interpretations Committee («IFRIC») 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, the provision is reviewed at each balance sheet date as follows:

- ▶ upon changes in the estimates of future cash flows (e.g., the costs of and timeframe for abandoning one well) or a discounting rate, changes in the amount of the liability are included in the cost of the item of plant, property and equipment, whereby such cost may not be negative and may not exceed the recoverable value of the item of plant, property and equipment;
- ▶ any changes in the liability due to its nearing maturity (change in the discount) are recognized in Finance expenses.

The Company's refining and distribution activities involve refining operations, marine and other distribution terminals, and retail sales. The Company's refining operations consist of major petrochemical operations and industrial complexes. These industrial complexes have been in operation for several decades. The Company's management believes that given the nature of the operations, the useful lives of these industrial complexes are indeterminable, while certain of their operating components and equipment have definite useful lives. Legal or contractual asset retirement (decommissioning) obligations related to petrochemical, oil refining and distribution activities are not recognized due to the limited history of such activities in these segments, the lack of clear legal requirements as to the recognition of obligations, as well as the fact that useful lives of such assets are not determinable.

Because of the reasons described above the fair value of an asset retirement (decommissioning) obligation of the refining and distribution segment cannot be reasonably estimated.

Due to continuous changes in the Russian regulatory and legal environment, there could be future changes to the requirements and contingencies associated with the retirement of long-lived assets.

Income tax

Through 2012 Russian legislation did not contain the concept of a "consolidated tax payer" and, accordingly, the Company was not subject to Russian taxation on a consolidated basis but rather on an individual subsidiary basis. Income taxes were provided on taxable profit as determined under the Russian Federation Tax Code. Deferred income tax assets and liabilities are recognized in the accompanying consolidated financial statements in the amount determined by the Company in accordance with IAS 12, *Income Taxes*.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

Income tax (continued)

A deferred tax liability is recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- ▶ the initial recognition of goodwill;
- ▶ the initial recognition of an asset or liability in a transaction which:
 - is not a business combination; *and*
 - affects neither accounting profit, nor taxable profit;
- ▶ the investments in subsidiaries when the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will *not* reverse in the foreseeable future.

A prior period tax loss used to reduce the current amount of income tax is recognized as a deferred tax asset.

A deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- ▶ is not a business combination; *and*
- ▶ at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

The Company recognizes deferred tax assets for all deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures, to the extent that the following two conditions are met:

- ▶ the temporary difference will reverse in the foreseeable future; *and*
- ▶ taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date.

The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are classified as Non-current Deferred tax assets and Non-current Deferred tax liabilities, respectively.

Deferred tax assets and liabilities are not discounted.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

Recognition of revenues

Revenues are recognized when risks and rewards pass to the customer which usually occurs when the title passes to the customer, providing that the contract price is fixed or determinable and collectability of the receivable is reasonably assured. Specifically, domestic sales of crude oil and gas, as well as petroleum products and materials are usually recognized when title passes. For export sales, title generally passes at the border of the Russian Federation and the Company covers transportation expenses (except freight), duties and taxes on those sales (Note 9). Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, volume rebates and reimbursable taxes.

Sales of support services are recognized as services are performed provided that the service price can be determined and no significant uncertainties regarding the receipt of revenues exist.

Transportation expenses

Transportation expenses recognized in the consolidated statement of comprehensive income represent all expenses incurred by the Company to transport crude oil for refining and to end customers, and to deliver petroleum products from refineries to end customers (these may include pipeline tariffs and any additional railroad transportation costs, handling costs, port fees, sea freight and other costs).

Refinery maintenance costs

The Company recognizes the costs of overhauls and preventive maintenance performed with respect to oil refining assets as expenses when incurred.

Environmental liabilities

Expenditures that relate to an existing condition caused by past operations, and do not have a future economic benefit, are expensed. Liabilities for these expenditures are recorded when environmental assessments or clean-ups are probable and the costs can be reasonably estimated.

Accounting for contingencies

Certain conditions may exist as of the date of these consolidated financial statements which may further result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management makes an assessment of such contingent liabilities which is based on assumptions and is a matter of opinion. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal or tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

Taxes collected from customers and remitted to governmental authorities

Refundable excise is deducted from revenues. Non-refundable excise and customs duties are not deducted from revenues and are recognized as expenses in Taxes other than income tax in the consolidated statement of comprehensive income.

Value-added tax ("VAT") receivable and payable is recognized, respectively, as Prepayments and other current assets and Other tax liabilities in the consolidated balance sheet.

Functional and presentation currency

The financial statements are presented in Russian Rubles, which is the functional currency of the Rosneft Oil Company and all of its subsidiaries operating in the Russian Federation.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The Company's subsidiaries

The results and financial position of all of the Company's subsidiaries, joint ventures and associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- ▶ assets and liabilities for each statement of financial position presented are translated at the closing rate at that reporting date;
- ▶ income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- ▶ all resulting exchange differences are recognized as a separate component of other comprehensive income.

4. Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements requires management to make a number of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results, however, could differ from those estimates.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

4. Significant accounting judgments, estimates and assumptions (continued)

The most significant accounting estimates and assumptions used by the Company's management in preparing the consolidated financial statements include:

- ▶ estimation of oil and gas reserves;
- ▶ estimation of rights to, recoverability and useful lives of non-current assets;
- ▶ impairment of goodwill (Note 24 "Intangible assets and goodwill");
- ▶ allowances for doubtful accounts receivable and obsolete and slow-moving inventories (Note 20 "Accounts receivable" and Note 21 "Inventories");
- ▶ assessment of asset retirement (decommissioning) obligations (Note 3 "Significant accounting policies", Topic "Asset retirement (decommissioning) obligations");
- ▶ assessment of legal and tax contingencies;
- ▶ assessment of deferred income tax assets and liabilities (Note 3 "Significant accounting policies", Topic "Income tax" and Note 15 "Income tax");
- ▶ assessment of environmental remediation obligations;
- ▶ recognition and disclosure of contingent liabilities;
- ▶ fair value measurements;
- ▶ assessment of ability to renew operating leases and to enter into new lease agreements;
- ▶ classification of certain debt amounts.

Oil and gas reserve estimates that are used for the reporting purposes are made in accordance with the requirements adopted by U.S. Securities and Exchange Commission (SEC). Estimates are reassessed on an annual basis.

Significant estimates and assumptions affecting the reported amounts are those used in determining the economic recoverability of reserves. The estimated amounts of oil and gas reserves are used in calculating the depletion charges under the unit-of-production method.

Such estimates and assumptions may change over time when new information becomes available, e.g.:

- ▶ obtaining more detailed information on reserves (either as a result of more detailed engineering calculations or additional exploration drilling activities);
- ▶ conducting supplemental activities to enhance oil recovery;
- ▶ changes in economic estimates and assumptions (e.g. a change in pricing factors).

In accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the Company recognizes the effect of a change in accounting estimates prospectively by including it in profit or loss in the period of the change, if such change affects that period only, or the period of the change and future periods, if the change affects both.

A change in an accounting estimate is recognized by adjusting the carrying amount of the related asset, liability or equity item.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

5. New standards and interpretations issued but not yet effective

In May 2011, the IASB issued a package of standards on consolidation: IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, IFRS 12, *Disclosure of Interests in Other Entities*, revised IAS 27, *Separate Financial Statements*, and revised IAS 28, *Investments in Associates and Joint Ventures*. The package of new and revised standards introduces the new model of control and treatment of joint arrangements and also new disclosure requirements. The package is effective for annual periods beginning on or after January 1, 2013. The Company will adopt the package from January 1, 2013. The Company does not expect the package to have a material impact on the Company's consolidated financial position and results of operations.

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. The new IFRS 13 sets new fair value measurement and disclosure requirements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company will adopt IFRS 13 from January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the Company's consolidated financial position and results of operations.

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. Amendments concern presentation of other comprehensive income. New IAS 1 is effective for annual periods beginning on or after July 1, 2012. The Company will adopt new IAS 1 from January 1, 2012. The Company does not expect new IAS 1 to have a material impact on the Company's consolidated financial position and results of operations.

In December 2011, the IASB amended IFRS 7, *Financial instruments: Disclosure*, and IAS 32, *Financial instrument: presentation*. Amendments clarify assets and liabilities offsetting rules and introduce new related disclosure requirements. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The new disclosure requirements in IFRS 7 are effective for annual periods beginning on or after January 1, 2013. The Company will adopt revised IAS 32 from January 1, 2014 and revised IFRS 7 – from January 1, 2013. The Company does not expect the amendments to have a material impact on the Company's consolidated financial position and results of operations.

The IASB has issued numerous amendments to IAS 19, *Employee Benefits*. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 9, *Classification and Measurement*, as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

6. Capital and financial risk management

Capital management

The Company's capital management objectives are to secure the ability to continue as a going concern and to optimize the cost of capital in order to enhance value to shareholders.

The Company's management performs regular assessment of the net debt to capital employed ratio to ensure it meets the Company's current rating requirements.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

6. Capital and financial risk management (continued)

Capital management (continued)

The Company's capital consists of debt obligations, which include long and short-term loans, borrowings, equity attributable to equity holders of Rosneft that includes share capital, reserves and retained earnings, as well as non-controlling interest. Net debt is a non-IFRS measure and is calculated as a sum of loans and borrowings less cash and cash equivalents and certain temporary investments in highly liquid financial instruments included in the current financial assets. Net debt to capital employed ratio enables the users to see how significant net debt is relative to total equity.

The Company's net debt to capital employed ratio was as follows:

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
Total debt	748	716	709	707
Cash and cash equivalents	(166)	(127)	(60)	(40)
Temporary highly-liquid financial instruments	(73)	(175)	(91)	(45)
Net debt	509	414	558	622
Total Equity	2,069	1,791	1,515	1,380
Total employed capital	2,578	2,205	2,073	2,002
Net debt to capital employed ratio, %	19.7%	18.8%	26.9%	31.1%

Financial risk management

In the normal course of business the Company is exposed to the following financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Company has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

The Company has developed, documented and approved the relevant policies pertaining to market, credit and liquidity risks and the use of derivative financial instruments.

Foreign currency risk

A substantial portion of the Company's revenues is generated in foreign currency. In addition, substantial financing and investing activities, debt obligations and commitments are also undertaken in US dollars ("US\$") and Euros. However, significant operating and investing expenditures, other obligations and commitments as well as tax liabilities are denominated in RUB. As a result of any decline of the US\$ and Euro against RUB, the Company is exposed to the corresponding currency risk.

The carrying values of monetary assets and liabilities denominated in foreign currencies are presented in the table below:

	Assets				Liabilities			
	As of December 31,			As of	As of December 31,			As of
	2011	2010	2009	January 1, 2009	2011	2010	2009	January 1, 2009
US\$	291	278	158	78	(675)	(637)	(619)	(424)
Euro	41	1	1	2	(32)	(14)	(12)	(11)
Total	332	279	159	80	(707)	(651)	(631)	(435)

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

6. Capital and financial risk management (continued)

Foreign currency risk (continued)

The level of currency risk is assessed on a monthly basis using a sensitivity analysis and is maintained within the limits adopted in line with the Company's policy. The table below summarizes the impact on the Company's income before income tax as a result of appreciation/(depreciation) of RUB against the US\$ and Euro.

	US\$ - effect			Euro - effect		
	2011	2010	2009	2011	2010	2009
Functional currency change in %	12.50%	8.90%	14.80%	11.77%	11.05%	14.00%
Gain/(loss)	48/(48)	32/(32)	68/(68)	(1)/1	1/(1)	2/(2)

The Company enters into foreign currency forward contracts to hedge its foreign currency risk of forecasted operating expense.

These financial exposures are managed as an integral part of the Company's risk management program, which seeks to reduce the potentially adverse effect that the volatility of the exchange rate markets may have on operating results. The Company enters into contracts to economically hedge certain of its risks associated with RUB appreciation. These instruments are not accounted for as accounting hedges pursuant to IAS 39, *Financial Instruments: Recognition and Measurement*.

In February and May 2010, the Company entered into foreign currency forward contracts for the sale of US\$ for a term exceeding one year. During 2010, all foreign currency forward contracts were settled. The value of foreign currency forward contracts is determined using the market quotes of forward exchange rates and yield curves that are based on the quoted interest rates, subject to the term of a given contract. Fair value measurements are performed using a model, based on source data from Bloomberg.

The Company enters into fixed-interest structured deposit contracts (Note 19).

Embedded options are measured, based on the yield curve, at the present value of future estimated discounted cash flows, using market interest rates. Fair value measurements are based on source data from Bloomberg.

Interest rate risk

Loans and borrowings raised at variable interest rates expose the Company to interest rate risk arising on the possible movement of variable element of the overall interest rate. Such risks are managed by the Company.

As of December 31, 2011, the Company's variable rate liability, net of interest payable, totaled RUB 657 billion. In 2011, 2010 and 2009, variable rate funds raised by the Company were primarily denominated in US\$ and Euros.

The Company analyses its interest rate exposure, including performing scenario analysis to measure an impact on annual income before income tax of an interest rate shift.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

6. Capital and financial risk management (continued)

Interest rate risk (continued)

The table below summarizes the impact of a potential increase or decrease in LIBOR on the Company's profit before tax, as applied to the variable element of interest rates on loans and borrowings. The increase/decrease is based on management estimates of potential interest rate movements.

	<u>Increase/decrease in interest rate</u> basis points	<u>Effect on income before income tax</u> bln RUB
2011	+ 15	(1)
	- 15	1
2010	+ 100	(6)
	- 30*	2
2009	+ 100	(6)
	- 30*	1

*Down to 0.0% on the variable element.

The sensitivity analysis is limited only to variable rate loans and borrowings and is conducted with all other variables held constant. The analysis is prepared assuming the amount of variable rate liability outstanding at the balance sheet date was outstanding for the whole year. Interest rate on variable rate loans and borrowings will effectively change throughout the year in response to fluctuations in market interest rates.

The impact measured through the sensitivity analysis does not take into account other potential changes in economic conditions, which may accompany the relevant changes in market interest rates.

The Company enters into contracts to economically hedge risks associated with an increasing interest expense (Note 30).

Interest rate swaps are measured, based on the yield curve, at the present value of future estimated discounted cash flows, using market interest rates. Fair value measurements are based on source data from Bloomberg.

Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in crude oil, natural gas and petroleum product price and their impact on the Company's future performance and operating results. A price reduction could adversely affect the net income and cash flows.

The sustained low price environment could result in scaling down of the Company's operations, which will ultimately affect the Company's ability to meet its obligations under the existing contracts. Management classifies the risk of crude oil price reduction as moderate and the Company does not use derivative instruments to any significant extent to reduce its exposure to the above risk.

The Company enters into long-term crude oil supply contracts on customary commercial pricing terms and is, therefore, not exposed to the risk of revenue loss in the event of an increase in crude price (Note 39).

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

6. Capital and financial risk management (continued)

Commodity price risk (continued)

The table below summarizes the impact of a 10% increase or decrease in crude oil and petroleum product price on the Company's income before income tax. As petroleum products average price growth correlate with crude oil price growth the table sets forth an impact of change in prices of crude oil and petroleum products cumulatively.

	Petroleum products and crude oil price		
	2011	2010	2009
Favorable change	27	66	33
Unfavorable change	(43)	(33)	(39)

Credit risk

The Company has no significant exposure to credit risk. All customers, other than related parties, applying for credit in excess of an established limit undergo a creditworthiness check. The Company performs an ongoing assessment and monitoring of the risk of default.

In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash. Banking relationships are primarily with Russian subsidiaries of international banking institutions and certain large Russian banks.

The Company had one major customer in 2011, 2010 and one such customer in 2009, each being an international oil trader and accounting for at least 10% of total sales. Revenues generated from sales to those oil traders totaled RUB 547 billion, RUB 293 billion and RUB 172 billion, or 20%, 15% and 11% of total revenues, respectively. These revenues are recognized mainly under the refining and distribution segment (Note 7). The Company is not dependent on any of its major customers or any one particular customer as there is a liquid market for crude oil and petroleum products. As of December 31, 2011, the amount receivable from the Company's major customer totaled RUB 30 billion, or around 10% of the Company's total receivables.

The Company's exposure to credit risk is limited to the carrying amount of financial assets recognized in the consolidated balance sheet.

In the event of default by the parties on their respective obligations under the financial guarantee contracts, the Company's exposure to credit risk will be limited to the corresponding contract amounts. As of December 31, 2011, management assessed such risk as remote.

Liquidity risk

The Company has mature liquidity risk management processes covering short-term, mid-term and long-term funding. Liquidity risk is controlled through maintaining sufficient reserves and the adequate amount of committed credit facilities and loan funds. Management conducts regular monitoring of projected and actual cash flow information, analyses the repayment schedules of the existing financial assets and liabilities and performs annual detailed budgeting procedures.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

6. Capital and financial risk management (continued)

Liquidity risk (continued)

Contractual maturities of the Company's financial liabilities are presented below:

Year ended December 31, 2009	On demand	12 month	1 to 5 years	> 5 years	Total
Loans and borrowings	–	184	304	620	1,108
Finance lease liabilities	–	1	2	3	6
Accounts payable to suppliers and contractors	–	48	–	–	48
Banking customer accounts	25	–	–	–	25
Derivative financial liabilities	5	–	–	–	5

Year ended December 31, 2010	On demand	12 month	1 to 5 years	> 5 years	Total
Loans and borrowings	–	138	265	555	958
Finance lease liabilities	–	1	2	3	6
Accounts payable to suppliers and contractors	–	44	–	–	44
Banking customer accounts	32	–	–	–	32
Derivative financial liabilities	6	–	–	–	6

Year ended December 31, 2011	On demand	12 month	1 to 5 years	> 5 years	Total
Loans and borrowings	–	123	272	501	896
Finance lease liabilities	–	1	3	4	8
Accounts payable to suppliers and contractors	–	97	–	–	97
Banking customer accounts	40	–	–	–	40
Derivative financial liabilities	4	–	–	–	4

Loans and borrowings above exclude certain Yukos related borrowings and promissory notes payable that were carried in the books of the former Yukos subsidiaries the Company acquired through the auctions for the sale of the assets of Yukos. The borrowings and promissory notes payable are being disputed by the Company (Note 29 and Note 39).

7. Segment information

The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. Exploration and production segment is engaged in field exploration and production of crude oil and natural gas. Refining and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as the purchase, sale and transportation of crude oil and petroleum products. Corporate and other unallocated activities do not represent operating segment and comprise corporate activity, activities involved in field drilling and development, maintenance of infrastructure and functioning of the first two segments, as well as banking and finance services, and other activities. Substantially all of the Company's operations and assets are located in the Russian Federation.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

7. Segment information (continued)

Segment performance is evaluated based on revenues and operating income, which are being measured on the same basis as in the consolidated financial statements. Sales transactions for goods and services between the operating segments are carried out using prices agreed upon between Rosneft and its subsidiaries.

Operating segments in 2011:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues					
Revenues from external customers	50	2,621	31	–	2,702
Intersegmental revenues	1,030	–	–	(1,030)	–
Total revenues	1,080	2,621	31	(1,030)	2,702
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	527	2,509	50	(1,030)	2,056
Depreciation, depletion and amortization	184	24	5	–	213
Total costs and expenses	711	2,533	55	(1,030)	2,269
Operating income	369	88	(24)	–	433
Finance income					20
Finance expenses					(19)
Total finance income					1
Equity share in profits of associates and joint ventures					16
Other loss					(45)
Income before income tax					405
Income tax					(86)
Net income					319

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

7. Segment information (continued)

Operating segments in 2010:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues					
Revenues from external customers	35	1,846	34	–	1,915
Intersegmental revenues	817	–	–	(817)	–
Total revenues	852	1,846	34	(817)	1,915
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	377	1,711	62	(817)	1,333
Depreciation, depletion and amortization	176	23	3	–	202
Total costs and expenses	553	1,734	65	(817)	1,535
Operating income	299	112	(31)	–	380
Finance income					20
Finance expenses					(21)
Total finance expenses					(1)
Equity share in profits of associates and joint ventures					4
Other loss					(24)
Income before income tax					359
Income tax					(58)
Net income					301

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

7. Segment information (continued)

Operating segments in 2009:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues					
Revenues from external customers	31	1,408	33	–	1,472
Intersegmental revenues	657	–	–	(657)	–
Total revenues	688	1,408	33	(657)	1,472
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	299	1,354	51	(657)	1,047
Depreciation, depletion and amortization	136	29	3	–	168
Total costs and expenses	435	1,383	54	(657)	1,215
Operating income	253	25	(21)	–	257
Finance income					16
Finance expenses					(24)
Total finance expenses					(8)
Equity share in profits of associates and joint ventures					6
Other loss					(43)
Income before income tax					212
Income tax					(57)
Net income					155

Oil and gas and petroleum products sales comprise the following (based on the country of a customer incorporation):

	2011	2010	2009
Oil and gas sales			
Export sales of crude oil – Europe and other	955	694	573
Export sales of crude oil – Asia	366	299	149
Export sales of crude oil – CIS, other than Russia	54	42	42
Domestic sales of crude oil	3	8	4
Domestic sales of gas	14	13	11
Total oil and gas sales	1,392	1,056	779
Petroleum products and petrochemical sales			
Export sales of petroleum products – Europe	500	254	215
Export sales of petroleum products – Asia	224	182	154
Export sales of petroleum products – CIS, other than Russia	8	5	5
Domestic sales of petroleum products	473	356	272
Domestic sales of petrochemical products	10	9	5
Export sales of petrochemical products	50	4	2
Total petroleum products and petrochemicals sales	1,265	810	653

Revenues is recognized by the Company as at the moment of title of ownership transfer to the buyer. Normally title of ownership on international sales transfers to the buyer on the board of Russian Federation.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

8. Taxes other than income tax

Taxes other than income tax for the years ended December 31 comprise the following:

	2011	2010	2009
Mineral extraction tax	414	274	204
Excise tax	55	34	28
Property tax	11	9	7
Other	18	14	15
Total tax	498	331	254

9. Export customs duty

Export customs duty for the years ended December 31 comprises the following:

	2011	2010	2009
Export customs duty on oil and gas sales	612	396	295
Export customs duty on petroleum products and petrochemicals sales	178	113	84
Total export customs duty	790	509	379

10. Finance income

Finance income for the years ended December 31 comprises the following:

	2011	2010	2009
Deposits and deposit certificates	11	11	8
Loans issued	5	6	7
Gains from changes in fair value of financial assets at fair value affecting the financial result	–	2	–
Gain from disposal of financial assets	–	1	–
Other finance income	4	–	1
Total finance income	20	20	16

11. Finance expenses

Finance expenses for the years ended December 31 comprise the following:

	2011	2010	2009
Loans and borrowings	7	11	13
Interest rate swap contract	1	4	2
Restructured tax liabilities	3	2	3
Loss from changes in fair value of financial assets at fair value affecting the financial result	2	–	–
Increase in provision due to the unwinding of discount	5	2	2
Other finance expenses	1	2	4
Total finance expenses	19	21	24

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization is 3.70 %, 3.84% and 4.32% p.a. in 2011, 2010 and 2009, respectively.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

12. Other income and expenses

Other income and expenses for the years ended December 31 comprise the following:

	2011	2010	2009
Loss on disposal of property, plant and equipment and intangible assets	19	15	17
Foreign currency loss	24	3	17
Other expenses	2	6	9
Total other expenses	45	24	43

13. Personnel expenses

Personnel expenses for the years ended December 31 comprise the following:

	2011	2010	2009
Salary	73	72	66
Statutory insurance contributions	15	12	12
Expenses for non-statutory defined contribution plan	4	4	4
Other employee benefits	2	1	1
Total personnel expenses	94	89	83

Personnel expenses are included in Production and operating expenses, General and administrative expenses and Other expenses in the consolidated statement of comprehensive income.

14. Operating leases

Operating leases have various terms and conditions and primarily are agreements to lease oil and gas facilities for an unlimited term, land plots (sand pits) for 3 to 5 years, railroad wagons and cisterns for periods less than 12 months and industrial estate of Company's oil refining plants (land plots). The agreements provide for an annual revision of the rental rates and contractual terms and conditions.

Total operating lease expenses for the years ended December 31, 2011, 2010 and 2009 amounted to RUB 10 billion, RUB 8 billion and RUB 11 billion, respectively. The expenses were recognized within production and operating expenses, general and administrative expenses and other expenses in the statement of comprehensive income.

Future minimum lease payments under non-cancellable operating leases as of December 31 are as follows:

	2011	2010	2009
Less than 1 year	9	7	11
From 1 to 5 years	18	10	1
Over 5 years	14	8	2
Total future minimum lease payments	41	25	14

Costs for maintenance and repair of leased property, plant and equipment amounted to RUB 0.6 billion, RUB 0.5 billion and RUB 0.4 billion in 2011, 2010 and 2009, respectively, and were primarily recognized as maintenance and overhaul expenses in Production and operating expenses in the consolidated statement of comprehensive income.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

15. Income tax

Income tax expenses for the years ended December 31 comprise the following:

	2011	2010	2009
Current income tax	99	90	67
Prior period adjustments	(3)	(5)	–
Current income tax expense	96	85	67
Deferred tax relating to origination and reversal of temporary differences	(10)	(27)	(10)
Total income tax benefit	(10)	(27)	(10)
Total income tax expense	86	58	57

The Russian income tax rate of 20% applied to the Company in 2011, 2010 and 2009.

Temporary differences between these consolidated financial statements and tax records gave rise to the following deferred income tax assets and liabilities:

	As of December 31, 2010	Recognized in profit and loss	As of December 31, 2011
Recognized deferred tax assets relate to the following:			
Short-term financial assets	–	1	1
Short-term accounts receivable, net of allowance	1	–	1
Long-term financial assets	1	–	1
Long-term accounts receivable, net of allowance	1	(1)	–
Property, plant and equipment	–	2	2
Other non-current assets	2	–	2
Short-term accounts payable and accrued liabilities	3	1	4
Other current liabilities	1	–	1
Long-term accounts payable and accrued liabilities	1	–	1
Long-term accrued reserves	–	1	1
Tax loss carry forward	–	1	1
Valuation allowance for deferred income tax asset	(1)	(1)	(2)
Deferred tax assets	9	4	13
Recognized deferred tax liabilities relate to the following:			
Mineral rights	(65)	2	(63)
Property, plant and equipment and other	(175)	4	(171)
Deferred tax liabilities	(240)	6	(234)
Net deferred tax liabilities	(231)	10	(221)

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

15. Income tax (continued)

	As of December 31, 2009	Recognized in profit and loss	As of December 31, 2010
Recognized deferred tax assets relate to the following:			
Short-term accounts receivable, net of allowance	2	(1)	1
Long-term financial assets	1	–	1
Long-term accounts receivable, net of allowance	1	–	1
Other non-current assets	2	–	2
Short-term accounts payable and accrued liabilities	3	–	3
Other current liabilities	1	–	1
Long-term accounts payable and accrued liabilities	1	–	1
Valuation allowance for deferred income tax asset	(1)	–	(1)
Deferred tax assets	10	(1)	9
Recognized deferred tax liabilities relate to the following:			
Mineral rights	(63)	(2)	(65)
Property, plant and equipment and other	(205)	30	(175)
Deferred tax liabilities	(268)	28	(240)
Net deferred tax liabilities	(258)	27	(231)

	As of January 1, 2009	Recognized in profit and loss	As of December 31, 2009
Recognized deferred tax assets relate to the following:			
Short-term accounts receivable, net of allowance	1	1	2
Long-term financial assets	2	(1)	1
Long-term accounts receivable, net of allowance	1	–	1
Other non-current assets	2	–	2
Short-term accounts payable and accrued liabilities	2	1	3
Other current liabilities	2	(1)	1
Long-term accounts payable and accrued liabilities	–	1	1
Valuation allowance for deferred income tax asset	(2)	1	(1)
Deferred tax assets	8	2	10
Recognized deferred tax liabilities relate to the following:			
Mineral rights	(66)	3	(63)
Property, plant and equipment and other	(210)	5	(205)
Deferred tax liabilities	(276)	8	(268)
Net deferred tax liabilities	(268)	10	(258)

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

15. Income tax (continued)

Although the Company does not pay tax on a consolidated basis, a reconciliation between tax expense and the product of accounting profit multiplied by 20% tax rate for the years ended December 31, 2011, 2010 and 2009 is as follows:

	2011	2010	2009
Income before income tax	405	359	212
Income tax at statutory rates	81	72	42
Increase/(decrease) resulting from:			
Effect of income tax rates in other jurisdictions	3	2	2
Effect of income tax relieves	(6)	(10)	(5)
Tax effect of non-deductible expenses and non-taxable income	8	(6)	18
Income tax	86	58	57

Unrecognized deferred tax assets in the consolidation statement of financial position for the years ended December 31, 2011, 2010 and 2009 amounted to RUB 5 billion, RUB 5 billion and RUB 3 billion, respectively, related to unused tax losses. Tax loss carry forwards available for utilization to the Company expire in 2012-2021 period.

16. Non-controlling interests

Non-controlling interests include:

	As of December 31, 2011	2011	As of December 31, 2010	2010	As of December 31, 2009	2009	As of January 1, 2009	2009	As of January 1, 2009	2009	
	Non- control- ling interest in net assets (%)	Non- control- ling interest in net income	Non- control- ling interest in net assets (%)	Non- control- ling interest in net income	Non- control- ling interest in net assets (%)	Non- control- ling interest in net income	Non- control- ling interest in net income	Non- control- ling interest in net income	Non- control- ling interest in net assets (%)	Non- control- ling interest in net assets	
CJSC Vankorneft	6.04	22	5	6.04	18	6	6.04	12	1	6.04	11
OJSC Grozneftegaz	49.00	6	–	49.00	6	–	49.00	6	(1)	49.00	7
OJSC Far Eastern Bank	17.94	–	–	90.08	3	–	91.04	2	–	91.04	2
OJSC Rosneft Sakhalin	45.00	2	–	45.00	2	–	45.00	2	–	45.00	2
OJSC All-Russian Bank for Reconstruction and Development of Russian Regions (VBRR)	15.33	1	–	15.33	1	–	23.53	1	1	23.53	–
Non-controlling interests in other entities	various	3	(2)	various	2	2	various	1	(1)	various	2
Non-controlling interests as of the end of the reporting period	34	3	32	8	24	–	24	–	24	24	

The change in non-controlling interests in net assets for 2011 includes acquisition of non-controlling share in two subsidiaries in the amount of RUB 1 billion (Note 35).

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

17. Earnings per share

For the years ended December 31, basic earnings per share comprise the following:

	2011	2010	2009
<i>Continued operations</i>			
Net income attributable to shareholders of Rosneft	316	293	155
Weighted average number of issued common shares outstanding (millions)	9,591	9,598	9,598
Total basic earnings per share (RUB)	32.95	30.53	16.15

18. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
Cash on hand and in bank accounts in RUB	22	20	19	12
Cash on hand and in bank accounts in foreign currencies	62	26	23	24
Deposits	80	80	18	1
Other	2	1	–	3
Total cash and cash equivalents	166	127	60	40

Cash accounts denominated in foreign currencies represent primarily cash in US\$.

Deposits are interest bearing and denominated primarily in RUB.

Restricted cash as comprises the following:

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
Obligatory reserve with the CBR	1	1	1	–
Offsetting account under joint venture agreement with BP Group in Euro (Note 26)	3	–	–	–
Total restricted cash	4	1	1	–

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

19. Short-term financial assets

Short-term financial assets comprise the following:

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
Financial assets available-for-sale:				
Short-term bonds	13	6	5	1
Stocks and shares	2	2	1	1
Loans and receivables:				
Short-term loans granted	2	–	–	–
Short-term loans issued to associates	4	2	–	–
Notes receivable, net	31	7	–	–
Short-term promissory notes	5	–	3	17
Loans granted under reverse repurchase agreements	22	12	1	–
Deposits and deposit certificates	21	41	36	3
Structured deposits	31	116	15	–
Margin call deposit	–	–	–	26
Held-for-trading financial assets at fair value through profit or loss:				
Short-term promissory notes	–	–	1	–
Corporate bonds	16	9	8	1
State bonds	3	14	6	1
Derivative financial instruments	–	2	–	–
Total short-term financial assets	150	211	76	50

As of December 31, 2011 and 2010 available-for-sale short-term bonds comprise the following:

Type of security	2011			2010		
	Balance	Interest rate p.a.	Date of maturity	Balance	Interest rate p.a.	Date of maturity
State bonds (federal loan bonds issued by the Ministry of Finance of the Russian Federation)	4	6.1% - 11.3%	July 2012 - January 2016	1	4.59% - 6.85%	January 2011 - May 2015
Municipal bonds	1	8.0% - 17.9%	March 2012 - October 2021	1	8.75% - 18.0%	March 2012 - December 2014
Corporate bonds	8	6.25% - 13.0%	February 2013 - October 2021	4	6.75% - 18.0%	March 2011 - July 2020
Total	13			6		

As of December 31, 2009 available-for-sale short-term bonds comprise the following:

Type of security	2009		
	Balance	Interest rate p.a.	Date of maturity
State bonds Federal loan bonds issued by the Ministry of Finance of the Russian Federation	1	6.1% - 10.0%	July 2010 - August 2025
Bonds issued by CBR (with weighted average effective rate)	4	7.25%	March 2010 - June 2010
Total	5		

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

19. Short-term financial assets (continued)

As of December 31, 2010, the corporate bonds in the amount of RUB 1 billion were pledged under repurchase agreements. As of December 31, 2011 the Company does not have liabilities under repurchase agreements.

Structured deposits are denominated in US\$ and amount to RUB 31 billion, RUB 116 billion and RUB 15 billion as of December 31, 2011, 2010 and 2009, respectively. Interest rates of structured deposits range from 5.1% to 7.0% p.a., 6.22% to 7.2% p.a. and 7.75% p.a. as of December 31, 2011, 2010 and 2009, respectively.

Bank deposits amount to RUB 21 billion, RUB 41 billion, RUB 36 billion and RUB 3 billion as of December 31, 2011, 2010 and 2009 and January 1, 2009, respectively. As of December 31, 2011, bank deposits are primarily denominated in US\$ and bear interest rates ranging from 3.0% to 7.25% p.a. As of December 31, 2010, bank deposits are primarily denominated in US\$ and bear interest rates ranging from 4.7% to 8.0% p.a. As of December 31, 2009, the bank deposits denominated in US\$ bear interest rates ranging from 6.5% to 7.0% p.a. and the bank deposits denominated in RUB have interest rates ranging from 10.5% to 10.6% p.a.

As of December 31, 2011, notes receivable include corporate notes receivable with nominal interest rates ranging from 3.84% to 7.10% p.a. with maturities ranging from January 2012 to December 2014 and nominally interest-free corporate notes receivable with weighted average effective interest rate of 6.39% p.a. with maturities ranging from January 2012 to February 2014. Long-term portion of notes receivable is included in Long-Term Investments (Note 25). As of December 31, 2011 the current portion of notes receivable in the amount of RUB 4 billion was considered as temporarily impaired therefore an allowance in the amount of RUB 1 billion was recognized. As of December 31, 2010 notes receivable include corporate notes receivable with nominal interest rate of 4.25% p.a. with maturity in December 2012 and nominally interest-free corporate notes receivable with weighted average effective interest rate of 3.0% p.a. with maturity in June 2015.

As of December 31, 2011 short-term promissory notes include corporate promissory notes with nominal interest rates ranging from 9.0% to 12.0% p.a. with maturities ranging from February 2012 to November 2012 and nominally interest-free corporate promissory notes with weighted average effective interest rates ranging from 2.06% to 6.66% p.a. with maturities ranging from February 2012 to April 2013. As of December 31, 2009, RUB-denominated short-term promissory notes bore an interest rate of 15% p.a. and matured in January 2010.

Reverse repurchase agreements are collateralized by trading securities with a fair value of RUB 22 billion, RUB 12 billion and RUB 1 billion as of December 31, 2011, 2010 and 2009, respectively.

Short-term financial assets held for trading amount to RUB 19 billion, RUB 23 billion, RUB 15 billion and RUB 2 billion as of December 31, 2011, 2010 and 2009 and January 1, 2009, respectively.

As of December 31, 2011 and December 31, 2010 trading securities comprise the following:

Type of security	2011			2010		
	Balance	Interest rate p.a.	Date of maturity	Balance	Interest rate p.a.	Date of maturity
State and municipal bonds	3	6.7% - 15.0%	December 2012 - February 2036	1	5.14% - 18.1%	April 2011 - February 2036
Corporate bonds	16	6.47% - 19.0%	February 2012 - October 2021	9	5.8% - 19.0%	February 2011 - June 2020
Bonds issued by CBR (with weighted average effective interest rate)	—	—	—	13	3.52%	February 2011 - March 2011
Total	19			23		

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

19. Short-term financial assets (continued)

As of December 31, 2009 trading securities comprise the following:

Type of security	2009		
	Balance	Interest rate p.a.	Date of maturity
State and municipal bonds	6	6.9% - 18.0%	March 2010 - February 2036
Corporate bonds	8	7.9% - 19.0%	June 2010 - December 2016
Discounted promissory notes (with weighted average effective interest rate)	1	9.5% - 15.9%	February 2010 - January 2011
Total	<u>15</u>		

In 2009, the Company entered into a fixed-interest structured deposit contract for the nominal amount of US\$ 500 million (RUB 15 billion at the CBR official exchange rate as of December 31, 2009). The contract expired in 2010. The RUB/US\$ exchange rate prevailing at the repayment date was below the conversion rate stipulated in the contract.

In 2010, the Company entered into fixed-interest structured deposit contracts with two banks for the nominal amount of US\$ 2,150 million and US\$ 1,545 million, respectively (RUB 66 billion and RUB 47 billion at the CBR official exchange rate as of December 31, 2010 respectively). Both contracts expired in 2011. The RUB/US\$ exchange rate prevailing at the repayment date was below the conversion rate stipulated in the contract.

In 2011, the Company entered into fixed-interest structured deposit contracts with two banks for the nominal amount of US\$ 500 million and US\$ 550 million, respectively (RUB 16 billion and RUB 18 billion at the CBR official exchange rate as of December 31, 2011, respectively). In the event that the RUB/US\$ exchange rate prevailing at the redemption date exceeds the conversion rate stipulated in the contract, the other party shall have a right (an "option") to repay the deposit in RUB, provided that the repayment amount is equal to the deposit's nominal value, multiplied by a corresponding conversion rate.

The embedded options were separated from the host contracts and recognized at the fair value in short-term financial assets in the consolidated balance sheet at December 31, 2011, 2010 and 2009.

The resulting change in the fair value of embedded options was recognized as a component of finance expenses in the amount of RUB 2 billion, finance income in the amount of RUB 2 billion and finance income in the amount of RUB 0 billion in the consolidated statement of comprehensive income for the years ended December 31, 2011, 2010 and 2009, respectively.

20. Accounts receivable

Accounts receivable, net of allowance, include the following:

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
Trade receivables	183	125	89	52
Banking loans to customers	24	23	23	30
Other accounts receivable	15	11	11	11
Total	<u>222</u>	<u>159</u>	<u>123</u>	<u>93</u>
Allowance for doubtful accounts	(5)	(4)	(3)	(4)
Total accounts receivable, net of allowance	<u>217</u>	<u>155</u>	<u>120</u>	<u>89</u>

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

20. Accounts receivable (continued)

The allowance for doubtful accounts is recognized at each balance sheet date based on estimates of the Company's management regarding the expected cash inflows to repay accounts receivable.

The Company recognized allowance for doubtful accounts for all significant past due accounts receivable as of December 31, 2011, 2010 and 2009.

As of December 31, 2011, 2010 and 2009, accounts receivable were not pledged as collateral for loans and borrowings provided to the Company.

21. Inventories

Inventories comprise the following:

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
Crude oil and associated gas	46	16	14	7
Petroleum products and petrochemicals	46	30	25	18
Materials and supplies	23	14	12	14
Work in progress	11	5	5	5
Total	126	65	56	44

Materials and supplies mostly include spare parts. Petroleum products and petrochemicals include those designated both for sale and for own use.

	2011	2010	2009
The cost of inventories recognised as an expense during the period	297	151	127

Cost of inventories recognized as an expense during the period is included in Production and operating expenses, Cost of purchased oil, gas and petroleum products and refining costs and General and administrative expenses.

22. Prepayments and other current assets

Prepayments comprise the following:

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
VAT and excise receivable	62	65	68	56
Prepayments to suppliers	25	21	20	19
Prepaid customs duties	51	39	40	32
Other taxes	11	9	7	40
Other	3	3	2	3
Total prepayments and other current assets	152	137	137	150

Prepaid customs duties primarily represent export duties related to the export of crude oil and petroleum products (Note 9).

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

23. Property, plant and equipment and construction in progress

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
Cost				
As of January 1, 2009	1,558	289	63	1,910
Additions and other movements	201	31	11	243
Disposals and other movements	(14)	(5)	(6)	(25)
As of December 31, 2009	1,745	315	68	2,128
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(128)	(32)	(7)	(167)
As of December 31, 2009	(128)	(32)	(7)	(167)
Net book value				
As of January 1, 2009	1,558	289	63	1,910
As of December 31, 2009	1,617	283	61	1,961
Prepayments for property, plant and equipment				
As of January 1, 2009	16	4	6	26
As of December 31, 2009	13	4	5	22
Total as of January 1, 2009	1,574	293	69	1,936
Total as of December 31, 2009	1,630	287	66	1,983
Cost				
Additions and other movements	204	72	16	292
Disposals and other movements	(12)	(9)	(2)	(23)
As of December 31, 2010	1,937	378	82	2,397
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(164)	(28)	(9)	(201)
Disposals and other movements	–	–	–	–
Exchange differences	(2)	–	–	(2)
As of December 31, 2010	(294)	(60)	(16)	(370)
Net book value as of December 31, 2010	1,643	318	66	2,027
Prepayments for property, plant and equipment as of December 31, 2010				
	13	9	2	24
Total as of December 31, 2010	1,656	327	68	2,051
Cost				
Additions and other movements	281	103	21	405
Disposals and other movements	(14)	(9)	(5)	(28)
As of December 31, 2011	2,204	472	98	2,774
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(177)	(24)	(12)	(213)
Disposals and other movements	1	–	–	1
Impairment of assets	–	–	(4)	(4)
Exchange differences	(4)	–	–	(4)
As of December 31, 2011	(474)	(84)	(32)	(590)
Net book value as of December 31, 2011	1,730	388	66	2,184
Prepayments for property, plant and equipment as of December 31, 2011				
	11	29	7	47
Total as of December 31, 2011	1,741	417	73	2,231

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

23. Property, plant and equipment and construction in progress (continued)

The cost of construction in progress included in Property, plant and equipment was RUB 441 billion, RUB 302 billion, RUB 235 billion and RUB 230 billion as of December 31, 2011, 2010 and 2009 and January 1, 2009, respectively.

In 2011, the Company identified impairment indicator (a decrease of freight rates and tariffs on the global transport services market) with respect to the three twin-hull shuttle oil tankers, included in Corporate and other unallocated activities category of Property, plant and equipment. The Company compared carrying and recoverable amounts of these oil tankers as prescribed by IAS 36, *Impairment of Assets*. The Company used market information on similar oil tankers to measure their fair value. Resulting impairment loss of RUB 4 billion was recognized in Other expenses in the consolidated statement of comprehensive income in 2011.

The Company capitalized RUB 13.9 billion, RUB 10.5 billion and RUB 11.1 of interest expenses on loans and borrowings in 2011, 2010 and 2009, respectively.

Exploration and evaluation assets

Exploration and evaluation assets comprise the following:

	2011	2010	2009
As of January 1	10	7	10
Capitalized expenditures	7	6	3
Reclassified to development assets	(1)	(3)	(2)
Expenses	(5)	–	(4)
As of December 31	11	10	7

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

23. Property, plant and equipment and construction in progress (continued)

Mineral rights

Mineral rights included in exploration and production Property, plant and equipment comprise the following:

	Cost	Accumulated depletion	Net book value
<i>As of January 1, 2009</i>			
Mineral rights to proved properties	264	–	264
Mineral rights to unproved properties	94	–	94
Total as of January 1, 2009	358	–	358
Depletion charge			
Mineral rights to proved properties	–	(15)	(15)
Additions			
Mineral rights to unproved properties	3	–	3
<i>As of December 31, 2009</i>			
Mineral rights to proved properties	264	(15)	249
Mineral rights to unproved properties	97	–	97
Total as of December 31, 2009	361	(15)	346
Depletion charge			
Mineral rights to proved properties	–	(15)	(15)
Additions			
Mineral rights to unproved properties	4	–	4
Reclassification from unproved properties to proved properties			
Mineral rights to proved properties	2	–	2
Mineral rights to unproved properties	(2)	–	(2)
<i>As of December 31, 2010</i>			
Mineral rights to proved properties	266	(30)	236
Mineral rights to unproved properties	99	–	99
Total as of December 31, 2010	365	(30)	335
Depletion charge			
Mineral rights on proved properties	–	(15)	(15)
Additions			
Mineral rights on unproved properties	8	–	8
Reclassification from unproved properties to proved properties			
Mineral rights to proved properties	3	–	3
Mineral rights to unproved properties	(3)	–	(3)
<i>As of December 31, 2011</i>			
Mineral rights to proved properties	269	(45)	224
Mineral rights to unproved properties	104	–	104
Total as of December 31, 2011	373	(45)	328

Provision for asset retirement (decommissioning) obligations

The provision for asset retirement (decommissioning) obligations was RUB 35.6 billion, RUB 32.3 billion, RUB 15.1 billion and RUB 19.1 billion as of December 31, 2011, 2010 and 2009 and January 1, 2009, respectively, and included in Property, plant and equipment.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

24. Intangible assets and goodwill

Intangible assets and goodwill comprise the following:

	Rights for land lease	Other intangible assets	Total intangible assets	Goodwill
Cost				
As of January 1, 2009	21	1	22	132
Additions	–	6	6	–
As of December 31, 2009	21	7	28	132
Amortization and impairment loss				
As of January 1, 2009	(2)	–	(2)	–
Amortization charge	(1)	(1)	(2)	–
As of December 31, 2009	(3)	(1)	(4)	–
Net book value as of January 1, 2009	19	1	20	132
Net book value as of December 31, 2009	18	6	24	132
Cost				
Additions	–	1	1	–
As of December 31, 2010	21	8	29	132
Amortization and impairment loss				
Amortization charge	(1)	(1)	(2)	–
As of December 31, 2010	(4)	(2)	(6)	–
Net book value as of December 31, 2010	17	6	23	132
Cost				
Additions	–	3	3	–
Disposals	(2)	(2)	(4)	–
As of December 31, 2011	19	9	28	132
Amortization and impairment loss				
Amortization charge	(1)	(1)	(2)	–
Other disposals	1	1	2	–
As of December 31, 2011	(4)	(2)	(6)	–
Net book value as of December 31, 2011	15	7	22	132

The Company performed its annual goodwill impairment test as of October 1 of each year. The impairment test was carried out at the beginning of the fourth quarter of each year using data that was appropriate at that time. As a result of the annual test, no impairment of goodwill was identified in 2011, 2010 or 2009.

Goodwill acquired through business combinations has been allocated to related groups of cash generating units being its operating segments – Exploration and production segment and Refining and distribution segment. In assessing whether goodwill has been impaired, the current values of the operating segments (including goodwill) were compared with their estimated value in use.

	As of December 31, 2011	2010	2009	As of January 1, 2009
Goodwill				
Exploration and production	21	21	21	21
Refining and distribution	111	111	111	111
Total	132	132	132	132

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

24. Intangible assets and goodwill (continued)

The Company has estimated value in use of the operating segments using a discounted cash flow model. Future cash flows have been adjusted for risks specific to the segment and discounted using a rate, which reflects current market assessments of the time value of money and the risks specific to the segment for which the future cash flow estimates have not been adjusted.

The Company's business plan, approved by the Company's Board of Directors, is the primary source of information for the determination of the operating segments' value in use. The business plan contains internal forecasts of oil and gas production, refinery throughputs, sales volumes of various types of refined products, revenues, operating and capital expenditures. As an initial step in the preparation of these plans, various assumptions, such as oil prices, natural gas prices, refining margins, petroleum product margins and cost inflation rates, are set. These assumptions take into account existing prices, US\$ and RUB inflation rates, other macroeconomic factors and historical trends, as well as markets volatility.

In determining the value in use for each of the operating segments, cash flows have been discounted and aggregated with the segments' terminal value. In determining the terminal value of the Company's segments in the post-forecast period the Gordon model has been used. The model has used average rates of operation decline equal to natural rates of production decline for the existing assets provided that there is no production drilling. These rates were 8.0% of annual decline for Exploration and production segment and 0.0% for Refining and distribution segment.

The discount rate and the oil price are the most important assumptions among the factors listed above. The sensitivity of the discounted cash flows to their changes represents the most significant assumption. The discount rate calculation is based on the Company's pre-tax weighted average cost of capital and amounts to 7.3% p.a. (7.1% p.a. and 6.1% p.a. in 2010 and 2009, respectively). For the purposes of impairment testing, the Company's Urals oil price assumptions were based on the forecasted market prices. Management believes that no reasonably possible changes in the assumptions may lead to the goodwill impairment.

As of December 31, 2011, 2010 and 2009, the Company did not have any intangible assets with indefinite useful lives, except for goodwill. As of December 31, 2011, 2010 and 2009 no intangible assets have been pledged as collateral.

25. Long-term financial assets

Long-term financial assets comprise the following:

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
<i>Bank deposits</i>	–	–	25	–
<i>Bonds</i>	1	1	1	1
<i>Financial assets available for sale</i>				
Promissory notes	7	–	–	–
Shares of OJSC TGK-11	–	–	1	–
Shares of OJSC INTER RAO UES	5	–	–	–
Other securities in Company's banks	–	1	–	–
Long-term loans issued to associates	13	21	17	14
Loans to employees	1	1	1	1
Other	7	4	2	2
Total long-term financial assets	34	28	47	18

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

25. Long-term financial assets (continued)

In June 2009, US\$ denominated deposits were placed with a state controlled bank for 2 years at 8% p.a.

Pursuant to contracts, long-term loans issued to associates have a maturity period from 3 through 8 years.

As of December 31, 2011, 2010 and 2009 and January 1, 2009, there were no overdue long-term financial assets for which no impairment provision was created.

As of December 31, 2011, 2010 and 2009 and January 1, 2009, loans issued to associates were impaired in the amount of RUB 0.3 billion, RUB 0.3 billion, RUB 0.5 billion and RUB 0.5 billion, respectively, joint venture investments were impaired in the amount of RUB 0 billion, RUB 0.4 billion, RUB 0.4 billion and RUB 0.4 billion, respectively, and promissory notes were impaired in the amount of RUB 3 billion, RUB 0 billion, RUB 0 billion, RUB 0 billion, respectively.

No long-term financial assets were pledged as collateral as of December 31, 2011, 2010 and 2009 and January 1, 2009.

As of December 31, 2011, 2010 and 2009 and January 1, 2009, no long-term financial assets were received by the Company as collateral.

Shares of OJSC TGK-11

In May and July 2007 the Company acquired interests in OJSC Tomskenergo and OJSC Kubanenergo through the auctions for the sale of the assets of Yukos Oil Company ("Yukos"). In 2007 OJSC Tomskenergo was merged into OJSC TGK-11. Following the conversion of OJSC Tomskenergo's shares as a result of the above merger, the Company's interest in the share capital of OJSC TGK-11 amounted to 5.28%. In September 2009, the Company obtained additional shares of OJSC TGK-11 increasing its share in the equity of OJSC TGK-11 to 6.77%. In May 2011, investment in OJSC TGK-11 was exchanged to share in INTER RAO UES, Russian power and utility company.

Shares of OJSC INTER RAO UES

In December 2010, the Company entered into a letter of intent to exchange its interest in a number of equity investees and one subsidiary for noncontrolling interest in INTER RAO UES. In May 2011, the exchange in respect of the Company's interest in equity investees was completed, and the Company acquired 0.4% share in INTER RAO UES. In July 2011, the Company exchanged its 100% interest in the subsidiary for additional shares in INTER RAO UES. Immediately after the transaction Rosneft's share in INTER RAO UES's equity increased to 1.36%. As of December 31, 2011, the Company's investment in INTER RAO UES was accounted for as Long-term financial asset available for sale.

Ownership interest to be exchanged was accounted for as Assets available for sale in the consolidated balance sheet as of December 31, 2010. The Company measured a disposal group at the lower of its carrying amount or fair value less cost to sell and recognized an impairment loss of RUB 0.2 billion and RUB 1 billion in the consolidated statement of comprehensive income in 2011 and 2010, respectively.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

26. Investments in joint ventures and associates

Investments in joint ventures and associates comprise the following:

Name of an investee	Country	The Company's share, %	As of December 31,			As of January 1,
			2011	2010	2009	2009
<i>Joint Ventures</i>						
LLC Polar Lights Company	Russia	50.00	2	2	2	3
OJSC Tomskneft VNK	Russia	50.00	34	39	44	43
OJSC Verkhnechonskneftegaz	Russia	25.94	16	8	7	6
Rosneft Shell Caspian Vent.	Russia	51.00	1	1	1	1
Ruhr Oel GmbH	Germany	50.00	46	–	–	–
Taihu Ltd	Cyprus	51.00	2	–	–	–
<i>Associates</i>						
OJSC Kubanenergo	Russia	27.97	2	3	5	3
Other associates			11	10	9	8
Total joint ventures and associates			114	63	68	64

Financial information on significant associates and joint ventures as of December 31, 2011 is presented below:

The Company's share in net assets	OJSC Tomskneft VNK	OJSC Verkhne- chonsknefte- gaz	Taihu Ltd	Ruhr Oel GmbH
Current assets	11	2	11	8
Non-current assets	52	17	42	16
Total assets	63	19	53	24
Current liabilities	(24)	(3)	(7)	–
Non-current liabilities	(13)	(7)	(44)	(17)
Total liabilities	(37)	(10)	(51)	(17)
Total Company's share in net assets	26	9	2	7

The Company's share in net profit	OJSC Tomskneft VNK	OJSC Verkhne- chonsknefte- gaz	Taihu Ltd	Ruhr Oel GmbH
Sales revenue	52	11	50	13
Cost of sales	(49)	(1)	(38)	(13)
Gross profit	3	10	12	–
Other expenses	(3)	(1)	(3)	–
Profit before tax	–	9	9	–
Income tax	–	(1)	(2)	–
Total Company's share in net profit	–	8	7	–

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

26. Investments in joint ventures and associates (continued)

Financial information on significant associates as of December 31, 2010 is presented below:

The Company's share in net assets	OJSC Tomskneft VNK
Current assets	10
Non-current assets	53
Total assets	63
Current liabilities	(20)
Non-current liabilities	(12)
Total liabilities	(32)
Total Company's share in net assets	31
The Company's share in net profit	OJSC Tomskneft VNK
Sales revenue	40
Cost of sales	(41)
Gross profit	(1)
Other income	2
Profit before tax	1
Income tax	–
Total Company's share in net profit	1

Financial information on significant associates as of December 31, 2009 is presented below:

The Company's share in net assets	OJSC Tomskneft VNK
Current assets	13
Non-current assets	55
Total assets	68
Current liabilities	(21)
Non-current liabilities	(12)
Total liabilities	(33)
Total Company's share in net assets	35
The Company's share in net profit	OJSC Tomskneft VNK
Sales revenue	36
Cost of sales	(34)
Gross profit	2
Other income	5
Profit before tax	7
Income tax	(2)
Total Company's share in net profit	5

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

26. Investments in joint ventures and associates (continued)

The investment in OJSC Verkhnechonskneftegaz includes goodwill of RUB 7 billion. The difference of RUB 39 billion between the cost of the investment and the Company's share in net assets represents the fair value adjustments made at the date of acquisition to the associate's identifiable assets and liabilities and goodwill which are included in the carrying amount of investment in Ruhr Oel GmbH.

The fair value of investments in associates with published market quotations comprise:

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
OJSC Kubanenergo	2	4	3	–
OJSC Tomsk Distribution Company	–	1	1	1

Unrecognized losses of associates comprise:

	2011	Accumulated amount as of December 31, 2011
Unrecognized losses of associates	1	7

Equity share in profits/(losses) of associates and jointly controlled entities:

	Participation interest (percentage) as of December 31, 2011	Share in income/(loss) of equity investees		
		2011	2010	2009
Taihu Ltd	51.00	7	3	2
LLC Polar Lights Company	50.00	1	–	–
OJSC Verkhnechonskneftegaz	25.94	8	1	–
OJSC Tomskneft VNK	50.00	–	1	5
Other	various	–	(1)	(1)
Total equity share in profits		16	4	6

The Company's investments in joint operations as of December 31, 2011, 2010 and 2009 include Sakhalin-1 production sharing agreement ("PSA") which is operated by ExxonMobil.

Ruhr Oel GmbH ("ROG")

In May 2011 the Company acquired 50% ownership interest in ROG. ROG is a joint venture with BP Group engaged in processing of crude oil in Western Europe.

OJSC Kubanenergo

During 2011 the Company recognised impairment loss in respect of OJSC Kubanenergo in the amount of RUB 3 billion. This loss is presented in Other expenses in the consolidated statement of comprehensive income.

OJSC Tomsk Distribution Company ("TDC")

In the fourth quarter of 2011 the Company recognised impairment loss in respect of TDC in the amount of RUB 1 billion. This loss is presented in Other expenses in the consolidated statement of comprehensive income. Investments in TDC is included in Other category of Investments in joint ventures and associates.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

26. Investments in joint ventures and associates (continued)

OJSC Tomskneft VNK

OJSC Tomskneft VNK is a joint venture engaged in oil exploration and production in Western Siberia. The shareholder agreement provides that key decisions regarding the activities of OJSC Tomskneft VNK shall be subject to unanimous approval by both participants and none of the participants has a preferential voting right. The investment in OJSC Tomskneft VNK includes goodwill in the amount of RUB 10.8 billion.

LLC Polar Lights Company ("PLC")

PLC is a limited liability company equally owned by Conoco Phillips Timan-Pechora Inc. and the Company. PLC is primarily engaged in the development of the Ardalin and satellite fields in the Timan-Pechora Basin located 125 kilometers south of the Barents Sea above the Arctic Circle.

Rosneft-Shell Caspian Ventures Limited ("JV")

JV is a joint venture in which the Company holds a 51% interest. The Articles of Incorporation of the joint venture stipulate that key decisions regarding its business shall be subject to unanimous approval by both participants and none of the participants has a preferential voting right.

On December 6, 1996, the Company and the JV, entered into an agreement with eight oil and gas companies and government agencies of the Russian Federation and the Republic of Kazakhstan for the establishment of Caspian Pipeline Consortium ("CPC"). The purpose of the consortium is to design, finance, build and operate a pipeline from the oil fields located in Western Kazakhstan through Russia to the port of Novorossiysk. The interest of the JV in the CPC is 7.5%. In October 2001, the CPC pipeline commenced operation.

OJSC Verkhnechonskneftegaz

OJSC Verkhnechonskneftegaz holds a license for the development of the Verkhnechonskoye oil and gas condensate deposit, the largest oil deposit in the Irkutsk region.

In 2008, commercial production began at the Verkhnechonskoye oil field. OJSC Verkhnechonskneftegaz is financed by the Company and other participant pro rata to their interest in share capital of the OJSC Verkhnechonskneftegaz.

Taihu Ltd. / OJSC Udmurtneft

In November 2006, the Company acquired a 51% equity share in Taihu Ltd., a joint venture with China Petrochemical Corporation ("Sinopec"), incorporated for holding interest in and strategic management of OJSC Udmurtneft. The Shareholder Agreement in respect of this joint venture stipulates that key decisions regarding its business shall be subject to unanimous approval by both participants and none of the participants has a preferential voting right.

In December 2006, Taihu Ltd, through its wholly owned subsidiary, acquired a 96.86% equity interest in OJSC Udmurtneft. OJSC Udmurtneft is located in the Volga-Ural region of the Russian Federation and holds licenses for the development of 24 producing oil and gas condensate deposits.

Other investments

Other investments are mainly represented by investments in shares of electric power generation, transmission, distribution and maintenance companies located in the Tomsk region and in the south of Russia.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

27. Other non-current non-financial assets

Other long-term non-financial assets comprise the following:

	As of December, 31			As of
	2011	2010	2009	January1, 2009
Prepaid insurance	2	1	–	–
Other	1	1	1	1
Total other long-term non-financial assets	3	2	1	1

28. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	As of December, 31			As of
	2011	2010	2009	January1, 2009
Accounts payable to suppliers and contractors	97	44	48	42
Advances received	18	18	14	8
Banking customer accounts	40	32	25	22
Salary and other benefits payable	17	14	13	13
Other accounts payable	9	5	4	4
Total accounts payable and accrued liabilities	181	113	104	89

Current accounts payable are normally settled within 32 days on average. Interest rates on banking customer accounts range from 0.1% to 3.0% p.a. Trade and other payables are non-interest bearing.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

29. Loans, borrowings and finance lease liabilities

Loans and borrowings comprise the following:

		As of December 31,			As of
	Currency	2011	2010	2009	January 1, 2009
Long-term					
Bank loans	US\$, Euro	658	629	565	339
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz	US\$	–	3	43	77
Borrowings	RUB	–	–	1	1
Customer deposits	RUB	5	8	6	3
Customer deposits	US\$, Euro	2	1	2	–
Promissory notes payable	RUB	–	2	2	29
Other loans proceeds	RUB	4	2	–	–
<i>Less: Current portion of long-term loans and borrowings</i>		(73)	(96)	(147)	(156)
Long-term loans and borrowings		596	549	472	293
Short-term					
Borrowings	RUB	7	8	11	9
Borrowings – Yukos related	RUB	8	8	20	19
Bank loans	RUB	5	–	–	78
Bank loans	US\$	–	–	–	18
Customer deposits	RUB	15	8	8	7
Customer deposits	US\$, Euro	3	3	5	4
Promissory notes payable	RUB	1	2	3	47
Promissory notes payable – Yukos related	RUB	40	40	43	20
Borrowings	US\$	–	1	–	–
Obligations under a repurchase agreement		–	1	–	56
<i>Current portion of long-term loans</i>		73	96	147	156
Short-term loans and borrowings and current portion of long-term loans		152	167	237	414
Total loans and borrowings		748	716	709	707

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

29. Loans, borrowings and finance lease liabilities (continued):

Long-term bank loans comprise the following:

Purpose of the loan	Currency	Interest rate p.a.	Maturity date	As of December 31,			As of
				2011	2010	2009	January 1, 2009
Loans raised for replenishment of working capital	US\$ / EUR	Libor+0.5% - Libor+1.85%; 4.35%; EURIBOR+1.85%	2010-2016	148	158	253	333
Loans raised to finance special-purpose business activities	US\$	Libor+0.6% - Libor+3.25%	2029	483	461	305	–
Inter-bank loans raised by subsidiary banks	EUR/ US\$	EURIBOR+0.50%- EURIBOR+1.00% 4.45%	2011-2013	–	–	1	1
Loans raised for property, plant and equipment construction/purchase	US\$ / EUR	Libor+1.00% - Libor+1.35%; 3.23%- 4.50%; EURIBOR+0.35%	2012-2020	29	12	8	8
Total				660	631	567	342
Debt issue costs				(2)	(2)	(2)	(3)
Total long-term bank loans				658	629	565	339

Generally, long-term bank loans are denominated in US\$ and secured by oil export contracts. Under the terms of such contracts, the lender is normally provided with an express right of claim for contractual revenue which must be remitted directly to transit currency (US\$ denominated) accounts with specified banks, should the Company fail to make timely debt repayments. Accounts receivable under those comprise to RUB 43 billion, RUB 47 billion and RUB 27 billion as of December 31, 2011, 2012 and 2009, respectively, and recognized in Trade receivables.

Long-term loans and borrowings

As of the reporting date, weighted average interest rate on loans was 3.31% p.a.

In December 2011, Rosneft received funds under a syndicated long-term floating rate debt agreement with foreign banks in the amount of US\$ 1.4 billion and EUR 0.47 billion (RUB 45 billion and RUB 20 billion at the CBR official exchange rate as of December 31, 2011). The debt is repayable within 5 years.

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, denominated in RUB and foreign currencies. As of December 31, 2011, RUB denominated deposits bear interest rates ranging from 0.01% to 14.50% p.a. and deposits denominated in foreign currencies bear interest rates ranging from 0.75% to 14.00% p.a.

Weighted average interest rate on promissory notes payable as of December 31, 2011 was 13.07% p.a.

During 2011, 2010 and 2009, promissory notes payable not claimed for payment and having passed the stature of limitation were written off by the Company and income in the amount of RUB 0.1 billion, RUB 5.3 billion and RUB 6.7 billion, respectively, was recognized in the consolidated statement of comprehensive income in Other expenses.

The Company is obliged to comply with a number of restrictive financial and other covenants contained in its loan agreements. Such covenants include maintaining certain financial ratios.

As of December 31, 2011, 2010 and 2009, the Company is in compliance with all restrictive financial and other covenants contained in its loan agreements.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

29. Loans, borrowings and finance lease liabilities (continued):

Short-term loans and borrowings

RUB denominated borrowings represent interest-free loans received from equity investees.

RUB denominated borrowings – Yukos related primarily comprise amounts recorded as borrowings from Yukos Capital S.a.r.l., at 9% p.a. interest that matured in 2007. The borrowings were carried in the books of the former Yukos subsidiaries the Company acquired through the auctions for the sale of the assets of Yukos. The borrowings are being disputed by the Company. The Company partially repaid the borrowings in accordance with a court decision in 2010 (Note 39).

RUB denominated borrowings – Yukos related primarily include borrowings provided by Yukos Capital S.a.r.l., at 9% p.a. interest that matured in 2007. The Company partially settled the abovementioned liabilities in compliance with the court decision (Note 39).

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, denominated in RUB and foreign currencies. As of December 31, 2011 the RUB denominated deposits bear interest rates ranging from 0.01% to 9.25% p.a. and deposits denominated in foreign currencies bear interest rates ranging from 0.01% to 6.90% p.a.

Weighted average interest rate on promissory notes payable as of December 31, 2011 was 3.13% p.a.

Promissory notes payable – Yukos related comprise amounts that were carried in the books of the former Yukos subsidiaries the Company acquired through the auctions for the sale of the assets of Yukos. The promissory notes are being disputed by the Company. The promissory notes are claimed to be primarily payable on demand and bear interest rates ranging from 0% to 18% p.a.

In 2011 the Company received cash under repurchase agreements and recognized these transactions as a collateralized loan. As of December 31, 2011, the Company does not have liabilities under repurchase agreements (Note 19).

In 2011 the Company had neither delays in payments under loan agreements nor overdue interest payments.

Finance lease

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
Long-term finance lease liabilities	6	4	4	4
<i>Including short-term financial lease liabilities</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

29. Loans, borrowings and finance lease liabilities (continued):

Finance lease (continued)

Repayments of finance lease obligations comprise the following:

As of December 31, 2011:			
	Minimum lease payments	Finance expense	Present value of minimum lease payments
Less than 1 year	1	–	1
From 1 to 5 years	3	–	3
Over 5 years	4	(2)	2
Total	8	(2)	6

As of December 31, 2010:			
	Minimum lease payments	Finance expense	Present value of minimum lease payments
Less than 1 year	1	–	1
From 1 to 5 years	2	–	2
Over 5 years	3	(2)	1
Total	6	(2)	4

As of December 31, 2009			
	Minimum lease payments	Finance expense	Present value of minimum lease payments
Less than 1 year	1	–	1
From 1 to 5 years	2	–	2
Over 5 years	3	(2)	1
Total	6	(2)	4

As of January 1, 2009			
	Minimum lease payments	Finance expense	Present value of minimum lease payments
Less than 1 year	1	–	1
From 1 to 5 years	3	–	3
Over 5 years	–	–	–
Total	4	–	4

Finance leases entered into by the Company do not contain covenants and are entered into for a long term, with certain leases having purchase options at the end of lease term. Finance leases are denominated in RUB and US\$.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

29. Loans, borrowings and finance lease liabilities (continued):

Finance lease (continued)

The following is the analysis of the property, plant and equipment under capital leases recognized in Property, plant and equipment (Note 23):

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
Plant and machinery	1	2	2	2
Vehicles	8	5	5	10
Total cost	9	7	7	12
Less: accumulated depreciation	(2)	(2)	(2)	(2)
Total net book value of leased property	7	5	5	10

30. Current liabilities related to derivative instruments

In December 2007, the Company entered into a 5-year interest rate swap contract with a notional amount of US\$ 3 billion (RUB 74 billion at the CBR official exchange rate as of December 31, 2007). Under the terms of the contract, a floating LIBOR rate may be converted into a certain fixed rate. The other party has a call option to terminate the deal. Weighted average fixed interest rate for the contract is 3.41% p.a.

In December 2008, the Company entered into a 5-year interest rate swap contract with a notional amount of US\$ 500 million (RUB 15 billion at the CBR official exchange rate as of December 31, 2008). Under the terms of the contract, a floating LIBOR rate may be converted into a certain fixed rate. The other party has a call option to terminate the deal commencing two years after the contract date. Weighted average fixed interest rate for the contract is 1.71% p.a.

Derivative financial liabilities comprise:

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
Interest rate swap	4	6	5	6
Total current liabilities related to derivative financial instruments	4	6	5	6

The resulting change in the fair value of liabilities related to the existing interest rate swap contracts was recorded as a reduction in finance expenses in the amount of RUB 2 billion, as finance expenses in the amount of RUB 1 billion and as a reduction of finance expenses in the amount of RUB 1 billion in the consolidated statement of comprehensive income for the years ended December 31, 2011, 2010 and 2009, respectively.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

31. Other taxes payable

Other taxes payable comprise the following:

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
Mineral extraction tax	41	33	27	11
VAT	13	11	9	7
Excise duties	7	4	5	4
Personal income tax	–	1	1	1
Property tax	3	2	2	2
Other	2	2	1	3
Total other taxes payable	66	53	45	28

32. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2009, including	21	–	2	23
<i>Non-current</i>	21	–	–	21
<i>Current</i>	–	–	2	2
Provisions charged during the year	2	–	6	8
Increase/(decrease) in the liability resulting from				
<i>Changes in estimates</i>	(4)	–	–	(4)
<i>Unwinding of discount</i>	2	–	–	2
As of December 31, 2009, including	21	–	8	29
<i>Non-current</i>	21	–	–	21
<i>Current</i>	–	–	8	8
Provisions charged during the year	17	3	–	20
Provisions utilized during the year	–	–	(3)	(3)
Increase/(decrease) in the liability resulting from				
<i>Changes in estimates</i>	(3)	–	–	(3)
<i>Change in the discount rate</i>	7	–	–	7
<i>Unwinding of discount</i>	2	–	–	2
As of December 31, 2010, including	44	3	5	52
<i>Non-current</i>	44	3	–	47
<i>Current</i>	–	–	5	5
Provisions charged during the year	13	–	–	13
Increase/(decrease) in the liability resulting from				
<i>Changes in estimates</i>	(3)	1	–	(2)
<i>Change in the discount rate</i>	(4)	–	–	(4)
<i>Unwinding of discount</i>	4	–	–	4
As of December 31, 2011, including	54	4	5	63
<i>Non-current</i>	54	3	–	57
<i>Current</i>	–	1	5	6

Asset retirement (decommissioning) obligations represent an estimate of costs of wells liquidation, recultivation of sand pits, slurry ponds, disturbed lands and dismantling pipelines and power transmission lines. The budget for payments under asset retirement obligations is prepared on an annual basis. Depending on the current economic environment the entity's actual expenditures may vary from the budgeted amounts.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

33. Pension benefit obligations

Defined contribution plans

The Company makes payments to the State Pension Fund of the Russian Federation. These payments are calculated by the employer as percentage from the salary expense and are expensed as accrued.

The Company also maintains a defined contribution corporate pension plan to finance non-state pensions of its employees.

Pension contributions recognized in the consolidated statement of comprehensive income was as follows:

	2011	2010	2009
State Pension Fund	14	10	9
NPF Neftegarant	3	3	3
Total pension contributions	17	13	12

34. Other non-current liabilities

Other non-current liabilities comprise the following:

	As of December 31,			As of
	2011	2010	2009	January 1,
				2009
Restructured tax liabilities	–	28	35	40
Deferred income	1	1	2	2
Liabilities to municipalities under amicable agreements	1	2	2	3
Liabilities related to rights to use trademarks "Sochi 2014"	–	1	2	–
Total other non-current liabilities	2	32	41	45

In February and March 2008 the Company received signed resolutions of the Government of the Russian Federation and relevant regional and local authorities regarding the restructuring of the certain tax liabilities.

Under the tax restructuring plan, the restructured tax liabilities should have been repaid quarterly within five years starting from March 2008. The Company's payments excluding interest amounted to RUB 15.9 billion, RUB 6.4 billion and RUB 3.5 billion in 2011, 2010 and 2009, respectively. These liabilities are recognized in the present consolidated balance sheet at the present value. In October 2011, the Company early repaid the principal amount of tax liabilities of RUB 8.5 billion in full. Following the repayment, the Company was relieved from a part of restructured tax liabilities of RUB 22.2 billion and recognized the respective discharge. The Company recognized income on the extinguishment of restructured tax liabilities in Other expense in the consolidated statement of comprehensive income. As of December 31, 2011, remaining balance of the restructured tax liabilities is included in current liabilities in the amount of RUB 1.6 billion.

The Company intends to undertake all possible actions to comply with the tax restructuring plan in full.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

35. Shareholders' equity

Common shares

As of December 31, 2011, 2010, 2009 and January 1, 2009:

Authorized common shares:	
quantity, millions	10,598
amount, billions of RUB	0.6
Issued and fully paid shares:	
quantity, millions	10,598
amount, billions of RUB	0.6
Nominal value of 1 common share, RUB:	0.01

Amounts available for distribution to shareholders are based on statutory accounts of Rosneft prepared in accordance with Russian accounting standards, which differ significantly from IFRS (Note 3). Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with statutory accounting standards. According to Russian legislation, dividends cannot exceed the accounting income for the reporting year.

On June 19, 2009, the annual general shareholders' meeting approved dividends on the Company's common shares for 2008 in the amount of RUB 20 billion or RUB 1.92 per share. RUB 19 billion of the above related to outstanding shares, including dividend withholding tax on treasury shares.

On June 18, 2010, the annual general shareholders' meeting approved dividends on the Company's common shares for 2009 in the amount of RUB 24 billion or RUB 2.30 per share. RUB 22 billion of the above related to outstanding shares, including dividend withholding tax on treasury shares.

On June 10, 2011, the annual general shareholders' meeting approved dividends on the Company's common shares for 2010 in the amount of RUB 29 billion or RUB 2.76 per share. RUB 27 billion of the above related to outstanding shares, including dividend withholding tax on treasury shares.

Treasury shares

	As of December 31,			As of
	2011	2010	2009	January 1, 2009
Number, millions	1,010	999	1,001	1,000
Amount, billions of RUB	224	221	221	221

In 2009, the Company purchased 747,112 treasury shares for RUB 117 million or RUB 157 per share.

In July 2010, the Company paid 78,297 of treasury shares to compensate to independent members of the Company's Board of Directors for 2009.

In December 2010, the Company sold 1,807,513 treasury shares for RUB 392 million or RUB 217 per share.

In April 2011, the Company purchased 11,296,701 of its own shares for RUB 2.9 billion or RUB 258 per share.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

35. Shareholders' equity (continued)

Additional paid-in capital

	2011	2010	2009
Additional paid-in capital as of January 1	396	396	396
Change in ownership interests in subsidiaries	(10)	–	–
Additional paid-in capital as of December 31	386	396	396

In 2011 the Company acquired additional shares in its two subsidiaries. The effect of these transactions in the total amount of RUB 10 billion was accounted for as a reduction of Additional paid-in capital.

36. Fair value of financial instruments

Fair value of financial assets and liabilities is determined as follows:

- fair value of financial assets and liabilities quoted on active liquid markets is determined in accordance with the market quotes;
- fair value of other financial assets and liabilities is determined in accordance with generally accepted models and is based on discounted cash flow analysis that relies on prices used for existing transactions in the current market;
- fair value of derivative financial instruments is based on market quotes. If such quotes are unavailable, fair value is determined on the basis of valuation models that rely on assumptions confirmed by observable market prices or rates as of the reporting date.

Assets and liabilities of the Company that are measured at fair value on a recurring basis in accordance with the fair value hierarchy are presented in the table below.

	Fair value measurement as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Current assets				
Held-for-trading	9	10	–	19
Available-for-sale	8	7	–	15
Non-current assets				
Available-for-sale	5	7	–	12
Total assets measured at fair value	22	24	–	46
Current liabilities:				
Derivative financial instruments	–	(4)	–	(4)
Total liabilities measured at fair value	–	(4)	–	(4)

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

36. Fair value of financial instruments (continued)

	Fair value measurement as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Current assets				
Held-for-trading	5	18	–	23
Available-for-sale	4	4	–	8
Derivative financial instruments	–	2	–	2
Net assets held for sale	2	–	–	2
Non-current assets				
Available-for-sale securities	–	1	–	1
Total assets measured at fair value	11	25	–	36
Current liabilities:				
Derivative financial instruments	–	(6)	–	(6)
Total liabilities measured at fair value	–	(6)	–	(6)
	Fair value measurement as of December 31, 2009			
	Level 1	Level 2	Level 3	Total
Assets:				
Current assets				
Held-for-trading	13	2	–	15
Available-for-sale	1	5	–	6
Non-current assets				
Available-for-sale	1	–	–	1
Total assets measured at fair value	15	7	–	22
Current liabilities:				
Derivative financial instruments	–	(5)	–	(5)
Total liabilities measured at fair value	–	(5)	–	(5)

The carrying value of cash and cash equivalents, accounts receivable and accounts payable recognized in these consolidated financial statements approximates their fair value.

The estimated fair value of long-term debt calculated as cash flows discounted using the estimated market interest rate for similar financial liabilities amounted to RUB 603 billion, RUB 566 billion and RUB 542 billion as of December 31, 2011, 2010 and 2009, respectively.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

36. Fair value of financial instruments (continued)

The following table summarizes carrying amounts and fair values of all the Company's financial instruments recorded in the consolidated financial statements:

	Carrying value			Fair value				
	As of December 31, 2011	2010	2009	As of January1, 2009	As of December 31, 2011	2010	2009	As of January1, 2009
Financial assets								
Financial assets at fair value through profit or loss:								
Derivative financial instruments	–	2	–	–	–	2	–	–
Promissory notes	–	–	1	–	–	–	1	–
Corporate and state bonds	19	23	14	2	19	23	14	2
Loans issued:								
Bank deposits	52	157	76	3	52	157	76	3
Loans issued to associates	17	23	17	14	17	23	17	14
Other	1	1	26	27	1	1	26	27
Financial liabilities								
Financial liabilities at amortized cost:								
Accounts payable	(181)	(113)	(104)	(89)	(181)	(113)	(104)	(89)
Loans and borrowings with variable interest rate	(657)	(634)	(610)	(419)	(603)	(566)	(542)	(416)
Loans and borrowings with fixed interest rate	(91)	(82)	(99)	(288)	(91)	(82)	(99)	(288)
Financial liabilities at fair value, through profit or loss:								
Derivative financial instruments	(4)	(6)	(5)	(6)	(4)	(6)	(5)	(6)
Financial lease liabilities	(6)	(4)	(4)	(4)	(6)	(4)	(4)	(4)

37. Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In 2009, 2010 and 2011 the Company entered into transactions with the following related parties: joint ventures and associates, joint operations, enterprises directly or indirectly controlled by the Russian Government, key management, pension funds (Note 33).

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms as transactions between unrelated parties.

Disclosure of related party transactions is presented on an aggregate basis for the companies directly or indirectly controlled by the Russian Government, associates and other companies. In addition, there may be an additional disclosure of certain significant transactions (balances and turnovers) with certain related parties.

In the course of its ordinary business, the Company enters into transactions with other companies controlled by the Russian Government. In the Russian Federation, electricity and transport tariffs are regulated by the Federal Tariff Service, an authorized governmental agency of the Russian Federation. Bank loans are recorded based on the market interest rates. Taxes are accrued and paid in accordance with the applicable tax law.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

37. Related party transactions (continued)

Transactions with companies directly or indirectly controlled by the Russian Government

Revenues and income

	2011	2010	2009
Oil and gas sales	28	8	5
Petroleum products and petrochemicals sales	25	20	9
Support services and other revenues	2	2	3
Finance income	7	7	3
	62	37	20

Costs and expenses

	2011	2010	2009
Production and operating expenses	10	5	6
Pipeline tariffs and transportation costs	181	126	96
Other expenses	7	–	2
Finance expense	–	–	4
	198	131	108

Other operations

	2011	2010	2009
Purchase of financial assets	9	1	1
Sale of financial assets	1	–	16
Loans repaid	3	43	110
Loans and borrowings issued	1	–	–
Deposits placed	30	105	60
Deposits paid	165	24	3

Settlement balances

	As of December 31,			As of
	2011	2010	2009	January 1,
	<hr/>			2009
Assets				
Cash and cash equivalents	55	77	31	21
Accounts receivable, net of allowance	11	5	1	5
Prepayments and other current assets	16	15	12	8
Financial assets	11	136	63	–
	93	233	107	34
	<hr/>			
Liabilities				
Accounts payable and accrued liabilities	2	2	2	1
Loans and borrowings	–	3	43	153
	2	5	45	154
	<hr/>			

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

37. Related party transactions (continued)

Transactions with associates and other related parties

Crude oil is purchased from associates at the prices approximating Russian domestic market prices.

Pursuant to contracts, long-term loans issued to associates have a maturity period from 3 through 8 years (Note 25), and bear interest rates from 8% to 8.8% p.a.

Revenues and income

	2011	2010	2009
Oil and gas sales	2	1	1
Petroleum products and petrochemicals sales	5	4	4
Support services and other revenues	9	6	11
Finance income	1	1	1
Dividends received	1	1	6
	18	13	23

Costs and expenses

	2011	2010	2009
Cost of purchased oil, gas and petroleum products	80	45	42
Production and operating expenses	5	7	6
Pipeline tariffs and transportation costs	5	3	2
Other expenses	11	3	7
	101	58	57

Other operations

	2011	2010	2009
Purchase of financial assets	5	–	4
Loan received	–	–	2
Loans repaid	1	4	–
Loans and borrowings issued	–	5	2
Loans and borrowings issued, repaid	6	–	–

Settlement balances

	As of December 31,			As of
	2011	2010	2009	January 1,
				2009
Assets				
Accounts receivable, net of allowance	9	8	7	5
Financial assets	16	14	17	6
	25	22	24	11
Liabilities				
Accounts payable and accrued liabilities	9	4	7	6
Loans and borrowings	7	8	11	9
Total settlement balances	16	12	18	15

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

37. Related party transactions (continued)

Compensation to key management personnel

For the purpose of these consolidated financial statements key management personnel includes: President of Rosneft, Vice-Presidents, members of the Board of Directors, members of the Management Board, members of the Audit Committee, directors of departments and heads of independent units, as well as others charged with governance.

Short-term benefits of the key management personnel, including payroll, bonuses, personal income tax and social taxes amounted to RUB 3 billion, RUB 2 billion and RUB 2 billion in 2011, 2010 and 2009, respectively.

Severance paid in 2011, 2010 and 2009 totaled RUB 0.4 billion, RUB 0.1 billion and RUB 0.1 billion, respectively.

In 2011, 2010 and 2009, contributions to insurance programs amounted to RUB 1 billion, RUB 0.4 billion and RUB 0.1 billion, respectively.

On 19 June 2009, annual General Meeting of Shareholders decided to transfer 33,614 shares of Rosneft to each of the independent members of the Board of Directors of Rosneft (Mr. Andrey L. Kostin, Mr. Alexander D. Nekipelov and Mr. Hans-Joerg Rudloff) as a compensation for their services in the capacity of the Company's directors.

On 18 June 2010, annual General Meeting of Shareholders decided to transfer 26,099 shares of Rosneft to each of the independent members of the Board of Directors of Rosneft (Mr. Andrey L. Kostin, Mr. Alexander D. Nekipelov and Mr. Hans-Joerg Rudloff) as a compensation for their services in the capacity of the Company's directors.

On 10 June 2011, annual General Meeting of Shareholders decided to transfer to each of the following independent members of the Board of Directors of Rosneft (Mr. Andrey L. Kostin, Mr. Alexander D. Nekipelov and Mr. Hans-Joerg Rudloff) 25,238 shares of Rosneft as a compensation for their services in the capacity of the Company's directors, 20,821 shares of Rosneft to Mr. Andrey G. Reus and Mr. Nikolay P. Tokarev, each, 18,928 shares of Rosneft to Mr. Vladimir L. Bogdanov, and 14,021 shares of Rosneft to Sergey M. Bogdanchikov.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

38. Key subsidiaries

Name	Country of incorporation	Core activity	2011		2010		2009	
			Preferred and common shares	Voting shares	Preferred and common shares	Voting shares	Preferred and common shares	Voting shares
<u>Exploration and production</u>			%	%	%	%	%	%
RN-Yuganskneftegaz LLC	Russia	Oil and gas production operator services	100.00	100.00	100.00	100.00	100.00	100.00
RN-Purneftegaz LLC	Russia	Oil and gas production operator services	100.00	100.00	100.00	100.00	100.00	100.00
RN-Sakhalinmorneftegaz LLC	Russia	Oil and gas production operator services	100.00	100.00	100.00	100.00	100.00	100.00
RN-Krasnodarneftegaz LLC	Russia	Oil and gas production operator services	100.00	100.00	100.00	100.00	100.00	100.00
RN-Stavropolneftegaz LLC	Russia	Oil and gas production operator services	100.00	100.00	100.00	100.00	100.00	100.00
RN-Severnaya Neft LLC (Northern Oil)	Russia	Oil and gas production operator services	100.00	100.00	100.00	100.00	100.00	100.00
CJSC RN-Astra	Russia	Oil and gas development and production	100.00	100.00	100.00	100.00	100.00	100.00
CJSC Sakhalinmorneftegaz Shelf	Russia	Oil and gas development and production	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Dagneftegaz	Russia	Oil and gas development and production	81.22	81.22	81.22	94.96	81.22	94.96
OJSC Rosneft-Dagneft	Russia	Oil and gas development and production	68.70	68.70	68.70	91.60	68.70	91.60
CJSC Vankorneft	Russia	Oil and gas development and production	93.96	93.96	93.96	93.96	93.96	93.96
OJSC Grozneftegaz	Russia	Oil and gas production operator services	51.00	51.00	51.00	51.00	51.00	51.00
CJSC RN-Exploration	Russia	Field survey and exploration	100.00	100.00	100.00	100.00	–	–
RN-Kaiganneftegaz LLC	Russia	Field survey and exploration	100.00	100.00	100.00	100.00	100.00	100.00
OJSC East-Siberian Oil and Gas Company	Russia	Oil and gas development and production	99.52	99.52	70.78	70.78	70.78	70.78
Val Shatskogo LLC	Russia	Oil and gas development	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Samaraneftegaz	Russia	Oil and gas development and production	100.00	100.00	100.00	100.00	100.00	100.00

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

38. Key subsidiaries (continued)

Name	Country of incorporation	Core activity	2011		2010		2009	
			Preferred and common shares	Voting shares	Preferred and common shares	Voting shares	Preferred and common shares	Voting shares
<u>Refining, marketing and distribution</u>			%	%	%	%	%	%
RN-Tuapse Refinery LLC	Russia	Petroleum refining	100.00	100.00	100.00	100.00	100.00	100.00
RN-Komsomolsky Refinery LLC	Russia	Petroleum refining	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Rosneft-MZ Nefteproduct	Russia	Petroleum refining	65.42	65.42	65.42	87.23	65.42	87.23
OJSC Angarsk Petrochemical Company	Russia	Petroleum refining	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Achinsk Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Angarsk Polymer Plant	Russia	Petroleum refining	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Kuybyshev Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Novokuybyshev Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Syzran Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00	100.00	100.00
CJSC Neftegorsk Gas-Processing Plant	Russia	Gas processing	100.00	100.00	100.00	100.00	100.00	100.00
CJSC Otradny Gas-Processing Plant	Russia	Gas processing	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Rosneft-ARTAG	Russia	Marketing and distribution	38.00	50.67	38.00	50.67	38.00	50.67
OJSC Rosneft-Altainefteproduct	Russia	Marketing and distribution	64.18	78.59	64.18	78.59	64.18	78.59
RN-Arkhangelsknefteproduct LLC	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Rosneft-Kabardino-Balkarskaya Toplivnaya Company	Russia	Marketing and distribution	99.81	99.89	99.81	99.89	99.81	99.89
OJSC Rosneft-Kubannefteproduct	Russia	Marketing and distribution	89.50	96.61	89.50	96.61	89.50	96.61
OJSC Rosneft-Karachaevo-Cherkessknefteproduct	Russia	Marketing and distribution	85.99	85.99	85.99	87.46	85.99	87.46
OJSC Rosneft-Kurgannefteproduct	Russia	Marketing and distribution	83.32	90.33	83.32	90.33	83.32	90.33
OJSC Rosneft-Murmansknefteproduct	Russia	Marketing and distribution	45.38	45.38	45.38	60.51	45.38	60.51
RN-Nakhodkanefteproduct LLC	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Rosneft-Smolensknefteproduct	Russia	Marketing and distribution	66.67	86.97	66.67	86.97	66.67	86.97
RN-Tuapsenefteproduct LLC	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Rosneft-Yamalnefteproduct	Russia	Marketing and distribution	49.52	49.52	49.52	66.03	49.52	66.03
RN-Vostoknefteproduct LLC	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Rosneft-Stavropolye	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
RN-Trade LLC	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
CJSC Exponeft	Russia	Marketing and distribution	45.38	45.38	45.38	60.51	45.38	60.51
CJSC Irkutsknefteprodukt	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

38. Key subsidiaries (continued)

Name	Country of incorporation	Core activity	2011		2010		2009	
			Preferred and common shares	Voting shares	Preferred and common shares	Voting shares	Preferred and common shares	Voting shares
Refining, marketing and distribution (continued)			%	%	%	%	%	%
OJSC Samaranefteprodukt	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
Samara Terminal LLC	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Buryatnefteprodukt	Russia	Marketing and distribution	97.48	98.88	97.48	98.88	97.48	98.88
CJSC Khakasnefteprodukt VNK	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Tomsknefteprodukt VNK	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Belgorodnefteprodukt	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
CJSC Bryansknefteprodukt	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Voronezhnefteprodukt	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
CJSC Lipetsknefteprodukt	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
CJSC Orelnefteprodukt	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
CJSC Penzanefteprodukt	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
CJSC Tambovnefteprodukt	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
CJSC Ulyanovsknefteprodukt	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
Ulyanovsk Terminal LLC	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
OJSC RN-Moskva	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	–	–
CJSC NBA Service	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Germes Moskva	Russia	Marketing and distribution	85.61	85.61	85.61	85.61	85.61	85.61
CJSC Contract Oil	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
CJSC Mytischki Fuel Company	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
OJSC Stavropolnefteprodukt	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
U-Kuban LLC	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
RN-Ingushnefteprodukt LLC	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	–	–
Rosneft Trading S.A.	Switzerland	Marketing and distribution	100.00	100.00	–	–	–	–
Trumpet limited	Ireland	Marketing and distribution	100.00	100.00	100.00	100.00	100.00	100.00
Other								
Rosneft International Ltd	Ireland	Holding company	100.00	100.00	100.00	100.00	100.00	100.00
Yukostransservice CJSC	Russia	Transportation services	100.00	100.00	100.00	100.00	100.00	100.00
CJSC Rosnefteflot	Russia	Transportation services	51.00	51.00	51.00	51.00	51.00	51.00

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

38. Key subsidiaries (continued)

Name	Country of incorporation	Core activity	2011		2010		2009	
			Preferred and common shares	Voting shares	Preferred and common shares	Voting shares	Preferred and common shares	Voting shares
Other			%	%	%	%	%	%
OJSC All-Russian Bank for Reconstruction and Development of Russian Regions (VBRR)	Russia	Banking	84.67	84.67	84.67	84.67	76.47	76.47
OJSC Dalnevostochniy Bank	Russia	Banking	82.06	82.62	–	–	–	–
CJSC RN-Shelf-Dalний Vostok	Russia	Management company	100.00	100.00	100.00	100.00	100.00	100.00
CJSC RN-Sety	Russia	Electric-power transmission services	100.00	100.00	100.00	100.00	–	–
RN-Burenie LLC	Russia	Drilling services	100.00	100.00	100.00	100.00	100.00	100.00
NK Rosneft NTC LLC	Russia	Research & development activities	100.00	100.00	100.00	100.00	100.00	100.00

39. Contingencies

Russian Business Environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Company's future consolidated financial position, consolidated results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Company's consolidated results and consolidated financial position in a manner not currently determinable.

Legal claims

In 2006, Yukos Capital S.a.r.l., a former subsidiary of Yukos Oil Company, initiated arbitral proceedings against OJSC Yuganskneftegaz, which was subsequently merged into the Company, and OJSC Samaraneftgaz, the Company's subsidiary, in various arbitration courts alleging default under six RUB-denominated loans. The International Commercial Arbitration Court (the "ICAC") at the Russian Federation Chamber of Commerce and Industry issued four arbitration awards in favor of Yukos Capital S.a.r.l. against Yuganskneftegaz concerning four of the loans in the aggregate amount of RUB 12.9 billion. Arbitration panel formed pursuant to the International Chamber of Commerce ("ICC") rules issued an award against OJSC Samaraneftgaz in the amount of RUB 3.1 billion in loan principal and interest plus post award interest of 9% p.a. on the above amount of loan principal and interest concerning the two other loans.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

39. Contingencies (continued)

Legal claims (continued)

In 2007, the Company successfully challenged the ICAC awards and the ICAC awards were set aside by the Russian courts, including the Supreme Arbitrazh Court of the Russian Federation. Yukos Capital S.a.r.l., nevertheless, sought to enforce the ICAC awards in the Netherlands. The district court in Amsterdam refused to enforce the ICAC awards on the ground that they were properly set aside by a competent court. Yukos Capital S.a.r.l. appealed and on April 28, 2009 the Amsterdam Court of Appeal reversed the district court judgment and allowed Yukos Capital S.a.r.l. to enforce the ICAC awards in the Netherlands. The Company sought review of the decision of the Amsterdam Court of Appeal in the Supreme Court of the Netherlands.

In early 2010, Yukos Capital S.a.r.l. filed an additional lawsuit against the Company in the High Court of Justice in London, seeking enforcement of the ICAC awards in England and Wales, as well as interest on those awards.

On June 25, 2010, the Supreme Court of the Netherlands declared inadmissible the Company's appeal of the decision of the Amsterdam Court of Appeal enforcing the ICAC awards in the Netherlands. Although the Company does not agree with the decisions of the Dutch courts noted above, on August 11, 2010 it complied with those decisions and arranged for relevant payments to be made with respect to the claim against the Company.

In addition to the amounts paid, Yukos Capital S.a.r.l. continues to seek statutory interest in the High Court of Justice in London in the amount of approximately RUB 4.6 billion as of the date of its Particulars of Claim. On June 14, 2011, the High Court issued an interim decision on two preliminary issues it had agreed to consider prior to reaching a decision on the merits of the claim. Although Yukos Capital S.a.r.l. prevailed on both issues, the court granted the Company leave to appeal. On July 5, 2011 the Company submitted its notice of appeal, followed by filing of the skeleton appeal brief on July 19, 2011. A hearing at the English Court of Appeal has been scheduled for March 2012. Once the Company's appeal is decided, a timetable for the trial will be set. The Company intends to defend its position vigorously in the remaining proceedings in England.

In 2007, lawsuits with Russian arbitrazh courts in Moscow and Samara were filed to nullify the loan agreements with Yukos Capital S.a.r.l. Court hearings in both cases were suspended for some time. However, on July 29, 2011 the Arbitrazh Court of the Samara Region reopened its proceedings and at a hearing on February 1, 2012 declared invalid the loan agreements between Yukos Capital S.a.r.l. and OJSC Samaraneftgaz. On February 21, 2012 the Moscow Arbitrazh Court also reopened its proceedings. Currently the hearing is scheduled for March 5, 2012.

On July 2, 2010, Yukos Capital S.a.r.l. filed a petition with the U.S. District Court for the Southern District of New York (the "U.S. S.D.N.Y.") seeking confirmation of the ICC award against OJSC Samaraneftgaz noted above. In August 2010 Yukos Capital S.a.r.l. also commenced proceedings in the Arbitrazh Court of the Samara Region seeking enforcement of the same award in the Russian Federation.

On October 15, 2010, OJSC Samaraneftgaz filed a motion with the U.S. S.D.N.Y. requesting the court to either dismiss Yukos Capital S.a.r.l.'s petition or, alternatively, to stay the action pending resolution of the contemporaneous Russian enforcement proceedings. At a hearing held on January 7, 2011, the court granted this motion and stayed the action pending completion of the proceedings in the courts in the Russian Federation. Yukos Capital S.a.r.l.'s subsequent motion for reconsideration was denied.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

39. Contingencies (continued)

Legal claims (continued)

On February 15, 2011, the Arbitrazh Court of the Samara Region denied Yukos Capital S.a.r.l.'s enforcement application. The time for cassation appeal from the ruling has lapsed without Yukos Capital S.a.r.l. having filed such an appeal. On May 13, 2011, the U.S. S.D.N.Y. lifted the January 7, 2011 stay and ordered limited discovery solely on the issue of whether the U.S. S.D.N.Y. has jurisdiction to consider Yukos Capital S.a.r.l.'s petition. On January 20, 2012 OJSC Samaraneftgaz filed a motion for summary judgment on the issue of personal jurisdiction. Yukos Capital S.a.r.l. replied on February 17, 2012. OJSC Samaraneftgaz's next submission is currently scheduled for March, 2012.

The Company and its subsidiary participate in arbitral proceedings related to bankruptcy of OJSC Sakhaneftegaz and OJSC Lenaneftegaz for the recovery of certain loans and guarantees of indemnity in the amount of RUB 1.3 billion, stated above account receivable was reserved in full.

During 2008 - 2010, the Federal Antimonopoly Service ("FAS Russia") and its regional bodies claimed that Rosneft and certain subsidiaries violated certain antimonopoly regulations in relation to petroleum products trading. The Company appealed all claims in relevant arbitrazh courts. As of the date of these consolidated financial statements, court proceedings on the majority of cases had ended. Among other things, on December 1, 2010, the Moscow Arbitrazh court reduced the RUB 5.3 billion fine, imposed on the Company by FAS Russia in 2009, to RUB 2 billion.

The fine was paid in December 2010. During the hearing on February 25, 2011, the Moscow Arbitrazh court accepted Rosneft's retraction of an appeal of FAS Russia's decision, order and disposition made in relation to the Company in 2008 in a single case. The proceedings under this case are terminated. The court ruling on dismissal of the case and, consequently, the decision of FAS Russia to impose an administrative penalty came in force on March 25, 2011. As a result, on April 22, 2011, the Company paid a fine in the amount of RUB 1.5 billion.

As of December 31, 2011, the total amount of administrative penalties claimed by FAS Russia and its regional bodies in respect of Rosneft and its subsidiaries, assessed in the total amount of RUB 2.1 billion, including decision received in January 2012 to claim administrative responsibility in the form of penalties in relation to Rosneft and one of its subsidiary in the amount of RUB 1.8 billion. To the extent probable, this provision was accrued in these consolidated financial statements.

Rosneft and its subsidiaries are involved in other litigations which arise from time to time in the course of their business activities. The Company's management believes that the ultimate result of these litigations will not significantly affect the operating results or financial position of the Company.

Taxation

Legislation and regulations regarding taxation in Russia continue to evolve. Various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities. Instances of inconsistent opinions are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Russia's laws, decrees and related regulations is severe. Interest and penalties are levied when an understatement of a tax liability is discovered. As a result, the amounts of penalties and interest can be significant in relation to the amounts of unreported taxes.

Russian tax returns remain open and subject to inspection for a period of up to three years. The fact that a year has been reviewed does not close that year, or any tax return applicable to that year, from further review during the three-year period.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

39. Contingencies (continued)

Taxation (continued)

Current Russian transfer pricing rules were introduced in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price deviates from the market price by more than 20%. Controlled transactions include transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions and transactions with significant (by more than 20%) price fluctuations.

The current transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the Company's prices and propose an adjustment. If such price adjustments are upheld by the Russian courts and implemented, it could have an adverse effect on the Company's consolidated financial position and results of operations. The Company finances its subsidiaries by various means which may lead to transfer pricing tax risks. The Company's management believes that the related tax positions are sustainable and will not have any significant negative impact on the Company's consolidated financial position or results of operations.

Effective January 1, 2012 the market price defining rules were changed and the list of entities that could be recognized as interdependent entities and list of managed deals were expanded. Due to above new rules, absence of law enforcement precedents, and certain contradictions of the new law, such new rules could not be considered as well defined. The Company's management is in the process of developing a new approach to assess consequences of the new tax rules, to prevent substantial negative impact on the Company's consolidated financial statements.

During 2010 and 2011, the tax authorities continued examinations of the Company and its subsidiaries for 2007-2010 fiscal years. The Company does not expect results of the examinations to have a material impact on the Company's consolidated financial position or results of operations. Tax years or periods prior to 2007 are not subject to examination.

As of December 31, 2010, there was a possible risk that RUB 1.2 billion of VAT receivable would not be recovered. As of December 31, 2011, the amount of possible risk of unrecoverable VAT decreased to an insignificant level as a result of positive court decisions, as well as actual VAT reimbursements by tax authorities.

Management of the Company believes that the outcome of the above tax risks will not have significant impact on the Company's consolidated financial position or results of operations. Overall, management believes that the Company has paid or accrued all taxes that are applicable. For taxes other than income tax, where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate of the probable outflow of resources, which will be required to settle these liabilities. Possible liabilities which were identified by management at the balance sheet dates as those that can be subject to different interpretations of the tax laws and regulations are not accrued in the consolidated financial statements.

Capital commitments

The Company and its subsidiaries are engaged in ongoing capital projects for exploration and development of production facilities and modernization of refineries and the distribution network. The budgets for these projects are generally set on an annual basis. Depending on the current market situation, actual expenditures may vary from the budgeted amounts.

The Company has contractual obligations for capital construction and fixed assets acquisition as of December 31, 2011, which amounted to RUB 195.4 billion.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

39. Contingencies (continued)

Environmental liabilities

The Company periodically evaluates its environmental liabilities pursuant to environmental regulations. Such liabilities are recognized in the consolidated financial statements as identified. Potential liabilities, which might arise as a result of changes in existing regulations or regulation of civil litigation or changes in environmental standards cannot be reliably estimated but may be material. With the existing system of control, management believes that there are no material liabilities for environmental damage, other than those recorded in the consolidated financial statements.

Long-term contracts

In January 2005, Rosneft entered into a long-term contract for the term from February 2005 through December 2010 with China National United Oil Corporation for the supply of crude oil via rail to China in the total amount of 48.4 million tons. The contract is based on usual commercial terms with an agreed formula linked to market prices.

In February 2009, Rosneft entered into a long-term crude oil sale contract for the term from January 2011 through December 2030 with China National Petroleum Corporation ("CNPC") for the total volume of 180 million tons of crude oil to be delivered via pipeline to China. The contract is based on customary commercial terms with an agreed formula linked to market prices. Subsequently, CNPC assigned all its rights, title and interest in this contract to China National United Oil Corporation.

In April 2009, Rosneft entered into a long-term crude oil sale contract for the term from January 2011 through December 2030 with OJSC AK Transneft for the total volume of 120 million tons of crude oil to be delivered via pipeline to China. The contract is based on customary commercial terms with an agreed formula linked to market prices.

As at the end of the reporting period, the Company had long-term oil supply contracts for 285 million tons based on a standard commercial price formula for crude oil and was bound to supply crude within the following periods:

	2011	2010	2009
Up to 1 year	15	15	9
1 to 2 years	15	15	15
2 to 3 years	15	15	15
3 to 4 years	15	15	15
4 to 5 years	15	15	15
Over 5 years	210	225	240
Total	285	300	309

In July 2011 the Company entered into an agreement with a state-controlled energy company for acquisition of electric power under the "take-or-pay" arrangement on standard commercial terms through June 30, 2026.

40. Events after the reporting period

In February 2012, the Company and Sberbank, a State controlled bank, entered into a preliminary agreement on the acquisition by the Company of a 35.3% stake in LLC Taas-Yuryakh Neftegazodobycha. LLC Taas-Yuryakh Neftegazodobycha holds production licences for the Srednebotuobinsk oil and gas condensate field located 160 km north of the Eastern Siberia – Pacific Ocean oil pipeline. The acquisition price was agreed at US\$ 444 million (RUB 14.3 billion at the CBR official exchange rate as of December 31, 2011).

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

40. Events after the reporting period (continued)

In February 2012, Company acquired 100% ownership interest in CJSC Sintezneftegaz and 50% ownership interest in CJSC Arcticshelfneftegaz. CJSC Sintezneftegaz holds licences for the geological studies in Pakhtusovskaya and Admiraltejskaya areas located offshore in the Barents Sea. CJSC Arcticshelfneftegaz holds a licence for the field survey, exploration and development of oil and gas the Barents Sea Medinsko-Varandejskij block. The acquisition price was agreed at RUB 3.5 billion.

41. First-time adoption of IFRS

These financial statements are the first consolidated financial statements of the Company prepared in accordance with IFRS. The date of transition to IFRS is January 1, 2009.

Accounting policies described in Note 3 were applied when preparing the consolidated financial statements for the year ended December 31, 2011 and the comparative information and opening balance sheet as at the date of transition to IFRS.

As a first-time adopter of IFRS, the Company applied IFRS 1, *First-Time Adoption of International Financial Reporting Standards*. The standard contains a number of voluntary and mandatory exemptions from the requirement to retrospectively apply IFRS effective at December 31, 2011.

The Company has taken the following voluntary exemptions:

Exemption	Accounting policies
1. Business combinations	IFRS 3, <i>Business Combinations</i> , has <i>not</i> been applied to business combinations retrospectively that occurred before the <i>date of transition</i> to IFRS. As a result, classifications made in the financial statements under US GAAP have remained unchanged and the Company has recognized all the assets and liabilities at the date of transition that were acquired or accepted as a result of past business combinations.
2. Fair value or revaluation amount as the deemed cost of property, plant and equipment	The Company has measured the fair value of property, plant and equipment and construction in progress as at January 1, 2009.
3. Accumulated translation reserve	At the date of transition, accumulated translation reserve was deemed to be zero, i.e., no retrospective restatement of accumulated translation reserve was made.
4. Designation of previously recognized financial instruments	The Company has designated financial instruments (other than designated as held to maturity or loans and accounts receivable) as financial instruments: (a) at fair value through profit or loss, or (b) available for sale <i>at the date of transition</i> to IFRS (provided that the recognition criteria of IAS 39 are met).

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

41. First-time adoption of IFRS (continued)

Exemption	Accounting policies
5. Decommissioning liabilities included in the cost of property, plant and equipment	<p>The Company has taken the exemption for liabilities to which IFRIC 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>, applies, specifically:</p> <ul style="list-style-type: none"> - The Company has estimated the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to the date of transition using its best estimate of the historical discount rate that would have applied for that liability over the intervening period. - The Company has calculated the accumulated depreciation relating to such amount as at the transition date based on the current estimate of the asset's useful life using the depreciation method elected by the Company for IFRS purposes.
6. Leases	<p>The Company has analyzed all lease agreements (designated as finance or operating lease under US GAAP) to determine whether they should be designated differently at the date of transition to IFRS pursuant to IFRIC 4, <i>Determining Whether an Arrangement Contains a Lease</i>.</p>

The Company has taken the following mandatory exemptions:

Exemption	Accounting policies
1. Derecognition of financial assets and liabilities	<p>The Company has not recognized non-derivative financial instruments derecognized before January 1, 2004.</p>
2. Estimates	<p>Estimates made under US GAAP at the date of the opening balance sheet that are in line with IFRS are used in the IFRS opening balance sheet unless there are indications that such estimates are wrong.</p> <p>Any new information relating to estimates that was received after the date of transition to IFRS is treated as a non-adjusting event after the reporting date and is not recognized in the opening balance sheet.</p> <p>Estimates made under US GAAP may be revised for consistency with IFRS, but must be based on information existing at the date of the opening balance sheet.</p> <p>Estimates that were not required by US GAAP must be made based on information existing at the date of the opening balance sheet.</p>

The nature of all material adjustments made to the US GAAP financial statements in connection with transition to IFRS is described below.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

41. First-time adoption of IFRS (continued)

Reconciliation of consolidated balance sheet as at January 1, 2009 (date of transition to IFRS)

	US GAAP	Functional currency	Measurement of property, plant and equipment (including received under finance lease agreements)	Decommis- sioning provision	Deferred tax recalculated under IFRS	Reclassificati on of short- term deferred tax assets/ liabilities	Other adjustments	Total adjustments and reclassifi- cations	IFRS
ASSETS									
Current assets:									
Cash and cash equivalents	40	–	–	–	–	–	–	–	40
Restricted cash	–	–	–	–	–	–	–	–	–
Financial assets	50	–	–	–	–	–	–	–	50
Deferred tax assets	4	–	–	–	–	(4)	–	(4)	–
Accounts receivable, net of allowance	89	–	–	–	–	–	–	–	89
Inventories	42	–	–	–	–	–	2	2	44
Prepayments and other current assets	150	–	–	–	–	–	–	–	150
Total current assets	375	–	–	–	–	(4)	2	(2)	373
Non-current assets:									
Property, plant and equipment	1,622	–	305	(16)	–	–	25	314	1,936
Intangible assets	20	–	–	–	–	–	–	–	20
Financial assets	18	–	–	–	–	–	–	–	18
Investment in associates and joint ventures	64	–	–	–	–	–	–	–	64
Bank loans granted, net of allowance	10	–	–	–	–	–	–	–	10
Deferred tax assets	3	–	–	–	5	–	–	5	8
Goodwill	132	–	–	–	–	–	–	–	132
Other non-current non-financial assets	32	–	–	–	–	–	(31)	(31)	1
Total non-current assets	1,901	–	305	(16)	5	–	(6)	288	2,189
Total assets	2,276	–	305	(16)	5	(4)	(4)	286	2,562

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

41. First-time adoption of IFRS (continued)

Reconciliation of consolidated balance sheet as at January 1, 2009 (date of transition to IFRS) (continued)

	US GAAP	Functional currency	Measurement of property, plant and equipment (including received under finance lease agreements)	Decommis- sioning provision	Deferred tax recalculated under IFRS	Reclassifi- cation of short-term deferred tax assets/ liabilities	Other adjustments	Total adjustments and reclassifi- cations	IFRS
LIABILITIES AND SHAREHOLDERS' EQUITY									
Current liabilities:									
Accounts payable and accrued liabilities	91	–	–	–	–	–	(2)	(2)	89
Loans and borrowings	414	–	–	–	–	–	–	–	414
Finance lease liabilities	1	–	–	–	–	–	–	–	1
Liabilities related to derivative instruments	6	–	–	–	–	–	–	–	6
Income tax liabilities	3	–	–	–	–	–	–	–	3
Other tax liabilities	29	–	–	–	–	–	(1)	(1)	28
Deferred tax liabilities	3	–	–	–	–	(3)	–	(3)	–
Provisions	–	–	–	–	–	–	2	2	2
Other current liabilities	2	–	–	–	–	–	(1)	(1)	1
Total current liabilities	549	–	–	–	–	(3)	(2)	(5)	544
Non-current liabilities:									
Loans and borrowings	293	–	–	–	–	–	–	–	293
Finance lease liabilities	3	–	–	–	–	–	–	–	3
Deferred tax liabilities	158	–	–	–	118	–	–	118	276
Provisions	56	–	–	(35)	–	–	–	(35)	21
Other non-current liabilities	55	–	–	–	–	–	(10)	(10)	45
Total non-current liabilities	565	–	–	(35)	118	–	(10)	73	638
Equity:									
Share capital	1	–	–	–	–	–	–	–	1
Treasury shares non-pledged	(112)	–	–	–	–	–	–	–	(112)
pledged	(109)	–	–	–	–	–	–	–	(109)
Additional paid-in capital	385	–	–	–	–	–	11	11	396
Other reserves	(1)	–	–	–	–	–	–	–	(1)
Retained earnings	978	–	301	19	(113)	(1)	(3)	203	1,181
Total shareholders' equity	1,142	–	301	19	(113)	(1)	8	214	1,356
Non-controlling interests	20	–	4	–	–	–	–	4	24
Total equity	1,162	–	305	19	(113)	(1)	8	218	1,380
Total liabilities and equity	2,276	–	305	(16)	5	(4)	(4)	286	2,562

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

41. First-time adoption of IFRS (continued)

Reconciliation of consolidated balance sheet as at December 31, 2011

	US GAAP	Functional currency	Measurement of property, plant and equipment (including received under finance lease agreements)	Decommis- sioning provision	Deferred tax recalculated under IFRS	Reclassifi- cation of short-term deferred tax assets/ liabilities	Other adjustments	Total adjustments and reclassifi- cations	IFRS
ASSETS									
Current assets:									
Cash and cash equivalents	167	–	–	–	–	–	(1)	(1)	166
Restricted cash	4	–	–	–	–	–	–	–	4
Financial assets	150	–	–	–	–	–	–	–	150
Deferred tax assets	7	–	–	–	–	(7)	–	(7)	–
Accounts receivable, net of allowance	217	–	–	–	–	–	–	–	217
Inventories	129	(1)	–	–	–	–	(2)	(3)	126
Prepayments and other current assets	152	–	–	–	–	–	–	–	152
Total current assets	826	(1)	–	–	–	(7)	(3)	(11)	815
Non-current assets:									
Property, plant and equipment	2,181	(175)	180	(1)	–	–	46	50	2,231
Intangible assets	23	(1)	–	–	–	–	–	(1)	22
Financial assets	34	–	–	–	–	–	–	–	34
Investment in associates and joint ventures	132	(12)	–	–	–	–	(6)	(18)	114
Bank loans issued, net of allowance	13	–	–	–	–	–	–	–	13
Deferred tax assets	7	–	–	–	(1)	7	–	6	13
Goodwill	145	(13)	–	–	–	–	–	(13)	132
Other non-current non-financial assets	51	–	–	–	–	–	(48)	(48)	3
Total non-current assets	2,586	(201)	180	(1)	(1)	7	(8)	(24)	2,562
Total assets	3,412	(202)	180	(1)	(1)	–	(11)	(35)	3,377

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

41. First-time adoption of IFRS (continued)

Reconciliation of consolidated balance sheet as at December 31, 2011 (continued)

	US GAAP	Functional currency	Measurement of property, plant and equipment (including received under finance lease agreements)	Decommis- sioning provision	Deferred tax recalculated under IFRS	Reclassifi- cation of short-term deferred tax assets/ liabilities	Other adjustments	Total adjustments and reclassifi- cations	IFRS
LIABILITIES AND SHAREHOLDERS' EQUITY									
Current liabilities:									
Accounts payable and accrued liabilities	181	—	—	—	—	—	—	—	181
Loans and borrowings	152	—	—	—	—	—	—	—	152
Finance lease liabilities	1	—	—	—	—	—	—	—	1
Liabilities related to derivative instruments	4	—	—	—	—	—	—	—	4
Income tax liabilities	3	—	—	—	—	—	—	—	3
Other tax liabilities	67	—	—	—	—	—	(1)	(1)	66
Deferred tax liabilities	4	—	—	—	—	(4)	—	(4)	—
Provisions	6	—	—	—	—	—	—	—	6
Other current liabilities	1	—	—	—	—	—	—	—	1
Total current liabilities	419	—	—	—	—	(4)	(1)	(5)	414
Non-current liabilities:									
Loans and borrowings	598	—	—	—	—	—	(2)	(2)	596
Finance lease liabilities	5	—	—	—	—	—	—	—	5
Deferred tax liabilities	150	—	—	—	80	4	—	84	234
Provisions	88	—	—	(31)	—	—	—	(31)	57
Other non-current liabilities	2	—	—	—	—	—	—	—	2
Total non-current liabilities	843	—	—	(31)	80	4	(2)	51	894
Equity:									
Common shares	1	—	—	—	—	—	—	—	1
Treasury shares	(245)	21	—	—	—	—	—	21	(224)
Additional paid-in capital	415	(27)	—	—	—	—	(2)	(29)	386
Other reserves	1	3	—	—	—	—	(9)	(6)	(5)
Retained earnings	1,944	(199)	180	30	(81)	—	3	(67)	1,877
Total equity attributable to equity holders of the Company	2,116	(202)	180	30	(81)	—	(8)	(81)	2,035
Non-controlling interests	34	—	—	—	—	—	—	—	34
Total equity	2,150	(202)	180	30	(81)	—	(8)	(81)	2,069
Total equity and liabilities	3,412	(202)	180	(1)	(1)	—	(11)	(35)	3,377

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

41. First-time adoption of IFRS (continued)

Reconciliation of 2011 consolidated statement of comprehensive income

	US GAAP	Functional currency	Measurement of property, plant and equipment (including received under finance lease agreements)	Decommis- sioning provision	Deferred tax recalculated under IFRS	Reclassifi- cation of short-term deferred tax assets/ liabilities	Other adjustments	Total adjustments and reclassifi- cations	IFRS
Revenues									
Oil and gas sales	1,393	–	–	–	–	–	(1)	(1)	1,392
Petroleum products and petrochemicals sales	1,264	–	–	–	–	–	1	1	1,265
Support services and other revenues	45	–	–	–	–	–	–	–	45
Total revenues	2,702	–	–	–	–	–	–	–	2,702
Costs and expenses									
Production and operating expenses	191	(1)	–	–	–	–	(1)	(2)	189
Cost of purchased oil, gas and petroleum products and refining costs	298	–	–	–	–	–	–	–	298
General and administrative expenses	52	–	–	–	–	–	–	–	52
Pipeline tariffs and transportation costs	215	–	–	–	–	–	1	1	216
Exploration expenses	13	–	–	–	–	–	–	–	13
Depreciation, depletion and amortization	177	–	36	–	–	–	–	36	213
Taxes other than income tax	497	–	–	–	–	–	1	1	498
Export customs duty	790	–	–	–	–	–	–	–	790
Total costs and expenses	2,233	(1)	36	–	–	–	1	36	2,269
Operating income	469	1	(36)	–	–	–	(1)	(36)	433
Finance income	19	–	–	–	–	–	1	1	20
Finance expenses	(16)	–	–	–	–	–	(3)	(3)	(19)
Equity share in profits of associates and joint ventures	17	–	–	–	–	–	(1)	(1)	16
Other expenses	(30)	(5)	(12)	–	–	–	2	(15)	(45)
Income before income tax	459	(4)	(48)	–	–	–	(2)	(54)	405
Income tax	(90)	–	–	–	4	–	–	4	(86)
Net income	369	(4)	(48)	–	4	–	(2)	(50)	319
Other comprehensive income									
Foreign exchange differences on translation of foreign operations	2	1	–	–	–	–	(4)	(3)	(1)
(Loss)/income from changes in fair value of financial assets available-for-sale, net of tax	(1)	2	–	–	–	–	–	2	1
Total other comprehensive income, net of tax	1	3	–	–	–	–	(4)	(1)	–
Total comprehensive income, net of tax	370	(1)	(48)	–	4	–	(6)	(51)	319

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

41. First-time adoption of IFRS (continued)

Reconciliation of 2011 consolidated statement of comprehensive income (continued)

	US GAAP	Functional currency	Measurement of property, plant and equipment (including received under finance lease agreements)	Decommis- sioning provision	Deferred tax recalculated under IFRS	Reclassifi- cation of short-term deferred tax assets/ liabilities	Other adjustments	Total adjustments and reclassifi- cations	IFRS
Net income									
attributable to shareholders of Rosneft	365	(3)	(48)	–	4	–	(2)	(49)	316
attributable to non- controlling interests	4	(1)	–	–	–	–	–	(1)	3
Total comprehensive income, net of tax									
attributable to shareholders of Rosneft	366	–	(48)	–	4	–	(6)	(50)	316
attributable to non- controlling interests	4	(1)	–	–	–	–	–	(1)	3
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	38.08	(0.31)	(5.03)	–	0.42	–	(0.21)	(5.13)	32.95

Measurement of property, plant and equipment (including received under finance lease agreements)

The Company has taken the voluntary exemption allowed by IFRS 1 and uses the fair value as the deemed cost of property, plant and equipment. The Company has measured the fair value of property, plant and equipment as at January 1, 2009.

Decommissioning provision

According to the US GAAP decommissioning provision has been previously measured based on the estimated cost of decommissioning, discounted to its net present value upon recognition. However, adjustments to the discount rate are not reflected in the provisions under US GAAP unless it caused an upward revision in the future costs estimates. The Company has taken the exemption for liabilities to which IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, applies and has remeasured the decommissioning liability as at 1 January 2009 under IAS 37 using current discount rate as at January 1, 2009. In the subsequent periods decommissioning liability is remeasured using current discount rate as at the end of each reporting period.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

41. First-time adoption of IFRS (continued)

Deferred tax recalculated under IFRS

Under IFRS, deferred taxes have been recalculated based on the IFRS net book values. The main difference in deferred tax amounts calculated under IFRS and deferred tax amounts calculated under US GAAP is due to the measurement of property, plant and equipment.

Reclassification of current deferred tax assets and liabilities

Under US GAAP, deferred tax assets were classified to current and non-current, based on the classification of the underlying assets and liabilities that give rise to the difference. IAS 12, *Income Taxes* requires that deferred taxation amounts be classified as non-current assets.

Other adjustments

According to IAS 16, *Property, Plant and Equipment*, prepayments for property, plant and equipment amounted to RUB 22 billion and RUB 44 billion have been reclassified from Other non-current non-financial assets under US GAAP to Property, plant and equipment under IFRS in the consolidated balance sheet as of January 1, 2009 and December 31, 2011, respectively.

Functional currency

Under US GAAP US\$ was the functional currency of Rosneft and its subsidiaries operating in the Russian Federation. For the purposes of reporting under IFRS functional currency was determined as RUB for Rosneft and its subsidiaries, operating in the Russian Federation.

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

42. Supplementary oil and gas disclosure (unaudited)

IFRS do not require that information on oil and gas reserves be disclosed. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that the data represents management's best estimates. Accordingly, this information may not necessarily represent the current financial condition of the Company and its future financial results.

Company's activities are conducted primarily in Russia, which is considered as one geographic area.

Presented below are capitalized costs relating to oil and gas production

	December 31,		
	2011	2010	2009
Oil and gas properties related to proved reserves	2,100	1,838	1,648
Oil and gas properties related to non-proved reserves	104	99	97
Total capitalized costs	2,204	1,937	1,745
Accumulated depreciation and depletion	(474)	(294)	(128)
Net capitalized costs	1,730	1,643	1,617

Net book value of production rights was RUB 328 billion, RUB 335 billion and RUB 346 billion as at December 31, 2011, 2010 and 2009, respectively.

Presented below are costs incurred in the acquisition, exploration and development of oil and gas reserves

for the years ended December 31:

	2011	2010	2009
Acquisition of proved oil and gas reserves	–	–	–
Acquisition of non-proved oil and gas reserves	7	4	3
Exploration costs	13	14	11
Development costs	260	188	184
Total costs incurred	280	206	198

Presented below are the results of operations relating to oil and gas production

For the years ended December 31:

	2011	2010	2009
Revenues:			
External sales	771	555	427
Transfers	378	392	319
Total revenues	1,149	947	746
Production costs (excluding production taxes)	70	69	59
Selling, general and administrative expenses	27	36	21
Costs of oil and gas exploration	13	14	11
Depreciation, depletion and amortization	184	176	136
Unwinding of discount	5	2	2
Taxes other than income tax	430	286	215
Income tax	61	57	33
Results of operations relating to oil and gas production	359	307	269

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

42. Supplementary oil and gas disclosure (unaudited) (continued)

Reserve quantity information

For the purposes of evaluation of reserves as of December 31, 2011, 2010 and 2009 the Company used the oil and gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers, prepared in accordance with United States Securities and Exchange Commission (SEC) definitions. Proved reserves are those estimated quantities of crude oil and gas which, by analysis of geological and engineering data, demonstrate with reasonable certainty to be recoverable in the future from existing reservoirs under the existing economic and operating conditions. In certain cases, recovery of such reserves may require considerable investments in wells and related equipment. Proved reserves also include additional oil and gas reserves that will be extracted after the expiry date of license agreements or may be discovered as a result of secondary and tertiary extraction which have been successfully tested and checked for commercial benefit. Proved developed reserves are the quantities of crude oil and gas expected to be recovered from existing wells using existing equipment and operating methods.

Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances are estimates of proved undeveloped reserves attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless those techniques have been proved effective by actual tests in the area and in the same reservoir. Due to inherent industry uncertainties and the limited nature of deposit data, estimates of reserves are subject to change as additional information becomes available.

The Company management included in proved reserves those reserves which the Company intends to extract after the expiry of the current licenses. The licenses for the development and production of hydrocarbons currently held by the Company generally expire between 2013 and 2051, and the licenses for the most important deposits expire between 2013 and 2051. In accordance with the effective version of the law of the Russian Federation, *On Subsurface Resources* (the "Law"), licenses are currently granted for a production period determined on the basis of technological and economic criteria applied to the development of a mineral deposit which guarantee rational use of subsurface resources and necessary environmental protection. In accordance with the Law and upon gradual expiration of old licenses issued under the previous version of the Law, the Company extends its hydrocarbon production licenses for the whole productive life of the fields. Extension of the licenses depends on compliance with the terms set forth in existing license agreements. As of the date of these consolidated financial statements, the Company is generally in compliance with all the terms of the license agreements and intends to continue complying with such terms in the future.

The Company's estimates of net proved oil and gas reserves and changes thereto for the years ended December 31, 2011, 2010 and 2009 are shown in the table below and expressed in million barrels of oil equivalent (oil production data was recalculated from tones to barrels using a field specific in the range from 7.05 to 7.65 barrels per tonne, gas production data was recalculated from cubic meters to barrels of oil equivalent ("boe") using a ratio of 35.3/6 cubic meters per barrel).

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

42. Supplementary oil and gas disclosure (unaudited) (continued)

Reserve quantity information

	2011	2010	2009
	mln boe	mln boe	mln boe
Beginning of year	13,970	13,951	13,360
Revisions of previous estimates	2,201	319	683
Increase and discovery of new reserves	1,044	541	703
Purchase of new reserves (through acquisition of subsidiaries)	–	–	–
Production	(863)	(841)	(795)
End of year	16,352	13,970	13,951
of which:			
Proved reserves under PSA Sakhalin 1	95	80	66
Proved developed reserves	10,514	9,769	10,204
Minority interest in total proved reserves	109	122	103
Minority interest in proved developed reserves	71	44	37

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

The standardized measure of discounted future net cash flows related to the above oil and gas reserves is calculated in accordance with the provisions set by U.S. Securities and Exchange Commission (SEC). Estimated future cash inflows from oil and gas production are computed by applying year-end prices for oil and gas to year-end quantities of estimated net proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce estimated proved reserves as of year-end based on year-end cost indices and assuming continuation of year end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future net pre-tax cash flows, net of the tax bases of related assets.

Discounted future net cash flows are calculated using a 10% p.a. discount factor. Discounting requires a year-by-year estimates of future expenditures to be incurred in the periods when the reserves will be extracted.

The information provided in the table below does not represent management's estimates of the Company's expected future cash flows or of the value of its proved oil and gas reserves. Estimates of proved reserves change over time as new information becomes available. Moreover, probable and possible reserves which may become proved in the future are excluded from the calculations. The arbitrary valuation prescribed under provisions set by SEC requires assumptions as to the timing and the amount of future development and production costs. The calculations should not be relied upon as an indication of the Company's future cash flows or of the value of its oil and gas reserves.

	2011	2010	2009
Future cash inflows	18,611	13,677	12,172
Future development costs	(947)	(1,043)	(929)
Future production costs	(9,769)	(6,568)	(5,641)
Future income tax expenses	(1,280)	(945)	(874)
Future net cash flows	6,615	5,121	4,728
Discount for estimated timing of cash flows	(3,899)	(2,846)	(2,523)
Discounted value of future cash flows as of the end of year	2,716	2,275	2,205

Rosneft Oil Company

Notes to Consolidated Financial Statements (continued)

42. Supplementary oil and gas disclosure (unaudited) (continued)

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves (continued)

	2011	2010	2009
Discounted value of future cash flows as of the beginning of year	2,275	2,205	1,043
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	(622)	(556)	(452)
Changes in price estimates, net	341	370	1,138
Changes in future development costs	73	(271)	(259)
Development costs incurred during the period	260	188	184
Revisions of previous reserves estimates	223	52	80
Increase in reserves due to discoveries, less respective expenses	221	106	279
Net change in income taxes	(142)	(51)	(192)
Accretion of discount	228	221	104
Purchase of new oil and gas fields	–	–	–
Other	(141)	11	280
Discounted value of future cash flows as of the end of year	2,716	2,275	2,205

Company's share in costs, inventories and future cash flows of the equity investees

	UOM	2011	2010	2009
Share in capitalized costs relating to oil and gas producing activities (total)	RUB bln	77	77	75
Share in costs incurred in oil and gas property acquisition, exploration and development activities (total)	RUB bln	15	10	16
Share in results of operations for oil and gas producing activities (total)	RUB bln	17	7	7
Share in estimated proved oil and gas reserves	mln boe	1,265	1,228	1,195
Share in estimated proved developed oil and gas reserves	mln boe	777	760	769
Share in discounted value of future cash flows	RUB bln	271	196	201

Share of other (non-controlling) shareholders in discounted value of future cash flows

	UOM	2011	2010	2009
Share of other (non-controlling) shareholders in discounted value of future cash flows	RUB bln	32	21	28

Rosneft Oil Company
Notes to Consolidated Financial Statements (continued)

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