

ROSNEFT

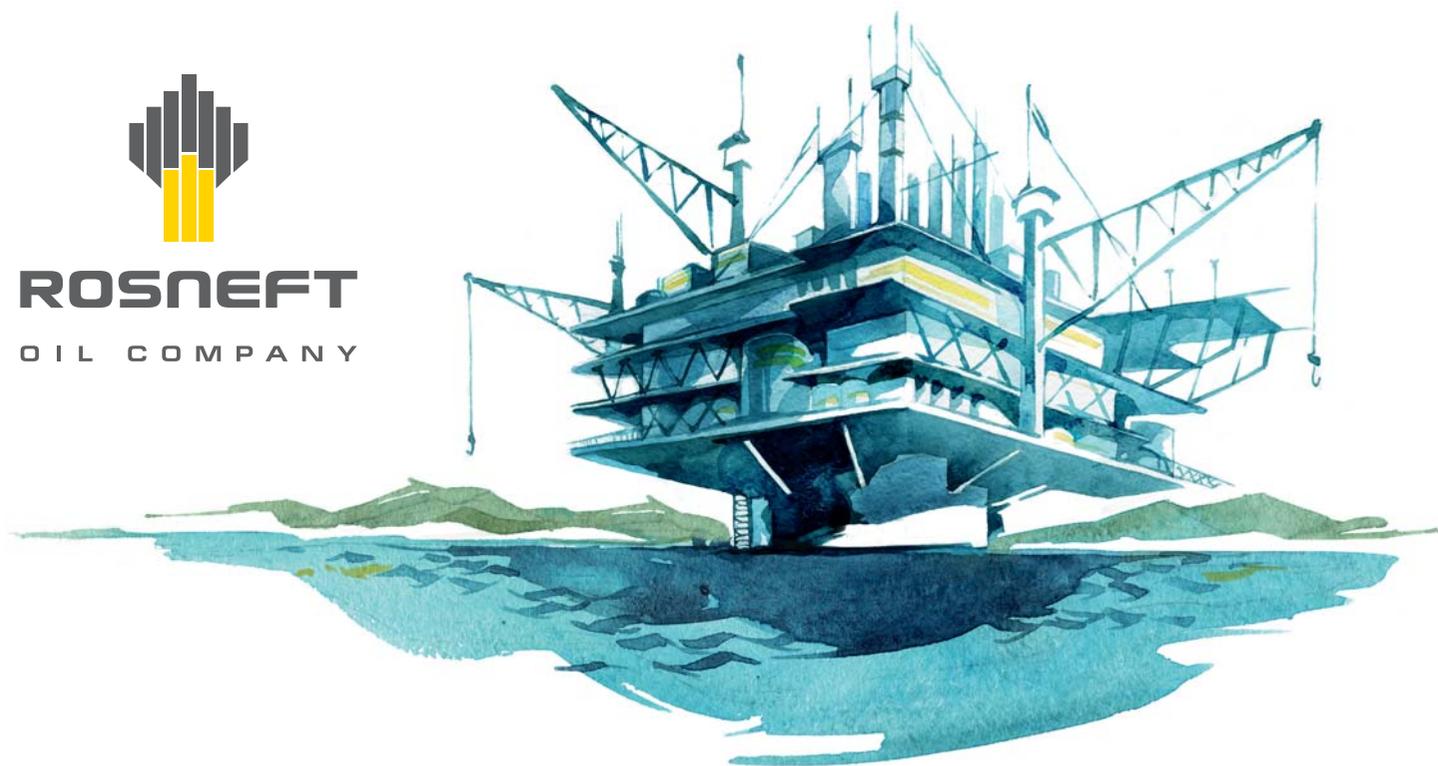
ANNUAL REPORT

2011

GLIMPING THE FUTURE



ROSNEFT
OIL COMPANY



ROSNEFT IS THE LEADING RUSSIAN PETROLEUM COMPANY AND ONE OF THE WORLD'S TOP PUBLICLY TRADED OIL & GAS CORPORATIONS

BUSINESS GEOGRAPHY:

The Company operates in almost all regions of Russia and several foreign countries.

CORE BUSINESSES:

Exploration and production of oil and gas, production of petroleum products and petrochemicals, and sale of outputs in Russia and abroad.

KEY ASSETS:

- PRMS proved reserves: 18.35 bln barrels of oil and 850 bln cubic meters of gas;
- 414 producing fields with annual output of almost 870 mln barrels of oil and over 12 bln cubic meters of gas;
- 120 exploration blocks with resources of 154 bln barrels of oil equivalent;
- 7 refineries in Russia with aggregate refining capacity of 52 mln tonnes of oil;
- stakes in 4 refineries in Germany with net capacity of 11.6 mln tonnes of oil;
- 1,681 operating filling stations under the Rosneft brand in 44 regions of Russia.

SUSTAINED COMPETITIVE ADVANTAGES:

- reserve base of unique size and quality;
- Russia's biggest new upstream projects;
- lowest per-barrel upstream operating expenses;
- status as a Russian strategic enterprise.

COMPANY FUTURE:

A global energy company, providing consistently high income to shareholders through sustainable growth, efficiency improvements, and design and application of innovative technologies.

DEVELOPMENT PRIORITIES:

- efficient development of existing reserves;
- development of gas business;
- transfer of resources to proved reserves;
- access to technology and management expertise through participation in international projects;
- modernization of refining to achieve full compliance with requirements of the Russian Government's Technical Regulations;
- development of petrochemical business;
- development of marketing business;
- creation of an up-to-date management model.

GLIMPING THE FUTURE

ROSNEFT ANNUAL REPORT 2011



ROSNEFT
OIL COMPANY

The terms 'Rosneft Oil Company', 'Rosneft', and 'the Company' may refer either to OJSC Rosneft Oil Company or to OJSC Rosneft Oil Company together with its subsidiaries and equity affiliates, depending on the context.

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Chairman's Address



DEAR SHAREHOLDERS,

Rosneft made further advances across the board in 2011, further strengthening its position as a global energy leader. Implementation of projects begun in the reporting year will substantially expand the Company's resource base and enable Rosneft to tap the huge potential of new oil & gas provinces, as well as broadening our international presence and adding new capacities in the oil refining and petrochemicals business.

The key event last year was without doubt the unprecedented agreement on strategic cooperation between our Company and ExxonMobil. Thanks to this agreement Rosneft can begin work to monetize its enormous offshore potential with minimal risks. The reporting year also brought the prospect of invaluable experience working with hard-to-recover reserves as part of joint projects outside Russia. Rosneft also strengthened its position in Venezuela, home to the world's second largest proved oil reserves, by signing a memorandum on participation in the Carabobo-2 project.

We achieved a high reserve replacement ratio in 2011 and further strengthened our position as a global leader by proved liquid hydrocarbon reserves. Rosneft's extensive resource base enables sustainable growth of oil production and steady increase of our share in overall Russian oil output. Our production levels were 2.4% higher year-on-year compared with an increase of the all-Russian indicator by just over 1%.

We continued work in the reporting year on an ambitious project for modernization of our refining capacities, the largest such project being implemented in Russia today. Six secondary refining units with a total capacity of four million tonnes were brought into operation. Much still remains to be done, but I can confidently say that Rosneft's management will make every effort to ensure that the modernization programme is successfully completed.

As well as developing our refineries in Russia, we also acquired a stake in refining assets in Germany, one of the largest and most stable markets in Western Europe. Construction work also began on our new petrochemical plant in the Russian Far

THE KEY EVENT LAST YEAR WAS WITHOUT DOUBT THE UNPRECEDENTED AGREEMENT ON STRATEGIC COOPERATION BETWEEN ROSNEFT AND EXXONMOBIL. THANKS TO THIS AGREEMENT ROSNEFT CAN BEGIN WORK TO MONETIZE ITS ENORMOUS OFFSHORE POTENTIAL WITH MINIMAL RISKS.

East, which will enable the Company to win leading positions on both Russian and Asia-Pacific markets.

Providing a steady supply of petroleum products to the domestic market is a strategic priority for Rosneft, and the Company dealt successfully with various challenges to ensure that this task was fulfilled in 2011. Our efforts were rewarded by strong growth in demand for our products. Sales volumes through our filling station network grew by more than 20% year-on-year in 2011.

Technological expertise and capacity and the ability to innovate assume ever greater importance as Rosneft enters new regions with particularly harsh climates and challenging geological conditions. We invested 8.55 billion roubles in developing our research and development operations in 2011, continuing to work with leading sector institutes in Russia and abroad. The Arctic Research and Design Center for Offshore Development, set up in the reporting year, will carry out a range of activities linked to the introduction of new technologies and supporting offshore operations in the Arctic and

other Rosneft projects. A new post of Vice President for Innovation has been created at Rosneft and two specialized innovation departments have been set up within the Company.

Rosneft achieved record financial results in 2011 and could therefore recommend its shareholders to approve a 25% increase of dividends.

Our successful business results both confirm that we have set the right strategic priorities and promise further sustainable development by Rosneft for the benefit of its shareholders.



Alexander Nekipelov

Chairman
of the Board of Directors
of OJSC Rosneft Oil
Company

President's Address



DEAR SHAREHOLDERS,

The Company finished 2011 with outstanding operating and financial results. We also began implementation of a number of strategic initiatives, which have already yielded positive results in the reporting year.

We devoted considerable attention to expanding the Company's resource base. A total of 21 new licenses were obtained, including several for promising offshore areas in Russian territorial waters. As a result, Rosneft's recoverable resources grew to 154 billion barrels of oil equivalent. A replacement ratio of over 160% was achieved for proved oil reserves thanks to work carried out by our geologists. Two fields were discovered in Eastern Siberia and one in Krasnodar Territory. Implementation of a programme to locate oil & gas overlooked in previous development work led to the discovery of 39 new deposits.

We made substantial progress towards finalizing key terms of our operating agreements with ExxonMobil concerning the main aspects of our strategic partnership. Additional seismic studies were begun in the Black Sea and preparations were made for the start of seismic studies on the shelf of the Kara sea. We also considered options for cooperation in development of hard-

to-recover oil reserves in Western Siberia and discussed opportunities for Rosneft's involvement in ExxonMobil's projects outside Russia.

Sustainable oil production growth was maintained throughout 2011 thanks mainly to further development of the Vankor project and stable production levels at fields in Western Siberia. We increased crude production by 21 million barrels in comparison with 2010 to 869 million barrels, making us the world's second largest publicly traded oil producer.

Our refineries in Russia processed 51 million tonnes of oil in 2011. Commissioning of new units and refits of existing facilities as part of our refinery modernization programme boosted output of Euro-3 and -4 standard automotive gasoline by 3.3 times, while output of diesel fuel matching these standards rose by 1.7 times. Important new capacities were brought into operation, including a delayed coking unit at the Komsomolsk Refinery and an isomerization unit at Syzran. Modernization work was completed on a diesel fuel hydrotreatment unit at the Achinsk Refinery, and on reforming units at Syzran and Kuibyshev. We closed the deal for acquisition of a stake in refining capacities in Germany. As a result, total refinery throughput increased by 15% to 58 million tonnes.

WE ARE EXPANDING OUR COOPERATION WITH INTERNATIONAL OIL AND GAS PARTNERS AND FOCUSING ON INTEGRATING EMERGING TECHNOLOGIES TO TAKE ADVANTAGE OF OUR EXISTING RESERVE BASE AND TO DEVELOP OFFSHORE AND HARD-TO-RECOVER RESOURCES, ALL OF WHICH WILL ADD VALUE TO OUR SHAREHOLDERS AND WILL ALLOW ROSNEFT TO TAKE ITS PLACE AMONG THE WORLD'S OIL AND GAS MAJORS.

A program for rapid reorganization of the sales and marketing segment began in the reporting year and is focused on logistics, pricing and efficiency gains in our retail business. In particular, mutual exchange operations with other Russian oil companies have been expanded, enabling substantial savings on crude oil transport costs.

Growth of hydrocarbon production and refinery throughput combined with higher prices for oil and petroleum products led to the best-ever financial results in Company history. Revenues from sales rose by 46% to almost 92 billion dollars in 2011 and EBITDA reached an all-time high of 22 billion dollars. Company efforts at cost optimization also contributed to growth of financial indicators.

As a socially responsible company, Rosneft aspires not only to achieve the best-possible operating and financial results, but also to drive development in Russia's regions. In 2011 this involved systematic implementation of programs to ensure safe and decent working conditions, improvement of housing conditions for Company personnel and their families, professional training for personnel, and financial support to veterans and pensioners. Financing was provided for construction, repair, renovation and equipment of more than 250 social facilities.

The Company is continuing work in 2012 to realize its growth potential and increase its capitalization with a particular focus on developing offshore projects, monetizing gas reserves, developing the refining segment, and optimizing the sales and marketing business. Improving the standards of corporate governance and transparency also remains a key priority for Rosneft.

I would like to thank the Company's employees for their success in achieving our strategic priorities, and I wish them further success in the interests of all the shareholders of Rosneft.



Igor Sechin

President
of OJSC Rosneft Oil
Company

010

Key Events in 2011

ROSNEFT



Hydrotreatment unit at the Achinsk Refinery

011

ROSNEFT

01

The Company obtained licenses at six areas in the Sea of Okhotsk. Overall recoverable resources of hydrocarbons at the areas are estimated at 1.2 bln tonnes of oil and 2.1 trillion cubic meters of gas.

02

A license was obtained for 3.6 bln rubles giving rights at the Naulskoye field in Nenets Autonomous District. Field reserves in categories C1+C2 are estimated at 51.3 mln tonnes of oil.

03

Two new fields were discovered at the Danilovsky license area in Eastern Siberia adjacent to the Verkhnechonsk field. Recoverable C1+C2 reserves are estimated to be in excess of 56 mln tonnes of oil and 15 bln cubic meters of gas.

04

An agreement on strategic partnership was reached with ExxonMobil. The agreement is for joint geological exploration and development of offshore license areas in the Kara and Black seas, implementation of joint international projects, exchange of technologies and experience, and possible joint work on hard-to-recover reserves in Western Siberia.

05

A memorandum of understanding was signed with the Venezuelan state oil company Petróleos de Venezuela S.A. on creation of a joint venture for development of heavy oil reserves in Venezuela as part of the Carabobo-2 project. Rosneft's interest in the planned JV will be 40%.

06

The Arctic Research and Design Center for Offshore Development was set up. The key task of the center is systematic R&D, project and design support at all stages of field development on Russia's Arctic shelf.

07

A delayed coking unit at the Komsomolsk Refinery was completed, and an isomerization unit at the Syzran Refinery and a gasoline blending unit at the Achinsk Refinery were both commissioned during the year. Renovations of the diesel hydrotreatment unit at the Achinsk Refinery and catalytic reforming units at the Kuibyshev and Syzran Refineries were also carried out in 2011. All of this work is part of the Company's program for modernization of its refining facilities.

08

A transaction was completed for the acquisition of a 50% interest in the company Ruhr Oel GmbH (a joint venture between Rosneft and BP) from the Venezuelan state oil company PDVSA. Ruhr Oel holds stakes in four oil refineries in Germany. The transaction increases refining capacities of Rosneft by 11.6 mln tonnes.

09

Rosneft began production and marketing of its own premium-class fuel under the Fora brand.

01

Resource Potential: the Foundation for Long-term Growth

Rosneft expanded its resource base
by 3 times in 2011 and began working
on Russia's Arctic shelf.

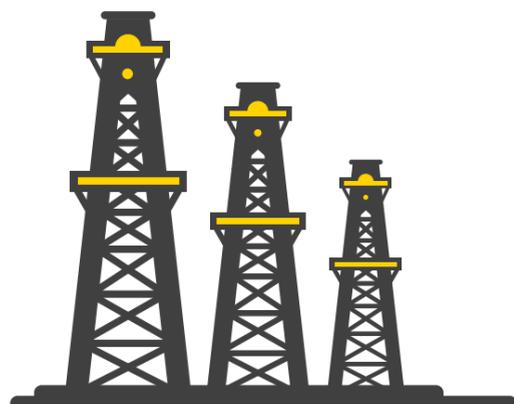


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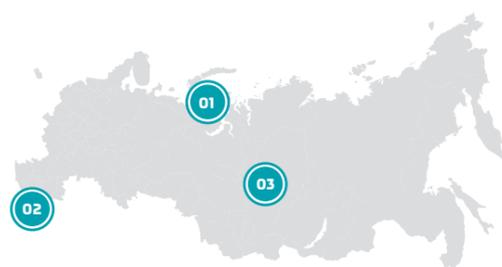
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Resource base

is the key competitive advantage of any oil company and an important factor for sustainable long-term growth.



- » **STATUS:** World leader by recoverable resources
- » **CHALLENGE:** Expansion of the resource base and transformation of resources into proved reserves
- » **FUTURE:** Sustainable growth of hydrocarbon production



- 01**
The East-Prinovozemelsky Blocks
- 02**
The Tuapse Block
- 03**
Western Siberia

IN 2011 ROSNEFT ENTERED A STRATEGIC PARTNERSHIP AGREEMENT WITH EXXONMOBIL FOR JOINT DEVELOPMENT OF THREE OFFSHORE BLOCKS IN THE KARA SEA AND ONE BLOCK IN THE BLACK SEA. THE JOINT WORK WILL BE ACCOMPANIED BY AN EXCHANGE OF MANAGEMENT EXPERIENCE AND KNOW-HOW.

120

GEOLOGICAL EXPLORATION AREAS

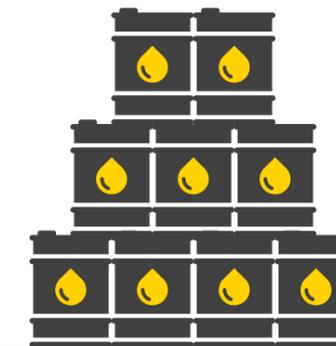
The resource base is the key competitive advantage of any oil company and an important factor for sustainable long-term growth.

Rosneft has unique access to Russia's outstandingly rich resource base. Western Siberia, with its huge proved reserves, is the Company's main operating region, and the region's potential will increase further in the future thanks to development of technology for the extraction of hard-to-recover oil reserves. A new oil production hub is currently taking shape in Eastern Siberia thanks to successful geological exploration projects. The forecast resource base of Russia's Arctic Shelf, where Rosneft owns a number of license areas, amounts to hundreds of billions of barrels of oil equivalent.

Rosneft's estimated recoverable resources as of December 31, 2011 were 154 bln barrels of oil equivalent, including preliminary estimates for offshore areas in the Sea of Okhotsk which were acquired at the end of 2011. This is the highest figure for public oil & gas companies worldwide. Even 10% confirmation of these resources would be equivalent to doubling of Rosneft's current proved reserves, and the Company is already a sector leader by proved reserves with reserve life of 25 years at current production levels.

015

ROSNEFT



154 18.4

BLN BARRELS OF OIL EQUIVALENT OF RECOVERABLE HYDROCARBON RESOURCES

Constant expansion of resource potential by the acquisition of rights to new resource areas is an integral part of Rosneft's long-term development strategy. As of the end of 2011 a total of 17 applications by the Company for rights in offshore areas in Russia's Arctic seas were under consideration by the Federal Agency on Mineral Resources. Positive decisions were obtained at the end of 2011 for three applications concerning areas in the Barents Sea (Fedynsky, Central-Barentsevsky and Perseyevsky) with recoverable resources in excess of 40.6 bln barrels of oil equivalent, and the licenses were issued at the start of 2012. Overall resource potential at offshore areas, for which the Company intends to obtain licenses (including the licenses already received at the start of 2012), is about 263 bln barrels of oil equivalent. That figure exceeds total recoverable resources of Rosneft as of the end of 2011 by 1.7 times.

The transfer of resources to proved reserves will require expensive geological exploration work and the application of new technologies and innovations. In 2011 Rosneft entered a strategic partnership agreement with ExxonMobil for joint development of three offshore blocks in the Kara Sea and one block in the Black Sea. The joint work will be accompanied by an exchange of management

BLN BARRELS OF PROVED OIL RESERVES

experience and know-how. ExxonMobil will assume financing of the initial stage of geological exploration work in exchange for 33% stakes in the projects, substantially reducing risks for Rosneft. A similar approach has already been successfully used by Rosneft for the implementation of offshore projects in the Russian Far East and is likely to be used again when other projects in the offshore Arctic are taken forward. The strategic agreement also envisages possible joint exploration and development of hard-to-recover oil reserves in Western Siberia as well as joint participation in international projects.

The Arctic Research and Design Center for Offshore Developments, which was set up in 2011, will provide scientific support for work at Russian offshore projects. Specialists at the Center will make use of all of the relevant R&D experience, which has been accumulated to date both in Russia and abroad.

Rosneft's Offshore Areas

As of March 31, 2012

190.3
bln boe
Rosneft's
license areas

● Promising
non-licensed areas





The East-Prinovozemelsky blocks

THE EAST-PRINOVOZEMELSKY BLOCKS

The East-Prinovozemelsky blocks are located in the southern part of the Kara Sea and have total extent of 125,900 square km, which is comparable with the North Sea oil & gas province. The environment and climate in the Kara Sea region are challenging, but predictable. The Sea is ice-bound between October and June, and in winter the thickness of the ice does not exceed 2.2 meters. Rosneft geologists currently have 26,000 linear km of 2D seismic data for the areas, which were shot in the 1980s and in 2007. As many as 23 structures with recoverable resources of 36.6 bln barrels of oil and 8.3 trillion cubic meters of gas have already been identified, and even partial confirmation of such potential will in effect create a new oil producing province of global importance. There is great potential for major discoveries at the blocks since, in geological terms, the Kara Sea is a continuation of the Western Siberian oil & gas province, which currently accounts for more than 60% of oil production in the Russian Federation.

The first phase of the project will be focused on confirming hydrocarbon reserves through 2D and 3D seismic work (due to begin in 2012), interpretation of seismic data and development of geological models, followed by well positioning and drilling of exploration wells, which is provisionally scheduled for 2014-2015.

85.3

bln boe
recoverable resources

26 126 23

th. linear km
bank of earlier
2D seismic
available

th. sq. km
area of the
blocks

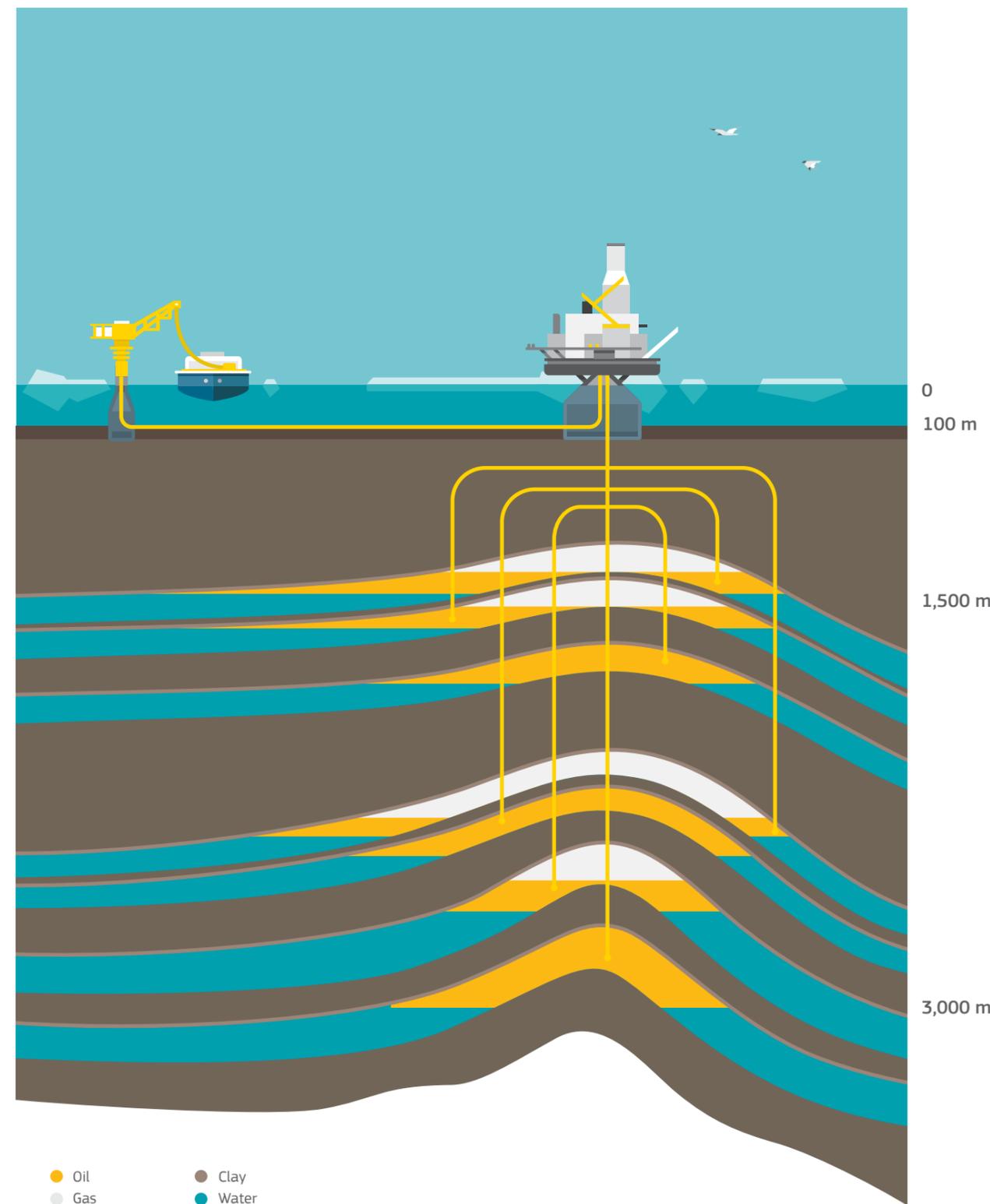
prospective
structures

The initial focus will be on the most promising zones of the first Prinovozemelsky block, primarily the Universitetskaya structure, which has estimated recoverable resources of 9.5 bln barrels of oil equivalent.

Exploration drilling work in the Kara Sea will use jack-up rigs, as sea depth around the first prospecting and exploration wells is no greater than 100 meters. Upper oil-bearing strata are believed to be at a depth of about 1,500 meters, which justifies optimism for rapid confirmation of the resource base and the start of commercial production.

If commercial reserves are found they will most probably be developed using ice-resistant gravity-based platforms, designed by ExxonMobil's scientific center in Houston in association with the newly established Arctic Research and Design Center for Offshore Development.

The potential volume of recoverable reserves and scale of the project justify the grouping of oil processing and storage facilities at a special unit, which will serve a number of production platforms and be connected to an extended docking facility for oil loading. The oil will be transported to the nearby European market using ice-class tankers, accompanied by ice-breakers if necessary.



Oil
Gas
Clay
Water

020

ROSNEFT



The Tuapse Trough

THE TUAPSE TROUGH

The Tuapse license area extends over 12,000 square km in Russian territorial waters of the Black Sea. Its geology is similar to that of the West-Kuban Trough, which is located on the other side of the Caucasus ridge and is one of the oldest oil production regions in Russia. The Tuapse Block has been fully covered by 2D seismic work and the most prospective areas have also been studied using 3D seismic. Data obtained to date reveal 20 promising structures with 8.9 bln barrels of recoverable oil resources.

Rosneft and ExxonMobil specialists have carried out fundamental analysis comparing geology of the Tuapse Trough with that of similar regions where oil finds have been made, including the Niger Delta in West Africa, the sediment cone of the Amazon, the Gulf of Mexico and North-West Borneo. Results of this work confirm initial suggestions that sizeable discoveries could be made at the Tuapse Block.

Additional 3D seismic studies were begun at the area in 2011 using a modern vessel, the Vyacheslav Tikhonov, and 600 square km of seismic work were carried out during the year. This work will be completed in 2012 when a further 4,200 square km of seismic will be shot.

Drilling of a first prospecting and appraisal well is scheduled for 2014-2015. Drilling work in the Black Sea will be carried out using a specialized vessel equipped with a dynamic positioning system. This

8.9

bln barrels
recoverable oil resources

7.3 2.8 12 20

th. linear km historical 2D seismic data available th. sq. km historical 3D seismic data available th. sq. km area of the block prospective structures

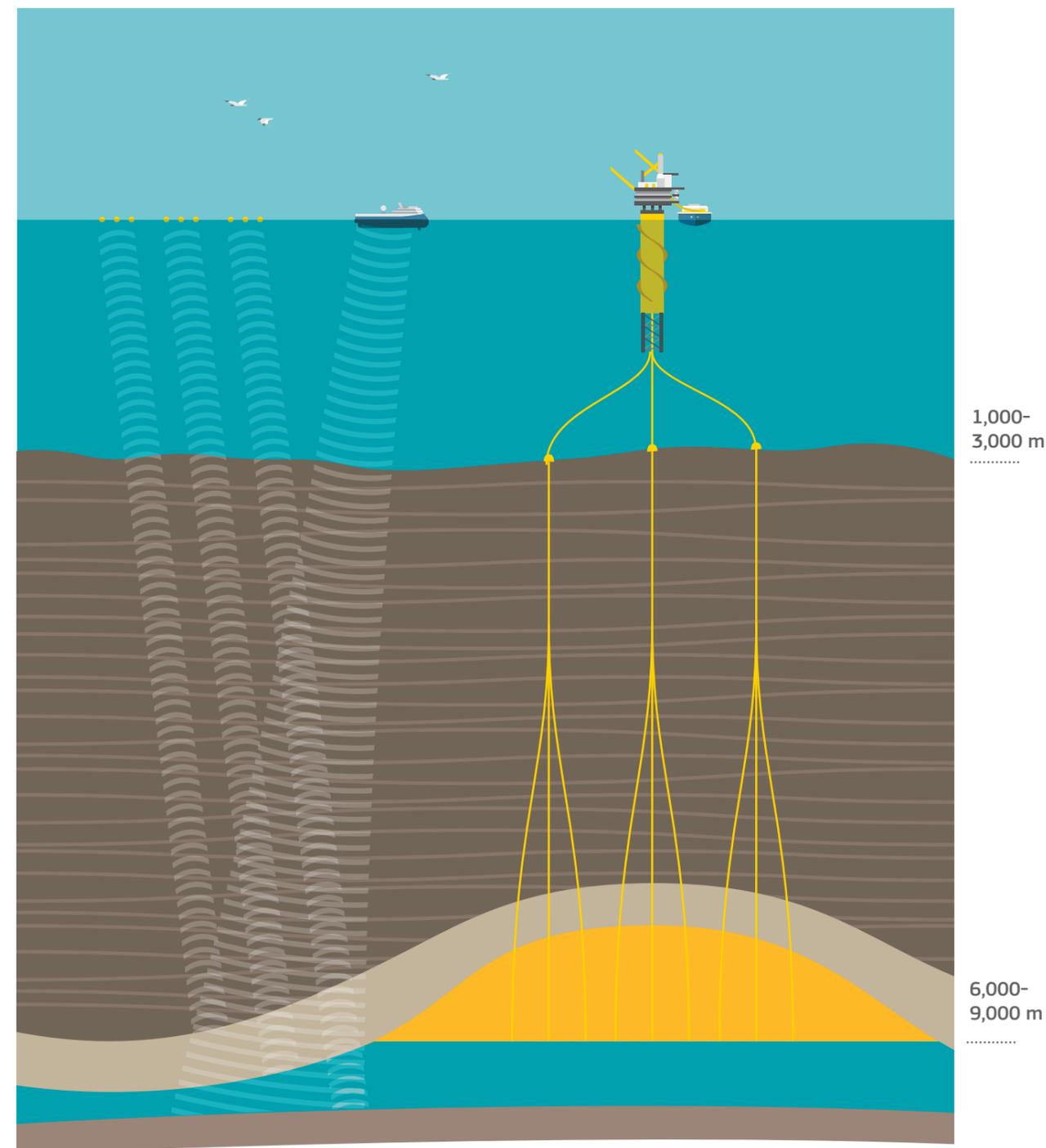
will probably be the Deepwater Champion, which is currently working in the Black Sea as part of ExxonMobil projects. The Deepwater Champion is a sixth-generation drilling vessel custom-built for ExxonMobil and is suited for work at the Tuapse Block where sea depth is up to 3,000 meters and oil finds are expected at a depth of 5,000-6,000 meters below the seabed.

If commercial finds are made, they will be developed using the latest underwater production complexes and SPAR-type platforms.

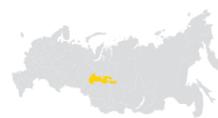
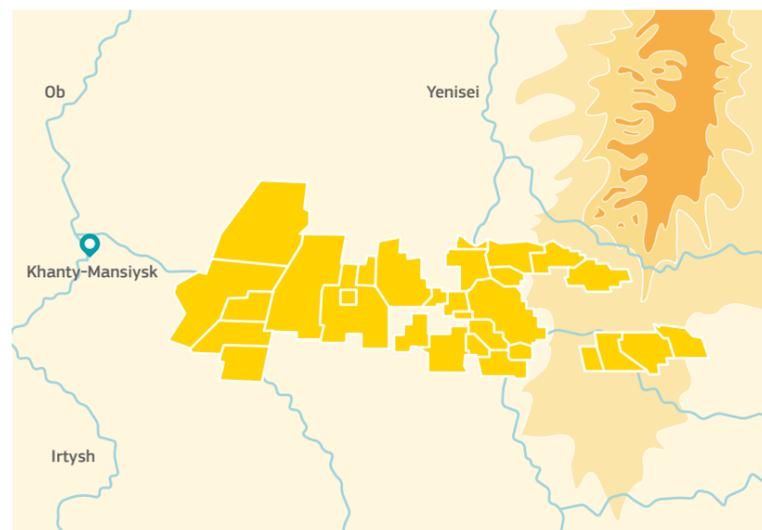
The Black Sea region has established infrastructure and is immediately adjacent to markets in southern Europe, so that marketing of the produced crude oil will not be problematic.

021

ROSNEFT



● Oil ● Clay
● Water



Western Siberia

HARD-TO-RECOVER OIL IN WESTERN SIBERIA

Western Siberia is Rosneft's key production region. Nearly all of the Company's license areas in the region contain oil reserves that are hard to recover. Such reserves are located in Achimov, Bazhenov and Tyumen suites. Amounts of hard-to-recover oil reserves and resources at Rosneft license areas are estimated at 13.2¹ bln barrels.

Rocks of the Bazhenov suite consist of deep-water granite-clay-carbonate sediments with high organic content (shale sediments). They are distinguished from traditional reservoirs by their composition and low permeability. The Bazhenov suite is analogous to American formations (Barnett, Bakken and Eagle-Ford) which are currently being successfully developed by international companies.

The Achimov suite consists of deep-water sediments (predominantly turbidites). The reservoir has limited flow properties, with permeability less than 1 mD, and manifests a high level of disjointedness and heterogeneity.

The Tyumen suite represents the lowest-lying reservoirs in Western Siberia (depths up to 3,200 meters), which are distinguished by complex morphology and limited efficient thickness.

¹ Including 4.4 bln barrels of estimated recoverable oil resources of Bazhenov suite at the open acreage (estimation by Vladimir Shpilman Research Center for Sustainable Mining).

13.2

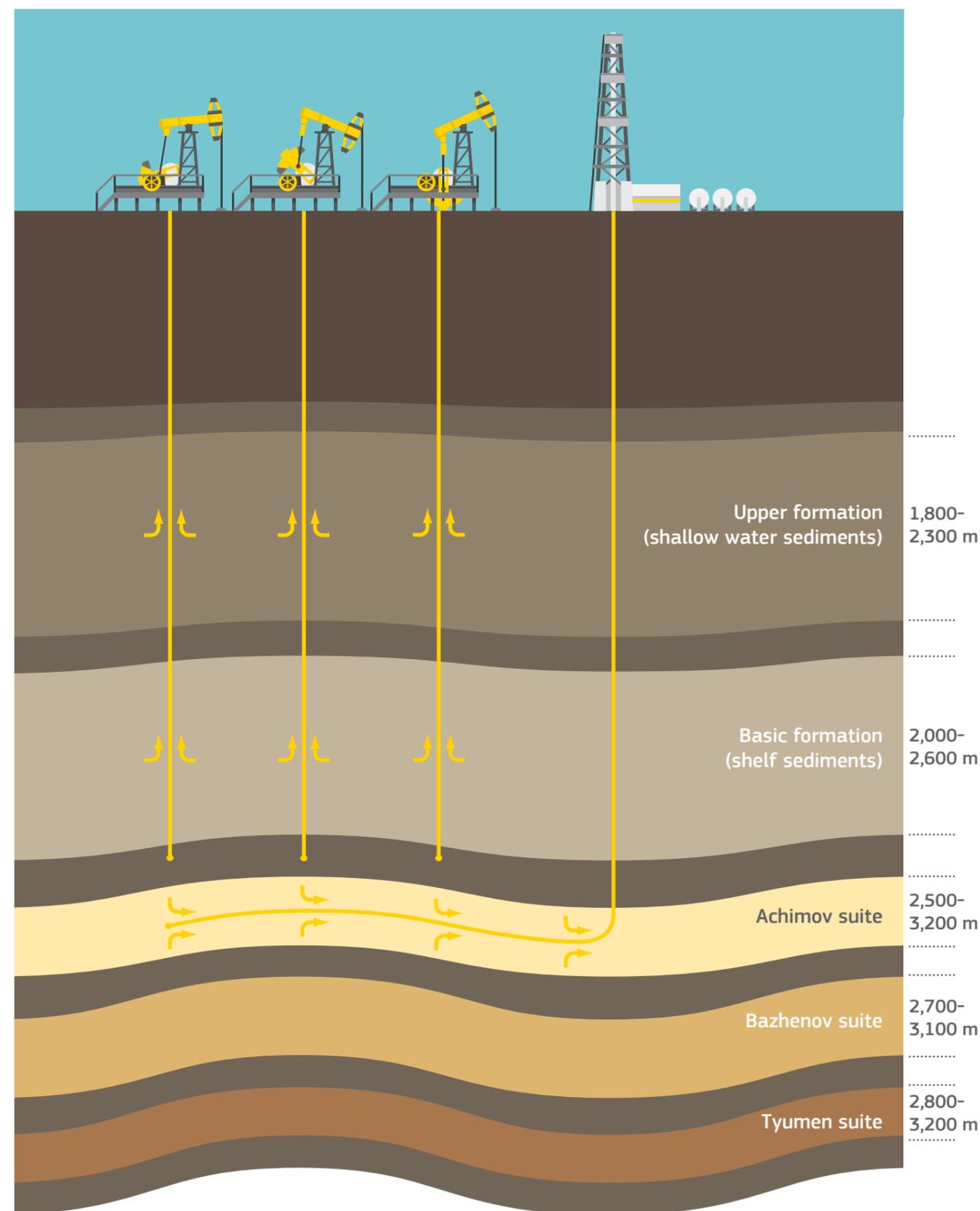
bln barrels¹
recoverable reserves
and resources

27 3.2 2

fields km maximum depth wells with multi-zonal hydrofracturing drilled in 2011

The most promising approach in work with these sediment types is drilling of horizontal wells with multi-zonal hydrofracturing. This technology creates a dense network of artificial fractures raising the permeability of the strata and is extensively used by international oil companies.

During 2011 the Company continued to study the potential for developing hard-to-recover oil reserves. The first horizontal wells with multi-zonal hydrofracturing of strata were drilled at the Company's Priobskoye field and initial daily flow rates of over 1,800 barrels were significantly better than had been expected.





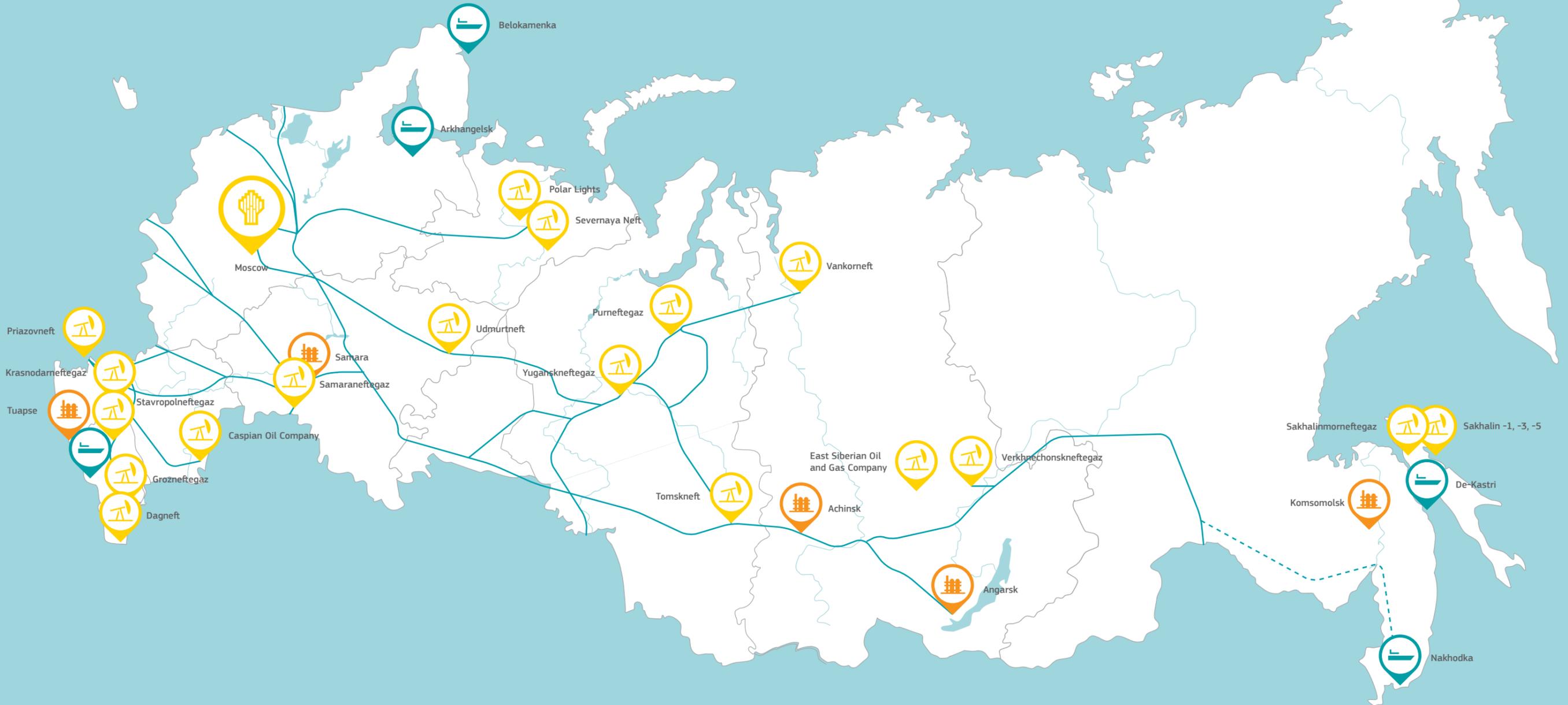
Rosneft Operating Regions

- Exploration and production
- Refineries

- Marine terminals
- Headquarters

Oil pipelines

RUSSIA



026

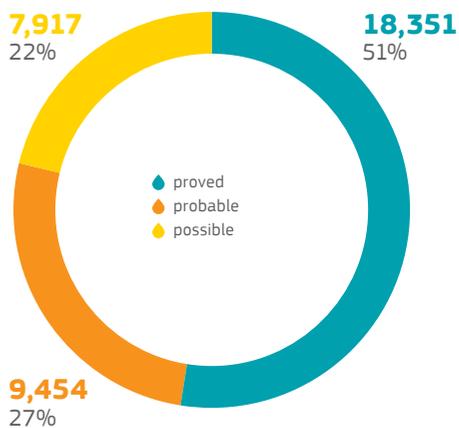
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Key Indicators

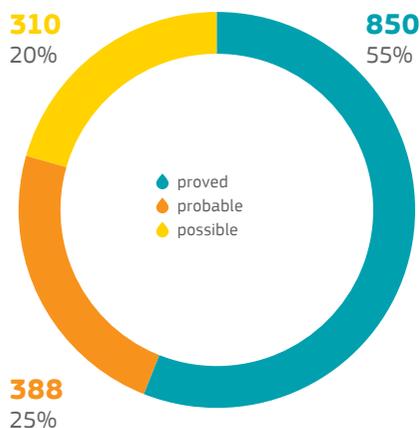
2009	Operating Highlights	2010	2011	Δ, %
18,058	Proved oil reserves, PRMS (mln bbl)	18,110	18,351	+1.3%
816	Proved gas reserves, PRMS (bcm)	791	850	+7.4%
22,858	Proved hydrocarbon reserves, PRMS (mln boe)	22,765	23,352	+2.6%
26	Hydrocarbon reserve-to-production ratio, PRMS (years)	25	25	
796.4	Crude oil production (mln bbl)	847.4	868.6	+2.5%
12.68	Gas production (bcm)	12.34	12.79	+3.6%
2,386	Hydrocarbon production (th. boe per day)	2,521	2,586	+2.6%
49.83	Refinery throughput (mln t)	50.49	57.85	+14.6%
47.06	Petroleum product output (mln t)	47.89	55.38	+15.6%
411.9	Crude oil export sales (mln bbl)	445.0	467.5	+5.1%
27.51	Petroleum product international sales (mln t)	25.81	30.78	+19.3%
1,695	Number of owned and leased filling stations	1,728	1,639	-5.2%
4.77	Retail sales of petroleum products (mln t)	5.26	6.55	+24.5%
Financial highlights				
46,826	Sales (USD mln)	63,047	91,975	+45.9%
13,565	EBITDA (USD mln)	19,203	22,022	+14.7%
29.0%	EBITDA margin	30.5%	23.9%	
17.00	EBITDA per boe of production (USD)	22.66	25.42	+12.2%
6,514	Net income (USD mln)	10,400	12,452	+19.7%
6,472	Adjusted net income* (USD mln)	10,442	12,371	+18.5%
13.8%	Adjusted net income margin	16.6%	13.5%	
11.4%	Return on average capital employed (ROACE)	16.3%	16.8%	
15.2%	Return on average equity (ROAE)	20.7%	20.2%	
3,443	Free cash flow (USD mln)	5,839	2,338	-60.0%
18,489	Net debt (USD mln)	13,662	15,864	+16.1%
0.29	Net debt-to-capital employed ratio	0.20	0.19	
1.36	Net debt-to-EBITDA ratio	0.71	0.72	
1.13	Current ratio	1.97	1.97	
7,252	Capital expenditures (USD mln)	8,931	13,246	+48.3%
7.35	Upstream capital expenditures per boe of production (USD)	7.48	9.43	+26.1%
2.34	Hydrocarbon lifting costs per boe of production (USD)	2.61	2.82	+8.0%
8.60	Share price at the LSE as of year-end (USD)	7.16	6.60	-7.8%

* Net income adjusted for extraordinary items such as effect from asset impairment and interest swaps.

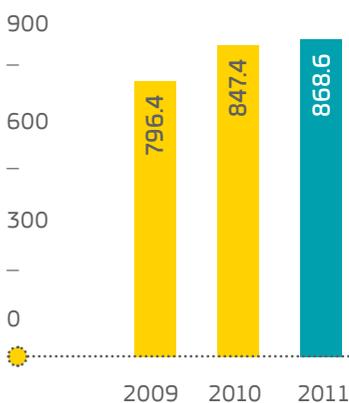
Oil reserves, PRMS (mln barrels, %)



Gas reserves, PRMS (bcm, %)

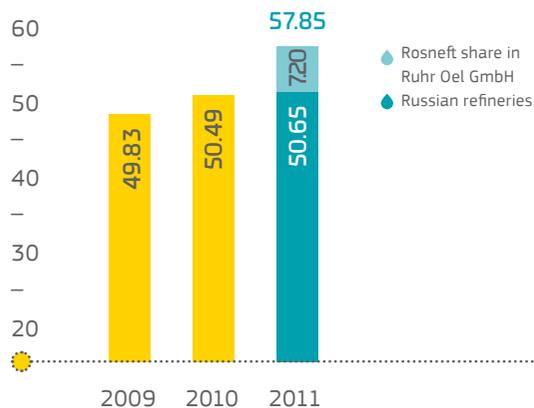


Crude oil production (mln barrels)*



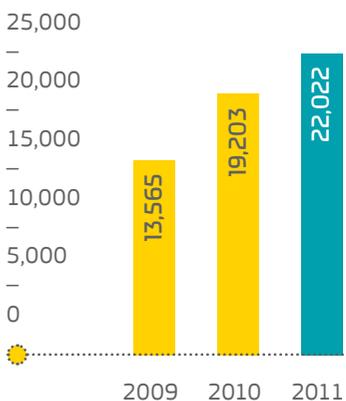
* Including share of production by affiliated companies.

Refinery throughput (mln tonnes)

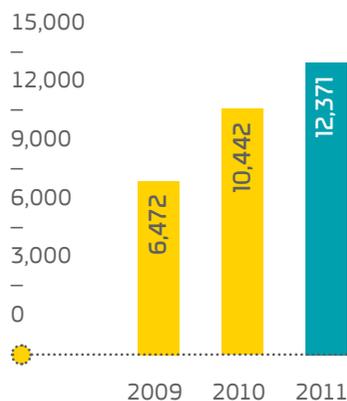


* Not including heavy fractions, which mini-refineries return to the Transneft system.

EBITDA (USD mln)



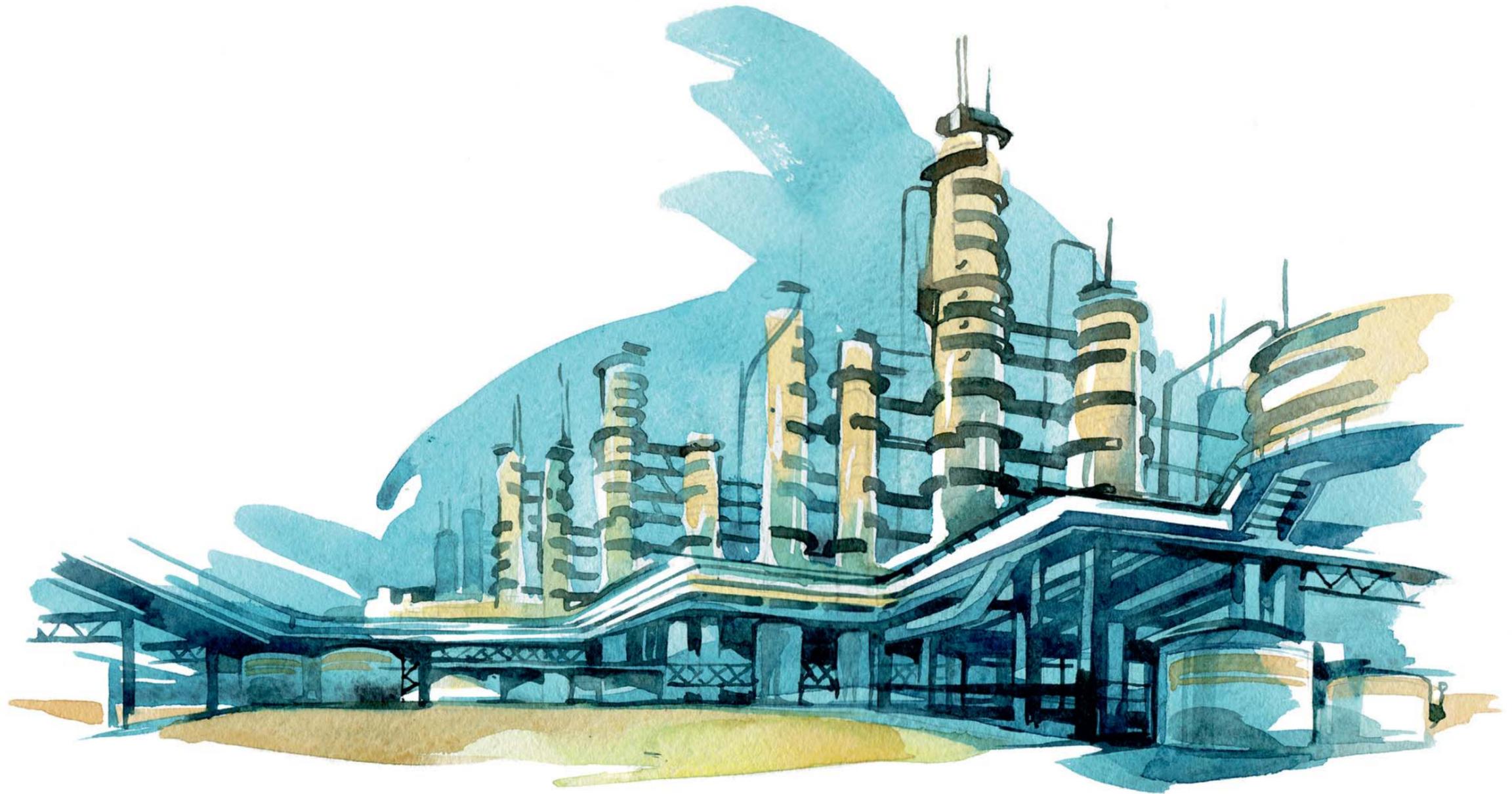
Adjusted net income (USD mln)



02

Performance Review

Growth of hydrocarbon production and refinery throughput combined with higher prices for oil and petroleum products led to the best-ever financial results in Company history.



030

ROSNEFT

Licensing



Prospecting and appraisal drilling at the Lebedinsky area in Sakhalin Region

Under Russian law, exploration or production of minerals can only be carried out after an appropriate license has been obtained.

As of December 31, 2011 Rosneft, its subsidiaries and equity affiliates held 578 licenses for geological study, exploration and production of hydrocarbons in Russia and at the Russian shelf. The Company also held six licenses for areas outside Russia.

The expiry dates of the Company's production licenses vary from 2017 to 2051. Rosneft has been working in the last five years to secure further extension of licenses for its major fields (the Russian Law On Subsurface Resources permits license extension for a period up to full field depletion in accordance with project documentation on the initiative of mineral users, provided that no violation of license conditions has been committed). Rosneft obtained extensions for 116 licenses in the period from 2007 until 2011, including 32 extensions obtained in 2011. A total of 127 applications for amendments and additions to current licenses were prepared in 2011 and submitted to federal and regional agencies with responsibility for mineral use, of which 48 were for changes in exploration work

schedules, 49 for extension of the period of license validity, and 30 for updating of the terms of license agreements.

Rosneft is a highly conscientious user of subsurface resources, strictly observing all of its license commitments. In 2011, agencies responsible for supervision and control of subsurface use carried out inspections of observance of license conditions and implementation of environmental protection measures at OJSC Tomskneft VNK, LLC RN-Krasnodarneftegaz, and LLC RN-Stavropolneftegaz. Materials were prepared and submitted to supervisory agencies for joint review based on the findings of the inspections.

The Company obtained 21 new licenses during 2011, and won nine auctions (competitions) for rights to carry out geological studies, exploration and production of hydrocarbons at the Naulsky area in Nenets Autonomous District, the Atchibarsky area in Stavropol Territory, at the Padovsky, Zagranichny, Santalovsky and Fateyevsky areas in Samara Region, at the Nechkinsky area in the Republic of Udmurtia and at the north-western extremity of stratum BP14 of the Tarasovskoye field in Yamal-Nenets Autonomous District and the northern extremity of the Chaivo field in the Sea of Okhotsk. Total payments for the licenses were RUB 6.5 bln. Total recoverable ABC1 and C2 reserves (Russian classification) at the new license areas are estimated

584

EXPLORATION & PRODUCTION LICENSES AS OF DECEMBER 31, 2011

at 65 mln tonnes of oil and 6 bln cubic meters of gas. Recoverable resources are estimated at 25 mln tonnes of oil equivalent.

Rosneft obtained four prospecting licenses on the basis of applications to licensing bodies, of which three in the Republic of Ingushetia (the North-Achaluksky, Nazrano-Yandyrsky and Krasnogorsky areas) and one in Krasnoyarsk Territory (the Ondodominsky area).

The Company obtained two licenses on the basis of field discoveries, giving rights at the Baikalovsky area in Krasnoyarsk Territory and the Buzerovsky area in Samara Region.

Licenses for five areas in the Sea of Okhotsk (Magadan-1, -2 and -3, Lisyansky and Kashevarovsky) were obtained without competition. Payments for licenses at these areas totaled RUB 836 mln, and recoverable resources at the areas are estimated at 2.8 bln tonnes of oil equivalent.

In 2011 Rosneft entered a contract with the Russian Government for prospecting and appraisal works in 2012 at the Lodochny area, which is located adjacent to the Vankor field. A prospecting license was obtained.

As of the end of 2011 the Company had 23 applications under consideration by Russian regional and federal bodies, including 17 applications for offshore areas in Russia's Arctic Seas.

Positive decisions were obtained with respect to three applications for areas in the Barents Sea (Fedynsky, Central-Barentsevsky and Perseyevsky) and the licenses were issued to the Company at the start of 2012.



Reservoirs at RN-Krasnodarneftegaz

032

ROSNEFT

Geological Exploration



Exploration at
the Yurubcheno-
Tokhomskeye field

Rosneft prioritizes the transfer of resources into proved reserves for sustainable production growth in the medium and long term. The Company therefore does all it can to ensure that optimal amounts of prospecting and exploration work are carried out and that the efficiency of this work is maximized. The Company carries out geological exploration in Russia and abroad both independently and as part of joint projects with Russian and foreign partners.

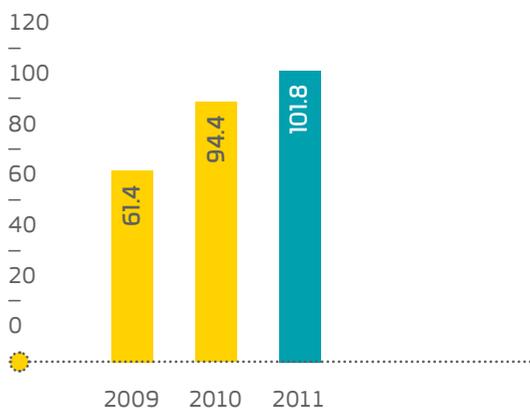
197.1

MLN TONNES
INCREASE IN ABC1 OIL RESERVES IN 2011

The Company carries out geological exploration in Russia and abroad both independently and as part of joint projects with Russian and foreign partners.

A total 3,482 linear km of 2D and 5,134 square km of 3D seismic surveying were carried out during 2011 in projects with the Company's involvement, as well as 101,800 meters of exploration drilling. Growth of prospecting and exploration drilling compared with 2010 mainly reflects more intensive subsurface study work in Eastern and Western Siberia. However, amounts of 2D and 3D seismic work in 2011 were substantially less than in 2010, due to completion of the 2D study stage at areas in Eastern Siberia and of the 3D stage at areas in Western Siberia. Rosneft completed 42 prospecting and exploration wells in the reporting year, and 32 of them gave commercial inflows of hydrocarbons.

Exploration drilling in projects involving Rosneft (th. meters)



There were three field discoveries and 39 discoveries of new deposits at existing fields.

Geological work and exploration drilling gave an increase of ABC1 reserves under Russian classification by 197.1 mln tonnes of oil and gas condensate and 37.6 bln cubic meters of gas (185.0 mln tonnes and 33.6 bln cubic meters, respectively, measured by Rosneft stakes in projects). The biggest contributions to reserve growth were from fields in Western and Eastern Siberia and in the Volga region.

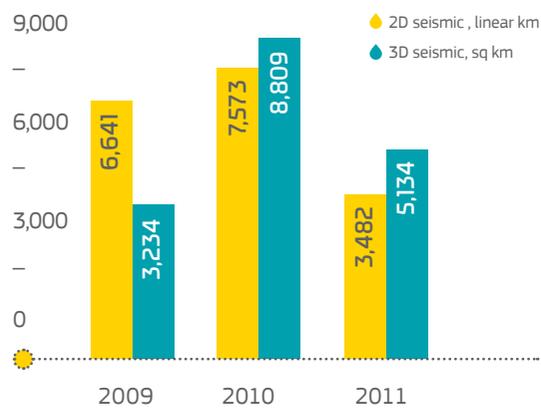
Western Siberia

In Western Siberia, Rosneft is carrying out geological exploration work in Khanty-Mansiysk Autonomous District (KhMAD), Yamal-Nenets Autonomous District (YaNAD) and Tomsk Region (work in Tomsk Region is being carried out by OJSC Tomskneft, which is a joint venture between Rosneft and OJSC Gazprom Neft).

A total 563 square km of 3D seismic work was carried out in KhMAD during 2011 in order to clarify the structure of fields. Rosneft production units drilled 18 prospecting and exploration wells, of which 17 gave commercial inflows of oil. Total growth of ABC1 recoverable reserves in KhMAD (including growth as a result of production drilling) was 102.2 mln tonnes, of which 76.1 mln tonnes at the Priobskoye field, which is the Company's largest.

One exploration well was drilled in YaNAD at the Komsomolskoye field and two wells at the Novo-Purpeyskoye and Tarasovskoye fields were deepened in order to investigate lower-lying strata. Reserve growth as a result of the work was 9.8 mln tonnes of oil and 23.8 bln cubic meters of gas.

Seismic surveying at projects involving Rosneft (linear km; sq. km)



In 2011 the Company drilled four exploration wells in Tomsk Region, and commercial inflow of hydrocarbons was obtained at three of them. Reserve growth amounted to 18.3 mln tonnes of oil.

Areas Around the Vankor Field

The Company has 11 licenses at areas located around the Vankor field. A license for geological study of the Ondodominsky area was obtained in 2011, where estimated recoverable resources are 233 mln tonnes of oil.

An agreement was also made with the Russian Government for conduct in 2012 of geological exploration work at the Lodochny area and a prospecting license was obtained.

2D seismic work at areas around the Vankor field totaled 200 linear km in 2011 and the volume of 3D survey work was 306 square km.

Exploration of the Baikalskoye field, discovered in 2009, continued in 2011. Drilling of Baikalskiye wells № 3 and № 4 was completed and testing obtained an inflow of hydrocarbons. Completion of testing is scheduled in 2012. Increase of C1 reserves at the Baikalskoye field was 2.6 mln tonnes of oil and gas condensate and 5.9 bln cubic meters of gas.

Testing of an exploration well drilled at the West-Lodochny license area in 2011 will be carried out in 2012. Testing of a prospecting and appraisal well drilled at the Tukolandsky license area did not give positive results and the well was closed down.

Southern Regions of Eastern Siberia

Rosneft is carrying out geological exploration work at 15 license areas in Irkutsk Region and in Evenkia.

The Company carried out 2,000 linear km of 2D and 1,142 square km of 3D seismic survey work in the region during 2011, and eight exploration wells were drilled. Two new fields were discovered as a result of these operations.

A prospecting and appraisal well drilled at the Danilovsky license area gave commercial inflows of oil, signifying discovery of the North-Danilovskoye oil field with C1+C2 reserves of 55.4 mln tonnes of oil.

A commercial inflow of gas condensate was obtained during studies of well Danilovskaya №7, drilled about 30 years ago in the central part of the Danilovsky license area. The South-Danilovskoye gas condensate field, which was discovered as a result, has C1+C2 reserves of 0.7 mln tonnes of gas condensate and 15.2 bln cubic meters of gas.

Testing of exploration wells at the Mogdinsky, Sanarsky and Preobrazhensky areas failed to obtain commercial inflows of hydrocarbons and the wells were closed down for geological reasons.

Work carried out at the Yurubcheno-Tokhomskoye field in 2011 included 600 linear km of 2D seismic surveying and 393 square km of 3D studies. Two exploration wells were drilled and testing gave commercial inflows of hydrocarbons. Sidetracks were also drilled with successful outcomes at two wells that had been drilled earlier but had failed to give commercial inflows. Drilling of the sidetracks gave gushing flows of oil and gas to the surface. Field reserves were increased by 6.6 mln tonnes of oil and 0.5 bln cubic meters of gas as a result.

Russian Far East

In the Russian Far East Rosneft is carrying out geological exploration work at 14 offshore areas in the Sea of Okhotsk, either independently or together with partners. The Sakhalin-3 project (Veninsky area) and Sakhalin-5 project (Kaigansko-Vasyukansky area) are being carried out jointly with foreign partners on the basis of special agreements, which minimize risks for Rosneft. Licenses for the Lisyansky, Kashevarovsky and Magadan-1, -2, -3 areas, and for the northern extremity of the Chaivo field were obtained by the Company at the end of 2011. Recoverable resources at the areas are estimated at 2.8 bln tonnes of oil equivalent, and recoverable reserves at the northern extremity of the Chaivo field are estimated at 15 mln tonnes of oil and 4 bln cubic meters of gas.

Testing of a prospecting and appraisal well at the Lebedinsky license area gave a gushing flow of oil. Work began on drilling of a second well.

Complex interpretation of data from 3D seismic work and deep drilling continued at the Kaigansko-Vasyukansky area in 2011. Processing and interpretation of 2D seismic shot at the transition zone at the area was completed.

Preparations were made at the Veninsky block for drilling of a further prospecting well in 2012.

Historical seismic data for the Nekrasovsky license area were reprocessed during the reporting year, geological and geophysical data were reinterpreted and a programme of prospecting and evaluation work was designed.

Arctic Offshore

Rosneft had ownership of three areas in the Kara Sea in 2011 (East-Prinovozemelsky-1, -2 and -3) as well as the South-Russky area in the Sea of Pechora.

Detailed information on the East-Prinovozemelsky areas is presented on page 18 of this Annual Report.

Crude oil resources at the South-Russky area are 270 mln tonnes. The area includes the North-Gulyaevskoye field with 13 mln tonnes of C1+C2 oil reserves and 52 bln cubic meters of gas.

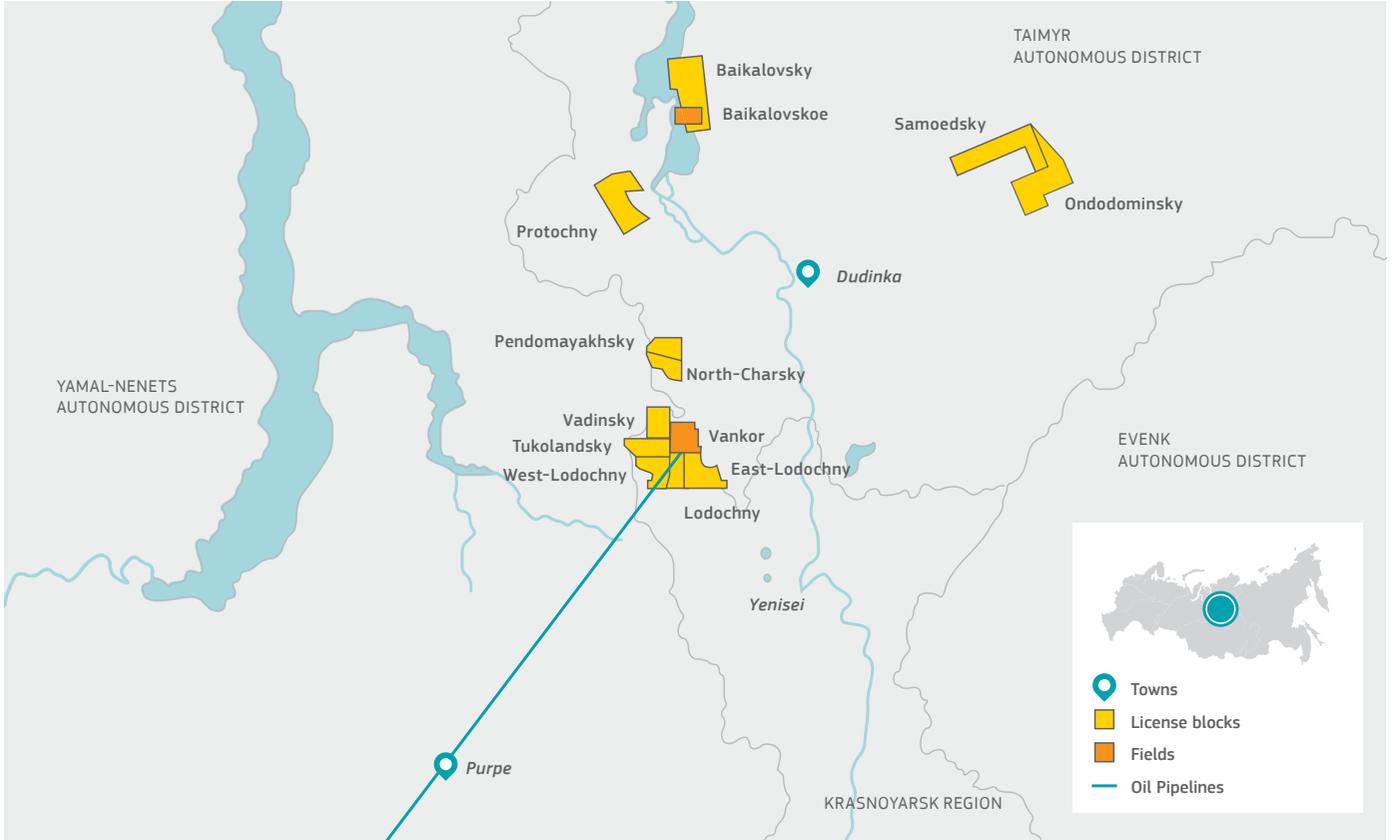
A Russian Government Decree from the end of 2011 orders licenses for the Central-Barentsevsky, Fedynsky and Perseyevsky areas (all located in the zone of the Barents Sea close to the border with Norwegian territorial waters) to be transferred to Rosneft without holding of a competition. Recoverable resources at the areas are estimated at 3.3 bln tonnes of oil and 2.8 trillion cubic meters of gas.

Samara Region

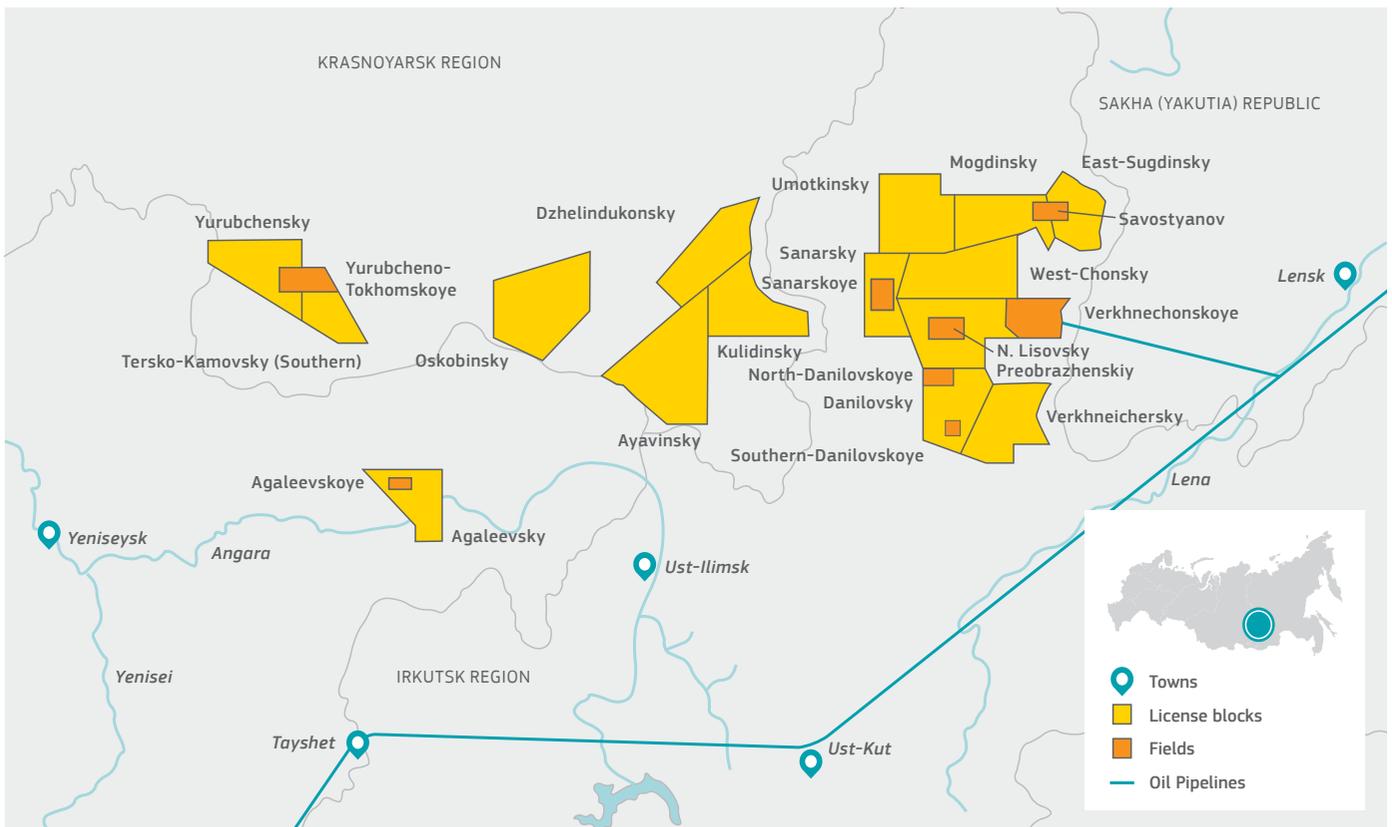
Rosneft carried out 302 linear km of 2D seismic work and 1,120 square km of 3D during 2011 in Samara Region, which is a well-established oil production area. Four prospecting and exploration wells were drilled.

Commercial inflows of oil were obtained at two wells, giving gushing flow of oil to the surface at a rate of up to 100 tonnes per day at the South-Orlovskoye field. This is the first time since geological studies began in Samara Region that commercial reserves have been discovered in Famennian formations of Upper Devonian sediments, which were previously considered to be non-prospective. The discovery entails a reassessment of the geological structure and prospects at Company fields in Samara Region.

Exploration projects involving Rosneft adjacent to the Vankor field



Exploration projects involving Rosneft in the south of Eastern Siberia



Republic of Udmurtia

Rosneft is carrying out geological exploration work jointly with the Chinese corporation, Sinopec, in the Republic of Udmurtia at the operating territory of OJSC Udmurtneft (Rosneft has a 51% stake in the project). A total of 600 linear km of 2D and 61 square km of 3D seismic work were carried out in the region during 2011. Testing of an exploration well drilled at the Khomyakovskaya structure, which is part of the Karsovaisky subsurface area, gave a commercial inflow of oil. The State Commission on Reserves approved a new estimate of reserves at the Chutyrsko-Kiengopskoye field, one of the largest in Udmurtia, based on the results of seismic studies and production drilling. Reserves in the Republic of Udmurtia were increased by 14.0 mln tonnes of oil as a result.

Republic of Ingushetia

Rosneft obtained three licenses in February 2011 for geological studies at the Krasnogorsky, Nazrano-Yandyrsky, and North Achaluksky areas in the Republic of Ingushetia. Recoverable oil resources at the areas are estimated at 7 mln tonnes. A total of 300 linear km of 2D seismic work was carried out there in the reporting year.

Russia's Southern Seas

Rosneft is carrying out work at a number of prospective areas in the southern part of European Russia: the Tuapse, West-Chernomorsky and South-Chernomorsky offshore areas in the Black Sea; the North-Caspian area in the offshore Caspian, and the Temryuksko-Akhtarsky area in the Sea of Azov. These projects are being implemented by the Company both independently and in partnership with major Russian and international companies.

Detailed information on the Tuapse block is presented on page 20 of the present Report.

Processing of 2,069 square km of 3D seismic surveys from the West-Chernomorsky area was carried out in 2011, and geological and geophysical data from past years at the South-Chernomorsky area were collated and summarized.

2D and 3D seismic materials for the North-Caspian area were reprocessed during the reporting year.

International Projects

Rosneft is taking part in a number of geological exploration projects abroad: Block 245-South in Algeria, Gudautsky area in the Black Sea territorial waters of Abkhazia, the Sharjah project in the UAE, and the Junin-6 project in Venezuela. Recoverable resources of the Company in these projects are in excess of 220 mln tonnes of oil equivalent.

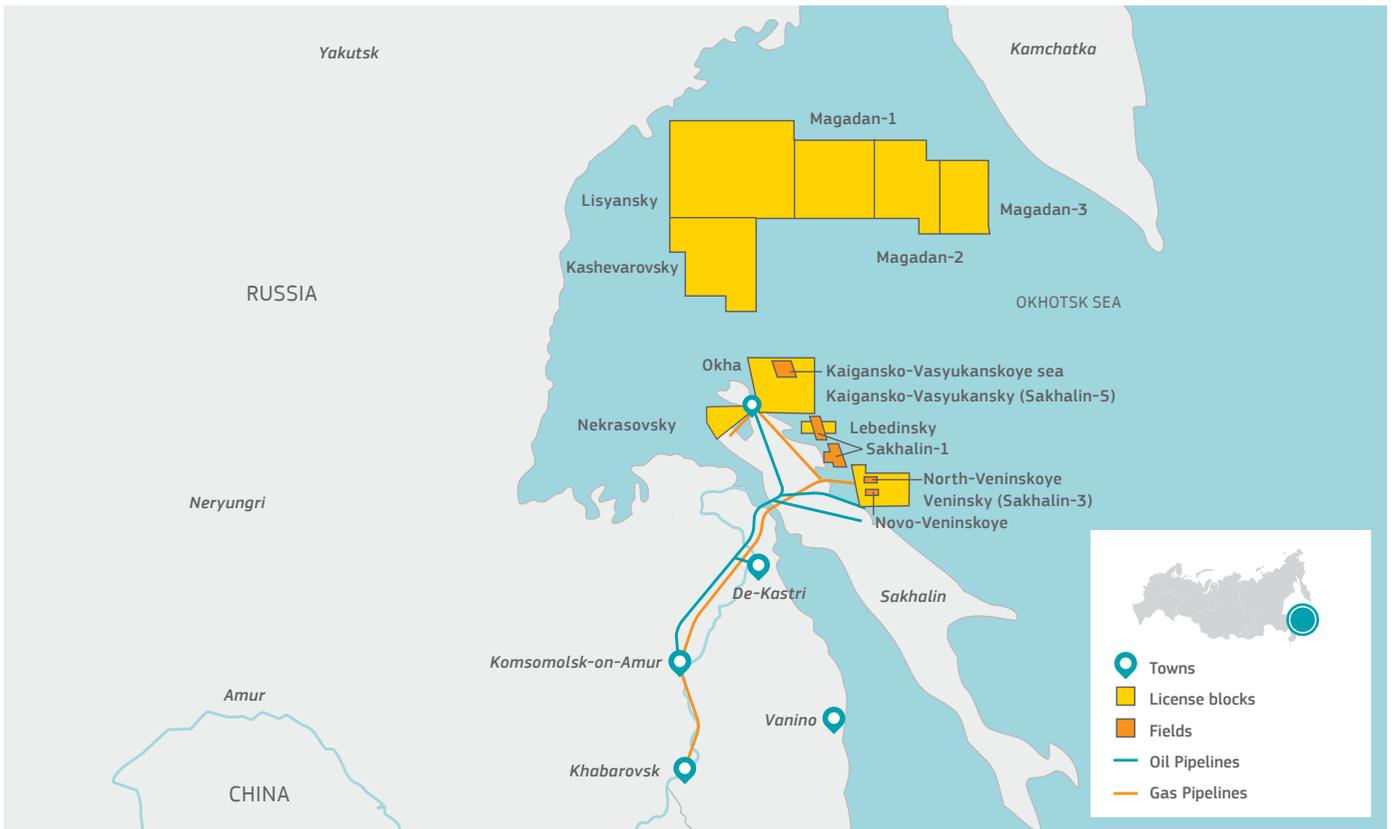
Work in 2011 on the Block 245-South project included preparation for further geological exploration work at the East Takuazet, West Takuazet and North Tisselit fields. In the Sharjah project 228 square km of 3D seismic work were carried out, and 122 square km of 3D seismic were completed at the Gudautsky area.

A memorandum of mutual understanding was signed in 2011 with the National Petroleum Company of Venezuela (PDVSA) for creation of a joint venture for exploration and development of heavy oil reserves in Venezuela as part of the Carabobo-2 project. Rosneft's share in the planned JV will be 40%. Geological reserves in the project are estimated at more than 6 bln tonnes.

Exploration projects involving Rosneft at the shelf of Russia's southern seas



Exploration projects involving Rosneft in the Far East



038

ROSNEFT

Reserves and Resources



Around the Vankor field

In 2011, Rosneft confirmed its status as the world's largest publicly traded oil company by proved reserves of liquid hydrocarbons, and also emerged as the clear leader by hydrocarbon resources.

According to an audit by DeGolyer & MacNaughton, Rosneft's proved hydrocarbon reserves under SEC classification (life-of-field reserves) as of December 31, 2011 were 17,618 mln barrels of oil equivalent, of which 14,286 mln barrels of oil and 566 bln cubic meters of gas. The proved oil reserve replacement ratio in 2011 was 162% and reserves of gas grew by 2.3 times compared with the end of 2010. The strong growth of gas reserves reflects a revised assessment of the Kharampurskoye field, which is Rosneft's biggest gas asset.

DeGolyer & MacNaughton also carried out an audit of Rosneft reserves to PRMS standards. The audit results showed that proved hydrocarbons as of December 31, 2011 were 23,352 mln barrels of oil equivalent, consisting of 18,351 mln barrels of oil and 850 bln cubic meters of gas. Hydrocarbon

18.4

BLN BARRELS
OF PROVED OIL RESERVES
AS OF DECEMBER 31, 2011

reserve life of Rosneft at the end of 2011 was 25 years (21 for oil and 68 for gas).

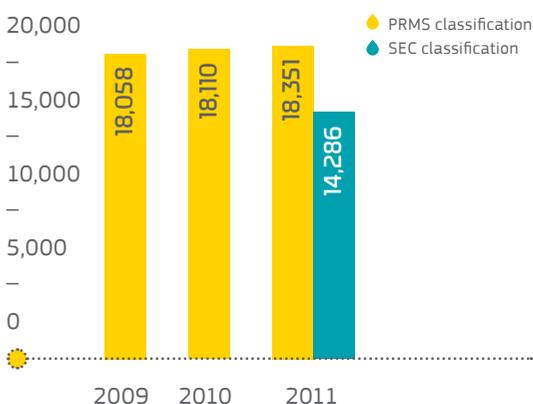
Company reserves are located both in traditional oil & gas producing regions (the southern part of European Russia, Western Siberia, Central Russia) and in promising new regions (Eastern Siberia, the Far East, Timan-Pechora). About 75% of the Company's proved oil reserves are concentrated in Western Siberia, mainly in Khanty-Mansiysk Autonomous District, and about 11% are in Eastern Siberia. Western Siberia also contains about 81% of the Company's proved gas reserves, which are concentrated mainly in the Yamal-Nenets Autonomous District. Most of Rosneft's hydrocarbon reserves are conventional.

Rosneft's resource base was also audited by DeGolyer & MacNaughton in 2011. The mean estimate of prospective recoverable hydrocarbon resources as of December 31, 2011 was 133.9 bln barrels of oil equivalent, which is almost three times more than at the end of 2010. The growth was mainly due to acquisition of licenses to offshore areas in the Kara and Black seas. At the end of 2011 Rosneft also obtained licenses to five prospective offshore areas in the Sea of Okhotsk.

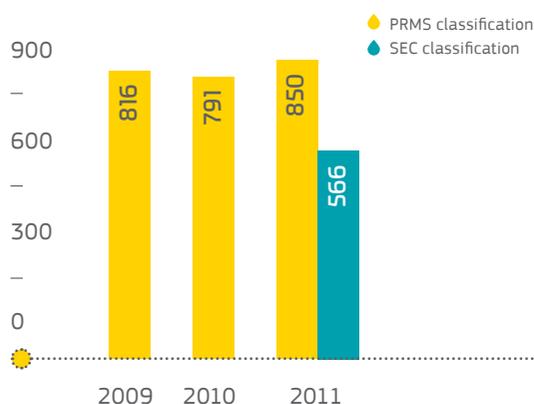
Resources of these areas were not included in the audit, but preliminary estimates suggest that they amount to 20.7 bln barrels of oil equivalent. So Rosneft's recoverable resources at the end of 2011 amounted to 155 bln barrels of oil equivalent.

Detailed information on resources is presented on page 14 of the present Report.

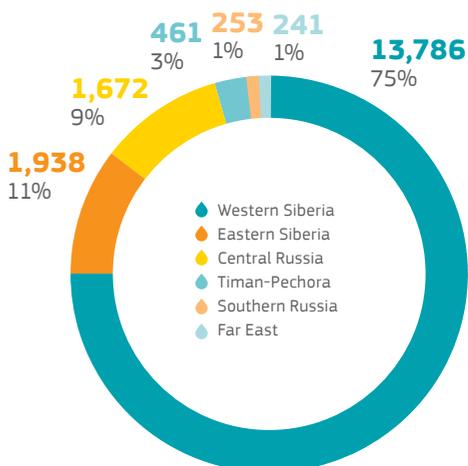
Proved oil reserves (mln barrels)



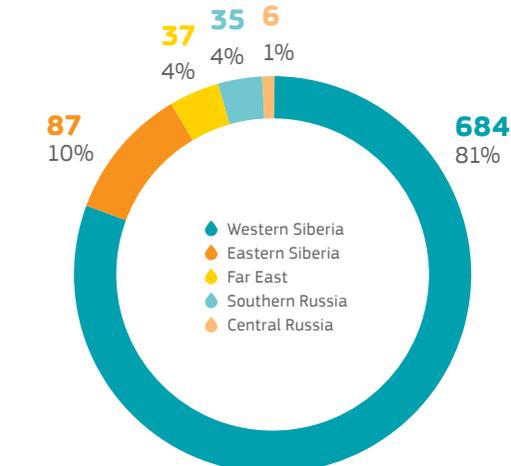
Proved gas reserves (bcm)



Proved oil reserves, PRMS (mln barrels, %)



Proved gas reserves, PRMS (bcm, %)



040 Production

ROSNEFT



Oil pumping station
at Vankor – Pupre
pipeline

The Company produced 868.6 mln barrels of crude oil and gas condensate in 2011 (including 795.8 mln barrels by subsidiaries), which is 2.5% more than in the previous year.

Company efforts in 2011 were focused on measures to optimize operating and capital expenses, achievement of production targets at the Vankor field, and implementation of programs for improving energy efficiency.

The Company produced 868.6 mln barrels of crude oil and gas condensate in 2011 (including 795.8 mln barrels by subsidiaries), which is 2.5% more than in the previous year. The increase was mainly driven by ramp-up of production at the Vankor and Verkhnechonsk fields in Eastern Siberia, but also by high efficiency of well interventions at fields in Western Siberia and Samara Region.

Output of natural and associated gas (not including amounts that were flared off) was 12.79 bln cubic meters in 2011 or 3.6% more than in 2010. Higher overall production levels reflect increase of crude oil output and launch of a compressor station at

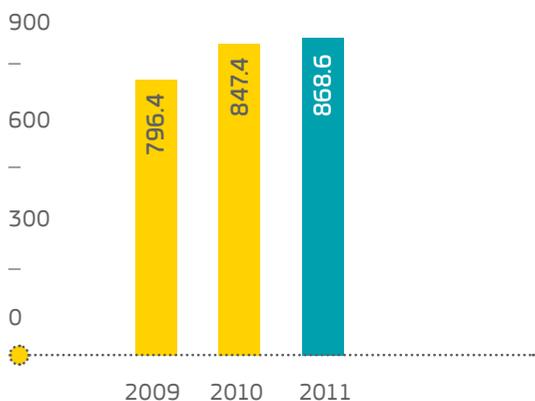
21

MLN BARRELS
GROWTH OF CRUDE OIL PRODUCTION
COMPARED WITH 2010

the Komsomolskoye field, of a compressor station and gas-turbine power plant at the Priobskoye field in Western Siberia, and of a compressor station and gas preparation unit to serve the Odoptu-Sea field on the shelf of Sakhalin Island.

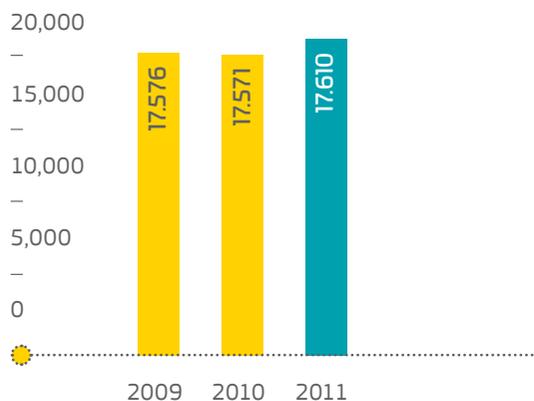
Company efforts in 2011 were focused on cost control, improving operating efficiency of producing assets, and bringing existing hydrocarbon reserves into production. Upstream production and operating expenses increased to USD 2,445 mln, or by 10.7% compared with 2010. Higher costs reflect real appreciation of the rouble against the USD by 12.1% and oil production increase by 2.2%, and were partially offset by cost-cutting initiatives.

Crude oil production (mln barrels)*



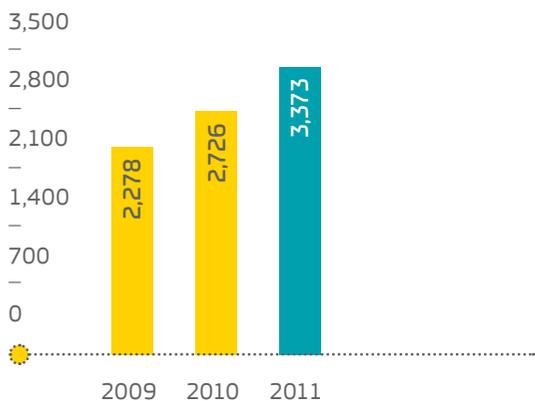
* Including share of production by equity affiliates.

Oil production wells (wells, end of year)*



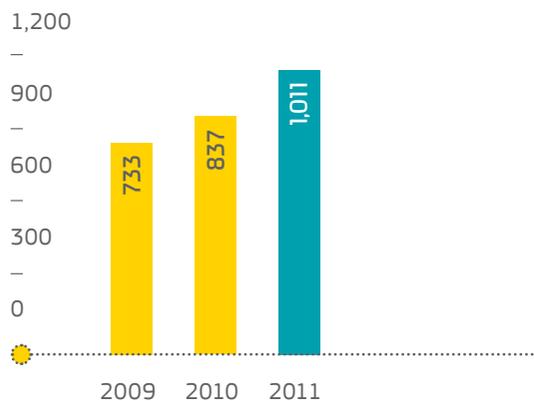
* Companies consolidated by Rosneft, excluding Sakhalin-1.

Production drilling (th. meters)*



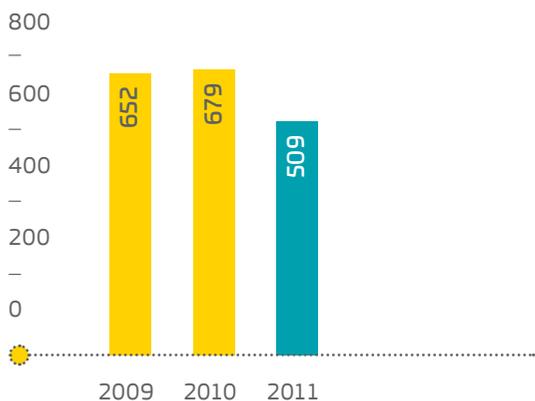
* Companies consolidated by Rosneft, excluding Sakhalin-1.

New oil production wells (wells)*



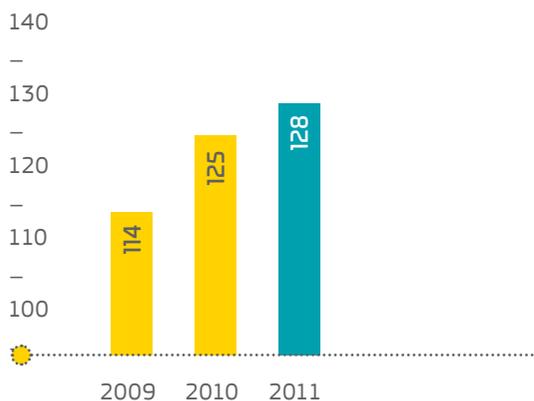
* Companies consolidated by Rosneft, excluding Sakhalin-1.

Average flow rate per new oil well (barrels per day)*



* Companies consolidated by Rosneft, excluding Sakhalin-1.

Average flow rate per oil well (barrels per day)*



* Companies consolidated by Rosneft, excluding Sakhalin-1.

Rosneft Oil and Gas Production Regions

- Oil production, mln barrels
- Gas production, bcm

PRODUCTION REGIONS

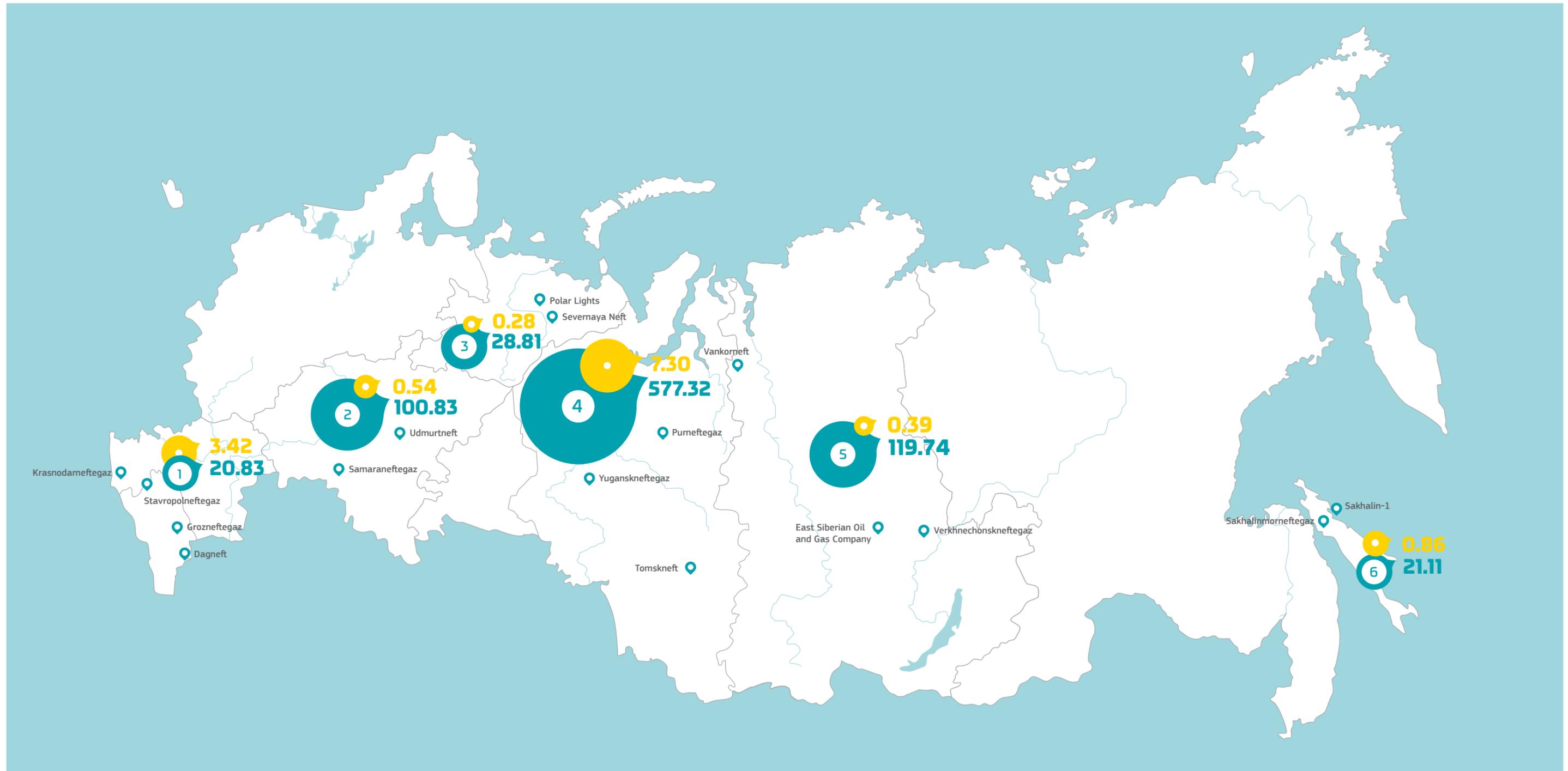
- 1 Southern Russia
- 2 Central Russia
- 3 Timan-Pechora
- 4 Western Siberia
- 5 Eastern Siberia
- 6 Far East

SHARE OF TOTAL, %

Western Siberia	66.5%
Eastern Siberia	13.8%
Central Russia	11.6%
Timan-Pechora	3.3%
Far East	2.4%
Southern Russia	2.4%
Total Oil	868.64 mln barrels

SHARE OF TOTAL, %

Western Siberia	57.1%
Southern Russia	26.7%
Far East	6.7%
Central Russia	4.2%
Eastern Siberia	3.1%
Timan-Pechora	2.2%
Total Gas	12.79 bcm



Production drilling by Rosneft consolidated subsidiaries (excluding the Sakhalin-1 project) was 3,373 th. meters in 2011. A total of 1,011 oil wells were completed and brought into production, which is 21% more than in 2010. Production from new wells was 77.2 mln barrels of oil and gas condensate and 0.9 bln cubic meters of gas. The average daily flow rate per new production well was 509 barrels, and the average flow rate for all production wells was 128 barrels, which is 2% higher year-on-year. Lower flow rates from new wells, compared with 2010, reflect natural deterioration in the quality of reserves that are under development in Western Siberia as well as artificial restrictions on flow rates at the Vankor field due to limited capacities for oil treatment. The higher average flow rate from all wells was due to an increase in the number of new wells and efficient management of mature wells.

Development costs of Rosneft's subsidiaries totaled USD 7,989 mln, up 21% year-on-year. The increase was primarily due to nominal appreciation of the rouble against the US dollar.

Western Siberia

KHANTY-MANSIYSK AUTONOMOUS DISTRICT (KHMAAD)

Khanty-Mansiysk Autonomous District (KhMAAD) is Rosneft's main operating region. The Priobskoye field, which is located there, is Rosneft's largest field, accounting for 33% of proved oil reserves and 24% the Company's total production.

Rosneft continued to develop reserves in KhMAAD during 2011. Production drilling by the Company in the region was 2,684 th. meters, which is 22.3% more than in 2010. The Company completed and commissioned 821 production wells, and the average daily output from Rosneft's new wells in the region was 373 barrels, which is nearly double the average for Russia. Average daily output at operating oil wells in the region remained at the level of 2010 (162.4 barrels).

Total production by the Company at fields in the region was 487.9 mln barrels of oil and 2.9 bln cubic meters of gas (net of amounts that were flared off), representing 56% and 23% of total Company output of oil and gas, respectively.

YAMAL-NENETS AUTONOMOUS DISTRICT (YANAD)

Rosneft operations in the Yamal-Nenets Autonomous District in 2011 were mainly focused on improving field development and operating systems, with special emphasis on the issue of associated gas utilization.

Rosneft reserves in YaNAD are highly concentrated: over 70% of oil & gas condensate reserves are at the Komsomolskoye, Tarasovskoye, Barsukovskoye, and Kharampurskoye fields. Such concentration helps to keep down field development and production costs.

Production drilling in the region was 153.6 th. meters in 2011, and 48 new production wells were completed and brought into operation. The Company produced 51.2 mln barrels of oil and gas condensate and 3.7 bln cubic meters of gas (net of flaring) in YaNAD during 2011.

YaNAD is the main region of gas production for Rosneft, accounting for 69% of the Company's proved gas reserves and 29% of gas output. Implementation of programs to increase associated gas utilization continued in 2011: a compressor station was brought into operation at the Komsomolskoye field and construction work was carried out on another station at the Kharampurskoye field, which will enable substantial increase of gas production levels in YaNAD in the medium term.

TOMSK REGION

The interests of Rosneft in Tomsk Region are represented by OJSC Tomskneft, which is owned on a parity basis by Rosneft and OJSC Gazprom Neft. Tomskneft operates several mature fields with water cut over 80% (Sovetskoye, Oleniye, Chkalovskoye, Nizhnevartovskoye, Strezhevskoye), as well as several relatively young fields (Krapivinskoye, Dvurechenskoye, West-Moiseyevskoye, Igolsko-Talovoye). Production at Tomskneft fields in 2011 was 75.7 mln barrels of oil and gas condensate and 1.5 bln cubic meters of gas (Rosneft's share was 37.9 mln barrels and 0.73 bln cubic meters, respectively).

Timan-Pechora

In the Timan-Pechora oil & gas province the Company subsidiary RN-Severnaya Neft is developing the Val Gamburtsev and Baganskaya group of fields, located in the Komi Republic and the Nenets Autonomous District. Production of oil and gas condensate in 2011 was 26.6 mln barrels and gas output was 0.26 bln cubic meters (net of flaring).

LLC Polar Lights ('Polyarnoye Siyaniye'), a joint venture between Rosneft and ConocoPhillips, operates in the northern part of Timan-Pechora, where it is developing six oil fields: Ardalinskoye, East-Kolvinskoye, Oshkotynskoye, West-Oshkotynskoye, Central-Khoreiverskoye and West-Sikhoreyskoye. Output by Polar Lights in 2011 was 4.5 mln barrels of oil.

Far East

In the Far East, Rosneft produces oil & gas on Sakhalin Island and adjacent offshore zones as part of the Sakhalin-1 project, in which the Company has a 20% share. Oil and gas condensate production by Rosneft in the region in 2011 was 21.1 mln barrels and gas production was 0.9 bln cubic meters. Levels of oil & gas output stabilized in the reporting year thanks to the start of commercial production at the end of 2010 at the Odoptu field as part of the Sakhalin-1 project.

Samara Region

The Company produced 77.6 mln barrels of oil and 0.5 bln cubic meters of gas (net of flaring) at fields in Samara Region in 2011. Despite high levels of depletion at developed fields, this part of Russia still has significant potential for expansion of its resource base and of production. Oil output increased by 2.4% and Rosneft acquired five new licenses for geological study, exploration and production of hydrocarbons in Samara Region during 2011.

Republic of Udmurtia

The production company OJSC Udmurtneft operates in the Republic of Udmurtia under successful joint management of Rosneft and the Chinese

corporation, Sinopec. Rosneft's share in the project is 51%. Output at the Company's fields in 2011 remained constant at the 2010 level (46.8 mln barrels) thanks to application of the latest EOR methods.

North Caucasus and Southern Federal District

Rosneft is developing more than 150 oil & gas fields in the North Caucasus and Southern Federal District. Production capacities are located in Krasnodar Region, the Chechen Republic, Stavropol Territory and the Republic of Dagestan. This is the oldest oil producing region in Russia and its fields have the advantage of being located close to major Black Sea ports.

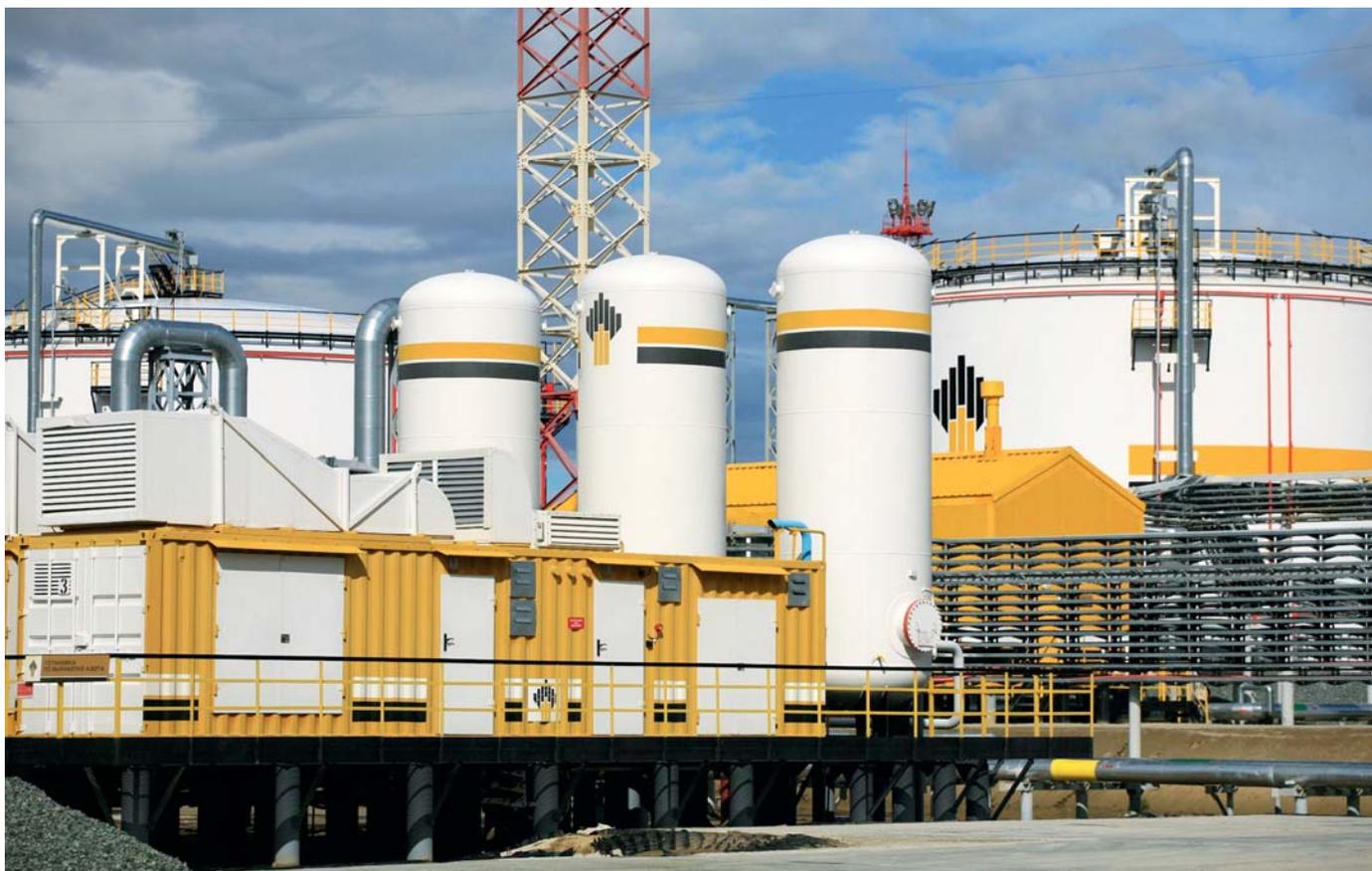
Production of oil & gas condensate in the region in 2011 was 20.8 mln barrels and gas output (net of flaring) was 3.42 bln cubic meters. Both figures are lower compared to 2010, which reflects natural depletion of the resource base.

Eastern Siberia

VANKOR FIELD

Commercial production at the Vankor field began in July 2009. Output in 2010 was 92.9 mln barrels of crude oil, and the figure increased by 18% to 109.7 mln barrels in 2011.

Oil pumping station
at Vankor



Intensive work continued during the year on drilling over and field construction. Production drilling in 2011 was 328 th. meters and 74 new oil wells were completed and brought into operation. There were 177 oil production wells in operation by the end of the year and average daily flow per well was 2.1 th. barrels, but the level was artificially constrained due to the limited capacity of existing oil treatment units. Work continued during the year on construction of main field installations, the most important of which is the central oil treatment facility. Completion of the facility will enable achievement of target production levels at the field.

VERKHNECHONSK FIELD

The Verkhnechonsk field in Irkutsk Region, developed jointly by Rosneft and TNK-BP, entered commercial production in October 2008. Oil production in 2011 was 36.7 mln barrels and the share of Rosneft was 9.5 mln barrels or 25.94%. A total of 63 new oil wells were brought into operation during the year, and the number of wells in production at the end of the year was 132.

YURUBCHENO-TOKHOMSKOYE FIELD

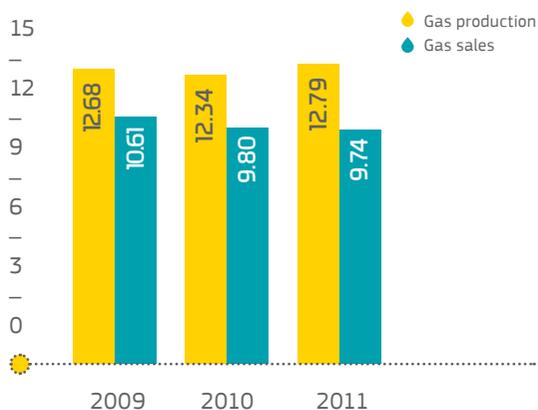
Work continued in 2011 on the construction of production wells at the first section of the field in order to finalize techniques for drilling, completing and operating new well types (horizontal and slanted). Final decisions on technical aspects of field development will be taken based on results of this work. Seasonal oil production was carried out in test mode during 2011 for the Company's own needs and the needs of nearby communities. Full-scale development of the field will only be possible once a special tax regime has been put in place, since large investments are needed to address its complex geology and remoteness from transport infrastructure.

Program for Associated Gas Utilization

The Company is pursuing rapid implementation of its program to raise the rate of associated gas utilization to 95%. A number of facilities were prepared or brought into operation during 2011 as part of this program, as follows:

- a booster compressor station at the Odoptu-Sea field;
- a booster compressor station at the Komsomolskoye field;
- a compressor station at the Priobskoye field;
- preparation for launch of the third stage of a gas-turbine power station at the Priobskoye field;
- commissioning of 132 km of gas collection networks and other facilities.

Gas production and sales (bcm)*



* Including share of production by equity affiliates.
Production volume equals extracted volume less flared volume.

Work was carried out on construction of infrastructure for delivery of gas from the Vankor field to the Gazprom gas transport system. The infrastructure includes the Vankor – Khalmerpayutinskoye pipeline, a gas preparation unit and a compressor station. Completion of the construction work is scheduled in 2013 and will enable utilization of more than 95% of the gas produced at the field.

All main facilities scheduled for construction under the program should be completed by 2012–2014, enabling 95% utilization of associated gas throughout the Company.

047

Refining

ROSNEFT



Primary refining facility
under construction
at Tuapse Refinery

During 2011 Rosneft continued to implement its program for modernization of existing refinery capacities and increase of refining volumes, paying particular attention to cost optimization.

57.9

MLN TONNES
OF CRUDE OIL PROCESSED AT REFINERIES
IN RUSSIA AND GERMANY IN 2011

Refining business of Rosneft

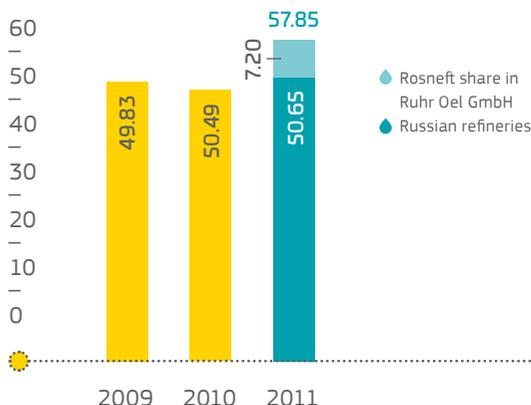
Rosneft has seven large oil refineries in Russia: Komsomolsk, Tuapse, Novokuibyshevsk, Kuibyshev, Syzran, Achinsk and Angarsk Petrochemical Company. Overall primary refining capacity at these facilities is 51.8 mln tonnes of crude oil per year. Rosneft also owns four mini-refineries in Western and Eastern Siberia, Timan-Pechora and Southern Russia, with a total annual capacity of 0.5 mln tonnes, as well as a stake in the Strezhevsky mini-refinery in Western Siberia.

In 2011, Rosneft acquired a 50% interest in Ruhr Oel GmbH (a joint venture between Rosneft and BP), which owns stakes in four refineries in Germany, from the company PDVSA. The acquisition

increased Rosneft's refining capacities, gave the Company access to the large German market, and put the most up-to-date refining and management technologies at the Company's disposal. Rosneft's net holding in Ruhr Oel's refining capacities is 11.6 mln tonnes per year. The Gelsenkirchen refinery, which is fully owned by the joint venture, also has a petrochemical facility with 1.0 mln tonnes of ethylene capacity.

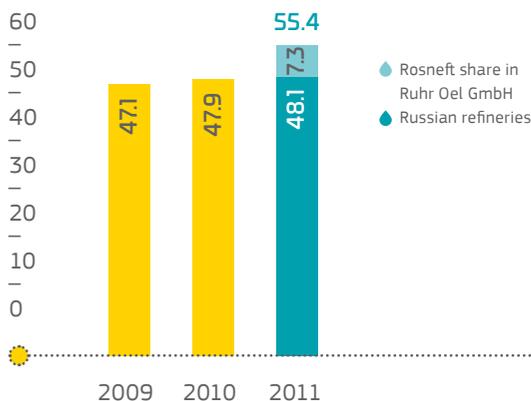
Rosneft also produces petrochemicals (ethylene, propylene and polyethylene) at the Angarsk Polymer Plant in Russia. The pyrolysis unit, which is the principal installation at the Plant, has ethylene production capacity of 300,000 tonnes per year.

Refinery throughput (mln tonnes)



* Not including heavy fractions, which mini-refineries return to the Transneft system

Petroleum and petrochemical product output (mln tonnes)



Rosneft's lubricant business is also developing rapidly. The Company's main production facilities in this segment are the Novokuibyshevsk Lubricant and Additive Plant, a lubricant production facility at the Angarsk Petrochemical Company and the Nefteprodukt plant in Moscow. Total saleable-product capacity at these plants is in excess of 600,000 tonnes per year, including 480,000 tonnes of lubricants.

Rosneft owns the Neftegorsk and Otradnensky gas-processing plants in Samara Region with total annual capacity of 1.8 bln cubic meters of gas.

New Projects

Work began in 2011 on the project for creating a petrochemical complex in the Russian Far East with first-phase input capacity of 3.4 mln tonnes. The complex will specialize in the production of polymers (polyethylene and polypropylene). Technology licensors, selected in the reporting year, will be: Lummus, Shell, Axens and Ineos. Steps were taken in



Alkylation unit at Kuibyshev Refinery

2011 for lease and purchase of land at the site, and a list of potential foreign partners was prepared.

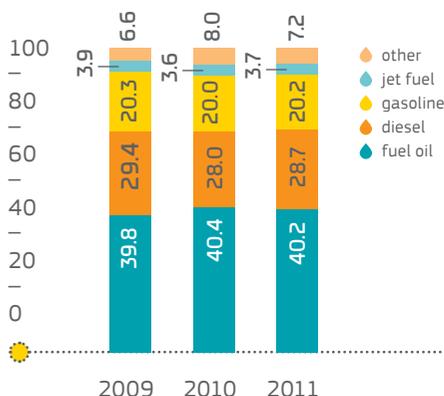
Work also began in the reporting year on a project for constructing a new oil refinery in the city of Grozny with 1 mln tonnes capacity and target light-product yield of 94%.

Another project undertaken in 2011 was the expansion of capacities at the Angarsk Polymer Plant. The project includes reconstruction of existing capacities and construction of new ones, including Russia's biggest facility for the production of low-pressure polyethylene with 345,000 tonnes annual capacity. Contracts with licensors were signed in 2011, main projects were designed and approved, and work began on the construction of a railway loading facility, which will reduce spending on raw materials.

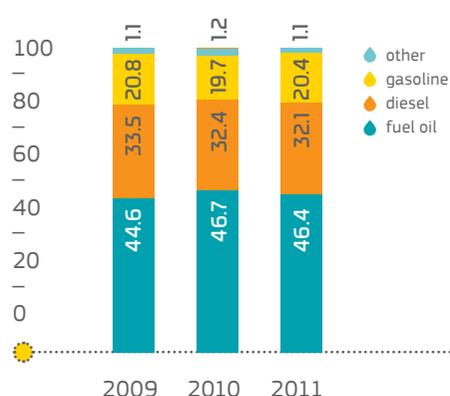
Refinery Modernization Program

Implementation of the program for modernization of Rosneft's oil refineries continued in 2011. Completion of the program will enable the Company to increase its refining volumes and radically improve the quality of its refining capacities. Progress in the reporting year included completion of the delayed coking unit at the Komsomolsk Refinery, launch of an isomerization unit at the Syzran Refinery and of

Structure of petroleum products output at Komsomolsk refinery (%)



Structure of petroleum products output at Tuapse refinery (%)



a gasoline blending station at the Achinsk Refinery. Rosneft also completed modernization of reforming units at the Syzran and Kuibyshev Refineries, a hydrotreatment unit at Achinsk, and a hydrogen production unit at the Angarsk Petrochemical Plant. A total of 14 refining units have now been built or upgraded since the program began in 2008.

The program will increase primary refining capacity at Company plants by 7 mln tonnes, conversion capacity by 17.7 mln tonnes and reforming capacity by 30 mln tonnes. Light product yield will increase from 56.6% in 2011 to nearly 80%, and the average Nelson Index score will rise from 4 to above 7.

Operating Results in 2011

Company refineries in Russia, including mini-refineries, processed 50.65 mln tonnes of crude oil in 2011. The figure was almost unchanged from 2010. Utilization of design capacity at refineries was 97.4%. Overall output of petroleum products at the Company's main capacities in Russia rose to 48.1 mln tonnes, including outputs from the Angarsk Polymer Plant and the Novokuibyshevsk Oils and Additives Plant. Light product yield was 56.6%.

Rosneft's share of refining inputs at Ruhr Oel GmbH refineries from the time of acquisition in May 2011 was 8.1 mln tonnes, including 7.2 mln tonnes of crude oil. Capacity load at the refineries in 2011 was 93.2%. Rosneft's share of saleable outputs was 7.3 mln tonnes, including 1.32 mln tonnes of petrochemicals, and refining depth¹ was 89.7%.

Capital expenditures at all Rosneft oil refineries in 2011 were USD 3,079 mln.

KOMSOMOLSK REFINERY

The Komsomolsk Refinery processed 7.62 mln tonnes of crude oil in 2011, which is 1.8% less than in 2010. Petroleum product output was 7.42 mln tonnes.

Construction of a new delayed coking complex with 1.0 mln tonnes capacity was completed at the end of the reporting year. Its launch will raise refining depth at Komsomolsk to 75% from 60.3% in 2011, increase output of gasoline and diesel fuel by 150,000 and 300,000 tonnes per year, respectively, and enable production of oil coke.

The last stage of upgrading work on the catalytic reforming unit, which will have 450,000 tonnes annual capacity, moved forward in the reporting year and should be completed in 2012. Following the launch of the upgraded unit, Komsomolsk will change over to production of motor gasoline meeting the requirements of Euro-3 and -5.

Total investments at the Komsomolsk Refinery in 2011 were USD 166 mln.

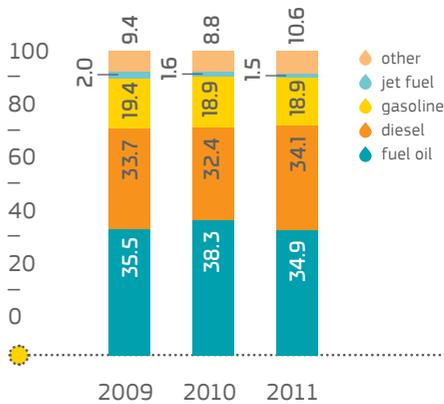
TUAPSE REFINERY

Crude throughput at the Tuapse Refinery in 2011 was 4.55 mln tonnes, which is 0.8% more than in 2010. Capacities were fully loaded in 2011 and petroleum product output was 4.46 mln tonnes. Refining depth in 2011 was 52.8%.

Construction work continued during 2011 in the first stage of the project for expansion of annual refining capacities at Tuapse to 12 mln tonnes: work proceeded on the primary refining facility (atmospheric-vacuum distillation unit) AVT-12, and on general refinery facilities. Design work was

¹ Refining depth = (total volume of refined products – fuel oil (mazut) – irretrievable product losses during refining – products used in the refining process) / total volume of refined products * 100.

Structure of petroleum products output at Samara group of refineries (%)*



* Including the Novoluibyshevsk Oils and Additives Plant.

carried out for the second and third project stages and equipment was being ordered and delivered. Projects went ahead for the expansion of a trunk pipeline to supply inputs to the Refinery and enlargement of the sea terminal, via which Refinery products are delivered to export.

Capital expenditures at the Tuapse Refinery in 2011 were USD 1,984 mln.

NOVOKUIBYSHEVSK REFINERY

The Novokuibyshevsk Refinery processed 7.69 mln tonnes of oil in 2011, which is 1.1% more than in 2010. Output of marketable petroleum products was 6.86 mln tonnes and refining depth increased by 5.2 percentage points year-on-year to 74.7% after repair work to the delayed coking unit was carried out in 2010.

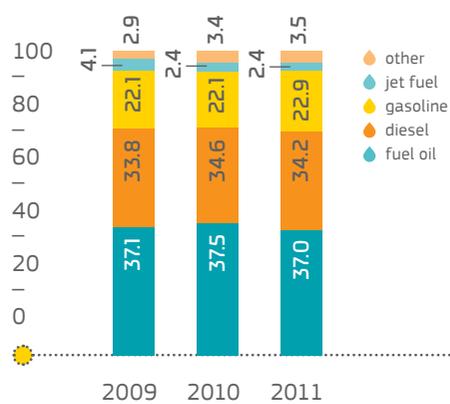
Construction work was carried out on the new 1.2 mln tonne catalytic reforming unit with continuous catalyst regeneration. Work also began on construction of an isomerization unit with capacity of 280,000 tonnes and units of the vacuum gasoil hydrocracking complex, which will have 2.0 mln tonnes capacity.

Capital expenditures at the Novokuibyshevsk Refinery in 2011 were USD 210 mln.

KUIBYSHEV REFINERY

The Kuibyshev Refinery processed 6.67 mln tonnes of crude oil in 2011, matching the 2010 level. The Refinery produced 6.23 mln tonnes of marketable petroleum products and refining depth was 59.9% (improvement by 3.1 percentage points compared with 2010 reflects capacity expansion of the visbreaking unit to 1.2 mln tonnes).

Structure of petroleum products output at Achinsk refinery (%)



Construction of a 0.8 mln tonne block for separation of fractions containing benzol was completed as part of the catalytic reforming unit. This will enable greater output of engine fuels with improved performance features and better environmental characteristics. Work proceeded on a catalytic cracking unit with 1.25 mln tonnes capacity and isomerization unit with capacity of 280,000 tonnes.

Capital expenditures at the Kuibyshev Refinery in 2011 were USD 184 mln.

SYZRAN REFINERY

The Syzran Refinery processed 6.56 mln tonnes of oil in 2011, which is 0.4% more than in 2010, and produced 6.22 mln tonnes of saleable products. Refining depth was 65.0%.

Work continued in 2011 to reduce irretrievable refining losses and fuel use. Losses were reduced to 0.91% of total refining volumes from 0.97% in 2010.

An isomerization unit for light gasoline fractions with 0.3 mln tonnes capacity was brought into operation in the reporting year, and upgrading work on a reforming unit with the same capacity was completed. Launch of these facilities will enable the Syzran Refinery to produce automotive gasoline that meets Euro-4 and -5 requirements of the Government's Technical Regulations for fuel quality.

Capital expenditures at the Syzran Refinery in 2011 were USD 162 mln.

ACHINSK REFINERY

The Achinsk Refinery processed 7.51 mln tonnes of crude oil in 2011 and output of marketable products amounted to 7.18 mln tonnes. Refining

depth was 62.3% and capacity load exceeded 100%. Following launch of an isomerization unit in December 2007 Achinsk produces more Euro-3 and -4 automotive gasoline than any other Rosneft refinery.

Upgrading work was completed in 2011 on a diesel hydrotreatment unit with 2 mln tonnes capacity and a gasoline blending station with the same capacity was brought into operation.

Construction work began on a delayed coking unit with capacity for 3 mln tonnes of fuel oil, and preparations were made for construction of a hydrocracking complex with 2 mln tonnes capacity.

Capital expenditures at the Achinsk Refinery in 2011 were USD 192 mln.

ANGARSK PETROCHEMICAL COMPANY

The Angarsk Petrochemical Company processed 9.81 mln tonnes of crude oil in 2011, which is 1% more than in 2010. Output of saleable products totaled 9.04 mln tonnes (including output from the Angarsk Polymer Plant) and refining depth was 74.1%.

Measures were taken in 2011 to reduce irretrievable refining losses and levels of fuel use. Losses were brought down to 0.48% from 0.71% in 2010.

Work continued on a complex modernization program for compliance with the Government's Technical Regulations on fuel quality. Progress in program implementation during 2011 included completion of upgrading work on a hydrogen production unit to meet increased needs for hydrogen associated with changeover to production of fuel, which meets the Euro-4 and -5 quality criteria. Reconstruction of sulphuric acid production was also completed.

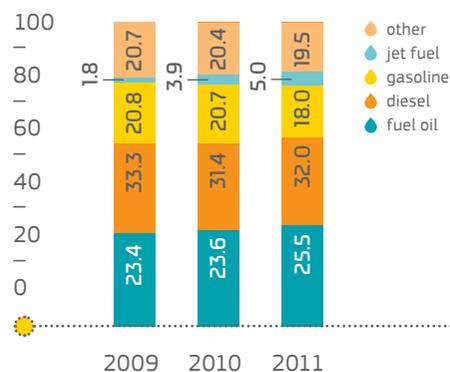
Capital expenditures at the Angarsk Petrochemical Company in 2011 were USD 181 mln.

ANGARSK POLYMER PLANT

The Angarsk Polymer Plant processed 729,500 tonnes of inputs and produced 467,500 tonnes of saleable products in 2011, consisting of 126,100 tonnes of ethylene, 68,900 tonnes of propylene, 57,900 tonnes of high-density polyethylene, 20,200 tonnes of styrene, 19,400 tonnes of polystyrene, and 56,700 tonnes of benzene.

A modernization program began at the Plant in 2010, and total investments in 2010–2011 were USD 102 mln. The money was spent on licenses and on basic design of new facilities, project work for polypropylene production, and maintenance of installations in safe working order.

Structure of petroleum products output at Angarsk Petrochemical Company (%)*



* Including production at the Angarsk Polymer Plant.

PRODUCTION OF LUBRICANTS

The Company's lubricant plants produced 637,600 tonnes of lubricants, additives and other related products in the reporting year, which is 11.9% more than in 2010. Output of saleable lubricants was 480,000 tonnes. Rosneft was the second-largest producer of lubricants in Russia in 2011, and took first place by volumes of additives.

The Novokuibyshevsk Plant completed modernization of its packaging lines in 2011 and built a lubricant blending station, which greatly expands the range of lubricant production and enables variation in packaged product lines. Production of an anti-wear additive for diesel fuels, Komplexal-EKO D, began in the reporting year. The additive has been confirmed compatible with bio-components in the European 'No-Harm' list. As of today Rosneft is the first and only Russian company producing an additive, which is included in that list.

The Novokuibyshevsk and Angarsk Plants began production in 2011 of engine oils in the Rosneft Premium series, which have SM/CF quality levels under API classification.

GAS PROCESSING

The Company's Otradnensky and Neftegorsk gas-processing plants processed 396 and 398 mln cubic meters of associated gas, respectively, in 2011, representing a total increase of 5.2% compared with 2010. The plants produced 420.2 mln cubic meters of dry stripped gas, 437,600 tonnes of natural gas liquids, 100,200 tonnes of ethane fraction and 8,200 tonnes of sulphur.

Capital expenditures on gas-processing plants were USD 17 mln in 2011.



Filling station in the
city of Voronezh

Rosneft constantly monitors domestic and international markets for oil and petroleum products, ensuring a flexible reaction to changes in demand and the price environment.

Rosneft is focused on maximizing the profitability of crude oil, gas and petroleum product sales by increasing the share of sales to end-users, and also by expanding the marketing network and improving its efficiency.

The Company has its own transshipment terminals, which help to raise export efficiency, and owns extensive sale infrastructure as well as a filling station network, enabling large amounts of Company output to be sold via retail and small wholesale channels.

Crude Oil Sales

Rosneft supplies the crude oil, which it produces, to its own refineries in Russia and Germany and also sells the oil in Russia, CIS countries and on the international market.

Rosneft delivered 50.65 mln tonnes (370.5 mln barrels) of oil to its own refineries in Russia during 2011, matching the level in 2010. The Company continued to use oil swap operations with other producers in 2011 in order to optimize the costs of transporting crude to refineries. The volume of swap operations grew by 70% year-on-year thanks to transactions with new counterparties, reaching a level of 9.0 mln tonnes (65.8 mln barrels) and enabling savings of USD 87 mln on crude oil transportation expenses.

Rosneft also delivered 1.08 mln tonnes (7.93 mln barrels) of its own crude oil for refining at Ruhr Oel GmbH refineries in Germany. Crude output by the Company, which is supplied to Ruhr Oel refineries, is counted as part of exports.

Rosneft sold 64.2 mln tonnes (469.7 mln barrels) of crude oil in 2011 (excluding swap operations), of which 0.3 mln tonnes (2.2 mln barrels) were sold on the domestic market and 63.9 mln tonnes (467.5 mln barrels) were exported. Export deliveries increased by 5.1% compared with 2010, which reflects growth of production and reduction of sales on the domestic market.

The Company exported 41.2 mln tonnes (301.1 mln barrels) of oil to Europe as well as 4.6 mln tonnes (33.7 mln barrels) to CIS countries, which is 37.3%

053

ROSNEFT



Extended docking facility
for oil loading at the
De-Kastri terminal at
Sakhalin-1 project

24.5%

**INCREASE OF RETAIL SALES VOLUMES
IN 2011**

higher year-on-year. Deliveries to Asia-Pacific countries were 18.2 mln tonnes (132.8 mln barrels), of which 15 mln tonnes (110 mln barrels) were delivered by pipeline to China under a long-term contract, and the remaining amounts were exported via the ports of Kozmino and De-Kastri.

The oil market at the port of Kozmino became fully functional in the reporting year, and East Siberia-Pacific Ocean (ESPC) crude oil became a recognized brand in the Asia Pacific Region. Regional oil companies and trading and industrial concerns from China, Japan and Korea as well as large international oil companies and traders emerged as the key players on the new market.

Most of Rosneft's export deliveries are via Transneft transport capacities, including export pipelines

and ports. Crude oil exports by Rosneft used the following routes in 2011:

- pipelines accounted for 61.5 mln tonnes (450.2 mln barrels) which equals 96.3% of total exports;
- railroad and combined transport accounted for 2.4 mln tonnes (17.3 mln barrels) which equals to 3.7% of total exports).

DE-KASTRI PORT

De-Kastri is one of the largest ports in the Far East and provides efficient export deliveries of crude oil to the Asian market. The export terminal with 12 mln tonnes (88 mln barrels) capacity belongs to the Sakhalin-1 project consortium, in which Rosneft has a 20% stake. A total 1.6 mln tonnes (11.7 mln barrels) of Company oil were dispatched through De-Kastri in 2011.

BELOKAMENKA

The Belokamenka floating storage unit, which is in long lease from Rosneft Oil Company, is located in a gulf of the ice-free Kola Bay. It is used as a transshipment point for oil, which the Company produces at fields in Timan-Pechora. Oil is transported by shuttle tankers to the floating storage unit, and is then delivered by large tankers to the international

market. The unit was used for transshipment of 3.2 mln tonnes (23.4 mln barrels) of crude oil in 2011.

CASPIAN PIPELINE CONSORTIUM

The Caspian Pipeline Consortium (CPC) links the Tengiz oil field in Western Kazakhstan with the port of Novorossiysk. Rosneft has participated in the CPC project since 1996 via the joint venture Rosneft Shell Caspian Ventures Ltd, which holds a 7.5% stake in the CPC. Rosneft owns a 51% stake in the joint venture and the other 49% belongs to Shell.

In 2011 the Company delivered 3.6 mln tonnes (26.3 mln barrels) of oil and gas condensate through the pipeline.

Gas Sales

The Company sold 9.7 bln cubic meters of gas in 2011, of which 5.1 bln cubic meters were delivered to Western Siberia, 2.9 bln cubic meters were sold in Southern Russia, 1.1 bln cubic meters were delivered to regions in European Russia and the rest was sold in the Russian Far East.

Petroleum Product Sales

Rosneft owns developed infrastructure for the sale of petroleum products on the domestic and international markets. The Company sold 54.67 mln tonnes of petroleum products in the reporting year, which is an increase of 14% year-on-year. Growth of sales volumes was due to an increase in refinery throughputs following the acquisition of refining capacities in Germany.

DOMESTIC SALES OF PETROLEUM PRODUCTS

Rosneft has an extensive and well-developed infrastructure for the sale of petroleum products on the domestic market. The Company owns a chain of marketing companies engaged in wholesale and retail sale of petroleum products, their storage, transport and transshipment.

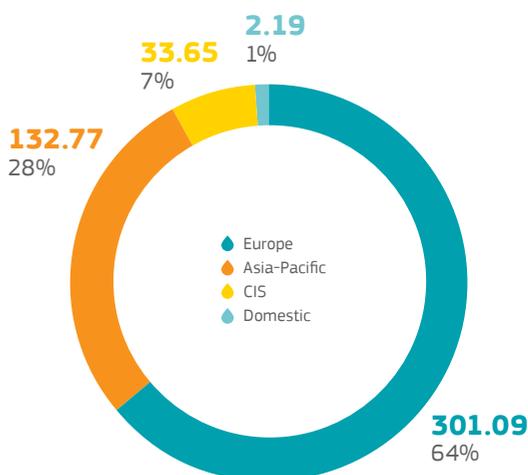
Rosneft sold 21.4 mln tonnes of petroleum products on the domestic market in 2011, which is 4.6% more than in 2010. The growth reflects increase of demand for Rosneft products. Gasoline accounted for 31% of petroleum product sales on the domestic market, while 44% were diesel fuel, 10% were fuel oil, and jet fuel accounted for 5% of sales.

WHOLESALE

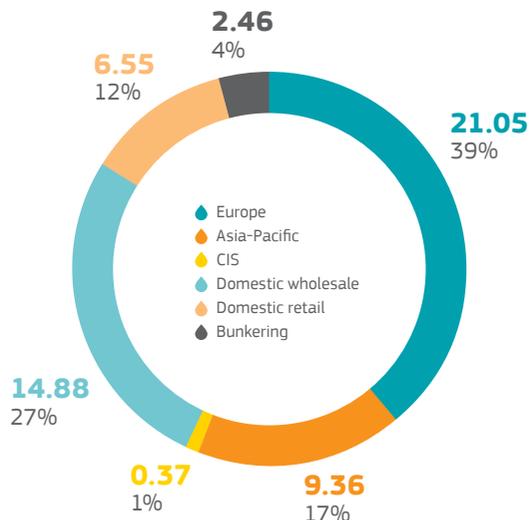
Wholesale sales of petroleum products on the domestic market were 14.88 mln tonnes in 2011. The largest wholesale buyers of Rosneft petroleum products are independent traders and large end-users (including state organizations, such as the Russian Ministry of Defense). The main product types delivered to these buyers are boiler fuel, diesel and jet fuel.

The Company continued sales of petroleum products through Russian commodity exchanges in the reporting year. Rosneft sold 3.4 mln tonnes of petroleum products via the Saint Petersburg International Mercantile Exchange and Russian Inter-Regional Oil & Gas Trading Exchange in 2011, which matches the 2010 level and represents 16% of total sales on the domestic market.

Crude oil sales in 2011 (mln barrels, %)



Petroleum product sales (mln tonnes, %)



RETAIL

Rosneft's retail business covered 44 regions of Russia by the end of 2011, from Murmansk in the north to the North Caucasus in the south, and from Bryansk in the west to Sakhalin Island in the east. Rosneft sells gasoline, diesel fuel and lubricants through its retail network.

As of December 31, 2011, Rosneft marketing subsidiaries owned 133 operating tank farms with total capacity of 2.7 mln cubic meters. The Company's network of operating filling stations consisted of 1,639 stations in ownership or leased, and 42 stations operating under the Rosneft brand through franchising agreements. Owned and leased filling stations were equipped with 144 car washes, 1,112 shops and 151 cafes. There were small-scale vehicle repair and servicing facilities at 88 of Rosneft's filling stations.

Rosneft began a program in 2011 for rapid optimization of its retail network, mainly through closure and disposal outside the Group of inefficient filling stations. The program also included upgrade of existing stations and construction of new ones. The Company sold, closed or mothballed 114 stations in the course of the year, while 29 new stations were built and 53 were upgraded.

Growth of demand for Company products led to an increase in fuel sales through the Rosneft filling station network to 6.55 mln tonnes in 2011, representing an increase of 24.5% over 2010. Average daily sales volume per filling station was 10.6 tonnes.

In 2009 the Company became a General Partner of the 2014 Olympic Games in the Sochi, and construction of filling stations in the 'Olympic' format (with use of the Olympic insignia) continued during the reporting year.

PETROLEUM PRODUCT EXPORTS

Rosneft exported 24.85 mln tonnes of petroleum products in 2011 (including products bought from other producers, but excluding bunkering business), which is 3.7% less than in 2010. Lower export volumes were due to a recovery in domestic demand. Exports accounted for 45.5% of total product sales. The Company delivered 24.48 mln tonnes of products (98.5% of total exports) to non-CIS countries and 0.37 mln tonnes to CIS countries. Fuel oil accounted for 52.7% of exports, 27.8% of exports was diesel fuel and 14.1% was naphtha.

NAKHODKA TERMINAL

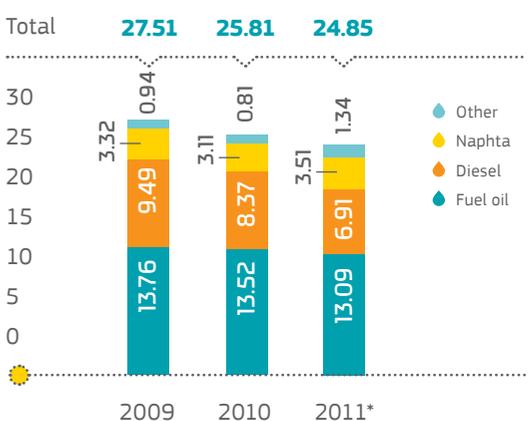
The Nakhodka Terminal in Primorsk Territory is owned by Rosneft and is used mainly for export of petroleum product outputs from the Company's Komsomolsk, Angarsk and Achinsk Refineries. The Terminal's annual transshipment capacity is around 7 mln tonnes.

Deliveries of Company products through Nakhodka, including bunkering for export and the domestic market, amounted to 6.7 mln tonnes in 2011.

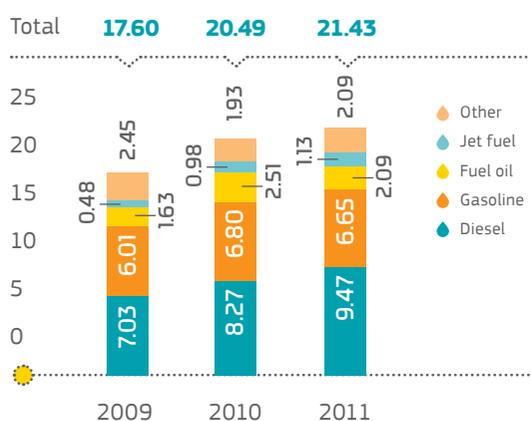
TUAPSE TERMINAL

The Tuapse Terminal, which is also owned by Rosneft, has 10.2 mln tonnes annual capacity for

Export sales of petroleum products (mln tonnes)

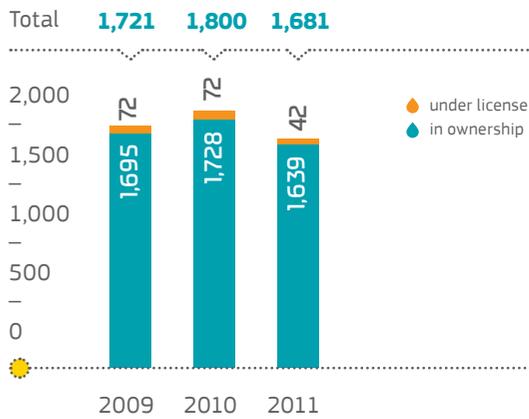


Domestic sales of petroleum products (mln tonnes)

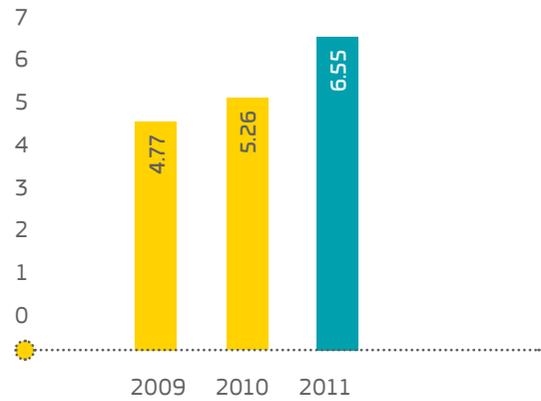


* Excluding sales of petroleum products and petrochemicals produced at German refineries.

Operating filling stations (end of year)



Retail sales of petroleum products (mln tonnes)



handling petroleum products and is located on the Black Sea coast, immediately adjacent to the Tuapse Refinery. The Terminal is used for export of products from the Tuapse and Achinsk Refineries and also from the Samara group of refineries.

Deliveries of Rosneft petroleum products via the Tuapse Terminal in 2011 (including deliveries of bunker fuel to the domestic market and export) were 6.9 mln tonnes, and the figure including

transshipment of third-party products was 9.8 mln tonnes.

Work to expand and modernize the Terminal continued in 2011. Annual capacity is to be increased to 17 mln tonnes, which will ensure smooth handling of increased export flows from the Tuapse Refinery (output at the Refinery will increase substantially in the near future as a result of facility upgrades).

Bunkering tanker
RN-Magellan



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ROSNEFT



'Into-plane' refueling
at Vnukovo Airport

SALES OF PETROLEUM PRODUCTS FROM REFINERIES IN GERMANY

Following the acquisition of a stake in Ruhr Oel GmbH, Rosneft started oil deliveries to its German refineries. Total sales of petroleum products and petrochemicals, produced at the refineries during 2011, amounted to 7.3 mln tonnes (the Company's share), including 5.9 mln tonnes of petroleum products.

Petrochemical Product Sales

The Company sold 54.67 mln tonnes of petrochemicals in 2011 which is 13.6% higher year-on-year. The increase reflects acquisition of a stake in Ruhr Oel GmbH.

Bunkering

Bunkering business is carried out through the Company subsidiaries RN-Bunker LLC and Rosneft Marine UK Ltd., and extends to all main Russian bunkering regions as well as several areas outside Russia (the Baltic, Barents Sea, Mediterranean, Far East, Pacific and Atlantic Oceans).

Rosneft sold 2.46 mln tonnes of bunker fuel in 2011, which is 34.4% more than in 2010. Fuel quality is in compliance with Russian standards and with ISO 8217:2010.

Rosneft continued to strengthen its presence on the main bunkering markets in Russia during the reporting year. The Company strengthened its leading positions in the Russian Far East thanks to a contract with the Sakhalin-2 offshore project operator for deliveries of bunker fuel.

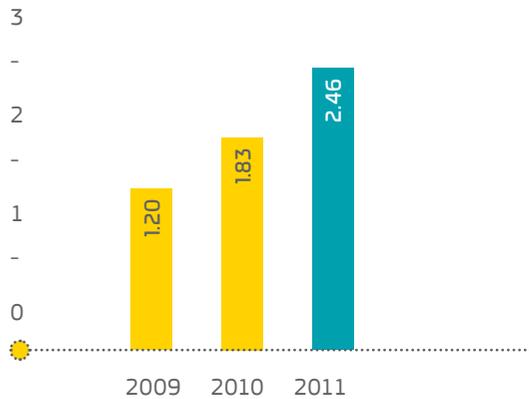
New bunkering tankers, RN-Magellan and RN-Taurus, were brought into operation in the reporting year as part of the program for expanding Company presence on the bunkering market of the North-West and Black Sea regions of Russia. These modern vessels meet all the requirements specified for the vessels of this class and will work in the ports of Murmansk, Arkhangelsk and Tuapse.

Aircraft Refueling

Rosneft aircraft refueling services are provided through a subsidiary, RN-Aero, and extend to nearly all regions of Russia, thanks to the wide geographical distribution of Company refineries.

The Company makes direct deliveries of jet fuel to numerous companies, including: Aeroflot, TransAero, Sibir, Vladivostok Avia, UTAir, Volga-Dnepr, Yakutia, Kuban Airlines, Taimyr, KrasAvia, Orenburg Airlines, Severny Veter, Turukhan, Moskovia, Donavia, Rusline AK, Rossiya, Ural Airlines, Abakan Avia, RusLine, Aerologic, and others. Sales of jet fuel totaled 636,000 tonnes in 2011, which is 27.7% more than in 2010.

Sales of bunker fuel (mln tonnes)



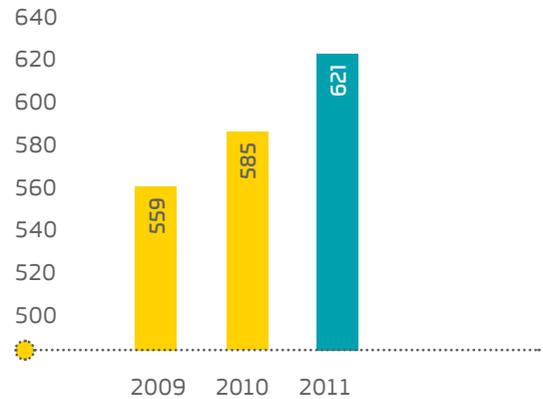
Rosneft continued to offer 'into-plane' refueling services in 2011 at airports in Krasnoyarsk (Emelyanovo, Cheremshanka), Vladivostok (Knevichi), Irkutsk, Mineralniye Vody, Blagoveshchensk (Ignatevo), Rostov-on-Don, Vankor, Igarka, the Verkhnechonsk field, Vnukovo, Komsomolsk-on-Amur (Khurba), Arkhangelsk (Talagi), Kemerovo and Elista. Into-plane refueling volumes in 2011 were 161,700 tonnes, which is double the amount in 2010.

Lubricant Sales

Rosneft sold 621,000 tonnes of oils and lubricants in 2011, which is 6% more than in 2010. Sales on the domestic market were 403,000 tonnes or 65% of total sales.

Sales of lubricants grew by 2% to 469,000 tonnes, including 299,000 tonnes (64% of the total) on the domestic market. Sales of packaged lubricants

Sales of oils and lubricants (th. tonnes)



were 82,900 tonnes, which is 9% more than in 2010. Sales of packaged lubricants under the Rosneft brand (Rosneft Premium, Rosneft Maximum, Rosneft Optimum, Rosneft Kinetic and Rosneft Express) grew by 26% to 10,100 tonnes.

Lubricants from the Novokuibyshevsk Oils and Additives Plant have been supplied to manufacturing facilities of the leading Russian car maker AvtoVAZ since May 2010 under an agreement between Rosneft and the car maker. Total supplies in 2011 were 6,200 tonnes of industrial lubricants, quench oil and engine oils, and clutch fluids, making Rosneft the principal supplier of lubricants for AvtoVAZ manufacturing.

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ROSNEFT

PRODUCT FLOWS OF ROSNEFT CONSOLIDATED ENTITIES, MLN TONNES



The difference between 'Total crude oil' and its distribution equals the sum of losses, intra-group consumption and change in stocks. The difference between 'Refinery throughput' and 'Output of petroleum products and petrochemicals' equals losses during dehydration and desalination, fuel consumption, irretrievable refining losses, and change in semi-finished product stocks. The difference between 'Total products' and their distribution equals the sum of intra-group product consumption, losses and change in stocks.

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ROSNEFT

Key Macroeconomic Factors



Main factors affecting the results of Rosneft operations are:

- changes in prices for crude oil, petroleum products and natural gas;
- RUB/USD exchange rate and inflation;
- taxation (including changes in mineral extraction tax and export customs duty);
- changes in transport tariffs of natural monopolies (for pipeline and railway transport).

Changes in Prices for Crude Oil and Petroleum Products

World prices for crude oil are highly volatile and fluctuate depending on the global balance of supply and demand and on numerous speculative factors. Crude oil exported by Rosneft via the pipeline system of Transneft (the Russian pipeline monopoly) is blended with crude oil of other producers, which is of varying quality. The resulting Urals blend is traded at a discount to Brent. Crude oil exported via the ESPO pipeline is sold at a special price, which is linked to the price for Dubai grade.

Russian domestic market prices for crude oil are difficult to determine, mainly due to the significant intragroup turnover between upstream and downstream segments of the country's vertically integrated oil companies, which together represent

39.4%

GROWTH OF AVERAGE URALS PRICE
COMPARED TO 2010

approximately 90% of Russia's daily production and 85% of refinery throughput. Moreover, to the extent that they exist, market prices for crude oil in Russia can deviate significantly from export netbacks due to seasonal oversupply and regional imbalances.

Petroleum product prices on international and Russian markets are primarily determined by the level of world prices for crude oil, supply and demand for petroleum products, and levels of competition on different markets. Price trends for different types of petroleum products vary.

Crude oil and petroleum product prices

2009	Operating Highlights	2010	2011	%
WORLD MARKET (USD PER BARREL)				
61.51	Brent (dated)	79.47	111.27	40.0%
61.01	Urals (average CIF Med and NWE)	78.25	109.07	39.4%
59.51	Urals (FOB Primorsk)	76.74	108.20	41.0%
59.60	Urals (FOB Novorossiysk)	76.76	108.32	41.1%
61.80	Dubai-Oman	78.16	106.41	36.1%
WORLD MARKET (USD PER TONNE)				
520.59	Naphtha (av. FOB/CIF Med)	698.44	914.75	31.0%
531.19	Naphtha (av. FOB Rotterdam/CIF NWE)	710.85	929.15	30.7%
553.36	Naphtha (CFR Japan)	723.86	938.24	29.6%
348.63	Fuel oil 3.5% (av. FOB/CIF Med)	442.26	608.95	37.7%
344.00	Fuel oil 3.5% (av. FOB Rotterdam/CIF NWE)	440.79	607.17	37.7%
370.76	High sulphur fuel oil 180 cst (FOB Singapore)	470.35	648.71	37.9%
520.65	Gasoil 0.1% (av. FOB/CIF Med)	672.29	931.63	38.6%
518.92	Gasoil 0.1% (av. FOB Rotterdam/CIF NWE)	671.84	933.76	39.0%
512.55	Gasoil 0.5% (FOB Singapore)	664.70	924.77	39.1%
RUSSIAN MARKET (NET OF VAT, INCLUDING EXCISE TAX) (USD PER TONNE)				
182.49	Crude oil	222.22	304.40	37.0%
207.89	Fuel oil	252.06	299.49	18.8%
397.96	Summer diesel	469.45	670.00	42.7%
452.19	Winter diesel	544.09	741.61	36.3%
427.04	Jet fuel	490.35	701.77	43.1%
579.79	High octane gasoline	685.07	821.47	19.9%
500.01	Low octane gasoline	569.00	753.03	32.3%

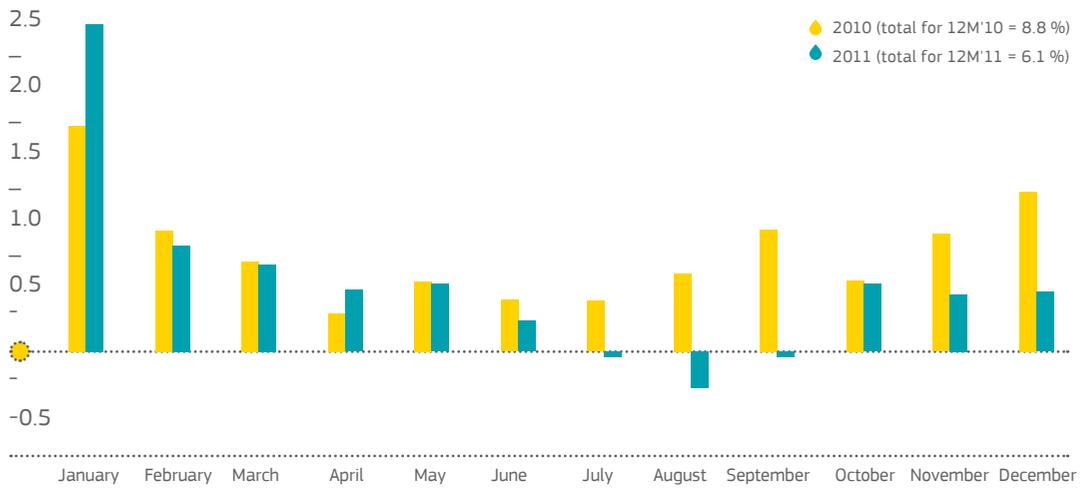
Sources: Platts' (world market), Kortes/Argus (Russian market).

USD/RUB Exchange Rate and Inflation

The USD/RUB exchange rate and inflation in the Russian Federation have an impact on Rosneft's results as most of the Company's revenues from

sales of crude oil and petroleum products are denominated in USD, while most of the Company's expenses are denominated in roubles. As a result, any depreciation of the rouble positively affects Rosneft's results, while rouble appreciation has a negative effect.

Rouble inflation (%)



USD exchange rate (RUB per USD)



Exchange rate and inflation

2009		2010	2011
8.8%	Rouble inflation (CPI) for the period	8.8%	6.1%
(21.6)%	Change of the average inverse exchange rate (RUB/USD) compared to the previous period	4.4%	3.3%
30.24	USD/RUB exchange rate at the end of the period	30.48	32.20
31.72	Average USD/RUB exchange rate for the period	30.37	29.39
(22.8)%	Real appreciation/(depreciation) of the RUB against the USD compared to the previous period	11.6%	12.1%

Taxation*Average enacted tax rates specific to the Russian oil industry*

2009		2010	2011	%
MINERAL EXTRACTION TAX				
2,299	Crude oil (RUB per tonne)	3,074	4,455	44.9%
147	Natural gas (RUB per th. cubic meters)	147	237	61.2%
0	Associated gas (RUB per th. cubic meters)	0	0	0
EXPORT CUSTOMS DUTY				
179.33	Crude oil (USD per tonne)	273.61	408.92	49.5%
0	East Siberian crude oil* (USD per tonne)	58.07	337.56	481.3%
133.13	Gasoline, naphtha** (USD per tonne)	196.64	341.29	73.6%
133.13	Light and middle distillates (USD per tonne)	196.64	274.08	39.4%
71.71	Liquid fuels (fuel oil) (USD per tonne)	105.93	208.21	96.6%

* For the Verkhnechonsk and Vankor fields.

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

MINERAL EXTRACTION TAX

The rate of mineral extraction tax for crude oil is linked to the Urals price in the international market and changes every month. It is calculated in USD per tonne of crude oil produced and is enacted in RUB per tonne using the average exchange rate for the respective month.

The mineral extraction tax rate is calculated by multiplying the base rate of RUB 419 by the adjustment ratio of $((\text{Price } 15) / 261) * \text{Exchange rate}$, where "Price" is the average Urals price per barrel and "Exchange rate" is the average RUB/USD exchange rate established by the Central Bank of Russia in the respective month.

Changes to tax legislation introduced at the end of 2010 increase the base rate to RUB 446 per tonne from January 1, 2012 and to RUB 470 from January 1, 2013.

The Russian Tax Code provides for a reduced or zero mineral extraction tax rate on crude oil produced at certain fields:

- the reduced rate is applicable to crude oil produced at fields with reserve depletion of over 80%; for calculation of the reduced rate a special adjustment ratio $(3.8 - 3.5 * \text{level of reserve depletion})$ is applied; the reduced rate therefore varies between 0.3 and 1.0 of the standard rate;

- the zero tax rate is applicable to high-viscosity crude oil;
- the zero tax rate is applicable until a specified time or until accrued production reaches a certain level (if the latter occurs before the specified time) at fields in Yakutia, Irkutsk Region, Krasnoyarsk Territory, Nenets Autonomous District, the Yamal Peninsula, the Azov and Caspian seas, and at offshore fields located to the north of the Arctic Circle (the specified time period and level of accrued production vary depending on where the field is located).

Rosneft benefits from the reduced mineral extraction tax rate as it has several fields with reserve depletion rate above 80%. Moreover its fields in Irkutsk Region and Krasnoyarsk Territory are subject to the zero mineral extraction tax rate, which is applicable for the first 25 million tonnes of production or the first 10 years for a production licence and 15 years for an exploration & production license.

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

Accrued production at the Vankor oil field reached 25 million tonnes on August 6, 2011, since when the zero MET rate has been replaced by the standard rate.

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

EXPORT CUSTOMS DUTY ON CRUDE OIL

The rate of export customs duty on crude oil is linked to the Urals price in the international market and is denominated in USD per tonne.

Calculation of export duty for crude oil

Urals price (USD)	Export duty (USD)
Up to 109.5 per tonne (15 per barrel)	Export duty is not levied
Above 109.5 and up to 146 per tonne (15 to 20 per barrel)	35% of the difference between the average Urals price in USD per tonne and USD 109.5
Above 146 and up to 182.5 per tonne (20 to 25 per barrel)	USD 12.78 plus 45% of the difference between the average Urals price in USD per tonne and USD 146
Above 182.5 per tonne (25 per barrel)	USD 29.2 plus 65% (60% starting from October 1, 2011) of the difference between the average Urals price in USD per tonne and USD 182.5

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

Starting from October 2011, the maximum ordinary export duty for crude oil was calculated using the following formula: USD 29.2 plus 60% of the difference between the average Urals price in USD per tonne and USD 182.5.

EXPORT CUSTOMS DUTY ON EASTERN SIBERIAN CRUDE OIL

Since the end of 2009, crude oil produced at a number of fields in Eastern Siberia has been subject to a specific export duty regime. In particular, zero export duty was applicable to the Verkhnechonsk field starting from December 1, 2009 and to the Vankor field starting from January 19, 2010.

Starting from July 1, 2010 the zero rate was replaced by a special rate calculated as $(\text{Price} - 50) \times 0.45$, where "Price" is average Urals price in USD per barrel used for the calculation of ordinary export duty.

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

EXPORT CUSTOMS DUTY ON CRUDE OIL EXPORTS TO THE CIS

In 2010 export duties were not payable on crude oil exports to CIS countries that are members of the Customs Union, except for Belarus. In January 2010 exports of crude oil to Belarus were taxable at the ordinary export duty rate. On January 27, 2010 the Government of the Russian Federation and the Government of Belarus signed an agreement on crude oil and petroleum product exports. In accordance with the agreement, crude oil exports to Belarus within

specific limits established by the Russian Ministry of Energy are exempted from export duty.

EXPORT CUSTOMS DUTY ON PETROLEUM PRODUCTS

Export customs duty on petroleum products is set every month by the Government simultaneously with the export customs duty on crude oil and is denominated in USD per tonne. The rate of export customs duty on petroleum products is linked to the Urals price on the international market. The average Urals price used for the calculation of customs duty on petroleum product exports is the same as that used for the calculation of customs duty on crude oil exports. Until February 2011 the export duty rate depended on the type of product: light (gasoline, diesel, jet fuel) or dark (fuel oil).

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

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

Starting from October 2011 the export duty for light petroleum products was lowered from 67% to 66% of the export duty for crude oil, and the export duty for dark petroleum products was raised

Tariffs applied for major transportation routes used by Rosneft, RUB/tonne

2009		2010	2011	%
CRUDE OIL				
<i>DOMESTIC</i>				
<i>Pipeline</i>				
531.57	Yugansk – Samara refineries	648.55	726.32	12.0%
34.95	Samara – Samara refineries	41.29	45.72	10.7%
897.87	Yugansk – Angarsk refinery	1,084.52	1,205.91	11.2%
1,110.14	Purpe – Tuapse refinery	1,340.59	1,500.53	11.9%
245.66	Tomsk – Achinsk refinery	297.42	329.88	10.9%
<i>Pipeline and railway</i>				
3,036.42	Yugansk – Komsomolsk refinery	3,606.61	3,926.04	8.9%
EXPORTS				
<i>Pipeline</i>				
968.19	Yugansk – Primorsk	1,163.86	1,348.21	15.8%
1,099.32	Yugansk – Novorossiysk	1,307.20	1,456.55	11.4%
-	Vankor (Purpe)-Tuapse	1,354.85	1,513.43	11.7%
-	Vankor (Purpe)-Kozmino	1,634.15	1,836.39	12.4%
<i>Railway and mixed</i>				
1,667.36	Purneftegaz - CPC*	1,883.92	2,044.25	8.5%
543.37	Stavropolneftegaz – CPC (railway)	610.93	659.73	32.0%

* Crude oil transportation on the Purneftegaz – CPC route via Tikhoretskaya station was canceled in June 2011.

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

Tariffs applied for major transportation routes used by Rosneft, RUB/tonne

2009		2010	2011	%
PETROLEUM PRODUCT EXPORTS				
<i>DIESEL</i>				
1,473.09	Samara refineries – Ventspils	1,596.28	1,729.10	8.3%
3,206.08	Angarsk refinery – Nakhodka	3,615.65	3,890.15	7.6%
1,256.94	Komsomolsk refinery – Nakhodka	1,419.03	1,525.31	7.5%
3,608.78	Achinsk refinery – Tuapse	4,069.43	4,379.27	7.6%
<i>FUEL OIL</i>				
2,338.62	Samara refineries – Odessa	2,579.51	2,712.92	5.2%
3,257.66	Angarsk refinery – Nakhodka	3,670.78	3,963.98	8.0%
1,220.14	Komsomolsk refinery – Nakhodka	1,374.87	1,484.69	8.0%
4,018.57	Achinsk refinery – Nakhodka	4,528.16	4,889.87	8.0%
<i>NAPHTHA</i>				
1,541.66	Samara refineries – Tuapse	1,740.94	1,868.86	7.3%
3,543.16	Achinsk refinery – Tuapse	3,995.98	4,297.44	7.5%
3,113.97	Angarsk refinery – Nakhodka	3,512.37	3,776.55	7.5%
1,233.91	Komsomolsk refinery – Nakhodka	1,340.59	1,496.64	7.4%

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

from 46.7% to 66% of the export duty for crude oil. Export duty for naphtha and gasoline remained at 90% of crude oil export duty.

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

Transportation Tariffs

Rosneft transports most of its crude oil and petroleum products via the pipeline network owned and operated by Transneft, which is a state-owned natural monopoly. Rosneft also transports crude oil and petroleum products via the railway network owned and operated by RZD, which is also a state-owned natural monopoly.

The Federal Tariff Service (the FTS), a government body regulating natural monopolies, sets Transneft's base tariffs for transportation of crude oil and petroleum products, which include a dispatch tariff, a pumping tariff, loading, charge-discharge, transshipment and other tariffs. Indexation of tariffs for rail transportation is also decided by the FTS. The tariffs are set in rubles and are not linked to the RUB/USD exchange rate.

The FTS sets tariffs for each separate route section in pipeline networks depending on the length of the section, destination and other factors. Alternatively, tariffs may be set for an entire pipeline route. Tariffs for railway transportation (where these costs are not already incorporated as a part of pipeline tariffs) often depend on the carriage type and transportation route.

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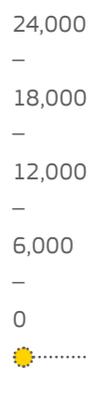
ROSNEFT

Key Financial Results

Rosneft posted excellent financial results in 2011. EBITDA increased by 15% year-on-year, reaching an all-time high of USD 22.0 bln, and net income rose to USD 12.45 bln.

Analysis of the Company's 2011 results is presented below. Consolidated financial statements for 2011 audited by Ernst & Young LLC, one of the "Big Four"² accounting firms, are included in appendixes to this Report.

EBITDA (USD mln)

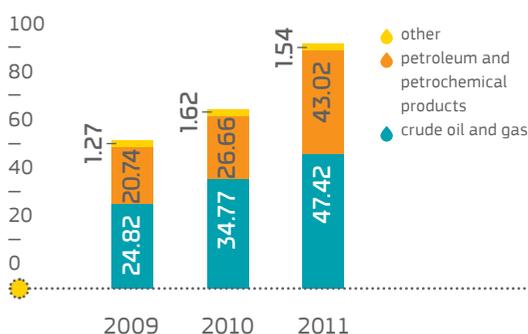


Key financial ratios

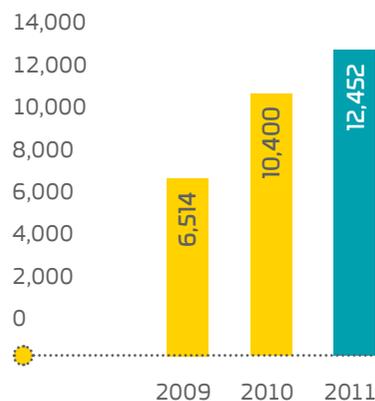
2009		2010	2011
29.0%	EBITDA margin	30.5%	23.9%
17.00	EBITDA per boe of production	22.66	25.42
13.8%	Adjusted net income margin	16.6%	13.5%
11.4%	Return on average capital employed (ROACE)	16.3%	16.8%
15.2%	Return on average equity (ROAE)	20.7%	20.2%
0.29	Net debt-to-capital employed ratio	0.20	0.19
1.36	Net debt-to-EBITDA ratio	0.71	0.72
1.13	Current ratio	1.97	1.97

Revenues (USD bln)

Total **46.83** **63.05** **91.98**



Net income (USD mln)



² The Big 4 refers to the four leading international companies which provide audit and consulting services (PricewaterhouseCoopers, Ernst & Young, Deloitte, KPMG).

Revenues

Rosneft's revenues from sales increased by 45.9% year-on-year in 2011 to USD 91,975 mln, thanks to a substantial increase in prices and higher sales volumes. In particular, the price for Urals crude increased by 39.4% and world market prices for diesel and fuel oil rose by 39.1% and 37.7%, respectively.

Growth of sales volumes by 9.2% is attributable to higher oil production and refinery throughput.

CRUDE OIL AND GAS SALES

Revenues from crude oil sales were USD 46,930 mln in 2011, up 36.6% year-on-year. The increase reflects higher prices and growth of sales volumes.

Revenues (USD mln)

2009		2010	2011	%
CRUDE OIL				
23,019	International sales to non-CIS	32,719	44,983	37.5%
18,275	<i>Europe and other markets</i>	22,895	32,495	41.9%
4,744	<i>Asia</i>	9,824	12,488	27.1%
1,313	International sales to CIS	1,363	1,847	35.5%
134	Domestic	269	100	(62.8)%
24,466	Total crude oil	34,351	46,930	36.6%
354	Gas	416	487	17.1%
PETROLEUM PRODUCTS				
11,622	International sales to non-CIS	14,141	24,168	70.9%
6,727	<i>Europe and other markets</i>	8,156	16,552	102.9%
4,895	<i>Asia</i>	5,985	7,616	27.3%
144	International sales to CIS	172	277	61.0%
8,304	Domestic	11,192	15,256	36.3%
5,183	<i>Wholesale</i>	7,241	9,210	27.2%
3,121	<i>Retail</i>	3,951	6,046	53.0%
426	Sales of bunker fuel to end-users	739	1,293	75.0%
20,496	Total petroleum products	26,244	40,994	56.2%
240	Petrochemical products	416	2,026	387.0%
70	<i>International sales</i>	120	1,693	1,310.8%
170	<i>Domestic</i>	296	333	12.5%
1,270	Support services and other revenues	1,620	1,538	(5.1)%
46,826	Total sales	63,047	91,975	45.9%

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Revenues from crude oil exports to non-CIS countries increased by 37.5% compared with 2010 due to a 33.2% increase in average export prices (positive impact on revenues was USD 11,222 mln) and a 3.2% increase in sales volumes (positive impact on revenues was USD 1,042 mln). Growth of export sales volumes reflects increase of production at Vankor.

In May 2011, Rosneft started supplies of its own crude oil to Ruhr Oel GmbH. These supplies amounted to 1.08 mln tonnes (7.93 mln barrels) in 2011 (Rosneft paid USD 499 mln of export duties on this crude oil). This oil had been fully processed and sold as of December 31, 2011.

Besides supplies of its own crude oil Rosneft acquired 6.14 mln tonnes (44.95 mln barrels) of crude oil on the international market for USD 5,050 mln to supply to Ruhr Oel GmbH. These expenses are reflected in the cost of purchased oil, gas and petroleum products and refining costs in the consolidated statements of income and comprehensive income.

Revenues from crude oil exports to CIS countries in 2011 were USD 484 mln more than in 2010, due to increase of sales volumes by 37.3% (positive impact on revenues was USD 509 mln). A slight decline of the average price by 1.3% led to revenue reduction of USD 25 mln. Increase of sales volumes was due to cancellation of custom duties on crude oil exports to Belarus.

In 2011 revenues from crude oil sales on the domestic market were 62.8% lower than in 2010. The reduction was driven by a 75.3% decrease in sales volumes (USD 202 mln negative impact on revenues) and was partially compensated by average price upturn of 55.4% (USD 33 mln positive impact on revenues). Lower domestic sales volumes reflect increased crude oil exports under the agreement with China.

Rosneft's gas sales have been limited to date, but the Company's long-term strategy envisages significant expansion of its gas business. Gazprom controls the Unified Gas Supply System (UGSS) and is the dominant gas supplier in Russia and the only exporter of gas.

Growth of revenues from gas sales by 17.1% in 2011 compared to 2010 was driven by an increase in average prices of 17.8% (USD 74 mln positive impact on revenues) and was partially offset by a decline of sales volumes by 0.6% (USD 3 mln negative impact on revenues).

SALES OF PETROLEUM PRODUCTS INCLUDING BUNKERING OPERATIONS AND SALES OF PETROCHEMICAL PRODUCTS

Revenues from petroleum product sales were USD 40,994 mln in 2011, which is an increase of 56.2% year-on-year. The growth resulted from price and volume increases.

Revenues from the export of petroleum products to non-CIS countries grew by 70.9% in 2011 due to 43.4% upturn in average prices and growth of sales volumes by 19.2% (positive impact on revenues of USD 7,311 mln and USD 2,716 mln, respectively). Petroleum product sales to non-CIS countries net of Ruhr Oel GmbH sales volumes decreased by 4.0%, reflecting redirection of diesel volumes to the domestic market in response to increased demand. International sales of gasoline and naphtha increased following revisions to the Technical Regulations on quality of motor fuel, which came into force in January 2011.

Revenues from sales of petroleum products to CIS countries increased by USD 105 mln in 2011 in comparison with 2010 thanks to a 30.6% upturn in average prices (positive impact on revenues was USD 65 mln) and a 23.3% increase of sales volumes (USD 40 mln positive impact).

Revenues from sales of petroleum products on the domestic market increased by 36.3% in 2011 compared to 2010. This resulted from a 30.3% upturn in average prices (USD 3,551 mln positive impact on revenues) and 4.6% increase in sales volumes (USD 513 mln positive impact). Growth of volumes was due to increased demand for petroleum products.

Revenues from sales of bunker fuel in 2011 were USD 1,293 mln, representing an increase of 75.0% compared to 2010.

Growth in revenues from sales of petrochemical products by 387.0% in 2011 compared to 2010 was mainly due to the acquisition by Rosneft of a share in Ruhr Oel GmbH.

OTHER REVENUES

Rosneft owns service companies which render drilling, construction, repair and other services mainly to companies within the Group. Revenues from services rendered to third parties are reported in the consolidated statements of income and comprehensive income. Other revenues in 2011 were USD 1,538 mln, down 5.1% from 2010.

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Costs and Expenses

Costs and expenses accounted for 82.7% of Rosneft's total revenues in 2011. Costs and expenses excluding export customs duties and taxes other than income tax accounted for 35.1% of Rosneft's total revenues.

Upstream production and operating expenses include materials and supplies, equipment maintenance and repair, wages and salaries, activities to enhance oil recovery, procurement of

fuel and lubricants, electricity and other similar costs of Rosneft's consolidated exploration & production enterprises.

In 2011 upstream production and operating expenses increased to USD 2,445 mln, or by 10.7% compared with 2010, when these expenses were USD 2,208 mln. Higher costs were due to real appreciation of the rouble against the USD by 12.1% and oil production increase by 2.2%, and were partially offset by cost-cutting initiatives.

Costs and expenses (USD mln)

2009		2010	2011	%
4,024	Production and operating expenses	4,792	6,540	36.5%
1,890	Cost of purchased oil, gas and petroleum products	2,386	10,058	321.5%
1,416	General and administrative expenses	1,584	1,785	12.7%
5,414	Pipeline tariffs and transportation costs	6,980	7,329	5.0%
325	Exploration expenses	439	448	2.1%
4,350	Depreciation, depletion and amortization	5,597	5,996	7.1%
87	Accretion expense	107	146	36.4%
8,061	Taxes other than income tax	10,920	16,911	54.9%
12,131	Export customs duty	16,743	26,882	60.6%
37,698	Total cost and expenses	49,548	76,095	53.6%

PRODUCTION AND OPERATING EXPENSES

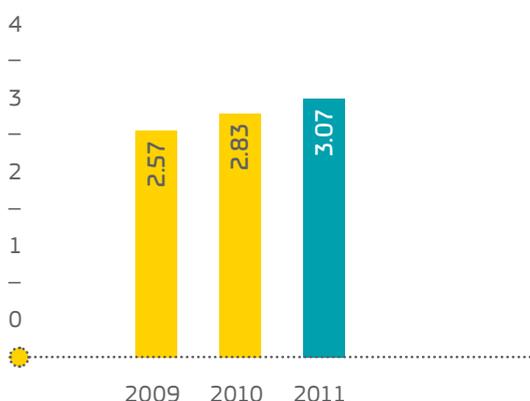
Structure of operating expenses (USD mln)

2009		2010	2011	%
1,869	Upstream	2,208	2,445	10.7%
-	Land restoration program	111	-	-
1,501	Downstream	1,583	3,105	96.1%
-	Including procurement of additives and materials for Ruhr Oel GmbH	-	868	-
654	Other	890	990	11.2%
4,024	Total	4,792	6,540	36.5%

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Crude oil lifting costs per barrel of production (USD)



Rosneft's downstream expenses increased by 96.1% in 2011 compared with 2010. The increase was mainly due to spending of USD 868 mln on procurement of additives and other materials for refining activities at Ruhr Oel GmbH. Excluding this amount, downstream operating expenses increased by 41.3% due to increased volumes of retail sales, increased spending on additives for refining at the Company's own refineries and other factors.

Operating expenses related to other activities increased to USD 990 mln compared with USD 890 mln in 2010. The increase was due to real appreciation of the rouble against the USD by 12.1% and other factors.

COST OF PURCHASED CRUDE OIL, GAS AND PETROLEUM PRODUCTS

Rosneft purchases crude oil from its affiliates (for processing at its own refineries) and on the international market (to supply it to Ruhr Oel refineries). A total of 104.13 mln barrels were purchased in 2011 for USD 7,562 mln.

Rosneft also performs oil swap operations in order to optimize transportation costs of deliveries to refineries. Revenues and costs related to these operations are shown on a net basis in the "Pipeline tariffs and transportation costs" line of the consolidated statements of income and comprehensive income. In 2011 such transactions were carried out with Gazpromneft, Bashneft, TNK-BP, Uralskaya oil company and other companies, and the volume of crude oil swaps was 65.75 mln barrels compared to 38.49 mln barrels in 2010. Estimated gain to Rosneft from these transactions was USD 87 mln in 2011.

Third-party petroleum products are purchased primarily to meet the current needs of Rosneft's retail subsidiaries. The volumes and mix of such purchases are subject to seasonal fluctuations.

GENERAL AND ADMINISTRATIVE EXPENSES

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

In 2011 general and administrative expenses increased from USD 1,584 mln to USD 1,785 mln. The increase was mainly due to an increase in audit, consulting fees and advertising expenses.

PIPELINE TARIFFS AND TRANSPORTATION COSTS

Transportation costs include costs to transport crude oil for refining and to customers, and to deliver petroleum products from refineries to customers (these costs may include pipeline tariffs and any additional railway transportation costs, handling costs, port fees, sea freight and other costs).

In 2011 Rosneft's transportation costs increased to USD 7,329 mln, or by 5.0% compared with 2010. The increase resulted from indexation of transportation tariffs, increased volumes of crude oil transportation from Vankor to China and the start of crude oil supplies to Ruhr Oel GmbH. The increase was partially compensated by replacement of railway deliveries of crude oil to China by pipeline transportation.

Construction of the Skovorodino – Daqing pipeline (branch of ESPO pipeline) was completed at the end of 2010. Rosneft replaced railway deliveries of crude oil to China by supplies via the branch, which allowed the company to save on transportation expenses.

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

The cost of pipeline and mixed (pipeline and rail) transportation of crude oil per tonne of international sales declined by 52.9% in 2011, which was due to cessation of crude oil deliveries to China by mixed transportation.

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

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Transportation costs and volumes (USD mln)

2009				2010			2011		
Volume, mln tonnes	Cost, USD mln	Cost per tonne, USD		Volume, mln tonnes	Cost, USD mln	Cost per tonne, USD	Volume, mln tonnes	Cost, USD mln	Cost per tonne, USD
CRUDE OIL									
<i>INTERNATIONAL SALES</i>									
41.54	1,355	32.62	Pipeline	47.44	2,016	42.50	61.54	3,148	51.15
14.77	961	65.06	Railway and mixed	13.39	1,043	77.89	2.37	87	36.71
<i>TRANSPORTATION TO REFINERIES</i>									
36.93	541	14.65	Pipeline ⁽¹⁾	37.82	738	19.51	42.03	824	19.61
6.95	639	91.94	Railway and mixed	6.55	777	118.63	6.16	805	130.68
PETROLEUM PRODUCTS									
<i>INTERNATIONAL SALES</i>									
0.85	49	57.65	Pipeline ⁽²⁾	1.10	75	68.18	0.64	48	75.00
18.98	1,370	72.18	Railway and mixed	18.01	1,520	84.40	25.47	1,689	66.31
	499		Other transportation expenses ⁽³⁾		811			728	
120.02	5,414	45.11	Total	124.31	6,980	56.15	138.21	7,329	53.02

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

2 - Rosneft exported 6.90 mln tonnes (20.9% of total export volumes), 7.33 mln tonnes (27.7% of total export volumes) and 7.96 mln tonnes (28.6% of total export volumes) of petroleum products in 2011, 2010 and 2009, respectively, through its own pipeline in the town of Tuapse, and under FCA conditions from the Samara refineries, where Rosneft does not bear transportation expenses directly. Trans-shipment expenses for supplies in the town of Tuapse were USD 35 mln in 2011, USD 35 mln in 2010 and USD 39 mln in 2009 and were included in other transportation expenses.

3 - Other transportation expenses include cost of railway and mixed (pipeline and rail) transportation of petroleum products from refineries to tank farms, road transportation from tank farms to service stations, and other transportation expenses. Other transportation expenses also include Rosneft expenditures on crude oil swap deals (net of the effect from price differences).

The cost of crude oil transportation by railway and mixed transport per tonne of domestic supplies increased by 10.2% in 2011, mainly due to increase of transportation tariffs in USD terms by 12.5%, which was partially offset by a change in the structure of transportation routes.

Pipeline costs per tonne of international petroleum product sales increased by 10.0% in 2011, due to an increase in tariffs by 8.7-11.9% in USD terms.

The cost per tonne of transporting petroleum products for international sales via railway and mixed transportation declined by 21.4%. This was due to the launch of petroleum product sales on the local market in Germany, where transportation costs are low due to shorter transportation routes.

EXPLORATION EXPENSES

Exploration expenses mainly relate to exploratory drilling, seismic and other geological and geophysical

works. Exploratory drilling costs are generally capitalized if commercial reserves of crude oil and gas are discovered, or expensed in the current period in case of failure.

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

DEPRECIATION, DEPLETION AND AMORTIZATION

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

Depreciation, depletion and amortization increased by 7.1% to USD 5,996 mln in 2011 compared with USD 5,597 mln in 2010.

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Taxes other than income tax (USD mln)

2009		2010	2011	%
6,502	Mineral extraction tax	9,051	14,022	54.9%
893	Excise tax	1,105	1,873	69.5%
361	Social security tax	397	568	43.1%
236	Property tax	284	390	37.3%
16	Land tax	22	28	27.3%
4	Transportation tax	5	4	(20.0)%
49	Interest and penalties and other payments	56	26	(53.6)%
8,061	Total taxes other than income tax	10,920	16,911	54.9%

Export duties (USD mln)

2009		2010	2011	%
9,441	Export customs duty for crude oil	13,031	20,847	60.0%
2,690	Export customs duty for petroleum products	3,712	6,034	62.6%
12,131	Total export customs duties	16,743	26,881	60.6%

Taxes Other Than Income Tax

Taxes other than income tax increased by 54.9% in 2011 to USD 16,911 mln, mainly due to an increase in the mineral extraction tax rate by 49.8% connected with rise in prices for crude oil.

Operating Income

Operating income increased by 17.6% to USD 15,880 mln in 2011 compared with USD 13,499 mln in 2010. Operating income was 17.3% of total revenues in 2011 and 21.4% in 2010. Operating income before taxes other than income tax and export customs duty was 64.9% and 65.3% of total revenues in 2011 and 2010, respectively.

Other Income and Expenses**INTEREST INCOME**

Interest income increased to USD 658 mln in 2011 or by 20.3% compared with 2010. The increase was due to an increase in funds placed on deposit in 2011 compared with 2010.

INTEREST EXPENSES

Interest expenses decreased by 44.8% to USD 320 mln in 2011 compared with USD 580 mln in 2010. This effect was due to lowering of the amounts of interest accrued under valid loan agreements, reflecting the reduction of total debt, and to a slight increase in amounts of interest that were capitalized in comparison to the previous period. Increase of interest swap losses limited the positive trend to some extent.

LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

In 2011, Rosneft recorded a net loss of USD 230 mln on the disposal of property, plant and equipment compared to a loss of USD 156 mln recorded in 2010.

EQUITY SHARE IN PROFITS OF AFFILIATES

The equity share in profits of affiliates amounted to USD 577 mln in 2011 compared with USD 60 mln in 2010.

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OTHER INCOME/(EXPENSES)

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

In 2011 other expenses, net, amounted to USD 260 mln, up from USD 120 mln in 2010. The sums in 2011 mainly reflected one-off accrual in the second quarter of expenses associated with agreements with regions and charity expenses.

FOREIGN EXCHANGE LOSS

Foreign exchange loss was USD 649 mln in 2011 compared with foreign exchange gain of USD 32 mln in 2010.

INCOME TAX

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

In 2011, income tax expense was USD 3,117 mln, which is an increase of 17.9% year-on-year. The effective income tax rate was 20% in both 2011 and 2010.

NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Net income attributable to non-controlling interests was USD 137 mln in 2011 compared to USD 272 mln in 2010. The change was mainly due to a decrease in ownership levels and net income of certain Rosneft subsidiaries related to minorities.

Net Income

As a result of the factors discussed above, net income increased by 19.7% to USD 12,452 mln in 2011 from USD 10,400 mln in 2010. As a percentage of revenues, net income was 13.5% and 16.5% in 2011 and 2010, respectively.

Liquidity and Capital**CASH FLOWS****NET CASH FROM OPERATING ACTIVITIES**

In 2011 net cash from operating activities (adjusted for gain of USD 89 mln from operations with traded securities) was USD 15,838 mln. In 2010 net cash from operations (adjusted for gain of USD 262 mln from operations with traded securities) was USD 14,910 mln. The increase in operating cash flow compared with 2010 was due to increase of net income by 18.0%.

NET CASH FROM INVESTING ACTIVITIES

Net cash used in investing activities was USD 13,606 mln in 2011 compared to USD 12,439 mln in 2010. The increase resulted mainly from increase in capital expenditures and acquisition of additional shares in subsidiaries and affiliates

NET CASH FROM FINANCING ACTIVITIES

Net cash used in financing activities amounted to USD 988 mln in 2011, up from USD 558 mln in 2010.

Cash Flow Statement. Principal items (USD mln)

2009		2010	2011	times
10,319	Net cash from operating activities	15,172	15,749	1.0
(8,788)	Net cash from investing activities	(12,439)	(13,606)	1.1
(877)	Net cash from financing activities	(558)	(988)	1.8

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CAPITAL EXPENDITURES*Capital expenditures (USD mln)*

2009		2010	2011	%
2,252	Yuganskneftegaz	2,500	3,267	30.7%
2,531	Vankorneft	2,122	2,913	37.3%
276	Purneftgaz	522	504	(3.4)%
76	Severnaya Neft	111	208	87.4%
156	Samaraneftegaz	217	295	35.9%
576	Other ¹	871	985	13.1%
5,867	Total upstream segment	6,343	8,172	28.8%
49	The Company	69	26	(62.3)%
208	Tuapse refinery	754	1,984	163.1%
92	Komsomolsk refinery	116	166	43.1%
79	Angarsk refinery	100	181	81.0%
54	Achinsk refinery	122	192	57.4%
77	Syzran refinery	111	162	45.9%
56	Novokuibyshevsk refinery	117	210	79.5%
69	Kuibyshev refinery	136	184	35.3%
409	Marketing business units and others ²	576	822	42.7%
1,093	Total downstream	2,101	3,927	86.9%
325	Other activities³	474	588	24.1%
7,285	Subtotal, capital expenditures	8,918	12,687	42.3%
(33)	Change in materials in capital expenditures	13	559	4,200.0%
7,252	Total capital expenditures	8,931	13,246	48.3%
96	License acquisition costs	140	254	81.4%

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

2 - Relating to companies providing processing and storage services.

3 - Relating to other services companies.

DEBT OBLIGATIONS*Calculation of adjusted net debt (USD mln)*

	December 31, 2010	December 31, 2011
Short-term debt	5,498	4,734
Long-term debt	18,057	18,557
Total debt	23,555	23,291
Cash and cash equivalents	(4,154)	(5,172)
Short-term bank deposits	(1,321)	(275)
Structured deposits	(3,791)	(979)
Short-term promissory notes and other short-term liquid instruments	(627)	(1,001)
Adjusted net debt	13,662	15,864

03

Science and Innovation

In 2011 Rosneft set up the Arctic Research and Design Center for Offshore Development. The Center will have access to both international and Russian technological expertise for efficient development of the Russian shelf.



Corporate Scientific Research Complex

Innovation is of crucial importance in today's business environment for ensuring that an oil company remains competitive and capable of sustainable development.

Innovative activity has a number of aspects: consistent application of the latest know-how and equipment, use of global best practice, improving the quality of management and control over business processes, and continuous enhancement of skill levels among specialists. The successful combination of these aspects gives a company technology leadership.

Rosneft's Corporate Scientific and Project Complex consists of 10 regional R&D and project institutes, of which seven specialize in exploration & production, and three in refining & petrochemicals. The Complex provides scientific and methodological support throughout the Company's production chain. Rosneft invests year-on-year in its R&D and project institutes. All of the institutes are equipped with the most up-to-date laboratory equipment and software, and new scientific laboratories are under construction.

Innovation activity by the Company aims to create and apply new technologies for solution of the following tasks:

In the Exploration & Production segment:

- ensuring that new hydrocarbon reserves replace at least 100% of current production;
- achieving maximum possible rates of recovery of hydrocarbons at new fields, and designing systematic measures to increase oil & gas yield at fields which are already in development;
- making the most efficient use of associated gas;
- devising technologies for economically effective exploitation of unconventional reserves of hydrocarbons.

In the Refining segment:

- increase of refining depth;
- introduction of new technologies for refining of heavy residues and in the petrochemical segment.

Rosneft's Innovative Development Programme was specifically designed to address these tasks. The Programme, which complies with the requirements of legislative and program documents at national, regional and corporate levels, was approved by decision of the Rosneft Board of Directors on April 1, 2011. It has been further approved at a meeting

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BLN RUB
SPENT ON R&D IN 2011

of the working group for the development of private-public partnership in innovation (attached to the Russian Government Commission for High Technology and Innovation).

The Programme has the following main aspects:

- special-purpose innovation projects;
- special-purpose programmes for modernization and improvement of production efficiency;
- measures to enhance innovation activity.

Work was carried out in 2011 to strengthen the structure of Rosneft's scientific capacity for purposes of implementing the Company's Innovative Development Programme:

- the new post of Vice-President for Innovative Development and New Technologies was created by decision of the Board of Directors of Rosneft;
- a Department for Scientific and Technical Development and Innovation was established;
- a Coordination Council for Innovative Development was set up and made answerable to the Company President;
- Membership of the Company's Scientific and Technical Council was strengthened and the composition of its sections was expanded;
- a system of indicators was introduced that encourages innovative development at all levels of management, including senior management.

Research & development investments in 2011 as part of the Innovative Development Programme totaled RUB 8.55 billion, which is 2.9 times more than in 2010.

Special-purpose Innovation Projects

Work by Rosneft to create and implement new technologies enjoys the support of leading Russian sector enterprises and institutes, which have the necessary scientific and technical potential to address the relevant challenges. The design task

for each new technology has been allocated to a specific innovation project with its own budget. A total of 66 special-purpose innovation projects were being implemented at the Company by the end of 2011.

Work on the following projects was carried out during 2011:

In the Exploration & Production segment:

- Efficiency improvements in development of sandstone and alluvial deposits with low permeability (strata analogous to the Achimov suite);
- Design of technologies for development of carbonate-argillaceous-granite thicknesses of the Bazhenov suite;
- Design of technology for development of Turonian gas pools with low permeability by improvement of well-completion methods;
- A cluster of special-purpose projects under the title 'Equipment and technologies for increasing utilization rates of associated oil gas';
- A cluster of special-purpose projects under the title 'Equipment and technologies for development of offshore fields';
- Design of technologies for development of fields with high-viscosity oil and natural bitumen;
- Design of algorithms, methods and software modules to address unique production tasks through hydrodynamic modelling of hydrocarbon strata systems.

In the Oil Refining segment:

- Development of catalysts for hydrotreatment of diesel fuel and reforming of gasoline;
- Design of a technology for non-catalytic hydrodesulphurization of oil residues;
- Creation of the Company's own process for catalytic cracking in order to obtain maximum yield of olefins;
- Design of a new technology to obtain alkylates using a heterogeneous catalyser for production of high-value and energy-rich gasoline components;
- Development of a catalyst and constant reforming process in a moving layer.

Main results achieved in 2011 as part of key projects were as follows:

- A membrane gas-separation unit was designed, manufactured and tested at an operating industrial site of the Company. The testing gave positive results and the unit has been recommended for use at Company sites for preparation of associated oil gas from small and medium-sized fields and for preparation of gas fuel to be used at gas-piston generating plants.

- Test work was carried out for use of downhole heaters in the bottom-hole zone of formations at the Borovskoye field. The work gave a fourfold increase of flow rates.
- Steam injection into horizontal boreholes was tested, and gave an increase of flow rates by up to five times.
- Hydrofracturing was tested at poorly consolidated reservoirs at the Borovskoye and Gorbunovskoye fields. Flow rates were increased by 3 times and 4-8 times, respectively, as a result of the work.
- Technology for the development of reservoirs with low permeability was further developed. A test area was selected, and industrial testing and study plans were prepared, and laboratory and statistical experiments were begun.
- Work was carried out on technologies for developing Turonian gas deposits with low permeability. Well-completion technologies were devised, hydrofracturing was designed, and project tasks were prepared for testing of the new technologies.
- A study was carried out to establish the feasibility of non-catalytic hydrodesulphurization of heavy oil residues, and the best option was selected for basic layout of the reactor block of a non-catalytic hydrodesulphurization unit.
- Two test batches of a heterogeneous alkylation catalyst were synthesized as part of work on design of a new environmentally clean technology for heterogeneous-catalyst alkylation, and catalytic studies were carried out at laboratory and pilot units.
- Studies of laboratory samples of the RDS carrier and catalyst were carried out. A method was designed for preparation of the RDS-S catalyst using a Sasol ball carrier. A laboratory procedure was designed for obtaining the IK powder bearer (the Company's own bearer), which will enable progress in the future to a cutting-edge technology for production of engine fuels and more efficient refining of crude oil.

Adaptation and Application of the Latest Technologies in 2011

Rosneft began monitoring, testing, adaptation and application of promising technologies designed by Russian and foreign companies in 2011 as part of the formation and implementation of the Company's New Technology System.

A technology bank was created based on results of the monitoring with information on more than 200 technologies. Analysis of their possible applications was used to prepare a schedule of tests to be carried out in 2011-2012.

A total of 37 successful technology tests were carried out in 2011 as part of 17 projects for testing of new technologies at 7 of the Company's production subsidiaries. The test results gave 73,000 tonnes of additional crude oil production, but this figure is expected to rise to 200,000 tonnes, since many of the technologies remain effective for more than one year. Additional production in 2011 from deployment of new technologies, which were tested earlier, is estimated at 720,000 tonnes and economic gain from their deployment is in excess of RUB 1.8 bln.

Modernization Programmes

Rosneft designs and implements a number of special-purpose programmes for modernization and efficiency improvements on a constant basis. They are as follows:

- a integrated programme for modernization in the Refining segment;
- a programme for raising energy efficiency and achieving resource savings;
- a programme for utilization of associated oil gas;
- a programme to improve efficiency in the use of pipelines;
- a programme to raise standards of environmental and industrial safety.

The aim of these programmes is to lower unit capital and operating costs and to provide solutions to the key tasks that Rosneft faces. They also create a foundation for implementing the Company's programmes for innovative technology applications.

Improvements to Innovation Activity

Rosneft is following best international practice by creating a system for management of innovation projects, which is based on principles of staged implementation, resource planning, and strict management of deadlines, quality and cost of the work. The Company devised local regulatory documents in 2011, which establish the principles for management of special-purpose innovation projects, and also prepared a number of methodological provisions and documents.

Creating Rosneft Centres of Excellence at Institutes

In 2011, Rosneft with the expert-analytical assistance of the National Research University – Higher School of Economics prepared a package of regulatory and legal documentation for the creation of a network of Rosneft centres of excellence at leading specialist institutes in Russia.

A project was also prepared for creating a centre of excellence at Rosneft's own leading sector institute,

including a standard package of documents regulating the creation and operation of the centre.

Rosneft is currently implementing two projects for the creation of pilot centres of excellence. The first of the centres will specialize in rational use of associated oil gas and will be based at the Gubkin Oil & Gas University. It has also been decided to set up a centre of excellence at the Siberian Federal University.

Working with Small and Medium-sized Companies

During 2011, Rosneft received 322 proposals for cooperation, a number of which were from small and medium-sized companies. The applications included 115 for design/deployment of technologies. Following analysis and careful sifting of the proposals, 39 were selected for further development.

In November 2011, Rosneft representatives held a meeting with a non-profit organization, the Agency for Strategic Initiatives. Following the meeting it was proposed:

- to source innovation projects from medium-sized companies with the Agency's assistance;
- to organize joint work on technology development in sectors, which are close to the Company's own area of specialization.

A number of meetings have been held with representatives and resident companies of the Skolkovo Innovation Center regarding opportunities for cooperation.

Information Technologies

Rosneft's Innovative Development Programme includes design and integrated implementation of various computer technology and software developments by Rosneft's corporate institutes.

Work proceeded in 2011 on development of a new Exploration & Production software complex as part of the special-purpose innovation project, 'Design of algorithms, methodologies and software modules for monitoring of field development'. Algorithms, methodologies and software modules were created for the following tasks:

- estimation of hydrocarbon volumes under international classification;
- long-term development planning;
- calculating productivity of wells with complex configuration and non-stable operation;
- calculation of non-stationary inflow to horizontal and vertical wells;
- re-engineering of field construction using conceptual models for construction of integrated projects.

A BOS package was taken forward as part of the special-purpose innovation project, 'Design of algorithms, methodologies and software modules for solution of unique production tasks in hydrodynamic modelling of hydrocarbon strata systems'. The package provides the ability to model field development throughout the period of field life. Algorithms, methodologies and software modules were created for geological modelling of highly disjointed reservoirs with low productivity. Residual reserves in such reservoirs are estimated at 1.5 bln tonnes at Company fields in Khanty-Mansiysk Autonomous District alone. Algorithms, methodologies and software modules were also created for a Rosneft hydrodynamic simulator with the following capabilities:

- construction of detailed experimental hydrodynamic models, which enable rapid planning and efficiency assessments for complex secondary and tertiary recovery operations;
- identifying the need for wells with complex topology and various completion systems during hydrodynamic modelling of development targets;
- assessing the quality of hydrodynamic models and of respective project decisions.

The Company has created, patented and successfully operates an integrated system for production management, the Total Production Management System (TPM SYS), which enables real-time analysis of the state of development work and provides a basis for optimal decisions to raise strata yield and improve well productivity.

An information resource created in 2011 during development of the TPM SYS makes it possible to obtain integrated information on all main types of production operations carried out by Group subsidiaries.

Development of Information Infrastructure

Creation of a high-quality information infrastructure is an integral part of Company development in design, application and successful use of new technologies.

Development of Rosneft's corporate information system uses a SAP R/3 base and ensures that all staff who are involved in book-keeping, preparation of accounts and management of data on the Company's financial situation can obtain full information in real time. The Company makes special efforts to constantly improve information systems in main production activities and to ensure further development of logistics information systems.

A system for constant integration and dissemination of knowledge and best experience is a key component of Rosneft's Innovative

Knowledge Dissemination

Development Programme. Measures in this sphere during 2011 included:

- development of a corporate technology bank;
- dissemination of R&D results via a system of corporate seminars;
- publication of a corporate magazine, 'The Rosneft R&D Courier';
- publication of books in the 'Oil Engineering Library' series;
- holding annual corporate conferences on specific themes with participation by Russian and foreign specialists;
- participation by Rosneft in Russian and international conferences;
- technology training for Company employees on special courses, designed by Rosneft specialists and by the best Russian and foreign specialists and experts.

International Cooperation and Foreign Economic Activity

Rosneft is involved in international projects, programmes and partnerships as part of implementation of the Company's Innovative Development Programme.

On August 30, 2011, Rosneft and ExxonMobil signed an agreement on strategic cooperation, which includes large-scale scientific and technical cooperation.

In 2011, Rosneft set up the Arctic Research and Design Center for Offshore Development, whose mission is to provide a scientific base for implementation of offshore projects. The Center will bring together the knowledge of leading sectoral institutes in Russia, including the competences of Rosneft's three sector institutes, and will cooperate with international research and design centres.

The functions of the Center will be as follows: forecasting of ice conditions and design of systems for managing ice conditions; design of ice-resistant platforms; interpretation of seismic survey data; geological and hydrodynamic modelling; design of transport and energy infrastructure; and design of technologies to deal with oil spillages in the Arctic region. The Center will also work on platform positioning and design of the drilling riser for deep-water drilling, as well as development of drilling and production technologies in a sulphurous marine environment.

04

Social Responsibility

Spending by the Company on charity
and socio-economic development in
the regions was RUB 6.1 bln in 2011.





Petroleum engineers
of Vankor

Sustainable development of Rosneft and growth of its shareholder value are the fruits of dedicated, coordinated and responsible work by all of the Company's employees.

Professional, motivated and highly qualified personnel are among Rosneft's most precious assets and the key to its future growth. The Company does its best to evaluate the professional contribution of each specialist fairly and offers opportunities for career growth to all categories of employees.

Rosneft strives to achieve constant improvements in business practice and increase of labor productivity in all spheres. These tasks are addressed by adherence to the best standards of corporate conduct, adequate compensation schemes and an efficient system for motivating Company personnel, as well as by a corporate social policy which enhances the quality of life of

employees and their families. A key objective of the Company in human resource management is to raise the personal interest of each employee in achieving the best possible results.

For this purpose work was carried out in 2011 to improve the incentive scheme for Company personnel and a number of documents were approved changing a bonus scheme for middle-managers at the central office of the parent company (OJSC Rosneft Oil Company) and for chief executives of Group subsidiaries and their deputies. This scheme is a logical extension of the Company's existing annual bonus scheme linked to achievement of key performance indicators

As of December 31, 2011, Rosneft and its subsidiaries employed 160,837 people. The number of Company employees increased by 1,066 during 2011 compared with the end of 2010 due to the development of offshore projects and the expansion of capital construction commitments associated with the refinery modernization programme. The average age of Company employees in 2011 was 40, and 19,500 employees held management positions.

160.8

TH. EMPLOYEES
AS OF DECEMBER 31, 2011

Training and Development of Personnel

The Company's personnel training and development system addresses the following strategic tasks:

- ensuring that the professional and technical skill levels of employees are adequate for the present and future needs of Company business;
- reinforcing the Company's management resource by creation of a talent pool;
- providing personnel with the right skills and qualifications to implement the Company's strategic projects;
- meeting compulsory Government requirements for skill levels of personnel in the fuel and energy sector, in order to ensure high levels of quality and safety in production processes;
- ensuring that all employees in charge of the Company's health and safety system are fully competent.

For these purposes the Company provides its employees with professional training and retraining, courses for raising qualifications, and assistance in acquiring a second profession, both in combination with normal work and during a permitted absence from work. These training activities are divided into three types:

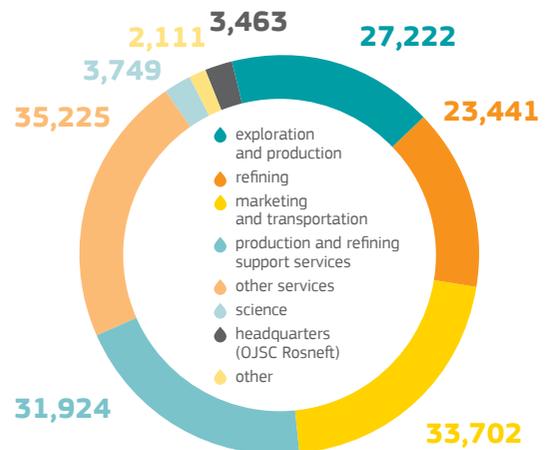
- compulsory training;
- professional-technical training;
- management training.

During 2011, a total of 129,800 courses were provided in compulsory, professional-technical, and management training (counted by individuals benefiting from the courses, where two courses to the same individual are counted twice – referred to below as 'course beneficiaries'). That compares with a total of 120,000 courses in 2010. A total of 435 courses were offered in 2011 as part of corporate professional-technical and management programmes and there were 9,420 course beneficiaries, including 342 as part of project



Employee of RN-Sakhalinmorneftegaz

Personnel structure of Rosneft
as of December 31, 2011



Total **160,837**

team training for the Company's strategic and international projects.

Special attention was paid in 2011 to training health and safety specialists, and compulsory specialized courses were also held to qualify personnel for carrying out specific jobs (110,300 course beneficiaries). Training courses were also held to prepare for operation of new production facilities: the Vankor production site (695 course beneficiaries), and the first stage of facility upgrades at the Tuapse Refinery (324 course beneficiaries).

A number of corporate programs for teaching new professional skills to existing personnel have been designed in association with leading Russian higher-education institutions. These include five programmes of additional professional training offered jointly with the Gubkin Russian State Oil & Gas University. A total of 175 managers and specialists took advantage of the programmes in 2011.

Corporate MBA programmes are offered in partnership with Saint Petersburg State University and the International Energy Policy Institute (attached to the Institute of International Relations). The programmes consist of two modules of study abroad (45 people). Training of a Company talent pool has begun, using a module programme at the Skolkovo business school (38 people). Another module programme for managers, 'Efficient company management: development of management competences', also provided by Saint Petersburg State University, consists of five study modules, and was followed by 92 people in 2011.

The Company is rapidly developing a system of distance learning. A total of 4,566 Company employees used distance-learning technologies in 2011 as part of 238 corporate library programmes.

Rosneft took an important step forward during 2011 in its approach to assessment and standardization of professional-technical requirements based on a system of competences. A total of 380 technical competence profiles and assessment instruments were designed for specialists and managers in the oil & gas production segment as part of the special-purpose innovation project, 'Implementation of a competence-based method for assessment and development of Rosneft personnel'. Work also began on the design of profiles for personnel in other segments.

The Company has its own in-house education and training capacities, which include corporate study centers and classes as well as a number of full-time trainers and teachers. In 2011, Rosneft's teaching and training capacities included 53 study facilities, and the Company's teaching staff covered more than 50% of corporate training needs.

Rosneft acquired 26 computerized simulators in 2011 as part of a programme to teach practical skills to personnel for operations at hazardous production facilities. The programme is being implemented in the period from 2011 to 2015.

The 'School – college – enterprise' System

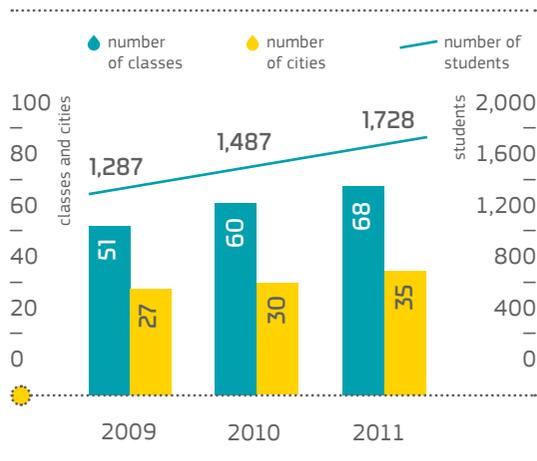
Rosneft's youth policy includes rapid development of the 'school – college – enterprise' system of continuous education, which ensures a steady inflow to the Company of highly educated graduates from Russia's best universities, who are well prepared to address present, future and innovative business challenges.

In 2011, there were 68 Rosneft classes at schools in 35 cities and towns in Russia and a total of 1,728 children were being educated in such classes. New Rosneft classes were also introduced in the North Caucasus Federal District during the reporting year. Rosneft was one of the first companies to launch programs, where teachers from sector institutes are brought in to teach specialized subjects to pupils in Rosneft classes. Special courses, visits to enterprises and meetings with some of the Company's most distinguished workers motivate children in upper classes to choose higher education in oil & gas subjects and to choose professions that the Company needs.

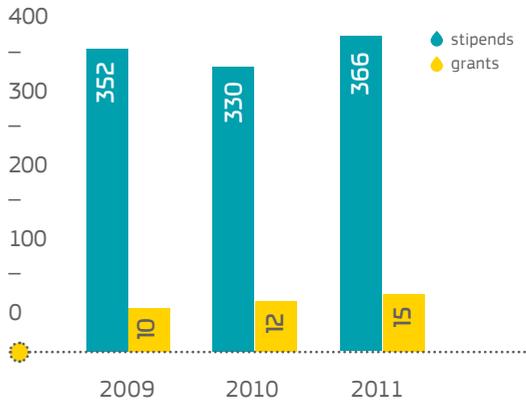
A total of 665 young people graduated from Rosneft classes at schools in 2011, of whom 111 graduated with distinction. All of the school leavers went onto higher education, including 373 who enrolled at institutions to study oil & gas or related subjects.

Rosneft continued its work in 2011 to motivate, select and offer practical experience and internship to the best higher-education students as part of the Company's 'school – college – enterprise'

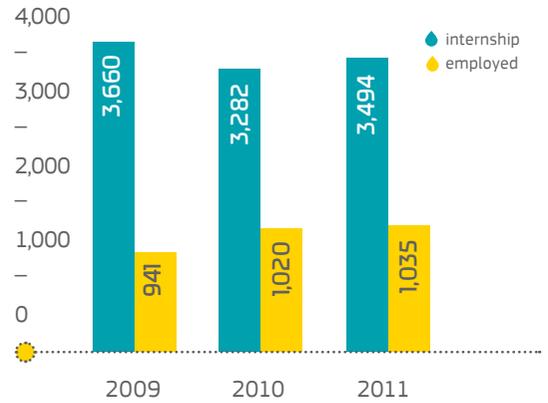
Rosneft classes



Number of corporate stipends and grants made available by Rosneft



Share of student interns who subsequently became employees of Rosneft



scheme. Rosneft and its subsidiaries have long-term cooperation agreements with 27 higher-education institutes, which train specialists in subjects that Rosneft needs in its business. Eight of the institutes have the status of strategic partners of Rosneft in higher education.

involving three institutes: the Oil & Gas Institute at the Siberian Federal University, Tyumen State Oil & Gas University and Samara State Technical University. The game participants were 215 students who had graduated from Rosneft classes in 2009-2011.

The third student festival under the title 'Rosneft's Future' was held in Moscow in February 2011 and 116 students from 22 institutes took part. In October 2011 business games were held for the first time,

It has become a tradition to hold special events – Rosneft Days – at partner institutes in order to promote the Company's image among students. A total of 61 Rosneft days were held in 2011 and drew more than 7,300 visitors.

Rosneft-class in the town of Tuapse



The Company supports promising teachers and gifted students, and pays corporate grants and stipends.

Work with young specialists

Work with young specialists is among the main priorities of Rosneft's personnel policy. There were 2,637 young specialists working in the Company in 2011.

The Company has designed and operates a system which enables young specialists to quickly adapt to employment at Rosneft as well as encouraging their professional growth and development of their leadership skills. Young specialists have the benefit of personal development plans and the opportunity to regularly take part in business games, conferences, competitions, trainings and festivals.

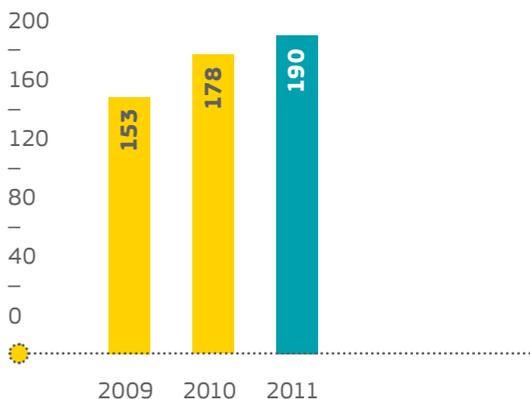
Business assessment games were organized in 2011 for 304 young specialists who have worked at the company for two years, as a result of which 70 individuals with outstanding leadership skills were recommended to join the Company's talent pool.

In 2011, Rosneft held its fourth scientific and technical Cluster Conference for young specialists, which focused on business processes and brought together 483 winners of regional scientific and technical conferences from 65 Company subsidiaries. As a result, 190 winners of the fourth Cluster Conference from 48 subsidiaries took part in the sixth Inter-regional Scientific and Technical Conference for Young Specialists, at which 60 young specialists from 27 subsidiaries won prizes and nominations, and 62 of the best technical projects devised by the Conference participants were recommended for further development. A total of 1,278 young specialists took part in the conferences at all levels.

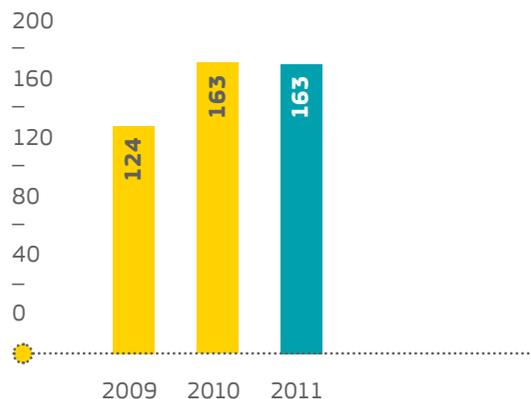
Each year young Company employees take part in a scientific and technical design competition for enterprises in the fuel and energy sector, which is organized by the Russian Energy Ministry. There were 163 Rosneft participants in 2011 and 19 of them won prizes.

Subsidiaries have councils of young specialists and operate a system of mentoring. The first seminar for chairmen of councils of young specialists was held in 2011, as was a conference of mentors (older personnel who assist new Rosneft employees with specialist skills to perform to the best of their ability).

Number of young specialists taking part in the Company's Interregional R&D Conference



Number of young specialists taking part in the Russian Fuel&Energy Competition





Final games of Rosneft summer Spartakiada in the town of Sochi

Social policy is a part of Rosneft's corporate strategy, and is determined by the Company's strongly felt responsibilities towards all interested parties (government, business partners, Company personnel, communities in regions where the Company has operations, social organizations, etc.), based on equality of opportunity, mutual respect and the rule of law.

The Company's social policy is founded on unflinching observance of the following legal principles:

- standards of international law in respect of human rights;
- Russian law on social issues;
- Russian labor law.

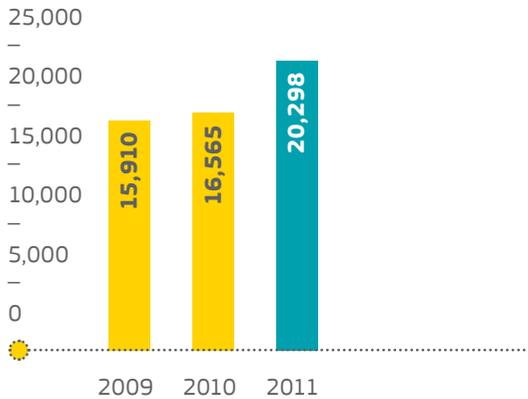
39.9

TH. PENSIONERS AND VETERANS RECEIVED CORPORATE PENSIONS IN 2011

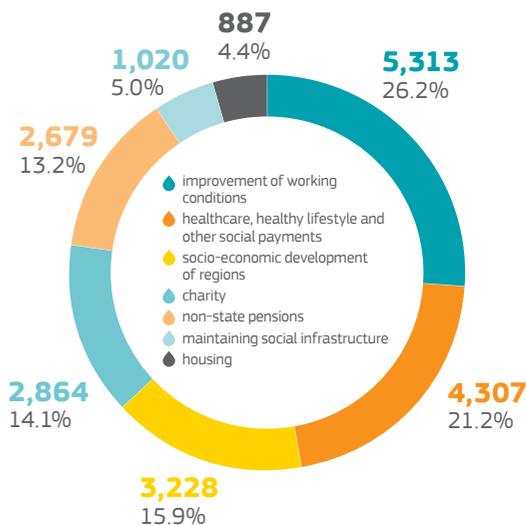
The main objectives of Company social policy are to ensure safe and comfortable working conditions, a healthy lifestyle, housing, and improvements in the quality of life of its employees and their families. Rosneft also aims to provide professional training for its employees, and financial support to Company veterans and pensioners. In addition the Company acknowledges its commitments to social and economic development in Russian regions where the Company has operations, and to various charity projects.

Company spending on social programs was RUB 20.3 bln in 2011 compared with RUB 16.6 bln in 2010.

Spending on social programs (RUB mln)



Social spending by area of activity in 2011 (RUB mln)



Total **20,298**

Social Payments and Benefits for Employees

Rosneft implements a balanced and socially-responsible policy to ensure stability in its workforce, as well as support and growth of the well-being of all its employees and of the Company's social partners.

The benefits and guarantees that are enshrined in the Company's collective agreements and local regulatory documents go beyond the guarantees offered by Russian labor law, offering various additional social provisions.

The Company's priorities in social protection of its employees are as follows:

- social support for employees' families (including those on low incomes, large families, and those experiencing hardship for other reasons);
- material support to employees involved in accidents at work for which the employer was responsible, and to the families of employees involved in fatal accidents;
- providing opportunities for rest and rehabilitation at sanatoria and resorts, voluntary medical insurance;
- social support for pensioners.

The composition and scale of these benefits are defined by the terms set out in collective agreements and other regulatory documents of the Company. The benefits are based on uniform principles of social protection throughout the Company, but they take account of specific features of Rosneft's subsidiaries, including geographical location and specifics of the region where a subsidiary is located, as well as the financial means of specific subsidiaries.

Better Conditions for Work and Leisure

Rosneft supports various projects and events aimed at improving the working conditions and living standards of its employees. These efforts contribute to maximizing labor productivity and reducing unproductive use of work time.

The Company works to ensure that conditions in the workplace match a number of fixed standards. This applies particularly to construction and development of shift camps (accommodation and living facilities for workers at remote production locations), which now provide accommodation to more than 40,000 of the Company's employees when they are on duty. The Company's new improved shift camps offer more comfortable accommodation, leisure and amenities, and sanitary and service facilities for day-to-day use by Rosneft employees who work on a shift basis.

A new shift camp, Base Point-850 was brought into operation at the Vankor field in 2011. Work began on construction of a shift camp at the Yurubcheno-Tokhomskiye field, and of hostels with canteens at the Malo-Balykskiye, Nabil and Mongi fields. Spending by the Company in the reporting year on upgrading of shift camps and field support bases totaled RUB 1.5 bln.

Overall investments during 2011 for the development of social infrastructure in the workplace were RUB 5.3 bln.

Healthcare and Lifestyle

Rosneft consistently implements and develops a corporate health programme for its employees, with the following objectives:

- maximizing labor productivity and career longevity;
- steady reduction of illness rates among personnel and reduction of costs associated with loss of work time due to illness;
- improving the quality of life of employees;
- development and promotion of healthy lifestyles;

Main aspects of this programme are:

- voluntary medical insurance for employees, ensuring the availability of timely and high-quality medical care to international standards;
- provision of convalescent care and rest for employees at sanatoria and resorts;
- organizing and holding sport and fitness events for Company employees;
- reimbursement of subscriptions to fitness and sports clubs;

The Company carries out systematic monitoring of the state of health of its employees and analysis of illness incidence. Annual medical examinations, vaccinations and other prophylactic measures are carried out in order to reduce illness levels (taking account of climate zones and other specifics of production). The Company helps to maintain and develop healthcare services in its operating regions, and also carries out systematic work to ensure safety and provide modern amenities in the workplace.

Health spending by the Company in 2011 was RUB 2.0 bln.

Voluntary Medical Insurance

Rosneft's voluntary medical insurance program ensures high standards of medical care for Company employees. In order to support the programme, Rosneft engages the services of leading Russian insurance companies using a tendering procedure.

The programme of collective voluntary medical insurance for Rosneft employees traditionally includes full general medical services, hospitalization, general and specialized dentistry, consultative-diagnostic services, immunization, and convalescent care.

A total of RUB 679 mln was spent on voluntary medical care for Company employees in 2011.

Treatment and Convalescent Care at Sanatoria and Resorts

The Company arranges treatment and rest for its employees at sanatoria and resorts as a part of its efforts to protect and improve the health of its employees, and these services are now being developed to new standards. Rosneft has its own sanatoria and resource facilities located in various regions where the Company operates.

In 2011, tickets to sanatoria, resorts and other health facilities were distributed to a total of 42,000 employees and members of their families, of whom 30,000 visited facilities that are in Rosneft ownership. Spending for these purposes was RUB 521 mln.

Sport

Support for sport and promotion of a healthy lifestyle are among the priorities of Rosneft social policy. Every year the Company hires sports halls and swimming pools, and organizes competitions for its employees in various sports. Rosneft is financing the construction of large, modern sports complexes in its operating regions.

Working to support health and corporate solidarity among its workforce, Rosneft held its seventh summer Spartakiada (amateur sports competition) in 2011. More than 18,000 people took part in the Spartakiada (including qualifying rounds at Company subsidiaries, in which teams were selected). Employees from more than 60 Company subsidiaries took part in Spartakiada tournaments by geographical zones in Yuzhno-Sakhalinsk, Angarsk, Nefteyugansk, Samara, Krasnodar, and Tuapse, and the 17 best teams then met at the finals in the city of Sochi (the capital of winter Olympic Games-2014). The event made an important contribution to Rosneft's corporate ethic and helped to promote a healthy lifestyle among the Company's employees.

The Company also held a winter Spartakiada for the first time in 2011, the participants of which were 300 employees in teams from 18 Company subsidiaries. Events included ice-hockey, skiing and skating, and luge relays.

Housing Programmes

The Company provided housing to 438 of its employees and their families in 2011 through the following mechanisms:

- corporate mortgages (provision to the employee of an interest-free loan equal to 25-35% of the price of his housing, and a long-term loan for the remaining sum at a

preferential interest rate from one of the Company's partner banks);

- construction of residential real estate;
- providing accommodation to employees on secondment.

A total of 168 families obtained housing in 2011 as part of Rosneft's programme of mortgage credits.

A new apartment block with 119 apartments was built in the city of Grozny in 2011 as part of a programme for resettlement from housing in a dilapidated and hazardous state of repair, and 28 apartments were built in the town of Nogliki on Sakhalin Island for employees of RN-Sakhalinmorneftegaz LLC.

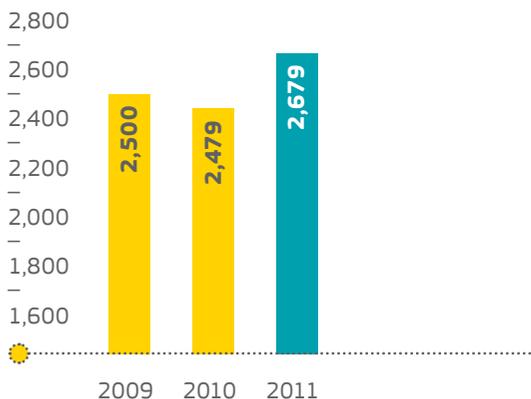
The Company bought 120 apartments in the city of Nakhodka during 2011 to accommodate specialists from other cities who are working on the project for construction of a new petrochemical complex in the Russia Far East. Three apartments were also purchased in Saint Petersburg.

Corporate Pension Provision

Rosneft's corporate pension programme not only ensures a decent standard of living for former employees after their retirement, but also helps to achieve the Company's own human resource priorities (reducing employee turnover and attracting qualified specialists to the Company).

More than 200 Rosneft subsidiaries have made agreements with the Neftegarant non-government pension fund on corporate pension provision for the Company's workers and veterans. Pension contributions by Rosneft and its subsidiaries to the Neftegarant fund in 2011 totaled RUB 2.68 bln, of which RUB 174 mln were paid as part of a project for social support to veterans.

Pension contributions to Neftegarant non-government pension fund (RUB mln)



Company workers are taking steps to provide for their own retirement by making voluntary contributions to the Fund, which will count towards their future pensions. Company workers have made about 27,000 individual pension agreements with total value in excess of RUB 1.17 bln.

About 40,000 people were in receipt of Rosneft corporate pensions in 2011 including more than 21,000 pensioners and about 19,000 veterans. Total pension payments in 2011 were in excess of RUB 753 mln, and the size of monthly payments varied between RUB 1000 and RUB 3100. More than 6,500 veterans were included in the pension payment plan in 2011 as part of Rosneft's project for social support to veterans. The pensions are paid through the Neftegarant corporate pension fund.

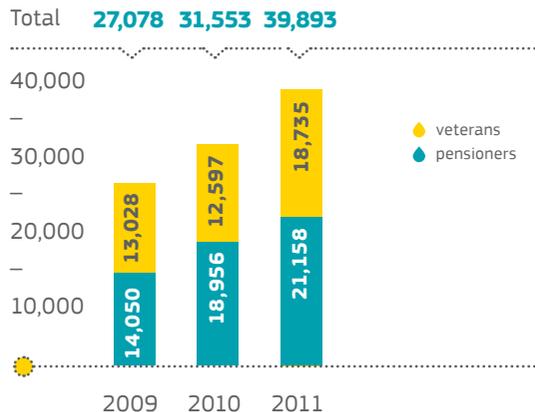
Socio-economic Development in the Regions

Rosneft, as a leader of Russia's fuel and energy industry, works consistently to implement a range of socio-economic projects for development of the social sphere in regions where the Company has industrial operations.

The Company is financing projects for construction, reconstruction and equipping of social infrastructure in the framework of agreements with executive and municipal government, which specify terms for contributions by Rosneft for specific purposes. Rosneft spent a total of RUB 3.2 bln in 2011 to finance social and economic cooperation agreements with regions.

Implementation of long-term social programmes has continued in Khanty-Mansiysk Autonomous District, including creation of public facilities in towns and settlements (creation of a water purification system in the town of Nefteyugansk),

Number of pensioners and veterans receiving corporate pensions



development of pre-school education (construction of four kindergartens), and support for cultural institutions (construction of the second stage of a combined cultural center, library and kindergarten in the village of Sentyabrsky).

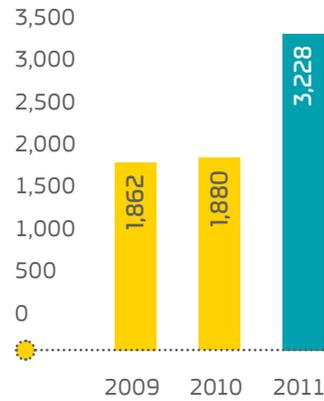
In the Yamalo-Nenets Autonomous District, the Company gives support to small indigenous northern ethnic groups, helping to improve their living conditions and pursue traditional activities, and maintaining cultural and historical traditions. Total financing for such support in 2011 was in excess of RUB 65 mln. The Company finances construction of new housing and engineering networks, and purchases of machinery and equipment for the needs of indigenous communities.

Socio-economic cooperation with the regional administration in Krasnoyarsk Territory in 2011 was focused on developing infrastructure in the towns of Achinsk and Igarka in Turukhan District. Money was allocated for the demolition of old housing and recultivation of land plots, children's holidays, and reconstruction of a sports complex in the town of Achinsk. More than RUB 200 mln were spent for these purposes.

Main financing in the Komi Republic in 2011 was assigned to projects for creation and development of sports facilities. Work was carried out on construction of an indoor ice rink

Winter Spartakiada

Financing of socio-economic cooperation agreements (RUB mln)



and reconstruction of a swimming pool in the town of Usinsk, as well as conversion of a factory building into a universal sports complex in the city of Syktyvkvar. The Company also worked on a project for reconstruction of the runway at the airport in Usinsk.

In total, the Company made financial contributions in 2011 for construction, repair and equipping of 70 kindergartens and pre-school facilities, 140 schools, 20 cultural and 14 sports facilities, 24 healthcare facilities and 23 places of worship.





Church in the town
of Otradnoye in
Samara Region

Support for Education

Various types of support for education are another important aspect of Rosneft's social policy. By developing the material and technology base of educational institutions, which are partners of the Company, and by supplying IT and interactive equipment for laboratories, faculties, study classes and technical rooms, the Company ensures a steady inflow of well-trained employees to its business. Every year Rosneft provides targeted assistance to higher education institutions, and these sums totaled RUB 141 mln in 2011. The Company also extended loans with total value of RUB 3.6 mln to 97 workers in 2011 to help them fund educational courses.

Charity

Charity is one of the instruments, by which Rosneft implements its social policy.

Charity efforts by the Company are mainly oriented to assisting socio-economic projects by regional administrations, supporting healthcare institutions, education, culture, and sport, and to strengthening the cultural and moral foundations of Russian society.

Special attention was paid in 2011 to projects for the revival and preservation of Russia's cultural, historical and spiritual heritage. Places of worship

and other religious sites are being built and restored in many regions of Russia with active support from Rosneft.

Examples include the construction in Smolensk Region of a church as part of the Katyn memorial complex, and the start of construction of a cathedral church in the town of Yuzhno-Sakhalinsk.

Financial assistance is also provided to Rosneft employees and members of their families, and to pensioners and labor veterans, based on criteria which have been approved by the Company.

Total spending by Rosneft on charity in 2011 was RUB 2.9 bln. All charity payments are based on decisions by the Board of Directors and the Management Board of the Company.

Maintenance of Rosneft Social Infrastructure

Rosneft is continuing staged implementation of its program to optimize social infrastructure in its ownership in order to reduce costs, which are not related to Company business. Various non-core facilities with limited importance for Company employees are being withdrawn from subsidiaries, as are some public-use facilities.

Spending by Rosneft in 2011 on maintenance of social infrastructures was RUB 1.0 bln.

095

ROSNEFT

Health, Safety and Environment

Rosneft's policy and activities in the sphere of health, safety and the environment (HSE) are governed by the requirements of Russian law and the standards of international law.

The Company applies the latest technologies and state-of-the-art production methods to ensure a safe and healthy working environment for its employees and to minimize the risk of accidents and emergency situations.

The objectives, which the Company strives to achieve in its HSE policy, are as follows:

- ongoing improvement of industrial safety, working conditions and protection of the environment;
- creating safe and hygienic working conditions by use of the latest technologies in industrial processes;
- consistent reduction of industrial accident and injury rates, and of negative environmental impact;
- improving industrial and environmental safety at production facilities to match the best indicators of international petroleum majors;
- further developing the Company's Integrated Management System for HSE;
- minimizing negative impacts of newly commissioned facilities on the environment and on the health of employees.

Rosneft operates an Integrated Management System for HSE, enabling ongoing management and control of Company activity in these fields, and assessment of its efficiency. The System is designed to ensure that staff at all levels are involved in ensuring production safety and lowering negative environmental impacts. Standards have been designed to guarantee proper functioning of core elements of the System, and work is continuing to develop and implement new standards.

In 2011, CJSC Bureau Veritas Certification Rus, the Russian subsidiary of the international certification specialist, carried out a second compliance audit of the Company's Integrated System for HSE Management. The audit results confirmed the System's compliance with the international standards, ISO 14001:2004 and OHSAS 18001:2007. Validity of the Company's compliance certificates was extended.

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SLUDGE PITS
WERE ELIMINATED IN 2011

The injury rate due to accidents at work, measured by the number of injuries sustained per million hours of work time, was 0.19 in 2011, which is 14% less than in 2010. The improvement reflects preventative work carried out by the Company in the reporting year.

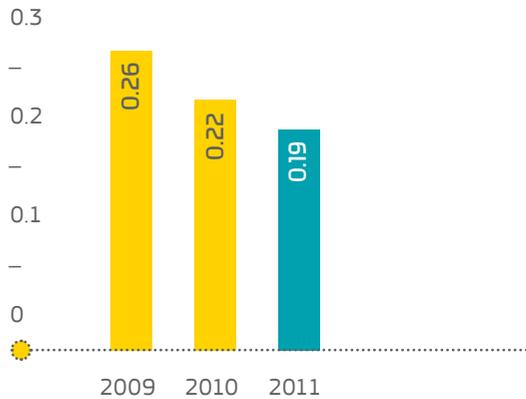
Regular checks of seat belt use were organized in 2011 in order to reduce injury rates in road accidents. More than 10,000 checks were carried out at Company subsidiaries and 800 violations were prevented as a result of the checks. This work led to halving of injury rates as a result of road accidents involving Company employees in 2011 compared with 2010.

Rosneft held a 'health and safety month' at its subsidiaries in 2011, organizing 120 extra health and safety drills and more than 8,000 unscheduled special-purpose checks of health and safety arrangements.



Pumping unit
of Udmurtneft

Industrial injury rate (injured per 1 mln hours worked)



More than RUB 3.5 bln was spent in 2011 on financing health and safety measures at Rosneft and its subsidiaries.

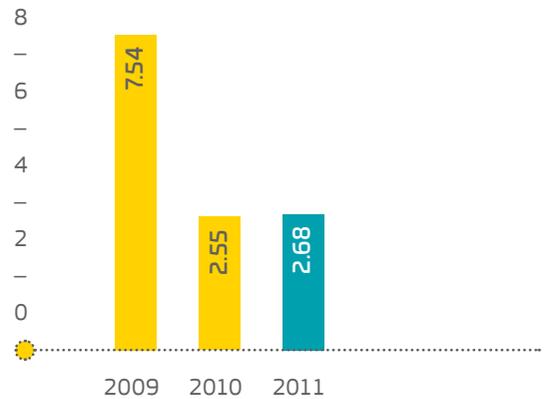
Rosneft has a corporate system of emergency prevention and reaction. The system was kept in constant readiness during 2011 with the help of 249 trainings to address the consequences of oil spillages, extinguishing fires, and localizing potential accidents. More than 17,000 employees of Rosneft subsidiaries took part in the trainings. Rosneft selects subsidiaries for conducting emergency response exercises in a way that takes account of the specific conditions associated with Company production, refining and marketing operations in diverse geographical areas. No emergency situations occurred at Company subsidiaries during 2011.

The Company's spending on emergency prevention and response, and on fire and radiation safety remained unchanged in 2011 compared with 2010 at a level of RUB 4.6 bln.

Reduction of air pollutant emissions is one of the Company's main environmental priorities. Measures by the Company to reduce such emissions include construction and overhaul of gas pipelines; adjustment of burner units, boilers, furnaces and fuel equipment; installation of pontoons and gas-handling systems and use of light-reflecting paints at storage facilities; and constant monitoring of air quality and inventory of emission sources.

Rosneft gives special priority to preventative measures for minimizing negative impacts on the environment. A number of such measures are included in the Company's Targeted Environmental Program for 2009-2014, which is being implemented in stages and involves modernization of the Company's environmental facilities and equipment. Actions as part of the Program include: construction and reconstruction

Fatal injury rate (injured per 100 mln hours worked)



of work areas; provision of Company subsidiaries with modern technology and equipment for recycling of oil sludge and dealing with oil spillages; and construction of new and reconstruction of old purification facilities. Spending on the Environmental Program in 2011 was RUB 1,320 mln.

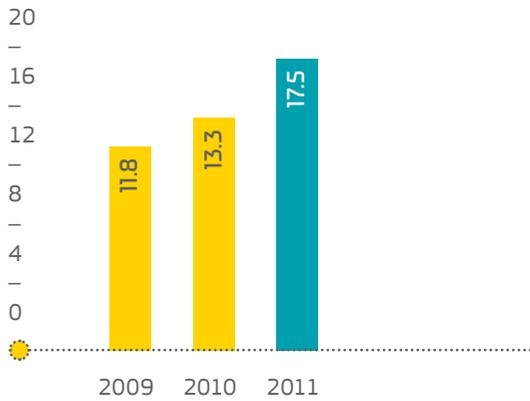
In 2011, Rosneft decided to set up a specialized Department for Environmental Safety and Technologies with the purposes of improving the Company's environmental management system and levels of environmental security, with particular reference to increasing amounts of work at offshore fields. The main functions of the new Department are as follows:

- expert appraisal and support for the Company's new projects;
- ensuring environmental security at existing facilities and hydrocarbon fields;
- assessment and improvement of Company activities in potential production regions.

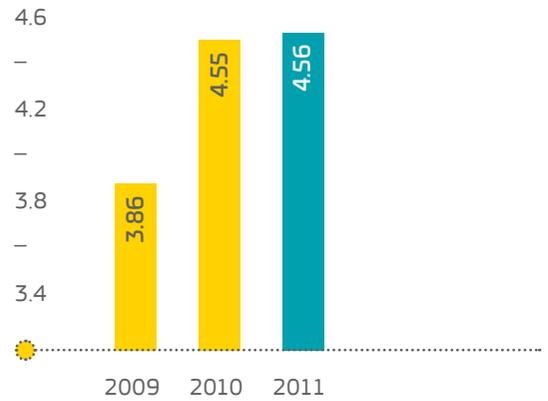
Three Rosneft enterprises won prizes and commendations in 2011 at various competitions in the field of ecology and environmental protection:

- The Angarsk Petrochemical Company was among prize winners at the competition, '100 Best Organizations in Russia. The Environment and Environmental Management' and 'Environmentalist of the Year', and also won the 'Environmentally Responsible Business' nomination at the competition, 'Best Russian Enterprises. Trends, Efficiency, Responsibility 2011'.
- The Komsomolsk Refinery took first place in a review-competition for the best work in environmental efficiency among Rosneft subsidiaries. The Refinery also took second place in an environment and hygiene competition between industrial enterprises in

Investments and current spending on environmental protection (RUB bln)



Spending on emergency prevention, fire and radiation safety (RUB bln)



the city of Komsomolsk-on-Amur.

- Vankorneft won the Seventh National Competition, 'Environmental Leader in Russia 2011'.

Along with conventional approaches to environmental protection, such as rational use of water resources, land decontamination and reclamation, etc., Rosneft extensively applies the most advanced environmental technologies. For example, waste disposal is carried out only at special sites, and well pads at fields are equipped with a unique drainage system. Extensive use is made of treatment systems during drilling (the technique of 'pitless drilling', which dispenses with the need for waste pits), and monitoring wells are drilled around well pads.

RN-Yuganskneftegaz reclaimed 714 hectares of land that had been polluted by oil & gas during 2011, eliminated 167 sludge pits, and recycled 229,000 cubic meters of oil sludge and 1.2 mln cubic meters of drilling waste.

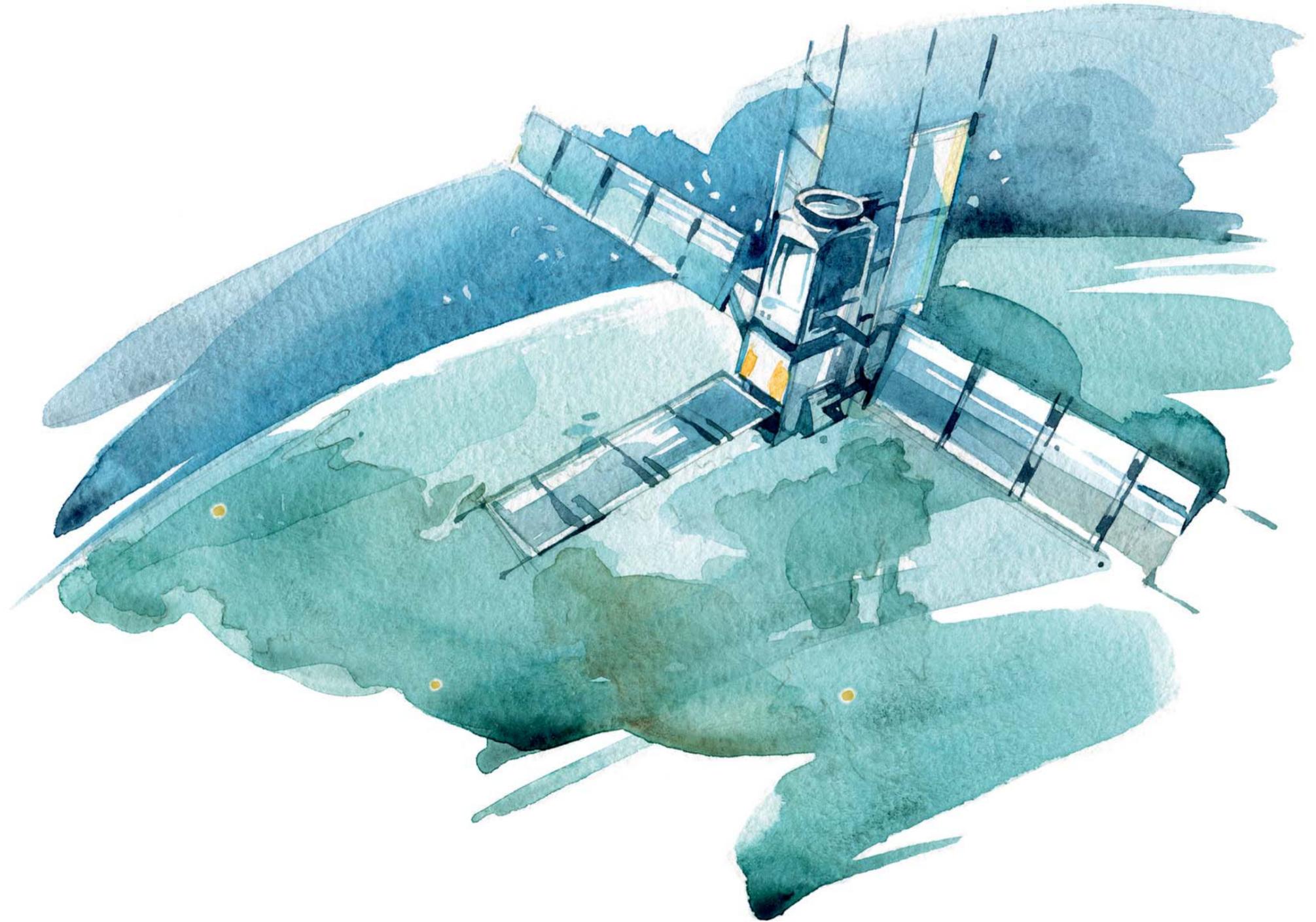
Work began at Krasnodarneftegaz on the elimination of sludge pits and collection ponds for strata water, which had accumulated before 1991. In total 30,600 tonnes of waste containing oil was removed and rendered harmless. Reclamation work was carried out on 2.7 hectares of disturbed land, and 334 wells were closed down with reclamation work on 120 hectares of surrounding land.

Storage of drilling sludge at a temporary site was halted at the Vankor field, as construction of a sludge recycling line was completed, and the line was commissioned, handling 600 cubic meters of sludge per day in pre-launch mode. About 95,000 cubic meters of drilling waste were recycled in 2011. The product of the waste recycling has obtained necessary health and hygiene certifications and is now being successfully used as a filling material in field construction.

05

Corporate Governance

An up-to-date system of corporate governance secures efficient management of the current asset portfolio and improvement of the Company's competitiveness.



System of Corporate Governance

An effective and transparent system of corporate governance is essential for the sustainable development of Rosneft, for enhancing the Company's social responsibility before all interested parties, and for raising the Company's appeal to investors.

As a public company, Rosneft does all it can to improve the efficiency of its system of corporate governance, and monitors and makes use of the latest international experience.

The Company's main tasks in the sphere of corporate governance are as follows:

- application, dissemination, monitoring and enforcement of efficient unified governance standards at all of the Group's structural divisions and subsidiaries;
- constant improvement of relationships with shareholders and institutional investors, employees, business partners and other interested parties;
- improvement of information policy and achievement of greater information transparency;
- ensuring efficient long-term cooperation with local government to support socio-economic development in Russian regions.

Rosneft's system of corporate governance consists of the General Meeting of Shareholders, the Board of Directors, a Collegial Executive Body (the Management Board), and a Chief Executive Officer (the Company President). The principles and foundations of this system are formulated in Rosneft's Corporate Code of Conduct, which was designed to comply with the Russian Federal Law on Joint Stock Companies, with the Corporate Code of Conduct recommended by the Russian Federal Commission for the Securities Market, with OECD principles of corporate governance, and with the Company Charter.

The system of corporate governance is also regulated by the following internal documents:

- Regulation on the Procedure for Formation and Operation of BoD Committees;
- Regulation on the BoD Audit Committee;
- Regulation on the BoD HR and Remuneration Committee;

- Regulation on the BoD Strategic Planning Committee;
- Corporate Code of Conduct;
- Regulation on the Corporate Secretary;
- Regulation on Dividend Policy;
- Regulation on Insider Information;
- Regulation on Information Policy;
- Regulation on Internal Control of Operations and Finances;
- Regulation on the Accounting Commission;
- Code of Business Ethics;
- Regulation on Provision of Information to Shareholders.

All of these documents are available on the Company website together with Rosneft's Charter. Information on compliance by Rosneft with the Code of Corporate Conduct is provided in an appendix to the present Annual Report. The Company's system of corporate governance is being constantly improved through amendments to the above-mentioned internal documents.

The General Meeting of Shareholders

The General Meeting of Shareholders is the Company's supreme governing body. The Company implements the Regulation on the General Meeting of Shareholders, which was approved in an amended version by the General Meeting of Shareholders on June 19, 2009 (unnumbered minutes, 29.06.2009).

THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders to review Company results in 2010 was held on June 10, 2011 in Krasnodar (unnumbered minutes, 16.06.2011). The meeting was attended by 97.39% of Company shareholders.

Individuals in Moscow, St. Petersburg, Krasnoyarsk, Samara and Yuzhno-Sakhalinsk who had the right to take part in the Meeting, could watch it via a live broadcast.

The Meeting approved the Company's Annual Report and financial accounts for 2010; distribution of Company income for 2010; the amount, schedule and form of payment of dividends for 2010; and remuneration and compensation of expenses for members of the Company Board of Directors. Decisions were also taken on election of members of the Board of Directors and of the Audit Commission, approval of the Company Auditor, making of amendments and additions to the Company Charter, and approval of related-party transactions. Decisions taken by General Meeting of Shareholders had been fully executed as of December 31, 2011.

The first meeting of the newly appointed Board of Directors was held at the end of the Shareholders' Meeting, and the Board appointed a Chairman and Deputy Chairmen. The Board also confirmed membership of its three committees, each of them headed by an independent director, and appointed new membership of the Management Board.

EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

An Extraordinary General Meeting of Rosneft Shareholders was held in Moscow on September 13, 2011 (unnumbered minutes, 16.09.2011). Owners of 97.4% of Company shares participated in the Meeting.

Decisions were taken at the Meeting on early termination of the authorities of the Board of Directors. At the end of the Meeting the newly elected Board of Directors met to elect the Board Chairman and his deputies. The Board also confirmed the membership of its three committees, each of which was headed by an independent director.

The Board of Directors

The Board of Directors is the chief component of Rosneft's system of corporate governance.

Activities by the Board of Directors are governed by current legislation, the Company's Charter provisions, and the Regulation on the Board of Directors, which was approved with amendments by the General Meeting of Shareholders of Rosneft on June 19, 2009 (unnumbered minutes, dated 29.06.2009).

The Board of Directors carries out general management of Company business on behalf and in the interests of all its shareholders within the limits of its authority, as prescribed by Law and the Company Charter.

The Board of Directors also supervises the system of control over the activities of the Company's executive bodies, and ensures efficient interaction between Company bodies and observance and protection of the rights and lawful interests of shareholders.

In carrying out these functions the Board of Directors works closely with the Company auditor and management and structural subdivisions of the Company, and with Company officials. Work with these parties is carried out in part through the Committees of the Board of Directors.

The Board of Directors is governed in its decision-making by the following principles:

- that decisions should be taken based on accurate information about Company business;
- prevention of any limitations on the rights of shareholders, including the right to participate in management of Company affairs, and to receive dividends and information about the Company;
- achieving a balance between the interests of various groups of shareholders to ensure the greatest possible objectivity in decision-making for the benefit of all Company shareholders.

Rosneft aims to achieve maximum efficiency in the activities of the Board of Directors through high levels of qualification of its members, the personal responsibility of each member of the Board of Directors, and the responsibility of the Board of Directors as a whole for the decisions, which it makes, as well as by achieving an optimal balance between executive, non-executive and independent members of the Board.

Newly appointed members of the Board of Directors undergo an induction program, in which they are familiarized with the Company's internal documents and decisions made by the General Meeting of Shareholders. Other information, which Board members may require for proper execution of their duties, is supplied to them on request.

The composition of the current Board of Directors corresponds to standards set out in Rosneft's Code of Corporate Conduct and to international corporate governance practices. As of December 31, 2011 eight of the nine directors were non-executive and four of them were independent.

From January 1, 2011 until June 10, 2011 the functions of the Board of Directors were carried out by the members who were elected by the General Meeting of Shareholders on June 18, 2010. From June 10, 2011 until September 13, 2011 the functions of the Board of Directors were carried out by the members who were elected by the General Meeting of Shareholders on June 10, 2011. From September 13, 2011 the functions of the Board of Directors were carried out by the members who were elected by the Extraordinary General Meeting of Shareholders on September 13, 2011.

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ROSNEFT

Members of the Board of Directors of Rosneft



Alexander Nekipelov

CHAIRMAN OF THE BOARD OF DIRECTORS OF ROSNEFT, MEMBER OF THE STRATEGIC PLANNING COMMITTEE.

Born in 1951. Graduated from the Economics Faculty of Lomonosov Moscow State University in 1973, specializing in Political Economy. Doctor of Economic Science. Member of the Russian Academy of Sciences. Author of numerous published scientific articles. Awarded state and industry prizes.

From 1998 to 2001 – Director of the Institute of International Economic and Political Studies at the Russian Academy of Sciences.
From 2001 – Vice-President of the Russian Academy of Sciences, Presidium Member of the Russian Academy of Sciences.
From 2004 – Director of Moscow School of Economics at Lomonosov Moscow State University.
From 2006 – Member of the Board of Directors of Rosneft.
From 2008 – Member of the Board of Directors of Transneft.
From 2008 – Member of the Board of Directors of Zarubezhneft.
From 2011 – Chairman of the Board of Directors of Rosneft.



Eduard Khudainatov

FIRST VICE-PRESIDENT, DEPUTY CHAIRMAN OF THE BOARD OF DIRECTORS, CHAIRMAN OF THE MANAGEMENT BOARD OF ROSNEFT.
(since May 24, 2012)

Born in 1960. Graduated in 1996 from the International Business Academy, specializing in Trade. Completed a second higher education in 2000 at Tyumen State University, specializing in Law. Awarded state and industry prizes.

From 1993 to 1996 – Head of the companies Evikhon, Evikhon-2 and Yuganskpromfinco.
In 1996 – Deputy Head of the Administration of the town of Nefteyugansk, with responsibility for general issues.
From 1996 to 2000 – First Deputy Head of Nefteyugansk District, Head of Administration of the town of Poikovsky.
From 2000 to 2003 – Chief Federal Inspector for Nenets Autonomous District in the Office of the Representative of the President of the Russian Federation in the North-Western Federal District.
From 2003 to 2008 – CEO of OJSC Severneftegazprom.
From 2008 – Vice-President of Rosneft.
From 2009 – First Vice-President of Rosneft.
From September 6, 2010 to May 2012 – President and Chairman of the Management Board of Rosneft.
From May 2012 – First Vice-President, Deputy Chairman of the Management Board of Rosneft.
From 2011 – Member of the Board of Directors of Rosneft.



Andrey Kostin

INDEPENDENT MEMBER OF THE BOARD OF DIRECTORS OF ROSNEFT, DEPUTY CHAIRMAN OF THE BOARD OF DIRECTORS, CHAIRMAN OF THE HR AND REMUNERATION COMMITTEE, MEMBER OF THE AUDIT COMMITTEE.

Born in 1956. Graduated with distinction from the Economics Faculty of Lomonosov Moscow State University in 1979, specializing in Political Economy. Doctoral Candidate of Economic Science. Awarded state and industry prizes.

From 1993 to 1995 – Deputy Head of the Foreign Investments Department of Imperial Bank.
In 1995 – First Deputy Chairman of National Reserve Bank (NRB).
From 1996 to 2002 – Chairman of Vnesheconombank.
From 2002 – President and Chairman of the Management Board of VTB Bank. Member of the boards of directors and supervisory boards of several major Russian companies.
From 2006 – Member of the Board of Directors of Rosneft.

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ROSNEFT



Hans-Joerg Rudloff

INDEPENDENT MEMBER OF THE BOARD OF DIRECTORS OF ROSNEFT, DEPUTY CHAIRMAN OF THE BOARD OF DIRECTORS, CHAIRMAN OF THE AUDIT COMMITTEE, MEMBER OF THE HR AND REMUNERATION COMMITTEE.

Born in 1940. Graduated from the Economics Faculty of Berne University in 1965.

From 1998 – Chairman of the Supervisory Board of Barclays Capital. Member of the management bodies of several major foreign companies.
From 2006 – Member of the Board of Directors of Rosneft.



Sergey Shishin

INDEPENDENT MEMBER OF THE BOARD OF DIRECTORS OF ROSNEFT, DEPUTY CHAIRMAN OF THE BOARD OF DIRECTORS, CHAIRMAN OF THE STRATEGIC PLANNING COMMITTEE.

Born in 1963. Graduated in 1984 from the Higher Border Guard School of the Committee for State Security of the USSR, in 1990 from the Higher Institute of the Committee for State Security, and in 1999 from the Russian Civil Service Academy attached to the President of the Russian Federation. Doctor of Economic Science. Awarded state and industry prizes.

From 1986 to 2000 – service in the armed forces of the USSR and the Russian Federation.
From 2001 to 2006 – worked at the Central Institute of Economics and Mathematics of the Russian Academy of Sciences.
From 2007 – Senior Vice-President of VTB Bank.
From 2011 – Member of the Supervisory Board of VBRR.
From 2011 – Member of the Board of Directors of Rushydro.
From 2011 – Member of the Board of Directors of Rosneft.



Vladimir Bogdanov

MEMBER OF THE BOARD OF DIRECTORS OF ROSNEFT.

Born in 1951. Graduated in 1973 from the Tyumen Industrial Institute specializing in 'Drilling of oil & gas wells'. Obtained a second higher education in 1990 at the Economics Academy attached to the Council of Ministers of the USSR, specializing in 'Economics, management organization, and economic planning'. Doctor of Economic Science. Author of many published scientific works and articles and developer of technical innovations. Awarded state and industry prizes.

From 1993 – Member of the Board of Directors, CEO of OJSC Surgutneftegaz.
From 2004 – Chairman of the Board of Directors of Surgutneftegazbank.
From 2009 – Member of the Board of Directors of Zarubezhneft.
From 2009 – Member of the Board of Directors of Rosneft.



Dmitry Shugaev

MEMBER OF THE BOARD OF DIRECTORS OF ROSNEFT, MEMBER OF THE STRATEGIC PLANNING COMMITTEE.

Born in 1965. Graduated in 1987 from the Moscow State Institute of International Relations of the USSR Foreign Ministry. Doctoral Candidate in Economic Science.

From 1997 to 2001 – CEO of CJSC Yuridichesky Profil.
From 2001 to 2008 – various posts at State Unitary Enterprise, Rosoboronexport.
From 2008 to 2009 – Head of the CEO's Office at the State Corporation, Rostechologies.
From 2009 – Deputy CEO of the State Corporation, Rostechologies. Member of the boards of directors and supervisory boards of several major Russian companies.
From 2011 – Member of the Board of Directors of Rosneft.



Nikolay Tokarev

MEMBER OF THE BOARD OF DIRECTORS OF ROSNEFT, MEMBER OF THE STRATEGIC PLANNING COMMITTEE.

Born in 1950. Graduated in 1973 from Karaganda Polytechnical Institute, specializing in 'Electrification and Automation in the Mining Industry'. Awarded state and industry prizes.

From 1999 to 2000 – Vice-President of Transneft.
From 2000 to 2007 – CEO of the State Foreign-economic Conglomerate, Zarubezhneft (incorporated in 2004 as OJSC Zarubezhneft).
From October 2007 – President of Transneft. Member of the boards of directors of several major Russian companies.
From 2009 – Member of the Board of Directors of OJSC Rosneft.



Matthias Warnig

INDEPENDENT MEMBER OF THE BOARD OF DIRECTORS OF ROSNEFT, MEMBER OF THE STRATEGIC PLANNING COMMITTEE, MEMBER OF THE AUDIT COMMITTEE.

Born in 1955. Graduated in 1981 from the Bruno Leuschner Higher School of Economics, specializing in National Economics.

From 1990 to 2006 – employment at Dresdner Bank Group in Frankfurt, Saint Petersburg and Moscow as President, Chairman of the Board of Directors, and Chief Coordinator of Dresdner Bank Group AG in the Russian Federation.
From 2006 – Managing director of Nord-Stream AG (Switzerland). Member of the boards of directors and supervisory boards of several major Russian and foreign companies.
From 2007 – Member of the Supervisory Board of VTB Bank.
From 2011 – Chairman of the Board of Directors of Transneft.
From 2011 – Member of the Board of Directors of Rosneft.

Attendance of Board members at Board meetings and meetings of Board Committees in 2011

Board of Directors					Audit Committee	HR and Remuneration Committee	Strategic Planning Committee
Members	Executive	Non-executive	Independent	Attendance at meetings			
PERSONS WHO WERE MEMBERS OF THE BOARD OF DIRECTORS DURING THE WHOLE OF 2011							
Vladimir Bogdanov		X		32/33			
Andrey Kostin		X	X	33/33	10/10	9/9	
Alexander Nekipelov ¹		X	X	33/33	7/7		5/5
Hans-Joerg Rudloff		X	X	33/33	10/10	9/9	
Nikolay Tokarev		X		33/33			5/5
PERSONS WHO LEFT THE BOARD OF DIRECTORS ON JUNE 10, 2011							
Igor Sechin		X		10/12			
Andrey Reus		X		12/12			2/2
Sergey Bogdanchikov		X		0/12			
PERSONS WHO JOINED THE BOARD OF DIRECTORS ON JUNE 10, 2011							
Dmitry Shugaev		X		21/21			3/3
Sergey Shishin		X	X	21/21			3/3
Eduard Khudainatov	X			21/21			
PERSONS WHO LEFT THE BOARD OF DIRECTORS ON SEPTEMBER 13, 2011							
Yury Petrov		X		22/22		5/5	
PERSONS WHO JOINED THE BOARD OF DIRECTORS ON SEPTEMBER 13, 2011							
Matthias Warnig		X	X	11/11	3/3	4/4	

¹ Independent Member of the Board of Directors and Member of the Audit Committee until September 13, 2011.

Note: the first figure shows the number of meetings that a member of the Board of Directors attended; the second figure shows the total number of meetings that the member could have attended.

Activity of the Board of Directors in 2011

The Board of Directors held 33 meetings during 2011 (6 with members present and 27 by voting in absentia), at which it reviewed and took decisions on various aspects of Company business².

Matters considered by the Board of Directors during the reporting period (matters in the competence of the Board of Directors in accordance with Article 65 of the Federal Law on Joint-Stock Companies as well as other matters concerning the Company's current business) were as follows³:

- on activities of the Board of Directors and of committees of the Board of Directors (12);
- on cooperation and on implementation of business projects (19);
- on the work of the Management Board (1);
- on the membership of the Management Board and on members of the Management Board who are concurrently members of the management bodies of other organizations (3);
- on equity participation of the Company in other companies and the termination of such participation (4);
- on approval of performance criteria and meeting of performance criteria by senior managers (5);
- on the carrying out/approval of transactions, which fall within the competence of the Board of Directors in accordance with the Company Charter (37);
- on approval of performance indicators for CEOs of key Group companies (2);
- on change in the charter capital of a key Group company (6);
- on approval, adjustment, and implementation of Company business plans (3);
- on performance results of the CEOs of key Group companies for the purpose of annual bonuses (1);
- on amendments to organizational structure (2);
- on design of strategic programmes of the Company (4);
- on defining the Company's position with respect to election (appointment) and early termination of the authorities of chief executive officers of key subsidiaries (50 items);

- on preparation and conduct of Annual and Extraordinary General Meetings of Shareholders (19 items);
- on approval of internal regulatory documents (10 items);
- on amendments to the Company Charter connected with the opening and closure of branches and representative offices of the Company (3).

Information concerning the most important issues has been disclosed by the Company in press-releases⁴ and in the form of communications on material facts/information, which may have substantial impact on the price of Company securities⁵.

Committees of the Board of Directors

Rosneft has Board Committees for Audit, HR and Remuneration, and Strategic Planning, which carry out preliminary consideration of important issues and prepare relevant recommendations to the Board of Directors.

The formation and operation of Rosneft's BoD Committees is in accordance with the Regulation on the Procedure for Formation and Operation of BoD Committees of Rosneft, the Regulation on the Audit Committee of the Board of Directors of Rosneft, the Regulation on the HR and Compensation Committee of the Board of Directors of Rosneft, and the Regulation on the Strategic Planning Committee of the Board of Directors of Rosneft (these Regulations were approved by decision of the Board of Directors on October 18, 2008, minutes № 5).

The Committees consist of non-executive members of the Board of Directors of Rosneft and are headed by independent directors.

Memberships of the Committees in 2011 were determined by decisions of the Board of Directors of Rosneft in June 2010, June 2011, and September 2011.

² The procedure for calling BoD meetings and for decision-taking by voting in absentia is governed by the Regulation on the Board of Directors of Rosneft.

³ Date of meeting, number of minutes: 14.01.2011, № 27; 21.01.2011, № 28; 25.01.2011, № 29/1; 03.03.2011, № 29; 11.03.2011, № 30; 31.03.2011, № 31; 31.03.2011, № 32; 01.04.2011, № 33; 01.04.2011, № 34; 11.04.2011, № 35; 14.04.2011, № 36; 25.04.2011, № 37; 10.06.2011, № 1; 20.06.2011, № 2; 23.06.2011, № 3; 27.06.2011, № 4; 14.07.2011, № 5; 03.08.2011, № 6; 15.08.2011, № 7; 29.08.2011, № 8; 30.08.2011, № 9; 07.09.2011, № 10; 13.09.2011, № 1; 03.10.2011, № 2; 07.10.2011, № 3; 01.11.2011, № 4; 10.11.2011, № 5; 18.11.2011, № 6; 06.12.2011, № 7; 21.12.2011, № 8; 28.12.2011, № 9; 29.12.2011, № 10; 30.12.2011, № 11.

⁴ <http://rosneft.ru/news/pressrelease/>

⁵ <http://rosneft.ru/Investors/information/>

Name of the Committee	Membership on 31.12.2011	Committee Functions	The Committee ensures interaction between the BoD and the following groups
Audit Committee	Hans-Joerg Rudloff (Chairman) Andrey Kostin Matthias Warnig	<ul style="list-style-type: none"> - ensuring BoD participation in control over the Company's financial and operating activity; - assessment of candidates to be Rosneft's external auditor, assessment of the auditor's opinion, of the quality of auditing services provided and observance by the auditor of auditing independence; - assessment of the efficacy of procedures for internal control and risk management, and preparing proposals for their improvement; - preliminary review of the Company's financial accounts; - oversight of completeness and accuracy of Rosneft's tax, financial and management accounting; - oversight of the efficiency of work by structural subdivisions that carry out internal control and audit functions. 	<ul style="list-style-type: none"> - external auditors; - the Internal Audit Commission; - structural sub-divisions carrying out internal control and audit functions; - executive bodies.
HR and Remuneration Committee	Andrey Kostin (Chairman) Matthias Warnig Hans-Joerg Rudloff Members of the HR and Remuneration Committee are not entitled to participate in evaluation of their own performance and decisions about their remuneration	<ul style="list-style-type: none"> - ensuring that highly qualified specialists are hired to work as Company managers and creating necessary incentives for them to work successfully; - participation in HR policy formation, design of principles and criteria for determining the scale of remuneration and compensation to members of the Board of Directors, Management Board, and senior executives of Rosneft; - development of long-term remuneration programs for Company employees; - reviewing reports on sustainable development by the Company, prepared in compliance with international standards; - jointly with the personnel department: preliminary assessment of candidates to key positions, and also preliminary approval of the forms and amounts of remuneration, compensation and other payments to such persons. 	<ul style="list-style-type: none"> - structural sub-divisions responsible for personnel policy; - executive bodies.
Strategic Planning Committee	Sergey Shishin (Chairman) Alexander Nekipelov Nikolay Tokarev Dmitry Shugaev	<ul style="list-style-type: none"> - defining strategic goals and developing business priorities of Rosneft; - business planning, design of budgets and other business plans, and monitoring of their implementation; - review and preparation for the Board of Directors of recommendations on issues concerning strategic development and management of the Company; - monitoring and assessment of efficient implementation of strategy, which has been approved by the Board of Directors; - assessment of the efficiency of Company interaction with investors; - analysis and provision of information to the Board of Directors concerning the main aspects of economic policy of the Russian Government in the Company's sphere of business; - analysis of proposals by structural subdivisions responsible for strategic planning concerning approval, amendment, and implementation of Company development strategy; - review of strategic investment projects. 	<ul style="list-style-type: none"> - structural sub-divisions responsible for strategic planning; - executive bodies.

Activity of Committees of the Board of Directors in 2011

The activity of the Committees in 2011 received a positive assessment from the Board of Directors (minutes № 19 dated April 27, 2012).

AUDIT COMMITTEE

Activities of the Audit Committee were based on six-month plans. The Committee met 10 times in the course of the year, including five meetings in the form of joint presence and five meetings in absentia.

In each quarter, the Audit Committee carried out preliminary reviews of Rosneft consolidated financial accounts prepared in accordance with US GAAP, IFRS and RAS and also reviewed audits or overviews of these accounts. The Committee approved the work plan of the Control and Audit Division for 2011 and a report on the results of its work in 2010.

The Committee reviewed the Company's new system of internal control and audit and submitted its recommendations to the Board of Directors and Rosneft management concerning further steps in this matter.

At the proposal of Alexander Nekipelov (Member of the Committee until 13.09.2011) the question of working capital management was considered and a recommendation was issued to the Company's Treasury Department.

The Committee approved the results of work in the first half of 2011 by the Internal Audit Division and approved a work plan for the newly created Internal Audit Department in September-December 2011.

The Committee reviewed results of the competition among auditing organizations and gave an assessment of candidates for carrying out audit of financial accounts of Rosneft and its subsidiaries, and of consolidated financial accounts in accordance with RAS and US GAAP. Recommendations were made on remuneration for the auditor's services in 2011.

The following tasks were carried out at a joint meeting of the Audit Committee and the Internal Audit Commission: the Rosneft Annual Report for 2010 was given a preliminary review; an assessment was given of the opinion of the Rosneft auditor concerning the Company's financial accounts for 2010; a review was carried out of the conclusions of the Internal Audit Commission for 2010 (following checks of Company operations and finances; checks of annual accounts; and of the accuracy of data in the Annual Report); and a review was carried out of recommendations to the General Meeting Shareholders of Rosneft

concerning the procedure for distribution of Company profit, the amount of dividends to be paid for 2010, and the procedure for their payment.

The Audit Committee also prepared recommendations to the Rosneft Board of Directors on the following issues: preliminary approval of the Rosneft Annual Report for 2010; annual financial accounts, including profit & loss accounts, of Rosneft for 2010.

In the course of 2011, the Chairman of the Audit Committee held regular meetings with senior managers of Rosneft, with representatives of external auditors, and with the head of the Internal Audit Department.

HR AND REMUNERATION COMMITTEE

Actions by the Committee were based on approved six-month plans and the Committee held nine meetings in 2011.

The Committee prepared recommendations to the Board of Directors for decisions on the following issues: approval of performance criteria for senior managers of Rosneft for 2011; achievement of performance targets by senior managers of Rosneft and amounts of their annual remuneration for 2010; approval of amendments to the Regulation on Annual Bonuses of Senior Managers and the Heads of Autonomous Structural Subdivisions of Rosneft; approval of the Regulation on the Annual Bonus of the CEO and Principal Executives of Rosneft Group; approval of the Regulation on Annual Bonuses of Middle-Managers, Specialists and Personnel of the Rosneft Central Office; on amendments and additions to the Regulation on Terms of Wage Payment and Social Protection for Rosneft Personnel; on amendments to the organizational structure of Rosneft; on definition of the position of Rosneft with respect to the amounts of annual bonuses payable to CEOs of key Group subsidiaries for 2010.

The Chairman of the HR and Remuneration Committee met regularly with senior Company managers and the head of the HR Department as part of work for creation of a new organizational structure at Rosneft, and as part of joint design of an annual incentive system for senior managers, principal executives, CEOs, middle managers, specialists and workers of Rosneft, based on performance indicators. Introduction of the new system will enable greater objectivity in assessment of attainments.

STRATEGIC PLANNING COMMITTEE

Actions by the Strategic Planning Committee were based on approved six-month plans and five meetings were held during the reporting period.

The Committee prepared recommendations to the Board of Directors on the following issues: on dividend policy of Rosneft; on results of implementation of the Rosneft business plan in nine months of 2011, expected business results for 2011 and proposal for adjustments to the business plan for 2011; on the updated integrated project for construction at the Vankor group of fields and revised cost of project execution; on the modernization and development programme for Rosneft refining enterprises; on revised cost of the first launch complex at the Tuapse Refinery and increase of the financing limit for RN-Tuapse Refinery in 2011; on approval of the Company business plan for 2012.

The Chairman and members of the Committee held regular working meetings in course of the year with senior managers of the Company, and with heads of structural subdivisions involved in business planning and development of the Rosneft Development Strategy.

Management Bodies of Rosneft

Management of the current business of Rosneft is the responsibility of the Company's executive bodies: the Management Board (Collegial Executive Body) and the President (Chief Executive Officer), which are subordinated to the Board of Directors and the General Meeting of Shareholders of the Company.

The system of Rosneft management bodies and their work are regulated by:

- the Rosneft Charter;
- the Regulation on the Collegial Executive Body (Management Board), approved by the General Meeting of Shareholders of Rosneft on June 19, 2009 (unnumbered minutes, dated 29.06.2009);

- the Regulation on the Chief Executive Officer (President), approved by the General Meeting of Shareholders of Rosneft on June 19, 2009 (unnumbered minutes, dated 29.06.2009);
- the Code of Corporate Conduct, approved by the Board of Directors of the Company (minutes № 6, dated 17.05.2006) and amendments approved by the Board of Directors on 22.05.2007 and 30.12.2011.

THE MANAGEMENT BOARD OF ROSNEFT

In accordance with clause 12.3 of the Company Charter, members of the Management Board are appointed by the Board of Directors for a period of three years. The procedure for formation of the Management Board and requirements for professional qualifications of its members (including education and experience) are established by internal documents of the Company.

The Board of Directors decided on June 10, 2011 (minutes № 1) to terminate the authorities of the Management Board, which was appointed on March 5, 2009, and to appoint a new Management Board as of June 11, 2011, for a period of three years (until June 11, 2014) consisting of five members. The membership of the Management Board was unchanged in the period from June 11, 2011 until December 31, 2011.

THE PRESIDENT OF ROSNEFT

In accordance with clause 11.3 of the Company Charter, the President is appointed by the Board of Directors for a period of three years.

The Board of Directors of the Company decided on September 4, 2010 (minutes № 17) to appoint Eduard Khudainatov as President of Rosneft.

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Members of the Management Board of Rosneft



Igor Sechin

PRESIDENT OF ROSNEFT, CHAIRMAN OF MANAGEMENT BOARD OF ROSNEFT. (since May 24, 2012)

Born in 1960. Graduated from Leningrad State University in 1984. PhD in Economics.

From 2000 – Deputy Head of the Executive Office of the President of the Russian Federation.

From March 2004 – Deputy Head of the Executive Office of the President of the Russian Federation, Aide to the President of the Russian Federation.

From May 2008 till 2012 – Deputy Prime Minister of the Russian Federation.

In 2004-2011 – Chairman of the Board of Directors of Rosneft.

Since May 2012 – President of Rosneft, Chairman of Rosneft's Management Board.



Eduard Khudainatov

FIRST VICE-PRESIDENT, DEPUTY CHAIRMAN OF THE MANAGEMENT BOARD OF ROSNEFT. (since May 24, 2012)

Born in 1960. Graduated in 1996 from the International Business Academy, specializing in Trade. Completed a second higher education in 2000 at Tyumen State University, specializing in Law. Awarded state and industry prizes.

From 1993 to 1996 – Head of the companies Evikhon, Evikhon-2 and Yuganskpromfinco.

In 1996 – Deputy Head of the Administration of the town of Nefteyugansk, with responsibility for general issues.

From 1996 to 2000 – First Deputy Head of Nefteyugansk District, Head of Administration of the town of Poikovsky.

From 2000 to 2003 – Chief Federal Inspector for Nenets Autonomous District in the Office of the Representative of the President of the Russian Federation in the North-Western Federal District.

From 2003 to 2008 – CEO of OJSC Severneftegazprom.

From 2008 – Vice-President of Rosneft.

From 2009 – First Vice-President of Rosneft.

From September 6, 2010 to May 2012 – President and Chairman of the Management Board of Rosneft.

From May 2012 – First Vice-President, Deputy Chairman of the Management Board of Rosneft.

From 2011 – Member of the Board of Directors of Rosneft.



Larisa Kalanda

VICE-PRESIDENT OF ROSNEFT.

Born in 1964. Graduated from the Sverdlov Institute of Law in 1985, specializing in Law. Completed postgraduate studies at the Institute of Philosophy and Law of the Belarus Academy of Sciences in 1994. Distinguished lawyer of the Russian Federation.

From 1997 – Deputy Head of the Legal Service of OJSC TNK and OJSC TNK-BP Management.

From 2003 – Vice-President of OJSC TNK-BP Management, responsible for legal support.

From 2006 – Vice-President of Rosneft, responsible for legal support of Company business, and for designing and implementing legal policy to protect the assets and interests of the Company (of Company shareholders) and of subsidiary companies (equity affiliates). Also responsible for corporate property and governance since February 2011.

From 2009 to May 2012 – Deputy Chairman of the Management Board of Rosneft.

From May 2012 – Member of the Management Board of Rosneft.

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Pavel Fedorov

MEMBER OF THE MANAGEMENT BOARD OF ROSNEFT. (till April 24, 2012)

Born in 1974. Graduated from Novosibirsk State University in 1995 specializing in economic cybernetics and study of operations. Obtained a Masters Degree from Washington State University in 1998.

From 1998 to 2005 – Executive Director, Vice-President of Morgan Stanley (London).

From 2006 to 2007 – Managing Director of UBS (Moscow).

From 2007 to 2010 – Managing Director, Senior Advisor of Morgan Stanley (Moscow).

From April 2010 to March 2012 – First Vice-President of Rosneft.



Gani Gilayev

VICE-PRESIDENT OF ROSNEFT.

Born in 1956. Graduated in 1990 from Ufa Oil Institute specializing in development and operation of oil & gas fields.

From 1975 – Drilling Assistant at Vostokneft production unit (part of the Sakhalinneft conglomerate).

From 1993 to 2006 – management positions at Sakhalinmorneftegaz, Rosneft-Termneft and RN-Krasnodarneftegaz.

From 2006 – CEO of Udmurtneft.

From 2008 – Director of the Oil & Gas Production Department of Rosneft.

From October 2010 – Acting Vice-President of Rosneft with responsibility for production.

From September 2011 – Vice-President of Rosneft with responsibility for exploration and production.



Petr Lazarev

FINANCIAL DIRECTOR OF ROSNEFT. (from February 2012)

Born in 1967. Graduated in 1990 from the Plekhanov Economics Institute (Moscow) specializing in finance and credit.

From 1990 to 1993 – occupied various posts at the USSR Ministry of Finance and the Russian Ministry of Economics and Finance.

From 1993 to 1995 – occupied various posts at the Securities Department of the International Joint-Stock Bank of Savings Banks.

From 1995 to 1996 – member of the Executive Board, Head of the Securities Department at the International Joint-Stock Bank of Savings Banks.

From 1996 to 1999 – occupied senior positions at ACB Center, CJSC Finco-Invest Finance Company, and Russian Industrial Bank.

From 2000 to 2004 – Head of Promissory Note and Investment Programs in the Finance Department at OJSC Rosneft, Deputy Director, Head of Securities in the Finance Department.

From June 2004 to February 2012 – Head of Treasury at Rosneft.

From February 2012 – Financial Director of Rosneft.

Remuneration of Members of the Board of Directors and Management

Remuneration of Members of the Board of Directors

The Federal Law on Joint-Stock Companies stipulates that, by decision of the General Meeting of Shareholders, members of the Board of Directors may be paid remuneration and/or compensation of their costs associated with exercise by them of their functions during the period when they are in office. The scale of such remuneration and compensation is established by decision of the General Meeting of Shareholders.

CRITERIA FOR LEVELS OF REMUNERATION

Criteria for setting levels of remuneration to members of the Board of Directors are established by the Regulation on the Procedure for Calculation and Payment of Remuneration to Members of the Board of Directors and Compensation of their Expenses, which was approved by the Rosneft Board of Directors on April 28, 2009 (minutes № 4).

In accordance with this Regulation, remuneration is paid to members of the Board of Directors who have independent status, and to members of the Board of Directors who are authorized representatives of the interests of the Russian Federation in the Board of Directors, except for Board members who are also state officials and the CEO of Rosneft (the Company President).

A maximum possible level of remuneration during the reporting period is set for members of the Board of Directors, and this level is approved by the Board of Directors.

Factors taken into account in setting the final amount of remuneration for work in the reporting period are:

- factual participation in work as a member of the Board of Directors;
- factual participation in work of a BoD Committee as the Chairman of that Committee;
- factual participation in work of a BoD Committee as a member of that Committee.

The Board of Directors of Rosneft can recommend lowering the final amount of remuneration to members of the Board of Directors taking account of the financial situation of the Company. The Board of Directors also gives recommendations as to whether remuneration will be paid in the form of cash or shares of Rosneft.

Rosneft compensates all expenses associated with execution by members of the Board of Directors of their functions (accommodation, meals, travel, including VIP lounge services, and other payments

and tariffs for air and (or) rail transport services), as well as costs arising for a Board member in connection with proceedings brought by third parties (including expenses for defense in court, etc.) as a result of actions by the Board member if the actions which caused the proceedings to be brought were carried out by the Board member in the interests of the Company. The Company also compensates expenses which may be incurred by a member of the Board of Directors in connection with administrative, criminal or other court action arising from his or her activities as a member of the Board.

Based on the decision of the Board of Directors on April 14, 2011, the General Meeting of Shareholders on June 10, 2011 decided to approve the payment of remuneration to members of the Board of Directors by transfer to them of shares in Rosneft, as follows:

- 25,238 shares to Andrey Kostin;
- 25,238 shares to Alexander Nekipelov;
- 25,238 shares to Hans-Joerg Rudloff;
- 20,821 shares to Andrey Reus;
- 20,821 shares to Nikolay Tokarev;
- 18,928 shares to Vladimir Bogdanov;
- 14,021 shares to Sergey Bodganchikov.

The Shareholder Meeting also confirmed payment of compensation for expenses incurred by members of the Board of Directors in connection with exercise by them of their functions, specifically expenses for: accommodation, meals, travel (including VIP lounge services), and other payments and tariffs for air and (or) railway transport services.

Remuneration of Management

Remuneration of senior management (President, First Vice-President, Vice-Presidents and officials of equivalent rank) and heads of independent subdivisions of Rosneft consists of monthly salary and an annual premium.

No additional remuneration is paid to Company managers for their work in management bodies of Rosneft or its subsidiaries and equity affiliates (the Rosneft Management Board, the boards of directors of subsidiaries).

The level of monthly wage is stipulated in labor contracts, which are made when managers are hired.

An annual bonus is paid to managers only after approval by the Board of Directors of a relevant decision based on Company performance in the reporting year. The annual bonus depends directly on the results of work by the manager in the reporting year and its size is determined by the analysis of attainment of key performance indicators set for the manager in the year. The annual bonus of the Company President is

established depending on achievement by him or her of individual performance indicators, which coincide with key indicators of Company performance. The annual bonus for other managers consists of two parts: a bonus for the manager's individual results and a bonus for team results (in the manager's sphere of business and for the Company as a whole).

Approval of key performance indicators and review of their achievement are carried out as follows:

- performance criteria are compiled on the basis of the Company's development strategy and Company tasks in the reporting year;
- individual performance criteria for senior managers and collective performance indicators are approved by the Board of Directors of Rosneft;
- individual criteria for performance by heads of independent subdivisions are approved by the Management Board of Rosneft;

- at the end of the reporting year appropriate services within the Company measure achievement of key performance criteria (collective and individual), using audited consolidated financial accounts and management accounts;
- the amount of bonuses for senior managers are approved by the Rosneft Board of Directors, and bonuses for heads of independent subdivisions are approved by the Management Board.

The structure of remuneration to management (ratio of its fixed and variable parts) corresponds to generally accepted international practice.

A bonus may be paid to senior managers and to other personnel for outstanding contributions to Company development during the reporting period. The amount of such a bonus and its actual payment is subject to the consent of the Board Committee for HR and Remuneration.

Internal Control and Audit

Rosneft has a system of control over its business, consisting of the Audit Committee of the Board of Directors, the Audit Commission, an independent auditor, Company management, and the Internal Audit Department.

Subordination and coordination between elements of the control system ensure a level of independence which is essential for efficient functioning, and which corresponds to the latest international practice in this field.

Audit Commission

The Audit Commission is a key part of the system of control over Company financial and operating activities. The Company has a Regulation on the Audit Commission, approved with amendments by the General Meeting of Shareholders of Rosneft on June 19, 2009 (unnumbered minutes, dated 29.06.2009).

The Commission consists of five members elected by the General Meeting of Shareholders and exercises its function until the next year's General Meeting. Members of the Internal Audit Commission cannot serve at the same time as members of the Board of Directors or occupy other posts in Company management bodies. The principal function of the Audit Commission is to exercise oversight over Rosneft's business, its management bodies, officials, subdivisions, services and representative offices.

Responsibilities of the Audit Commission include auditing of the Company's financial documents and book-keeping records.

An audit of the business of Rosneft is carried out on the basis of business results for the year (a scheduled audit) or at any other time, subject to a decision or order by entities or persons who have the right to initiate such an audit. An internal audit may be carried out following a decision by the Audit Commission, by the General Meeting of Shareholders, or by the Board of Directors, and at the request of a shareholder (shareholders), who own (alone or jointly) no less than 10% of voting shares of the Company.

The following tasks fall within the competence of the Internal Audit Commission:

- review of the Company's financial documents, financial accounts, reports by inventory commissions, and comparison of these documents with primary book-keeping data;
- analysis of accuracy and completeness of financial, tax, management and statistical accounting;
- audit of correct execution of the Company's operating and financial planning, as approved by the Board of Directors;
- audit of correct execution of the procedure, approved by the General Meeting of Shareholders, for distribution of Company profit for the financial year;
- analysis of the financial position of the Company, its solvency, asset liquidity, gearing ratio, net assets, and charter capital, identification of ways of improving the financial state of the Company, and preparing recommendations to management bodies;
- audit of timeliness and correctness of payments to suppliers of goods and services, of payments to the state budget and to non-budget funds, accrual and payment of dividends and of loan interest, and settlement of other obligations;
- confirmation of accuracy of data in the Company's annual report(s), in annual financial accounts, and in accounting documentation prepared for tax and statistics agencies and for executive government bodies;
- audit of competence of the Chief Executive Officer to make agreements in the Company's name;
- audit of competence in decisions taken by the Board of Directors, the Chief Executive Officer, and the Liquidation Commission, and their compliance with the Company Charter and decisions by the General Meeting of Shareholders;
- analysis of decisions by the General Meeting of Shareholders to determine their compliance with law and with the Company Charter.

In accordance with its approved work schedule for 2011–2012, the Audit Commission carried out four audits of documents and prepared an opinion for the Annual General Meeting of Shareholders concerning the results of audit of Company business and of financial accounts for the year, and also concerning the accuracy of information contained in the Annual Report.

**MEMBERSHIP OF THE AUDIT COMMISSION
(AS OF DECEMBER 31, 2011)**

The following membership of the Internal Audit Commission was elected at the General Meeting of Shareholders of Rosneft on June 10, 2011:

Georgy Nozadze

Chairman of the Audit Commission
Year of birth: 1979
Education: Higher
Organization: Russian Ministry for Economic Development
Official post: Deputy Director of Department

Irina Marchuk (Baronova)

Year of birth: 1983
Education: Higher
Organization: LLC Science-Technology-Security
Official post: Deputy CEO

Sergey Pakhomov

Year of birth: 1983
Education: Higher
Organization: Federal Agency for State Property Management
Official post: Deputy Head of Division

Alexander Yugov

Year of birth: 1981
Education: Higher
Organization: Federal Agency for State Property Management
Official post: Deputy Head of Department

Tatyana Fisenko

Year of birth: 1961
Education: Higher
Organization: Ministry of Energy of the Russian Federation
Official post: Director of the Financial Department

Members of the Audit Commission did not receive any remuneration for their work in the Audit Commission during the reporting year.

Audit Committee of the Board of Directors

The formation and activities of the Audit Committee of the Board of Directors are defined by the Regulation on the Procedure for Formation and Operation of BoD Committees of Rosneft and the Regulation on the Audit Committee of the Board of Directors of Rosneft, approved by a decision of the Board of Directors of the Company on October 18, 2008 (minutes № 5).

Under its authorities the Audit Committee of the Board of Directors:

- ensures constant coordination between the Board of Directors and the auditor, independent appraiser, the Audit Commission, the Internal Audit Department, executive bodies and financial managers;
- assesses the quality of auditor's services and observance by the auditor of requirements for auditing independence, and also coordinates the work of the Company and the Internal Audit Department to ensure completeness of audit provision;
- oversees completeness and accuracy of the tax, financial and management accounting of Rosneft;
- conducts preliminary review of the financial accounts of the Company, prepared in accordance with international standards, and of materials containing accounting data, which are to be publicly available;
- carries out preliminary review of the financial accounts of the parent Company and consolidated accounts, prepared in accordance with Russian Accounting Standards;
- prepares proposals for improvement of internal accounting procedures and assesses, classifies and prepares proposals for minimizing possible risks arising in the process of Company business, jointly with executive bodies and structural subdivisions that are responsible for internal control and audit.

The Audit Committee also reviews and makes recommendations on the following issues in the competence of the Board of Directors:

- recommendations to the General Meeting of Shareholders concerning distribution of profit and losses as a result of business in the financial year, as well as the amount of dividends and the procedure for their payment;
- determination of the value (in money terms) of Rosneft property, and the placement and redemption price for issuable securities in instances stipulated by the Federal Law on Joint-Stock Companies;

- determination of the level of payment for services provided by an auditor; approval of transactions which exceed limits set by the Company business plan (non-standard transactions) (with the assistance of subdivisions that carry out internal control and audit functions).

Internal Audit Department

The Internal Audit Department is a structural subdivision of Rosneft which was set up as part of Company efforts to improve internal control and audit systems, based on a decision of the Board of Directors on June 23, 2011, by transformation of the Control and Audit Division and the Internal Audit Division. A Division for Internal Audit Methodology was also set up within the new Department.

The Department is directly subordinated to the Company President and answerable to the Board of Directors through the Board's Audit Committee.

The main tasks of the Internal Audit Department are:

- assessing efficiency of the internal control system of the Company and of its subsidiaries and equity affiliates;
- control over the efficiency of investment processes;
- review of the business of the Company and of its subsidiaries and equity affiliates.

The Department carries out checks to assess the efficiency of business processes, operating and investment activities of the Company and its corporate services (financial processes, information systems and corporate governance processes), designs recommendations to address shortcomings that are identified and monitors execution of these recommendations.

The Internal Audit Department assists the Company's management bodies in ensuring:

- the accuracy and completeness of information that is provided concerning the business of the Company and the business of its branches, representative offices, and of its subsidiaries and equity affiliates;
- efficiency and achievement of results in Company business and in the business of its subsidiaries and equity affiliates;
- identification of internal reserves for improving the business efficiency of the Company and of its subsidiary and affiliate companies and organizations;
- safe-keeping of the property of the Company and of its subsidiaries and equity affiliates;

- implementation and observation by the Company of the requirements of Russian law.

The Internal Audit Department provides its assistance by the conduct of internal procedures with the involvement of other appropriate structural subdivisions of the Company.

The Director of the Internal Audit Department reports periodically to the Audit Committee of the Board of Directors and the Company President concerning activities by the Department, the results of its work, and the state of internal control and measures to raise efficiency of the internal control system.

The Department collaborates with Company management bodies and with the Audit Commission and external auditors of the Company, and with audit commissions (internal auditors) and external auditors of subsidiaries in order to carry out the tasks, which are entrusted to it.

Company Auditors

CJSC ACG RBS

By decision of the General Meeting of Company Shareholders, Closed Joint-stock Company Auditing and Consulting Group Business Systems Development (CJSC ACG RBS) was appointed to carry out independent audit of book-keeping and financial accounts of Rosneft for 2011, prepared to Russian Accounting Standards.

PROCEDURE FOR SELECTION OF THE AUDITOR

As prescribed by clause 1 of Article 5 of the Federal Law on Auditing and Article 86 of the Federal Law on Joint Stock Companies, the annual financial accounts of OJSC Rosneft Oil Company, prepared under RAS, are subject to obligatory audit to confirm the accuracy of the reporting data, which they contain.

The Company therefore holds an annual open competition to select an auditor, as stipulated by internal documents. The Company's tendering sub-committee selects the winner of the competition after reviewing the tenders received, and assessing and comparing them in accordance with criteria and procedures indicated in the call to tender and the tender documentation, and also based on technical assessment of the proposal and its price.

A notification of the conduct of a tender for the selection of audit organizations, containing information on terms of the tender (form of the tender and object of the contract, including the amount and a short description of the services to be provided, initial contract price, etc.), is published on a special Internet site (<http://tender.rosneft.ru>) and in an official print publication.

The proposed winner of the annual tendering competition for choice of an auditing organization is put forward for consideration by the BoD Audit Committee of Rosneft. Based on the recommendation of the BoD Audit Committee, the Board of Directors takes a decision on the candidacy for the role of auditor to be proposed for approval by the Annual General Meeting of Shareholders.

PAYMENT OF AUDITOR SERVICES

Remuneration payable to the auditor is determined on the basis of planned working time and hourly rates of the auditor's specialists, as indicated in the auditor's commercial proposal.

Based on the recommendation of the BoD Audit Committee, the Board of Directors set the price for audit by CJSC ACG RBS of Rosneft annual financial accounts to Russian Accounting Standards for 2011 at RUB 2,839,375 including VAT.

Rosneft occasionally calls on the services of CJSC ACG RBS for execution of special tasks and resolution of methodological issues.

LLC ERNST & YOUNG

LLC Ernst & Young audits consolidated annual accounts prepared in accordance with international accounting standards as well as overview of interim (quarterly) consolidated accounts prepared in accordance with international accounting standards.

PROCEDURE FOR SELECTION OF THE AUDITOR

The auditor is selected through a closed tender, carried out by the Company among the Big 4 auditing firms. The selection is made on the basis of a thorough analysis of tendering proposals in order to establish their suitability for Company needs.

The candidate for the role of auditor of annual accounts prepared in accordance with international accounting standards is assessed and approved by the BoD Audit Committee. Confirmation of the candidate by the General Meeting of Shareholders is not required.

Based on the analysis of proposals, the BoD Audit Committee decided to appoint the company Ernst & Young as the auditor of Rosneft's consolidated annual accounts for 2011 prepared in accordance with international accounting standards.

PAYMENT OF AUDITOR SERVICES

Remuneration payable to LLC Ernst & Young for its services is determined by the BoD Audit Committee on the basis of planned working time and hourly rates of the auditor's specialists, as indicated in the auditor's commercial proposal. In accordance with the contract for provision of auditing services between Rosneft and LLC Ernst & Young, the terms and sum of remuneration are confidential information and cannot be disclosed.

The Company also calls on LLC Ernst & Young to provide consulting (non-audit) services. In 2011 the share of consulting (non-audit) services in total services, which LLC Ernst & Young provided to Rosneft, was about 23%.

Share Capital

The authorized capital of Rosneft as of December 31, 2011, was RUB 105,981,778.17 and was divided into 10,598,177,817 ordinary shares with par value of RUB 0.01 each.

In accordance with the Charter, the Company has the right to additional placement of 6,332,510,632 ordinary shares with par value of RUB 0.01 each and with total par value of RUB 63,325,106.32 and offering the same rights as outstanding ordinary shares of Rosneft. A decision on increase of Rosneft charter capital by placement through open subscription of additional authorized shares in the Company, not exceeding 25% of total outstanding shares of Rosneft, is taken by the Board of Directors. In other instances a decision is taken by the General Meeting of Shareholders.

The state registration number of issue of ordinary shares of the Company is 1-02-00122-A.

The date of state registration of issue of ordinary shares of the Company is September 29, 2005.

No issues or placement of additional shares of Rosneft were carried out in 2011.

The number of shareholders registered in the shareholder register of Rosneft as of December 31, 2011 (without disclosure of information by nominee shareholders) was 32,047 (including 15 nominee shareholders). The number of nominee shareholders decreased by two in comparison with December 31, 2010.

Rosneft had no preferred shares as of December 31, 2011.

In 2007–2011 the Russian Government owned 75.16 % of shares in Rosneft through OJSC ROSNEFTEGAZ, which is in 100% federal ownership. The stake in OJSC Rosneft Oil Company owned directly by the Russian Government (in the person of the Federal Agency for State Property Management) was 0.000000009%. The Russian Federation did not have a special right to participation in management of Rosneft (a 'golden share').

Rosneft updated information each month during 2011 on its corporate Internet site concerning shareholders who own more than 1% of its Charter capital. Rosneft's management has no information about any shareholders with equity stakes exceeding 1% (shareholders of Rosneft with equity

stakes exceeding 1% of total outstanding shares), other than those listed below.

Rosneft's shares are traded on an organized securities market in Russia: CJSC MICEX Stock Exchange (B List). The rights of a shareholder (owner of ordinary shares), including voting rights on each voting share of Rosneft, are specified by Article 5.8 of the Company Charter.

Order № 06-1380/pz-i of the Federal Service for Financial Markets dated June 20, 2006, permits placement and trading of 2,140,000,000 common shares of Rosneft outside the Russian Federation.

In July 2006, Rosneft carried out listing of Global Depositary Receipts (GDRs) on the London Stock Exchange. The issue of GDRs, which certify rights in respect of ordinary shares of Rosneft in accordance with foreign law, was carried out by J.P. Morgan Europe Limited. One Global Depositary Receipt is equivalent to one common share of Rosneft. As of December 31, 2011, GDRs were issued for 1,249 mln ordinary shares, representing 11.8% of total outstanding shares.

A list of the rights of owners of common shares of OJSC Rosneft Oil Company is presented in Paragraph 5.8 of the Company Charter, which is posted on the Rosneft website (www.rosneft.com).

Shareholders of Rosneft owning more than 1% of share capital

Shareholders	December 31, 2010		December 31, 2011	
	Number of shares	Stake in share capital, %	Number of shares	Stake in share capital, %
Main shareholders of Rosneft				
OJSC ROSNEFTEGAZ*	7,965,816,383	75.16	7,965,816,383	75.16
LLC RN-Razvitie**	998,192,487	9.42	1,010,158,003	9.53
OJSC Sberbank of Russia (nominee)	1,379,763,288	13.02	1,343,007,712	12.67
Other legal entities owning more than 1% of shares	201,232,578	1.90	229,595,840	2.17
LLC RN-Stroy ***	668,815	0.01	0	0.00
Individuals	53,173,081	0.50	49,599,879	0.47
TOTAL	10,598,177,817	100.00	10,598,177,817	100.00

* OJSC ROSNEFTEGAZ is in 100% federal ownership. The stake in OJSC Rosneft Oil Company owned directly by the Russian Government (in the person of the Federal Agency for State Property Management) is 0.000000009% (one share).

** 100% in LLC RN-Razvitie is held by LLC RN-Trade. 99.9999% in LLC RN-Trade is held by OJSC Rosneft and 0.0001% is held by LLC Neft-Aktiv, which is a 100% subsidiary of OJSC Rosneft. Consequently OJSC Rosneft indirectly holds a 100% stake in LLC RN-Razvitie. Rosneft shares owned by LLC RN-Razvitie are reflected as treasury shares in the Company's consolidated financial statements under US GAAP.

*** Shares purchased at the request of shareholders in 2009 in accordance with Articles 75 and 76 of the Federal Law on Joint-Stock Companies. 78,297 shares were used to pay remuneration to independent members of the Board of Directors in 2010. The remaining shares were sold to LLC RN-Stroy, which is a 100% subsidiary of Rosneft. In 2011 the shares were consolidated on the balance sheet of LLC RN-Razvitie.

Information on ownership of Rosneft shares by members of the Board of Directors and Management Board of the Company

Members of the Board of Directors and Management Board	Number of common shares (as of December 31, 2011)	Stake in share capital, %
Alexander Nekipelov	25,852	0.0002%
Vladimir Bodganov	18,928	0.0002%
Andrey Kostin	84,951	0.0008%
Hans-Joerg Rudloff	484,951 (shares and GDRs)	0.0046%
Sergey Shishin	-	-
Dmitry Shugaev	-	-
Nikolay Tokarev	20,821	0.0002%
Matthias Warnig	-	-
Eduard Khudainatov	5,570,060	0.0526%
Gani Gilayev	123,792	0.0012%
Larisa Kalanda	874,168	0.0082%
Petr Lazarev	70,895	0.0007%
Pavel Fedorov	728,978	0.0069%

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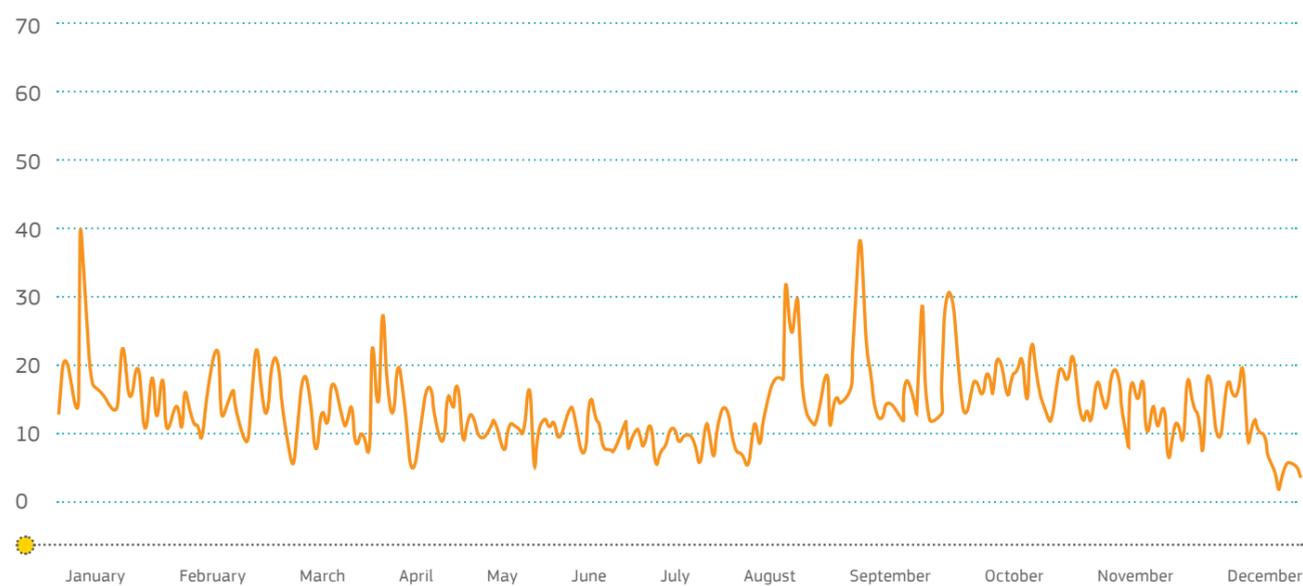
ROSNEFT

**ROSNEFT SHARE QUOTES AND TRADE VOLUMES
IN 2011 AT MICEX**

Share quotes (RUB)



Trade volumes (mln shares)



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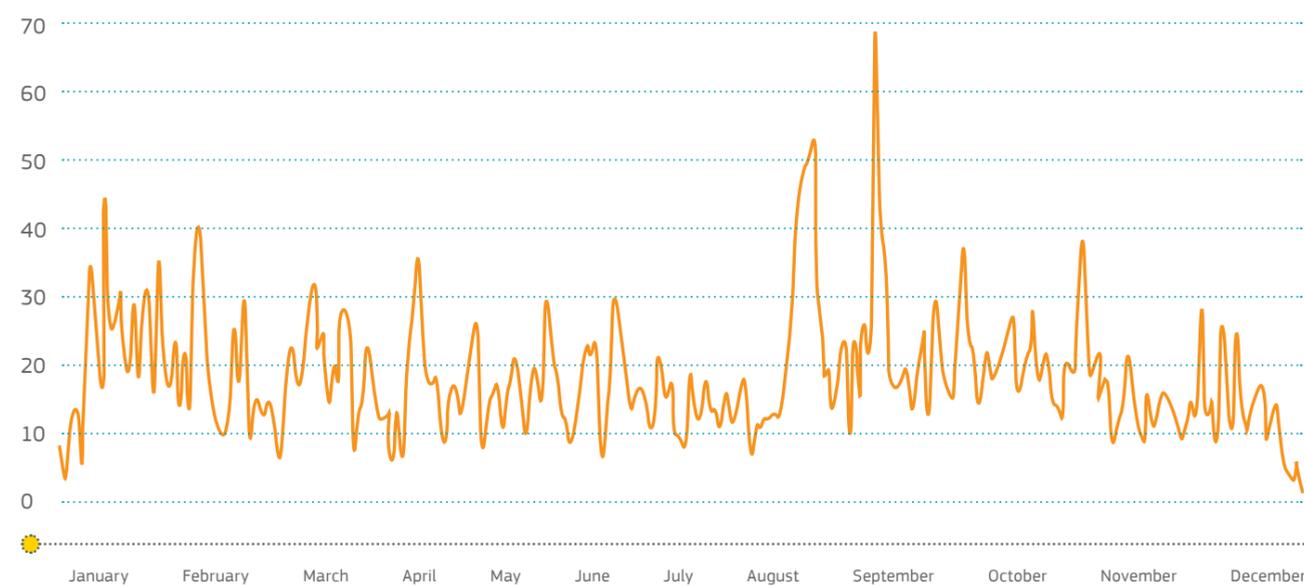
ROSNEFT

**ROSNEFT GDR QUOTES AND TRADE VOLUMES
IN 2011 AT LSE**

GDR quotes (USD)



Trade volumes (mln GDRs)



TRANSACTIONS BY MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT BOARD WITH ROSNEFT SECURITIES

The Company's Regulation on insider information⁶ obliges members of the Board of Directors, the Management Board, and the Company President to disclose information on any transactions which they carry out with Rosneft securities.

Transactions were carried out with Company securities in 2011 by members of the Board of Directors and Management Board of Rosneft. Details of such transactions were presented to the Company within the time limits stipulated by internal documents and disclosed on the securities market in compliance with acting legislation.

Members of the Board of Directors and Management Board	Date	Number of shares/GDR	Transaction type
Alexander Nekipelov	September 2011	26,099	Sale
Eduard Khudainatov	April 2011	2,590,452	Purchase
Eduard Khudainatov	June 2011	1,988,000	Purchase
Eduard Khudainatov	September 2011	455,060	Purchase
Larisa Kalanda	April 2011	349,128	Purchase
Larisa Kalanda	September 2011	156,310	Purchase
Pavel Fedorov	April 2011	349,128	Purchase
Pavel Fedorov	September 2011	229,850	Purchase
Gani Gilayev	September 2011	82,120	Purchase
Petr Lazarev	September 2011	38,340	Purchase

⁶ An amended version of the Regulation was approved by the Board of Directors of Rosneft on December 30, 2011 (in compliance with the requirements of the Federal Law of 27.07.2010 № 224-FZ on Prevention of Illegal Use of Insider Information and Market Manipulation and on Amendments to Certain Legal Acts of the Russian Federation, and in compliance with regulatory legal acts that were approved in connection with the aforesaid Law).

Dividend Policy

On May 17, 2006, Rosneft's Board of Directors voted to approve the Regulation on Dividend Policy, which was developed in accordance with Russian legislation, the Company Charter, and the Code of Corporate Conduct.

Rosneft's dividend policy strikes a balance between shareholders' interests and the Company's business needs, and is intended to improve Rosneft's investment attractiveness and shareholder value. The Company strictly observes the rights, and strives to continuously increase the returns of its shareholders.

The decision to pay dividends (and the amount of dividends and the form of payment) is taken by the General Meeting of Shareholders of Rosneft, based on recommendations of the Board of Directors. In deciding dividend amounts, the Board is guided by the level of net profit, as reflected in the non-consolidated financial accounts of Rosneft to Russian Accounting Standards. In accordance with Rosneft's dividend policy, recommendations by the Board of Directors on the amount of dividends to be paid are determined by the Company's financial results for the year, but are usually equal to at least 10% of non-consolidated net profit.

Rosneft's strategy is to steadily increase dividend payments in absolute terms. In determining the amount of annual dividends, the Board of Directors also takes account of the dividend policy of other leading oil & gas companies. A number of other factors may also have an impact on the size of dividend payments, including: the Company's business prospects, its financial situation and financing needs, and the overall macroeconomic situation and market environment, as well as other factors, including aspects connected with tax and legislation.

On March 3, 2011, the Board of Directors approved an addition to the Company's dividend policy, according to which Rosneft will strive to ensure year-on-year growth of dividends contingent on rates of growth of the Company's net income, its financial situation and investments projects in progress.

On June 10, 2011, the General Meeting of Shareholders approved amendments to the Rosneft Charter, reducing the period for payment of dividends to 60 days (from the date of the decision to pay dividends). It was also established that payment of dividends on shares of each category is carried out simultaneously to all holders of shares in that category.

On April 14, 2011, the Board of Directors recommended the General Meeting of Shareholders to allocate 15.2% of non-consolidated net income of Rosneft in 2010, or RUB 29,251 mln, for payment of dividends. The recommended payment was RUB 2.76 per ordinary share, exceeding the level in the previous year by 20%. On June 10, 2011, the Annual General Meeting of Shareholders accepted the Board recommendation for payment of dividends. A total of RUB 29,218 mln had been paid to Rosneft shareholders as of December 31, 2011. The payments included RUB 2.76 to the Russian Federal Budget and RUB 21,986 mln to OJSC ROSNEFTEGAZ (100% owned by the Federal Government). There were no dividend payments by Rosneft still outstanding to the Federal Budget and OJSC ROSNEFTEGAZ at the end of 2011.

Dividends were not paid to shareholders recorded in the Rosneft register of shareholders where nominees had failed to provide all necessary information, nor to shareholders who had not informed the issuer's register holder in a timely fashion of a change in the data recorded on their registration form.

On April 27, 2012 the Board of Directors of Rosneft recommended the General Meeting of Shareholders to approve dividends for 2011 at a level of RUB 3.45 per share, which is 25% more than the amount in 2010. Total recommended dividends for 2011 are RUB 36,564 mln. The ratio of dividends to non-consolidated net income under RAS for 2011 is 15.4%.

Dividend history of Rosneft

	Dividends per share ¹ , RUB	Total dividends announced, RUB mln	Total dividends paid, RUB mln	Payout ratio under RAS, %
1999	0.0221	200	200	3.4%
2000	0.0887	800	800	5.3%
2001	0.1219	1,100	1,100	11.0%
2002	0.1663	1,500	1,500	16.8%
2003	0.1650	1,500	1,500	8.1%
2004	0.1931	1,775	1,775	10.0%
DIVIDENDS PAID OUT AFTER THE IPO, WHICH CLOSED ON JULY 18, 2006				
2005	1.25	11,335	11,336	20.0%
2006	1.33	14,096	14,079	13.3% ²
2007	1.60	16,957	16,936	10.5%
2008	1.92	20,349	20,326	14.4%
2009	2.30	24,376	24,341	11.7%
2010	2.76	29,251	29,218	15.2%
2011 ³	3.45	36,564		15.4%

¹ The dividend amounts, which are shown, take account of the 1:100 share split carried out in September 2005.

² Net profit for 2006 corrected for non-recurring items.

³ Dividends recommended by the Board of Directors for approval by the Annual General Meeting of Shareholders in June 2012.

Information Disclosure

Rosneft policy on information disclosure is governed by the requirements of the Federal Law on the Securities Market, the Federal Law on Joint-Stock Companies, and the Regulation on Information Disclosure by Issuers of Securities, as approved by the Order of the Federal Financial Markets Service dated October 10, 2006 No.06-117/pz-n, together with the requirements of stock exchanges where the Company's shares are listed, Rosneft's own Regulation on Information Policy, and other requirements and regulatory acts.

Rosneft's information disclosure policy is based on the principles of regularity, timeliness, accessibility, accuracy, and completeness. The Company provides timely and full disclosure of information on all aspects of its business (except for instances where the information represents a commercial secret).

The main disclosure mechanism is Rosneft's website, which contains relevant information on significant facts and events, on management and organizational structure, and on the Company's operating and financial results. The Rosneft website presents the Charter and other internal documents, annual reports and sustainable development reports, quarterly reports to Russian accounting standards and quarterly reports to US GAAP, management discussion and analysis by (MD&A), the Analyst Data Book, presentations, press releases, and information on affiliated entities and other information which could have an impact on the value of Company shares. Rosneft's corporate website is updated regularly, in accordance with the Company's internal regulations.

The Company also provides information in the form of brochures and booklets, and through regular meetings, conference calls and press conferences. At the request of shareholders, the Company provides copies of main internal documents, documentation connected with holding of the General Meeting of Shareholders, lists of affiliated entities and other documents in accordance with the standards set out in the Federal Law on Joint Stock Companies.

Enhancing Transparency

Information transparency is among the chief corporate governance principles at Rosneft. The latest study by the international rating agency Standard & Poor's found Rosneft to be the leader among Russian companies in the sphere of information transparency. During 2011 the Company continued to work intensively to raise levels of transparency and to ensure an efficient system of shareholder and investor relations, as evidenced by the following facts:

- The Company took first place in the nomination 'Best annual report in the oil & gas sector' as part of the 14th Annual Reports Competition held by the RTS and MICEX Stock Exchanges;
- Rosneft was nominated to the section, 'Best annual report in the non-financial sector' as part of the competition, Best Annual Reports in 2010, organized by Expert RA rating agency;
- Rosneft was nominated to the competition, 'Best investor relations by a Russian company' in the competition held annually by IR Magazine among companies in the UK and continental Europe;
- Rosneft won the nominations 'Best Annual Report' and 'Best Information Disclosure' in the 'Investor Relations' competition held by the international publication, World Finance;
- The Company website won second prize among Russian corporate sites in an annual survey by the Swedish company Hallvarsson & Hallvarsson.

The Company devotes particular attention to raising the efficiency of its interactions with shareholders and investors as part of its efforts to further increase information transparency and openness. Telephone numbers and electronic mail boxes are constantly available for enquires by shareholders and investors.

In 2011, as part of its interaction with institutional investors and analysts, Rosneft held regular presentations of its financial results under US GAAP, as well as meetings in Russia and main international financial centers, and teleconferences.

A Regulation on Provision of Information to Shareholders, governing the procedure for provision of information in response to requests by shareholders, was approved in 2011 (minutes of the Board of Directors № 36, dated 15.04.2011),

Transparency of financial information is another important element of corporate governance. On February 3, 2012 Rosneft was the first large international oil & gas company to publish audited consolidated financial accounts under US GAAP for the fourth quarter and 12 months of 2011.

As part of its interaction with interested parties, Rosneft has held round tables since 2007 in regions where it has operations (15 round tables were held in the course of 2011). Rosneft pays special attention to improving information disclosure in preparation of its Sustainable Development Report. In 2011 the Report merited an A+ rating (the highest rating for information disclosure under the international GRI standard) and passed an audit by the independent auditor, Ernst & Young.

Appendix 1

Consolidated Financial Statements by OJSC Rosneft

as of December 31, 2011 and 2010 and
for the years ended December 31, 2011, 2010 and 2009
with Report of Independent Auditors.

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REPORT OF INDEPENDENT AUDITORS

SHAREHOLDERS AND THE BOARD OF DIRECTORS OF ROSNEFT OIL COMPANY

We have audited the accompanying consolidated balance sheets of Rosneft Oil Company, an open joint stock company ("the Company"), as of December 31, 2011 and 2010, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the supplementary information about the Company's oil and gas exploration and production operations on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

/s/ Ernst & Young LLC
ERNST & YOUNG LLC

February 3, 2012

CONSOLIDATED BALANCE SHEETS

in millions of US dollars, except share amounts

As of December 31,

Item	Notes	2011	2010
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	5,172	4,154
Restricted cash	3	117	30
Short-term investments	4	4,655	6,814
Accounts receivable, net	5	9,036	7,512
Inventories	6	4,011	2,111
Deferred tax assets	18	216	174
Prepayments and other current assets	7	2,435	2,156
Assets held for sale	8	–	92
Total current assets		25,642	23,043
NON-CURRENT ASSETS			
Long-term investments	8	5,059	2,936
Long-term bank loans granted, net of allowance of US\$ 31 and US\$ 16, respectively		403	304
Property, plant and equipment, net	9	67,748	61,190
Goodwill	11	4,507	4,507
Intangible assets, net	11	702	767
Deferred tax assets	18	218	125
Other non-current assets	12	1,689	957
Total non-current assets		80,326	70,786
Total assets		105,968	93,829
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	13	5,821	3,861
Short-term loans and current portion of long-term debt	14	4,734	5,498
Income and other tax liabilities	15	2,146	1,971
Deferred tax liabilities	18	127	86
Other current liabilities		165	240
Liabilities related to assets held for sale	8	–	37
Total current liabilities		12,993	11,693
Asset retirement obligations	19	2,642	2,328
Long-term debt	14	18,557	18,057
Deferred tax liabilities	18	4,653	4,908
Other non-current liabilities	20	321	1,339
Total non-current liabilities		26,173	26,632
EQUITY			
Common stock, par value 0.01 RUB (shares outstanding: 9,588 million and 9,599 million as of December 31, 2011 and 2010, respectively)	16	20	20
Treasury shares (at acquisition cost: 1,010 million and 999 million shares as of December 31, 2011 and 2010, respectively)		(7,615)	(7,511)
Additional paid-in capital	16	12,899	13,110
Other comprehensive income/(loss)		33	(20)
Retained earnings		60,424	48,936
Total shareholders' equity		65,761	54,535
Noncontrolling interests		1,041	969
Total equity		66,802	55,504
Total liabilities and equity		105,968	93,829

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ROSNEFT

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

in millions of US dollars, except earnings per share data

For the years ended December 31,

Item	Notes	2011	2010	2009
REVENUES				
Oil and gas sales	23	47,417	34,767	24,820
Petroleum products and petrochemicals sales	23	43,020	26,660	20,736
Support services and other revenues		1,538	1,620	1,270
Total		91,975	63,047	46,826
COSTS AND EXPENSES				
Production and operating expenses		6,540	4,792	4,024
Cost of purchased oil, gas and petroleum products and refining costs		10,058	2,386	1,890
General and administrative expenses		1,785	1,584	1,416
Pipeline tariffs and transportation costs		7,329	6,980	5,414
Exploration expense		448	439	325
Depreciation, depletion and amortization		5,996	5,597	4,350
Accretion expense		146	107	87
Taxes other than income tax	18	16,911	10,920	8,061
Export customs duty	17	26,882	16,743	12,131
Total		76,095	49,548	37,698
Operating income		15,880	13,499	9,128
OTHER INCOME/(EXPENSES)				
Interest income		658	547	516
Interest expense		(320)	(580)	(605)
Loss on disposal of non-current assets		(230)	(156)	(350)
Gain on disposal of investments		39	23	5
Equity share in affiliates' profits	8	577	60	112
Dividends and income/(loss) from joint ventures		11	11	(8)
Other expenses, net	4, 8, 20, 22	(260)	(120)	(350)
Foreign exchange (loss)/gain		(649)	32	71
Total other expenses, net		(174)	(183)	(609)
Income before income tax		15,706	13,316	8,519
Income tax	18	(3,117)	(2,644)	(2,000)
Net income		12,589	10,672	6,519
Net income attributable to noncontrolling interests		(137)	(272)	(5)
Net income attributable to Rosneft		12,452	10,400	6,514
Other comprehensive income		53	2	18
Comprehensive income		12,505	10,402	6,532
Net income attributable to Rosneft per share (in US\$) – basic and diluted		1.30	1.08	0.68
Weighted average number of shares outstanding (millions)		9,591	9,598	9,598

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ROSNEFT

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

in millions of US dollars, except share amounts

For the years ended
December 31, 2011, 2010 and 2009

	Number of shares (millions)	Common stock	Additional paid-in capital	Treasury shares	Accumulated other comprehensive income/(loss)	Retained earnings	Total shareholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2008	9,598	20	13,108	(7,521)	(40)	33,336	38,903	695	39,598
Net income for the year	–	–	–	–	–	6,514	6,514	5	6,519
Purchase of shares	(1)	–	–	(4)	–	–	(4)	–	(4)
Unrealized gain on available-for-sale securities	–	–	–	–	18	–	18	–	18
Dividends declared on common stock	–	–	–	–	–	(600)	(600)	–	(600)
Dividends declared to minority shareholders in subsidiaries	–	–	–	–	–	–	–	(7)	(7)
Change in ownership interests in subsidiaries	–	–	–	–	–	–	–	13	13
Balance at December 31, 2009	9,597	20	13,108	(7,525)	(22)	39,250	44,831	706	45,537
Net income for the year	–	–	–	–	–	10,400	10,400	272	10,672
Sale of shares	2	–	(1)	14	–	–	13	–	13
Unrealized gain on available-for-sale securities	–	–	–	–	2	–	2	–	2
Dividends declared on common stock	–	–	–	–	–	(714)	(714)	–	(714)
Dividends declared to minority shareholders in subsidiaries	–	–	–	–	–	–	–	(6)	(6)
Change in ownership interests in subsidiaries	–	–	3	–	–	–	3	(3)	–
Balance at December 31, 2010	9,599	20	13,110	(7,511)	(20)	48,936	54,535	969	55,504
Net income for the year	–	–	–	–	–	12,452	12,452	137	12,589
Purchase of shares (Note 16)	(11)	–	–	(104)	–	–	(104)	–	(104)
Effect of a transaction with a related party under common control (Note 16)	–	–	89	–	–	–	89	–	89
Unrealized loss on available-for-sale securities	–	–	–	–	(24)	–	(24)	–	(24)
Foreign currency translation reserve	–	–	–	–	77	–	77	–	77
Dividends declared on common stock (Note 16)	–	–	–	–	–	(964)	(964)	–	(964)
Dividends declared to minority shareholders in subsidiaries	–	–	–	–	–	–	–	(4)	(4)
Change in ownership interests in subsidiaries (Note 16)	–	–	(300)	–	–	–	(300)	(61)	(361)
Balance at December 31, 2011	9,588	20	12,899	(7,615)	33	60,424	65,761	1,041	66,802

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ROSNEFT

CONSOLIDATED STATEMENTS OF CASH FLOWS

in millions of US dollars

For the years ended December 31,

Item	Notes	2011	2010	2009
OPERATING ACTIVITIES				
Net income		12,589	10,672	6,519
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Effect of foreign exchange		(142)	(21)	(454)
Depreciation, depletion and amortization		5,996	5,597	4,350
Dry hole costs		154	114	170
Loss on disposal of non-current assets		230	156	350
(Gain)/loss from assets and liabilities written off	4, 8, 20	(321)	31	-
Deferred income tax benefit	18	(189)	(253)	(106)
Accretion expense		146	107	87
Equity share in affiliates' profits	8	(577)	(60)	(112)
Gain on disposal of investments		(39)	(23)	(5)
Increase/(decrease) in allowance for doubtful accounts and bank loans granted		22	47	(41)
Gain on extinguishment of promissory notes	14	(4)	(178)	(207)
CHANGES IN OPERATING ASSETS AND LIABILITIES NET OF ACQUISITIONS				
• Increase in accounts receivable		(1,446)	(964)	(287)
• Increase in inventories		(1,900)	(232)	(459)
• Increase in restricted cash		(87)	(10)	(16)
• Increase in prepayments and other current assets		(289)	(97)	(280)
• (Increase)/decrease in other non-current assets		(4)	14	117
• (Increase)/decrease in long-term bank loans granted		(114)	23	(2)
• (Decrease)/increase in interest payable		(108)	63	128
• Increase in accounts payable and accrued liabilities		1,915	307	555
• Increase in income and other tax liabilities		213	351	820
• Decrease in other current and non-current liabilities		(422)	(239)	(365)
Acquisition of trading securities		(2,183)	(1,134)	(997)
Proceeds from sale of trading securities		2,309	901	554
Net cash provided by operating activities		15,749	15,172	10,319
INVESTMENT ACTIVITIES				
Capital expenditures		(13,246)	(8,931)	(7,252)
Acquisition of licences		(254)	(140)	(96)
Acquisition of rights to use trademarks "Sochi 2014"	11	(18)	(18)	(104)
Proceeds from disposals of property, plant and equipment		58	55	33
ACQUISITION OF SHORT-TERM INVESTMENTS, INCLUDING				
• Held-to-maturity securities, deposits and loans given		(2,114)	(4,190)	(2,911)
• Available-for-sale securities		(1,185)	(692)	(225)
PROCEEDS FROM REDEMPTION/SALE OF SHORT-TERM INVESTMENTS, INCLUDING				
• Held-to-maturity securities, deposits and loans given		5,730	1,636	2,534
• Available-for-sale securities		638	665	66
Acquisition of short-term notes receivable		(1,177)	(251)	-
Proceeds from sale of short-term notes receivable		354	-	-
ACQUISITION OF LONG-TERM INVESTMENTS, INCLUDING				
• Held-to-maturity securities and loans given		(21)	(193)	(628)
• Available-for-sale securities		(66)	(10)	(1,035)
PROCEEDS FROM REDEMPTION/SALE OF LONG-TERM INVESTMENTS, INCLUDING				
• Held-to-maturity securities and loans given		16	15	1
• Available-for-sale securities		2	1	3
Acquisition of entities, additional shares in subsidiaries and equity investees, net of cash acquired	8, 16	(2,038)	(5)	(67)
Margin call deposit placed		-	-	(293)

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ROSNEFT

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

in millions of US dollars

For the years ended December 31,

Item	Notes	2011	2010	2009
Margin call deposit returned		–	–	1,208
Placements under reverse REPO agreements		(1,053)	(403)	(22)
Receipts under reverse REPO agreements		768	22	–
Net cash used in investing activities		(13,606)	(12,439)	(8,788)
FINANCING ACTIVITIES				
Proceeds from short-term debt		897	274	1,029
Repayment of short-term debt		(626)	(779)	(7,180)
Proceeds from long-term debt		3,842	5,910	11,844
Repayment of long-term debt		(4,044)	(5,235)	(5,939)
Cash paid for acquisition of treasury shares		(104)	–	(5)
Proceeds from sale of treasury shares		–	13	–
Dividends paid to shareholders		(949)	(730)	(622)
Dividends paid to minority shareholders in subsidiaries		(4)	(11)	(4)
Net cash used in financing activities		(988)	(558)	(877)
Increase in cash and cash equivalents		1,155	2,175	654
Cash and cash equivalents at beginning of period		4,154	1,997	1,369
Effect of foreign exchange on cash and cash equivalents		(137)	(18)	(26)
Cash and cash equivalents at end of period		5,172	4,154	1,997
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid for interest		805	618	690
Cash paid for interest (net of amount capitalized)		333	271	336
Cash paid for income tax		3,123	2,891	1,561
SUPPLEMENTARY DISCLOSURE OF NON-CASH ACTIVITIES				
Income tax offsets		–	–	289

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2011 AND 2010 AND FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(all amounts in tables are in millions of US dollars, except as noted otherwise)

01. | GENERAL

NATURE OF OPERATIONS

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 in 2006. As of December 31, 2011 and 2010, OJSC Rosneftegaz maintains a 75.16% ownership interest in Rosneft.

Under Russian legislation, natural resources, including oil, gas, precious metals and minerals and other commercial minerals situated within 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 within the territory of the Russian Federation. Pursuant to the Law, subsurface resources may be developed only on the basis of a licence. A licence 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 licences issued by regional 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 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.

Principal Rosneft's subsidiaries included in the consolidated financial statements and respective ownership interests as of December 31, 2011 are as follows:

Name	Nature of Business	Preferred and Common Shares %	Voting Shares %
EXPLORATION AND PRODUCTION			
LLC RN-Yuganskneftegaz	Oil and gas production operator services	100.00	100.00
LLC RN-Purneftegaz	Oil and gas production operator services	100.00	100.00
LLC RN-Sakhalinmorneftegaz	Oil and gas production operator services	100.00	100.00
LLC RN-Krasnodarneftegaz	Oil and gas production operator services	100.00	100.00
LLC RN-Stavropolneftegaz	Oil and gas production operator services	100.00	100.00
LLC RN-Severnaya Neft (Northern Oil)	Oil and gas production operator services	100.00	100.00
CJSC RN-Astra	Oil and gas development and production	100.00	100.00
CJSC Sakhalinmorneftegaz Shelf	Oil and gas development and production	100.00	100.00
OJSC Dagneftegaz	Oil and gas development and production	81.22	81.22
OJSC Rosneft-Dagneft	Oil and gas development and production	68.70	68.70
CJSC Vankorneft	Oil and gas development and production	93.96	93.96
OJSC Grozneftegaz	Oil and gas production operator services	51.00	51.00
LLC RN-Exploration	Field survey and exploration	100.00	100.00
LLC RN-Kaiganneftegaz	Field survey and exploration	100.00	100.00
LLC Vostok-Smidt Invest	Investment activities	100.00	100.00
LLC Zapad-Smidt Invest	Investment activities	100.00	100.00
OJSC East-Siberian Oil and Gas Company	Oil and gas development and production	99.52	99.52
LLC Val Shatskogo	Oil and gas development	100.00	100.00
OJSC Samaraneftegaz	Oil and gas development and production	100.00	100.00
REFINING, MARKETING AND DISTRIBUTION			
LLC RN-Tuapse Refinery	Petroleum refining	100.00	100.00
LLC RN-Komsomolsky Refinery	Petroleum refining	100.00	100.00
OJSC Rosneft-MZ Nefteproduct	Petroleum refining	65.42	65.42
OJSC Angarsk Petrochemical Company	Petroleum refining	100.00	100.00
OJSC Achinsk Refinery	Petroleum refining	100.00	100.00
OJSC Angarsk Polymer Plant	Petroleum refining	100.00	100.00
OJSC Kuybyshev Refinery	Petroleum refining	100.00	100.00
OJSC Novokuybyshev Refinery	Petroleum refining	100.00	100.00

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Name	Nature of Business	Preferred and Common Shares %	Voting Shares %
OJSC Syzran Refinery	Petroleum refining	100.00	100.00
CJSC Neftegorsk Gas-Processing Plant	Gas processing	100.00	100.00
CJSC Otradny Gas-Processing Plant	Gas processing	100.00	100.00
OJSC Rosneft-ARTAG	Marketing and distribution	38.00	50.67
OJSC Rosneft-Altainefteproduct	Marketing and distribution	64.18	78.59
LLC RN-Arkhangelsknefteproduct	Marketing and distribution	100.00	100.00
OJSC Rosneft-Kabardino-Balkarskaya Toplivnaya Company	Marketing and distribution	99.81	99.89
OJSC Rosneft-Kubannefteproduct	Marketing and distribution	89.50	96.61
OJSC Rosneft-Karachaev-Cherkessknefteproduct	Marketing and distribution	85.99	85.99
OJSC Rosneft-Kurgannefteproduct	Marketing and distribution	83.32	90.33
OJSC Rosneft-Murmansknefteproduct	Marketing and distribution	45.38	45.38
LLC RN-Nakhodkanefteproduct	Marketing and distribution	100.00	100.00
OJSC Rosneft-Smolensknefteproduct	Marketing and distribution	66.67	86.97
LLC RN-Tuapsenefteproduct	Marketing and distribution	100.00	100.00
OJSC Rosneft-Yamalnefteproduct	Marketing and distribution	49.52	49.52
LLC RN-Vostoknefteproduct	Marketing and distribution	100.00	100.00
OJSC Rosneft-Stavropolye	Marketing and distribution	100.00	100.00
LLC RN-Trade	Marketing and distribution	100.00	100.00
CJSC Exponeft	Marketing and distribution	45.38	45.38
CJSC Irkutsknefteproduct	Marketing and distribution	100.00	100.00
OJSC Samaranefteproduct	Marketing and distribution	100.00	100.00
LLC Samara Terminal	Marketing and distribution	100.00	100.00
OJSC Buryatnefteproduct	Marketing and distribution	97.48	98.88
CJSC Khakasnefteproduct VNK	Marketing and distribution	100.00	100.00
OJSC Tomsknefteproduct VNK	Marketing and distribution	100.00	100.00
OJSC Belgorodnefteproduct	Marketing and distribution	100.00	100.00
CJSC Bryansknefteproduct	Marketing and distribution	100.00	100.00
OJSC Voronezhnefteproduct	Marketing and distribution	100.00	100.00
CJSC Lipetsknefteproduct	Marketing and distribution	100.00	100.00
CJSC Orelnefteproduct	Marketing and distribution	100.00	100.00
CJSC Penzanefteproduct	Marketing and distribution	100.00	100.00
CJSC Tambovnefteproduct	Marketing and distribution	100.00	100.00
CJSC Ulyanovsknefteproduct	Marketing and distribution	100.00	100.00
LLC Ulyanovsk Terminal	Marketing and distribution	100.00	100.00
OJSC RN-Moskva	Marketing and distribution	100.00	100.00
CJSC NBA Service	Marketing and distribution	100.00	100.00
OJSC Germes Moskva	Marketing and distribution	85.61	85.61
CJSC Contract Oil	Marketing and distribution	100.00	100.00
CJSC Mytishi Fuel Company	Marketing and distribution	100.00	100.00
OJSC Stavropolnefteproduct	Marketing and distribution	100.00	100.00
LLC U-Kuban	Marketing and distribution	100.00	100.00
LLC RN-Ingushnefteproduct	Marketing and distribution	100.00	100.00
Rosneft Trading S.A.	Marketing and distribution	100.00	100.00
Trumpet Limited	Marketing and distribution	100.00	100.00
OTHER			
Rosneft International Ltd.	Holding company	100.00	100.00
CJSC Rosnefteflot	Transportation services	51.00	51.00
OJSC All-Russian Bank for Reconstruction and Development of Russian Regions (VBRR)	Banking	84.67	84.67
OJSC Dalnevostochniy Bank	Banking	82.06	82.62
CJSC RN-Shelf-Dalnyi Vostok	Management company	100.00	100.00
CJSC RN-Sety	Electric-power transmission services	100.00	100.00
LLC RN-Burenie	Drilling services	100.00	100.00
LLC NK Rosneft NTC	Research and development activities	100.00	100.00
CJSC Yukostransservice	Transportation services	100.00	100.00

All of the above subsidiaries, except for Rosneft International Ltd., Rosneft Trading S.A. and Trumpet Limited are incorporated in the Russian Federation. Rosneft International Ltd. and Trumpet Limited are registered in Ireland, Rosneft Trading S.A. is registered in Switzerland.

02. | SIGNIFICANT ACCOUNTING POLICIES

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by Russian legislation. The accompanying consolidated financial statements were derived from the Company's Russian statutory books and records with adjustments made to present them in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

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

The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in Russia 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 US GAAP. The principal adjustments relate to: (1) recognition of certain expenses; (2) valuation and depreciation of property, plant and equipment; (3) foreign currency translation; (4) deferred income taxes; (5) valuation allowances for unrecoverable assets; (6) accounting for the time value of money; (7) accounting for investments in oil and gas property and conveyances; (8) consolidation principles; (9) recognition and disclosure of guarantees, contingencies, commitments and certain assets and liabilities; (10) accounting for asset retirement obligations; (11) business combinations and goodwill; (12) accounting for derivative instruments.

Certain items in the consolidated statements of income and comprehensive income, the consolidated statements of cash flows and notes for the years 2010 and 2009 were reclassified to conform to the current year presentation.

MANAGEMENT ESTIMATES

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the amounts of revenues and expenses recognized during the period. Certain significant estimates and assumptions for the Company include: estimation of economically recoverable oil and gas reserves; rights to, recoverability and useful lives of long-term assets and investments; impairment of goodwill; allowances for doubtful accounts receivable; asset retirement obligations; legal and tax contingencies; environmental remediation obligations; recognition and disclosure of guarantees and other commitments; fair value measurements; ability to renew operating leases and to enter into new lease agreements, and classification of certain debt amounts. Management believes it has a reasonable and appropriate basis for its judgment pertaining to its estimates and assumptions. However, actual results could differ from those estimates.

FOREIGN CURRENCY TRANSLATION

US dollar ("US\$") is the functional currency of Rosneft and its Russian subsidiaries and the reporting currency of the Company for the purpose of financial reporting under US GAAP. Functional currency of certain foreign subsidiaries may differ from US\$. Monetary assets and liabilities of such subsidiaries have been translated into US\$ using the official exchange rate of the Central Bank of the Russian Federation ("CBR") as of the balance sheet date. Non monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows have, where practicable, been translated into US\$ at exchange rates that are close to the actual rate of exchange prevailing on transaction dates.

Gains and losses resulting from the re-measurement into US\$ are included in "Foreign exchange (loss)/gain" in the consolidated statements of income and comprehensive income. For the foreign subsidiaries with the functional currency other than US\$ gains and losses resulting from the re-measurement into US\$ are included in "Other comprehensive income" in the consolidated statements of income and comprehensive income.

As of December 31, 2011 and 2010, the CBR official rates of exchange were 32.20 rubles ("RUB") and 30.48 RUB per US\$, respectively. Average rates of exchange for 12 months of 2011 and 2010 were 29.39 RUB and 30.37 RUB per US\$, respectively. As of February 3, 2012, the official rate of exchange was 30.19 RUB per US\$.

The translation of local currency denominated assets and liabilities into US\$ for the purposes of these financial statements does not indicate that the Company could realize or settle, in US\$, the reported values of these assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported US\$ value of equity to its shareholders.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of majority-owned, controlled subsidiaries and variable interest entities where the Company is the primary beneficiary. All significant intercompany transactions and balances have been eliminated. The equity method is used to account for investments in affiliates in which the Company has the ability to exert significant influence over the affiliates' operating and financial policies. The investments in entities where the Company holds the majority of shares, but the minority shareholders have significant participating rights, are also accounted for using the equity method. The Company's share in net profit or loss of equity investees also includes any other-than-temporary declines in fair value recognized during the period. Investments in other companies are accounted for at cost and adjusted for impairment, if any.

BUSINESS COMBINATIONS

The Company accounts for its business combinations according to FASB ASC 805, Business Combinations, and FASB ASC 810, Consolidation. The Company applies the acquisition method of accounting and recognizes the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, licence and other asset lives and market multiples, among other items.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net asset acquired. The excess of the fair values of the identifiable net asset acquired over the consideration transferred plus the fair value of any noncontrolling interest in the acquiree should be recognized as a gain in consolidated statements of income and comprehensive income on the acquisition date.

For investees accounted for under the equity method, the excess of the cost to acquire a share in those entities over the fair value of the acquired share of net assets as of the acquisition date is treated as embedded goodwill.

In accordance with requirements of FASB ASC 350, Intangibles – Goodwill and Other, goodwill and intangible assets with indefinite useful lives are not amortized. Instead, they are tested at least annually for impairment. The impairment loss is recognized when the carrying value of goodwill exceeds its fair value. The impairment test is comprised of two stages. The first step compares the fair value of the reporting unit with its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill of the reporting unit is considered not impaired. Otherwise, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss resulting from the excess of the reporting unit's carrying value over its fair value. The loss recognized cannot exceed the carrying amount of goodwill. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

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.

NONCONTROLLING INTERESTS

Noncontrolling interests in the net assets and net results of consolidated subsidiaries are shown under "Noncontrolling interests" and "Net income attributable to noncontrolling interests" in the accompanying consolidated balance sheets and statements of income and comprehensive income, respectively. Losses attributable to the Company and the noncontrolling interest in a subsidiary may exceed their interests in the subsidiary's equity. The excess, and any further losses attributable to the Company and the noncontrolling interest, are to be attributed to those interests. That is, the noncontrolling interest continues to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance. The actual ruble-denominated balances attributable to noncontrolling interests may differ from these amounts presented in these consolidated financial statements.

ASSETS HELD FOR SALE

The Company accounts for its assets as held for sale in accordance with the provisions of FASB ASC 205-20, Discontinued operations. A long-lived asset (disposal group) to be sold is classified as held for sale in the period in which all of the held-for-sale criteria are met, and measured at the lower of its carrying amount or fair value less cost to sell. A long-lived asset is not depreciated (amortized) while it is classified as held for sale.

CASH AND CASH EQUIVALENTS

Cash represents cash on hand and in the Company's bank accounts 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. Cash equivalents are carried at cost plus accrued interest, which approximates fair value.

LOANS, NOTES AND ACCOUNTS RECEIVABLE

Loans, notes and accounts receivable are stated at their principal amounts outstanding net of loan losses and allowances for doubtful debts. Specific allowances are recorded against notes receivable and trade receivables whose recovery has been identified as doubtful. Estimates of allowances require the exercise of judgment and the use of assumptions.

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 financial statements is equal to the amount of diluted earnings per share.

INVENTORIES

Inventories consisting primarily of crude oil, petroleum products and materials and supplies are expensed at the average cost or the cost of each unit and are stated at the lower of weighted average cost of acquisition (production) or market value. Market value shall not exceed net realizable value (i.e. the price at which inventories can be sold after allowing for the cost of completion and sale), and shall not be lower than net realizable values less the amount of margin.

FINANCIAL INVESTMENTS

All debt and equity securities held by the Company are classified into one of the following three categories: trading securities, available-for-sale securities, held-to-maturity securities.

Trading securities are purchased and held principally for the purpose of sale in the nearest future. Held-to-maturity securities represent financial instruments that the Company has both the intent and the ability to hold to maturity. All other securities, which do not fall into these two categories, are classified as available-for-sale securities.

Trading securities and available-for-sale securities are carried at fair (market) value. Held-to-maturity securities are stated at amortized cost. Unrealized gains or losses on trading securities are recognized in the consolidated statements of income and comprehensive income. Unrealized gains and losses on available-for-sale securities less related tax effects are recognized as a separate component of comprehensive income through the date of disposal.

Realized gains and losses from the sale of available-for-sale securities are reported separately for each type of security. Dividends and interest income are recognized in the consolidated statements of income and comprehensive income.

Investments in shares or interests of companies where the Company has less than 20% equity interest and no significant influence, which are not publicly traded, and whose market value is not readily available, are carried at 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 are treated as collateralized financing transactions. Interest paid or received on all REPO and reverse REPO transactions is recorded in "Interest expense" or "Interest income" at the contractually specified rate using the effective interest method.

OIL AND GAS EXPLORATION AND DEVELOPMENT

In accordance with FASB ASC 932, Extractive Activities—Oil and Gas, oil and gas exploration and development costs are recognized under the successful efforts method. This method prescribes that exploration costs, including geological and geophysical costs and the costs of dry holes, are charged to expense when incurred.

Exploratory well costs (including costs associated with stratigraphic test wells) are temporarily capitalized pending determination of whether commercial oil and gas reserves have been discovered by the drilling effort. 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 and are reported in "Exploration expense".

Exploratory drilling costs are temporarily capitalized pending determination of whether the well has found proved reserves if both of the following conditions are met:

- the well has found a sufficient quantity of reserves to justify, if appropriate, its completion as a producing well, assuming that the required capital expenditure is made; and
- satisfactory progress toward ultimate development of the reserves is being achieved, with the Company making sufficient progress assessing the reserves and the economic and operating viability of the project.

The Company evaluates the progress made on the basis of regular project reviews which take into account the following factors:

- If additional exploratory drilling or other exploratory activities (such as seismic work or other significant studies) are either underway or firmly planned, the Company deems there to be satisfactory progress. For these purposes, exploratory activities are considered firmly planned only if

- they are included in the Company's three-year exploration plan/budget. At December 31, 2011 and 2010, exploratory drilling costs capitalized on this basis were not material.
- In cases where exploratory activity has been completed, the evaluation of satisfactory progress takes into account indicators such as the fact that costs for development studies are incurred in the current period, or that governmental or other third-party authorizations are pending or that the availability of capacity on an existing transport or processing facility awaits confirmation. At December 31, 2011 and 2010, exploratory drilling costs capitalized on this basis were not material.

Should the project be deemed commercially viable, it is then transferred to the development stage, otherwise the costs are expensed.

Costs, including "internal" costs relating to drilling and equipping of development wells, including development dry holes, as well as costs required for drilling and equipping of injection wells in the process of oil and gas reserves development, are capitalized. These costs are included in exploration and production assets in the consolidated balance sheets.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost, net of accumulated depreciation and depletion. 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 and depletion are eliminated from the accounts. Any resulting gains or losses are included in the income statement.

DEPRECIATION, DEPLETION AND AMORTIZATION

Depletion expense of acquisition costs of proved oil and gas properties is calculated using the unit-of-production method based on total proved reserves. Depletion expense of other capitalized costs related to oil and gas production is calculated using the unit-of production method based on proved developed reserves. Management of the Company considers each field as the appropriate level for these calculations.

Acquisition costs of unproved properties are not amortized. These costs are reclassified as proved properties when the relevant reserve reclassification is made. Acquisition costs of unproved properties are reviewed for impairment, and where impairment arises, these costs are expensed.

Depreciation charges with respect to property, plant and equipment other than oil and gas properties is computed using the straight-line method and based on their useful lives.

Depreciation rates are applied to groups of assets with similar economic characteristics, as shown below:

Asset Group	Average Useful Life
Buildings and constructions	30 - 45 years
Plant and machinery	5 - 25 years
Vehicles and other equipment	6 - 10 years
Service vessels	20 years
Offshore drilling assets	20 years

INTERESTS IN JOINT OPERATIONS

A joint operation is a contractual arrangement whereby two or more parties (participants) undertake an economic activity that is subject to joint control. Joint control is only exercised when strategic, financial and operating decisions relating to the joint activity are made unanimously by all the parties. A joint venture is a registered company, partnership or any other legal form for the purposes of handling joint operations.

Financial results, assets and liabilities arising from interests in incorporated joint ventures are recognized in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in joint ventures are recognized at the cost of financial investments increased by any change to the share of net assets from the date of inception of a joint venture, less distributed earnings and impairment of financial investments. The consolidated statements of income and comprehensive income include the Company's share in gains and losses arising from joint ventures.

The Company discontinues the use of the equity method of accounting from the date on which it ceases to have joint control over, or have significant influence in, a jointly-controlled entity.

Undivided interests in unincorporated oil and gas joint ventures are consolidated on a proportionate basis.

A part of an interest in a jointly-controlled oil and gas exploration and production entity may be assigned to other participants or third parties. In which case, in accordance with FASB ASC 932, such assignment is performed and accounted for under an arrangement called a "carried interest" whereby the assignee agrees to carry all costs of drilling, developing, and operating the property. The assignee is also entitled to all of the revenue from hydrocarbon production from the property, excluding any third party interest, until all of the assignee's costs, including the contractual rate of return, have been recovered, at such time the assignor will resume its participation in operating expenses and income.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including blocks with proved oil and gas reserves, are assessed for potential impairment in accordance with paragraphs 360-10-35-17 through 360-10-35-36 of FASB ASC 360, Property, Plant and Equipment.

Oil and gas properties are assessed whenever events or circumstances indicate potential impairment. If the carrying value of oil and gas properties is not recoverable through undiscounted cash flows, an impairment is recognized. The impairment is determined on the basis of the estimated fair value of oil and gas properties which, in turn, is measured by discounting future net cash flows or with reference to current market prices of oil and gas properties, if available. Discounted future cash flows from oil and gas fields are based on the most reliable management estimates of future prices that rely on recent actual prices and published prices for forward transactions; such prices are applied to forecast production volumes at particular fields with further discounting for the expected risk level.

Forecast production volumes shall be understood as reserves, including probable reserves that are proposed to be extracted using a known amount of capital expenditures. Production volumes and prices correspond to the internal plans and forecasts, as well as other data in the published financial statements. Assumptions regarding future prices and costs used to assess oil and gas properties for impairment differ from those used in the standard procedure for discounting net cash flows from proved oil and gas reserves.

Individual assets are grouped for impairment purposes at the lowest level of identifiable cash flows that are largely independent of the cash flows from other groups of assets – generally on a field-by-field basis for exploration and production assets, for refining assets – at the entire refining unit, for service stations – at the site level. Long-lived assets intended by management for use during a period not exceeding one year are recorded at the lower of depreciated value or fair value, less selling expenses.

Acquisition costs of unproved oil and gas properties are assessed for impairment on a regular basis and any estimated impairment is charged to expenses.

IMPAIRMENT OF INVESTMENTS

If the decline in fair value of an investment below its carrying value is other than temporary, the carrying value of the investment is reduced and a loss in the amount of any such decline is recorded. Cost method investments are evaluated for impairment when events or changes in circumstances occur which may have a significant effect on the fair value of these investments. Fair value determination is based on quoted market prices, if available, or on the present value of expected cash flows using discount rates commensurate with the risks of the investment.

CAPITALIZED INTEREST

Interest expense related to the use of borrowed funds used for capital construction projects and acquisition of properties, 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. The Company capitalized US\$ 472 million, US\$ 347 million and US\$ 354 million of interest costs in 2011, 2010 and 2009, respectively.

LEASING AGREEMENTS

Capital leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the interest charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liabilities. Interest charges are charged directly to the consolidated statements of income and comprehensive income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term unless leased assets are capitalized because the terms of the lease agreement grant the Company ownership rights over the leased assets by the end of the lease term or contain a bargain purchase option. In the latter cases capitalized assets are depreciated over the estimated useful life of the asset regardless of the lease term.

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 statements of income and comprehensive income on a straight-line basis over the lease term.

ASSET RETIREMENT OBLIGATIONS

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

Exploration and Production – the Company's exploration, development and production activities involve the use of the following assets: wells, related equipment and operating sites, oil gathering and treatment facilities, tank farms and in-field pipelines. Generally, licences 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 licence requirements, as well as actual dismantling and other related costs. Asset retirement obligations are calculated in accordance with the provisions of FASB ASC 410-20, Asset Retirement Obligations.

Refining, Marketing and Distribution – this business segment covers refining operations, marine and other distribution terminals, and retail sales. The Company's refining operations consist of major petrochemical operations and industrial complexes. A number of industrial complexes have been in operation for several decades. Management of the Company 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 obligations related to petrochemical, oil refining, marketing 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.

FASB ASC 410-20 calls for measurements of asset retirement obligations to include, as a component of expected costs, an estimate of the price that a third party would demand, and could expect to receive, for bearing the uncertainties and unforeseeable circumstances inherent in the obligations, sometimes referred to as a market-risk premium. To date, the oil and gas industry has few examples of credit-worthy third parties which are willing to assume this type of risk, for a determinable price, on major oil and gas production facilities and pipelines. Therefore, because determining such a market-risk premium would be an arbitrary process, it has been excluded from the FASB ASC 410-20.

Because of the reasons described above the fair value of an asset retirement obligation 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 825, Financial Instruments, defines the fair value of a financial instrument as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial assets and financial liabilities recognized in the accompanying consolidated balance sheets include cash and cash equivalents, short-term and long-term investments, accounts receivable and payable, short-term and long-term debt and other current and non-current assets and liabilities.

The Company, using available market information, management's estimates and appropriate valuation methodologies, has determined the approximate fair values of financial instruments.

The Company applies FASB ASC 820, Fair Value Measurements and Disclosures, which establishes a fair value hierarchy and requires an entity to maximize the use of observable inputs when measuring fair value. FASB ASC 820 defines three levels of inputs that may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

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ROSNEFT

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 are 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 using the liability method in accordance with FASB ASC 740, Income Taxes. This method takes into account future tax consequences, based on the effective tax rate, associated with differences between the carrying values of assets and liabilities and their taxable base, which gives immediate income statement effect to changes in income tax laws, including changes in the tax rates. A valuation allowance for a deferred tax asset is recorded when management believes that it is more likely than not that this tax asset will not be realized.

The Company accounts for uncertain tax positions and reflects liabilities for unrecognized income tax benefits together with corresponding interest and penalties in the consolidated statement of income and comprehensive income as Income tax expense.

DERIVATIVE INSTRUMENTS

All derivative instruments are recorded on the consolidated balance sheets at fair value in either Other current assets, Other non-current assets, Other current liabilities or Other non-current liabilities. Recognition and classification of a gain or loss that results from recognition 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 FASB ASC 815, Derivatives and Hedging, are recognized immediately in the consolidated statements of income and comprehensive income.

RECOGNITION OF REVENUES

Revenues are recognized when title passes from the seller to the customer, 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 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. Revenues include excise taxes and customs duties (see Note 17).

Sales of support services are recognized as services are performed provided that the service price can be determined and collectability is reasonably assured.

TRANSPORTATION EXPENSES

Transportation expenses recognized in the consolidated statements of income and comprehensive income represent all expenses incurred in the transportation of crude oil and petroleum products via the Transneft pipeline network, as well as by railway and other transport means. Transportation expenses also include all other shipping and handling 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

Environmental expenditures are expensed or capitalized, depending upon their future economic benefit. 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 on an undiscounted basis unless the aggregate amount of the obligation and the amount and timing of the cash payments are fixed or reliably determinable.

GUARANTEES

The fair value of a guarantee is determined and recorded as a liability at the time when the guarantee is issued. The initial guarantee amount is subsequently remeasured to reflect the changes in the underlying liability. The expense is included in the related line items of the consolidated statements of income and comprehensive income, based on the nature of the guarantee. When the likelihood of performing on a guarantee becomes probable, a liability is accrued, provided it is reasonably determinable on the basis of the facts and circumstances at that time.

COMPREHENSIVE INCOME

The Company applies FASB ASC 220, Comprehensive Income, which establishes standards for the calculation and reporting of the Company's comprehensive income (net income plus all other changes in net assets from non-owner sources) and its components in consolidated financial statements.

ACCOUNTING FOR BUY/SELL CONTRACTS

The Company applies FASB ASC 845, Nonmonetary Transactions, which requires that two or more legally separate exchange transactions with the same counterparty, including buy/sell transactions, are combined and considered as a single arrangement, when the transactions are entered into "in contemplation" of one another.

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. Management of the Company 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.

TAXES COLLECTED FROM CUSTOMERS AND REMITTED TO GOVERNMENTAL AUTHORITIES

Excise taxes are reported gross within sales and other operating revenues and taxes other than income taxes in the consolidated statements of income and comprehensive income, while value-added tax is recorded net in taxes other than income tax liabilities in the consolidated balance sheets.

CHANGES IN ACCOUNTING POLICIES

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements ("ASU 2010-06") that amends Topic 820, Fair Value Measurements and Disclosures, of the FASB Codification. ASU 2010-06 requires separate disclosure of significant transfers between Level 1 and Level 2 fair value measurement inputs and a description of the reasons for the transfers. Entity is also required to present separately information about purchases, issuance, and settlements in the reconciliation for fair value measurements using Level 3 inputs. ASU 2010-06 amends existing disclosure requirements in regards of level of disaggregation and inputs and valuation techniques. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about activity in Level 3 fair value measurements that are effective for interim and annual periods beginning after December 15, 2010. The Company adopted ASU 2010-06 from January 1, 2010, except for the disclosures about activity in Level 3 fair value measurements that was adopted from January 1, 2011. Adoption of ASU 2010-06 did not have a material impact on the Company's consolidated financial position and results of operations.

In December 2010, the FASB issued ASU 2010-28, Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts ("ASU 2010-28") that amends Topic 350, Intangibles—Goodwill and Other, of the FASB Codification. For the reporting units with zero or negative carrying value, an entity is required to perform the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company adopted ASU 2010-28 from January 1, 2011. Adoption of ASU 2010-28 did not have a material impact on the Company's consolidated financial position and results of operations.

In December 2010, the FASB issued ASU 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations ("ASU 2010-29") that amends Topic 805, Business Combinations, of the FASB Codification. ASU 2010-29 specifies that an entity should disclose revenue and earnings of the combined entity in comparative period as though the business combination had occurred as of the beginning of the comparable prior annual reporting period. ASU 2010-29 also expands the supplemental pro forma disclosures. ASU 2010-29 is effective prospectively for business combinations occurred on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company adopted ASU 2010-29 for business combinations occurred on or after January 1, 2011. Adoption of ASU 2010-29 did not have a material impact on the Company's consolidated financial position and results of operations.

In April 2011, the FASB issued ASU 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring ("ASU 2011-02") that amends Topic 310, Receivables, of the FASB Codification. ASU 2011-02 sets criteria of considering restructuring a troubled debt restructuring. The update also clarifies the guidance on creditor's evaluation of receivables according to the criteria. Adoption of ASU 2011-02 is effective for the first interim or annual period beginning on or after June 15, 2011. The Company adopted ASU 2011-02 in the current consolidated financial statements. ASU 2011-02 did not have a material impact on the Company's consolidated financial position and results of operations.

RECENT ACCOUNTING STANDARDS

In May 2011, the FASB issued ASU 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements ("ASU 2011-03") that amends Topic 860, Transfers and Servicing, of the FASB Codification. ASU 2011-03 removes from the assessment of effective control the criterion dealing with the transferor's ability to repurchase assets in the event of default by the transferee, and the related implementation guidance. ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The Company is subject to ASU 2011-03 from January 1, 2012. The Company does not expect ASU 2011-03 to have a material impact on its consolidated financial position and results of operations.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04") that amends Topic 820, Fair Value Measurement, of the FASB Codification. ASU 2011-04 modifies the fair value measurement requirements and updates the wording to converge with IFRS. ASU 2011-04 is effective for the first interim or annual period beginning on or after December 15, 2011. The Company is subject to ASU 2011-04 from January 1, 2012. The Company does not expect ASU 2011-04 to have a material impact on its consolidated financial position and results of operations.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income ("ASU 2011-05") that amends Topic 220, Comprehensive Income, of the FASB Codification. ASU 2011-05 clarifies the options of separate or combined presentation of profits and losses and other comprehensive income, describes items grouping, profit tax presentation and other matters. ASU 2011-12 issued in December 2011 postpone effective date of ASU 2011-05 in part of reclassifications out of accumulated other comprehensive income. All other requirements of ASU 2011-05 are effective for the first interim or annual period beginning on or after December 15, 2011. The Company is subject to ASU 2011-05 from January 1, 2012, except requirement on reclassifications out of accumulated other comprehensive income. The Company does not expect ASU 2011-05 to have a material impact on its consolidated financial position and results of operations.

In September 2011, the FASB issued ASU 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment ("ASU 2011-08") that amends Topic 350, Intangibles—Goodwill and Other, of the FASB Codification. ASU 2011-08 provides an entity with the option to assess qualitative factors to determine whether it is more likely that the fair value of an investment is less than its carrying amount. If it is not more likely then performing the goodwill impairment test is unnecessary. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for annual periods beginning after December 15, 2011. The Company is subject to ASU 2011-08 from January 1, 2012. The Company does not expect ASU 2011-08 to have a material impact on its consolidated financial position and results of operations.

In December 2011, The FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11") that amends Topic 210, Balance Sheet, of the FASB Codification. ASU 2011-11 introduces new disclosure requirements about offsetting assets and liabilities and related arrangements. ASU 2011-11 is effective for annual and interim periods beginning on or after January 1, 2013. The Company is subject to ASU 2011-11 from January 1, 2013. The Company does not expect ASU 2011-11 to have a material impact on its consolidated financial position and results of operations.

03. | CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31 comprise the following:

	2011	2010
Cash on hand and at bank accounts in RUB	722	671
Cash on hand and at bank accounts in currencies other than RUB	1,914	843
Deposits	2,497	2,625
Other	39	15
Total cash and cash equivalents	5,172	4,154

Restricted cash as of December 31 comprises the following:

	2011	2010
Obligatory reserve with the CBR	34	21
Offsetting account under joint venture agreement with BP Group in Euro (Note 8)	83	-
Other restricted cash	-	9
Total restricted cash	117	30

The obligatory reserve with the CBR represents the amount deposited by the Company's subsidiary bank, VBRR, with the CBR for securing the current operating activity of the bank. Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, which amount depends on the level of funds raised by the credit institution and this amount has certain restrictions for use.

Cash accounts denominated in currencies other than RUB are primarily in US\$.

Deposits are interest bearing and denominated primarily in RUB.

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.

04. | SHORT-TERM INVESTMENTS

Short-term investments as of December 31 comprise the following:

	2011	2010
Short-term loans granted	48	1
Loans to related parties	117	70
Reverse repurchase agreements	687	403
Structured deposits (Note 24)	979	3,791
Held-to-maturity state bonds	4	-
Notes receivable, net	958	227
TRADING SECURITIES		
• State and corporate bonds	603	727
• Other	-	2
Available-for-sale securities	618	260
Bank deposits	641	1,333
Total short-term investments	4,655	6,814

Reverse repurchase agreements are collateralized by trading securities at fair value as of December 31, 2011 in the amount of US\$ 720 million (US\$ 403 million as of December 31, 2010).

As of December 31, 2011, structured deposits are denominated in US\$ and earn interest ranging from 5.1% to 7.0%. As of December 31, 2010, structured deposits are denominated in US\$ and have interest rates ranging from 6.22% to 7.2%.

As of December 31, 2011 notes receivable include corporate notes receivable with nominal interest rates ranging from 3.84% to 7.10% 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% with maturities ranging from January 2012 to February 2014. Long-term portion of notes receivable is included in Long-Term Investments (see Note 8). As of December 31, 2011 the current portion of notes receivable in the amount of US\$ 131 million was considered as temporarily impaired therefore an allowance in the amount of US\$ 37 million was created. As of December 31, 2010 notes receivable include corporate notes receivable with nominal interest rate of 4.25% with maturity in December 2012 and nominally interest-free corporate notes receivable with weighted average effective interest rate of 3.0% with maturity in June 2015.

As of December 31 trading securities comprise the following:

Type of security	2011			2010		
	Balance	Interest rate	Date of maturity	Balance	Interest rate	Date of maturity
State and municipal bonds	98	6.7% - 15.0%	December 2012 - February 2036	23	5.14% - 18.1%	April 2011 - February 2036
Corporate bonds	505	6.47% - 19.0%	February 2012 - October 2021	283	5.8% - 19.0%	February 2011 - June 2020
Bonds issued by CBR (with weighted average effective interest rate)	-	-	-	421	3.52%	February 2011 - March 2011
Total	603			727		

As of December 31 available-for-sale securities comprise the following:

Type of security	2011			2010		
	Balance	Interest rate	Date of maturity	Balance	Interest rate	Date of maturity
State bonds (federal loan bonds issued by the Ministry of Finance of the Russian Federation)	141	6.1% - 11.3%	July 2012 - January 2016	41	4.59% - 6.85%	January 2011 - May 2015
Municipal bonds	30	8.0% - 17.9%	March 2012 - October 2021	26	8.75% - 18.0%	March 2012 - December 2014
Corporate bonds	300	6.25% - 13.0%	February 2013 - October 2021	180	6.75% - 18.0%	March 2011 - July 2020
Interest bearing corporate notes	123	9.0% - 12.0%	February 2012 - November 2012	13	4.50%	December-2013
Nominally interest-free promissory notes (with weighted average ef- fective interest rate)	24	2.06% - 6.66%	February 2012 - April 2013	-	-	-
Total	618			260		

As of December 31, 2010, the corporate bonds in the amount of US\$ 31 million were pledged under repurchase agreements. As of December 31, 2011 the Company does not have liabilities under repurchase agreements. Amortized cost bases of available-for-sale securities approximate their fair values.

As of December 31, 2011, the bank deposits are primarily denominated in US\$ and earn interest ranging from 3.0% to 7.25%. As of December 31, 2010, bank deposits are primarily denominated in US\$ and have interest rates ranging from 4.7% to 8.0%.

05. | ACCOUNTS RECEIVABLE, NET

Accounts receivable as of December 31 comprise the following:

	2011	2010
Trade receivables	5,687	4,077
Value-added tax and excise receivable (Note 22)	1,937	2,126
Other taxes	345	283
Banking loans to customers	748	789
Other	464	375
Less: allowance for doubtful accounts	(145)	(138)
Total accounts receivable, net	9,036	7,512

The Company's trade accounts receivable are denominated primarily in US\$. Credit risk is managed through the use of letters of credit. Credit risk for domestic sales of petroleum products is managed through the use of bank guarantees for receivables repayment.

06. | INVENTORIES

Inventories as of December 31 comprise the following:

	2011	2010
Materials and supplies	764	451
Crude oil and associated gas	1,469	595
Petroleum products and petrochemicals	1,778	1,065
Total inventories	4,011	2,111

Materials and supplies mostly include spare parts. Petroleum products and petrochemicals include those designated for sale as well as for own use. As of December 31, 2011 crude oil and associated gas, petroleum products and petrochemicals included oil for processing at Ruhr Oel GmbH ('ROG') and oil products produced at ROG (see Note 8).

07. | PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as of December 31 comprise the following:

	2011	2010
Prepayments to suppliers	743	665
Prepaid customs duties	1,600	1,315
Insurance prepayments	7	6
Derivatives (Note 24)	3	77
Other	82	93
Total prepayments and other current assets	2,435	2,156

Prepaid customs duties represent export duties related to the export of crude oil and petroleum products (see Note 17).

08. | LONG-TERM INVESTMENTS

Long-term investments as of December 31 comprise the following:

	2011	2010
EQUITY METHOD INVESTMENTS		
• Ruhr Oel GmbH	1,652	–
• OJSC Tomskneft VNK	1,159	1,334
• LLC Polar Lights Company	69	70
• JV Rosneft-Shell Caspian Ventures Ltd.	21	19
• OJSC Verkhnechonskneftegaz	540	277
• National Oil Consortium Ltd.	124	3
• CJSC Vlakra	110	110
• Taihu Ltd	267	–
• Investments in power and utilities companies	94	190
• Other	174	171
Total equity method investments	4,210	2,174
AVAILABLE-FOR-SALE SECURITIES		
• INTER RAO UES	146	–
• Other securities in Company's banks	13	17
HELD-TO-MATURITY SECURITIES		
Russian government bonds	40	49
LOANS		
• Long-term loans	9	–
• Long-term loans to equity investees	409	679
Notes receivable, net (long-term portion)	216	–
Cost method investments	16	17
Total long-term investments	5,059	2,936

As of December 31, 2011 the long-term portion of notes receivable in the amount of US\$ 299 million was considered as temporarily impaired therefore an allowance in the amount of US\$ 83 million was established.

Long-term loans to equity investees generally have contractual maturities from 3 to 8 years.

In March 2011, the registration of National Oil Consortium Ltd.'s ("NOC") equity capital increase was completed. The increase reflected a conversion of the Rosneft's earlier loan into contribution to NOC's equity. The Company's 20% ownership share in NOC did not change. NOC is involved in geological exploration of the Junin-6 block in Venezuela jointly with a subsidiary of Petróleos de Venezuela S.A., Venezuela's state oil company.

Equity share in profits/(losses) of material investments recorded using the equity method:

	Participation interest (percentage) as of December 31, 2011	Share in income/(loss) of equity investees		
		2011	2010	2009
Ruhr Oel GmbH	50.00	18	–	–
Taihu Ltd	51.00	267	–	–
LLC Polar Lights Company	50.00	26	16	26
OJSC Verkhnechonskneftegaz	25.94	263	43	5
JV Rosneft-Shell Caspian Ventures Ltd.	51.00	2	3	2
OJSC Kubanenergo	27.97	(9)	(45)	–
OJSC Tomskneft VNK	50.00	12	38	147
Other	various	(2)	5	(68)
Total equity share in profits		577	60	112

RUHR OEL GMBH

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 concluded that an other than temporary decline in value of the investment in OJSC Kubanenergo exists and recognized loss in the amount of US\$ 97 million, based on the quoted price of OJSC Kubanenergo's shares (see Note 24). This loss is presented within Other expenses in the consolidated statements of income and comprehensive income. Investments in OJSC Kubanenergo included into Investments in power and utilities companies.

OJSC TOMSK DISTRIBUTION COMPANY ("TDC")

In the fourth quarter of 2011 the Company concluded that an other than temporary decline in value of the investment in TDC exists and recognized loss in the amount of US\$ 36 million, based on the quoted price of TDC's shares (see Note 24). This loss is presented within Other expenses in the consolidated statements of income and comprehensive income. Investments in TDC included into Investments in power and utilities companies.

OJSC TOMSKNEFT VNK

OJSC Tomskneft VNK is a joint venture engaged in crude oil exploration and production in Western Siberia. The Shareholder Agreement provides that key decisions regarding the business operations 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 of US\$ 368 million.

LLC POLAR LIGHTS COMPANY ("PLC")

PLC is a limited liability company owned 50% by Conoco Phillips Timan-Pechora Inc., and 50% by the Company. PLC is primarily engaged in the development of the Ardalin and satellite fields in the Timan-Pechora Basin located 125 kilometers to the South of the Barents Sea above the Arctic Circle.

JV ROSNEFT-SHELL CASPIAN VENTURES LTD.

JV Rosneft-Shell Caspian Ventures Ltd. ("JV") is a joint venture in which the Company holds 51% interest. The Articles of Incorporation provide that key decisions regarding the business operations of the JV 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 licence for the development of Verkhnechonskoye oil and gas condensate deposit, which is 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.

CJSC VLAKRA

CJSC Vlakra owns rights for certain land plot and office premises located in Moscow.

SAKHALIN-1

The Company's primary investment in production sharing agreements ("PSA") is through the Sakhalin-1 project ("PSA 1"), which is operated by ExxonMobil, one of the PSA participants. The Company has a 20% interest in this unincorporated joint venture, which is accounted for under proportional consolidation method.

TAIHU LTD / OJSC UDMURTNEFT

In November 2006, the Company acquired a 51% equity share in Taihu Ltd, a joint venture incorporated for holding interest in and strategic management of OJSC Udmurtneft. The Company paid 5,100 Cyprus Pounds (approximately US\$ 11 thousand) for this investment which has been included within equity method investments. The other party to the joint venture is China Petrochemical Corporation ("Sinopec") with a respective share of 49%.

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 for US\$ 3.5 billion.

OJSC Udmurtneft is located in the Volga-Ural region of the Russian Federation and holds the licences for the development of 24 productive oil and gas condensate deposits. OJSC Udmurtneft is a group of 17 companies.

OTHER INVESTMENTS IN POWER AND UTILITIES COMPANIES

Investments in power and utilities companies primarily comprise investments in shares of electric power generation, transmission, distribution and maintenance companies located in the Tomsk region and in the south of Russia.

The Company acquired interests in OJSC Tomskenergo and OJSC Kubanenergo through the auctions for the sale of the assets of Yukos Oil Company that were held in May and July 2007. 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 received additional shares of OJSC TGK-11, increasing its share in OJSC TGK-11's total equity to 6.77%. As of December 31, 2010 investment in OJSC TGK-11 was included in disposal group and recorded as Assets Held For Sale in the consolidated balance sheet.

ASSETS HELD FOR SALE

In December 2010, the Company entered into a letter of intent to exchange its investment in one available-for-sale security and its interest in a number of equity investees and one subsidiary for noncontrolling interest in INTER RAO UES, Russian power and utility company. In May 2011, the exchange in respect of the Company's investment in one available-for-sale security and its 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 an available-for-sale security.

Ownership interest to be exchanged was accounted for as Assets Held 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 a loss amounted to US\$ 5 million and US\$ 31 million within Other expenses in the consolidated statements of income and comprehensive income for 2011 and 2010, respectively.

09. | PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment as of December 31 comprise the following:

	Cost		Accumulated depreciation		Net carrying amount	
	2011	2010	2011	2010	2011	2010
Exploration and production	75,372	66,991	(23,497)	(18,784)	51,875	48,207
Refining, marketing and distribution	18,871	15,344	(5,308)	(4,562)	13,563	10,782
Other activities	3,327	3,026	(1,017)	(825)	2,310	2,201
Total property, plant and equipment	97,570	85,361	(29,822)	(24,171)	67,748	61,190

During 2011, the Company purchased land plots that had previously been leased, and reclassified land leasehold rights in the amount of US\$ 86 million from Intangible assets to Property, Plant and Equipment in the consolidated balance sheet as of December 31, 2011.

During 2011 there was a decrease of freight rates and tariffs on the global transport services market. In this regard, the Company identified impairment indicators for its three twin-hull shuttle oil tankers, included in Other activities category of Property, Plant and Equipment. According to ASC 360-10-35, Property, Plant and Equipment: Subsequent Measurement, the Company compared carrying and fair value of these fixed assets. To measure the fair value the Company used market information on similar oil tankers. The Company recognized impairment loss in the amount of US\$ 127 million within Other expenses in the consolidated statements of income and comprehensive income.

Exploration and production assets include costs to acquire unproved properties in the amount of US\$ 4,192 million and US\$ 4,104 million as of December 31, 2011 and 2010, respectively. The Company plans to explore and develop the respective properties. The Company's management believes these costs are recoverable.

The Company used reserves data (see Supplementary oil and gas disclosure) to calculate depletion relating to oil and gas properties for 2011 and 2010 and for the assessment of impairment of oil and gas assets.

As described in Note 2, the Company calculates depletion using the unit-of-production method over proved or proved developed oil and gas reserves depending on the nature of the costs involved. The proved or proved developed reserves used in the unit of production method assume the extension of the Company's production licences beyond their current expiration dates until the end of the economic lives of the fields as discussed below in further detail. The Company's oil and gas fields are located principally in the Russian Federation. The Company obtains licences to explore and produce oil and gas from these fields from governmental agencies. The Company's existing production licences generally expire during the period from 2013 through 2051. Expiration dates of licences for the most significant fields are between 2013 and 2051, and the licence for the largest field, Priobskoye, expires in 2044. The economic lives of the major licenced fields extend significantly beyond these dates. Under Russian law, the Company is entitled to renew the licences through the end of the economic lives of the fields, provided certain conditions are met. The Subsurface Resources Administrator (Rosnedra) extends licences for a period of up to 25 years regardless of the expected life of a field. Article 10 of the Law "On Subsurface Resources" provides that a licence to use a field "shall be" extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production of the field, provided that there are no violations of the conditions of the licence.

The legislative history of Article 10 indicates that the term "shall" replaced the term "may" in August 2004, clarifying that the subsoil user has an absolute right to extend the licence term so long as it has not violated the conditions of the licence. In 2007-2011, the Company extended 116 of its main production licences for a period of up to 25 years based on the expected life of each field. The Company's current production plans are based on the assumption, which management considers to be reasonably certain, that the Company will be able to extend all other existing licences. These plans have been designed on the basis that the Company will be producing crude oil through the economic lives of the fields and not with a view to exploiting the Company's reserves to maximum effect only through the licence expiration dates.

Accordingly, management has included all reserves that otherwise meet the standards for being characterized as "proved" and that the Company estimates it can produce through the economic lives of respective licensed fields to proved reserves in the supplementary information on oil and gas exploration and production activities of the consolidated financial statements as of and for the year ended December 31, 2011.

Proved reserves should generally be limited to those that can be produced through the licence expiration date unless there is a long and clear track record which supports the conclusion that extension of the licence will be granted as a matter of course. The Company believes that extension of the licences will occur as a matter of course as fully described above.

10. | LEASED PROPERTY, PLANT AND EQUIPMENT, NET

The following is the analysis of property, plant and equipment under capital leases as of December 31, included within Property, plant and equipment, net (Note 9):

	2011	2010
Oil and gas properties	30	27
Less: accumulated depletion	(8)	(6)
Oil and gas properties, net	22	21
OTHER PROPERTY, PLANT AND EQUIPMENT		
Plant and machinery	13	17
Vehicles	249	181
Total	262	198
Less: accumulated depreciation	(77)	(85)
Property, plant and equipment, net	185	113
Total net book value of leased property	207	134

Below is the analysis of the repayment of capital lease obligations as of December 31, 2011:

2012	27
2013	21
2014	19
2015	18

2016 and after	154
Imputed interest	(55)
Present value of capital lease payments	184

The charge to income resulting from amortization of leased property, plant and equipment is included with Depreciation, depletion and amortization in consolidated statements of income and comprehensive income for 2011, 2010 and 2009 in the amount of US\$ 19 million, US\$ 39 million and US\$ 26 million, respectively.

OPERATING LEASES

The total amount of operating lease expenses was as follows:

	2011	2010	2009
Total lease expenses	(303)	(233)	(240)
Total sublease revenues	5	1	2

11. | GOODWILL AND INTANGIBLE ASSETS

As of December 31, 2011 and 2010, goodwill represents the excess of the purchase price of additional shares and interests in various entities in the refining, marketing and distribution segment and the exploration and production segment in the amounts of US\$ 3,793 million and US\$ 714 million, respectively, over the fair value of the corresponding acquired share in net assets.

In accordance with FASB ASC 350, Intangibles—Goodwill and Other, the Company performed its annual impairment test of goodwill as of October 1, 2011 based on the assumptions as of that date. As a result of this annual test, no impairment of goodwill was identified.

Goodwill acquired through business combinations has been allocated to the reporting units being operating segments – the exploration and production segment and refining, marketing and distribution segment. In assessing whether goodwill has been impaired, the carrying amount of the reporting unit (including goodwill) was compared with the estimated fair value of the reporting unit.

The Company estimated fair value of the reporting units using a discounted cash flow model. The future cash flows were adjusted for risks specific to the asset and discounted using a discount rate, which represented the Company's post-tax weighted average cost of capital.

The Company's business plan, approved by the Company's Board of Directors, is the primary source of information for the determination of the reporting units' fair values. Business plan contains implicit forecasts for oil and natural gas production, refinery throughputs, sales volumes for 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, refined product margins and cost inflation rates, are set in the business plan. These assumptions take account of existing prices, US\$ and RUB inflation rates, other macroeconomic factors and historical trends and variability.

In determining the fair value for each of the reporting units, cash flows for a period of 12 years have been discounted and aggregated with the reporting unit's terminal value.

For the purposes of impairment testing, the Company's Urals oil price assumptions were based on the forecasted quoted market prices.

Intangible assets as of December 31 comprise the following:

	Cost		Accumulated amortization		Net carrying amount	
	2011	2010	2011	2010	2011	2010
Land leasehold rights	630	718	(157)	(125)	473	593
Rights to use trade-marks "Sochi 2014"	172	172	(78)	(47)	94	125
Rights to use technology in petrochemical production	90	–	–	–	90	–
Other	62	61	(17)	(12)	45	49
Total intangible assets	954	951	(252)	(184)	702	767

Land leasehold rights were purchased with the assets of the companies acquired in 2007 and are amortized on a straight line basis over an estimated average useful life of 20 years.

Rights to use "Sochi 2014" trademarks were acquired in the third quarter of 2009. The cost of these rights is amortized on a straight line basis over an estimated useful life of 5.5 years, which is the period the Company expects to benefit from these assets.

Rights to use technology in petrochemical production were acquired by the Company in 2011 in connection with the start of own petrochemical production construction in the Far East. Amortization of these rights is deferred through commencement of commercial operations.

Amortization of intangible assets charge is included with Depreciation, depletion and amortization in consolidated statements of income and comprehensive income for 2011, 2010 and 2009 in the amounts of US\$ 71 million, US\$ 81 million and US\$ 61 million, respectively.

The following represents the estimated aggregate amortization expense for each of the five succeeding fiscal years for intangible assets subject to amortization:

2012	72
2013	72
2014	69
2015	37
2016	37
Total amortization expense for the five succeeding years	287

12. | OTHER NON-CURRENT ASSETS

Other non-current assets as of December 31 comprise the following:

	2011	2010
Advances paid for capital construction	1,446	752
Debt issue costs	70	60
Prepaid insurance	48	17
Other, net	125	128
Total other non-current assets	1,689	957

13. | ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of December 31 comprise the following:

	2011	2010
Trade accounts payable	3,015	1,457
Salary and other benefits payable	521	442
Advances received	553	601
Dividends payable	4	10
Banking customer accounts	1,231	1,067
Accrued expenses	194	163
Other	303	121
Total accounts payable and accrued liabilities	5,821	3,861

The Company's accounts payable are primarily denominated in RUB.

14. | SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans and borrowings as of December 31 comprise the following:

	2011	2010
Customer deposits – currencies other than RUB	109	86
Customer deposits – RUB denominated	452	271
Promissory notes payable	27	84
Promissory notes payable – Yukos related	1,237	1,312
Borrowings – RUB denominated – Yukos related	263	269
Repurchase agreements	–	27
Other borrowings	377	286
	2,465	2,335
Current portion of long-term debt	2,269	3,163
Total short-term loans and borrowings and current portion of long-term debt	4,734	5,498

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks. Customer deposits denominated in RUB bear interest rates ranging from 0.01% to 9.25% and those denominated in other currencies bear an interest ranging from 0.01% to 6.90%.

As of December 31, 2011, weighted average interest rate on promissory notes was 3.13%. The promissory notes are recorded at amortized cost.

Promissory notes payable – Yukos related represent financing originally received from the entities that were related to Yukos Oil Company on the debt issue date. The promissory notes are primarily payable on demand and bear interest ranging from 0% to 18%. The promissory notes are recorded at amortized cost.

RUB denominated borrowings – Yukos related primarily include borrowings provided by Yukos Capital S.a.r.l., which bear interest of 9% and matured at the end of 2007. The Company partially repaid these liabilities following the court order (see Note 22).

In 2011, the Company received cash under the repurchase agreements and recorded these transactions as financing secured by the corporate bonds owned by the Company. As of December 31, 2011, the Company does not have liabilities under repurchase agreements.

In 2011, the Company wrote off unclaimed promissory notes where statute of limitations expired and recognized gain in the amount of US\$ 4 million in the consolidated statement of income and comprehensive income within Other income.

Long-term debt as of December 31 comprises the following:

	2011	2010
Bank loans – currencies other than RUB	20,502	20,690
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US\$ denominated	–	110
Customer deposits – currencies other than RUB	68	44
Customer deposits – RUB denominated	165	277
Promissory notes payable	3	69

	2011	2010
Other borrowings	88	30
	20,826	21,220
Current portion of long-term debt	(2,269)	(3,163)
Total long-term debt	18,557	18,057

As of December 31, 2011, the interest rates on the Company's long-term bank loans denominated in currencies other than RUB ranged from LIBOR plus 0.58% to 4.35%. These bank loans are primarily secured by contracts for the export of crude oil.

In December 2011, Rosneft received cash 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. The debt is repayable within 5 years.

As of December 31, 2011, the bank loan raised for funding the acquisition of OJSC Yuganskneftegaz was fully repaid.

As of December 31, 2011, customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks. The RUB-denominated deposits bear interest ranging from 0.01% to 14.50%. Deposits denominated in currencies other than RUB bear interest of 0.75% to 14.00%.

As of December 31, 2011, weighted average interest rate on promissory notes payable was 13.07%. The promissory notes are recorded at amortized cost.

Generally, long-term loans are secured by oil export contracts. Typically, under the terms of such contracts, the lender is provided with a direct right to claim contractual revenue which must be remitted directly to a transit currency (US\$ denominated) accounts with those banks, should the Company fail to make timely debt repayments.

The Company is obliged to comply with a number of restrictive financial and other covenants contained within its debt agreements. Restrictive covenants include maintaining certain financial ratios.

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

The scheduled aggregate maturity of long-term debt outstanding as of December 31, 2011 is as follows:

2012	2,269
2013	908
2014	1,248
2015	1,665
2016 and after	14,736
Total long-term debt	20,826

15. | INCOME AND OTHER TAX LIABILITIES

Income and other tax liabilities as of December 31 comprise the following:

	2011	2010
Mineral extraction tax	1,285	1,103
Value-added tax	399	347
Excise tax	232	135
Personal income tax	15	16
Property tax	88	66
Income tax	79	205
Other	48	99
Total income and other tax liabilities	2,146	1,971

Tax liabilities above include restructured tax liabilities (see Note 20).

16. | SHAREHOLDERS' EQUITY

In April 2011, the Company purchased 11,296,701 of its own shares for RUB 2.9 billion or RUB 258 per share, which corresponds to US\$ 103.6 million or US\$ 9.17 per share at the CBR official exchange rate on the transaction date.

On June 10, 2011, the annual general shareholders' meeting approved dividends on the Rosneft's common shares for 2010 in the amount of RUB 29.3 billion or RUB 2.76 per share, which corresponds to US\$ 1.06 billion or US\$ 0.1 per share at the CBR official exchange rate at the approval date. US\$ 964 million of the above relate to outstanding shares, including tax on dividends on treasury shares of US\$ 9 million.

RESULT OF TRANSACTIONS WITH RELATED PARTIES UNDER COMMON CONTROL

In July 2011, the Company completed the exchange of share in its subsidiary for shares in INTER RAO UES (see Note 8). The net result of the exchange amounted to US\$ 89 million gain, net of income tax effect of US\$ 22 million. The Company recorded this result, net of income tax effect, as a component of additional paid-in capital, as the transaction was with a related party under common control.

CHANGE IN OWNERSHIP INTERESTS IN SUBSIDIARIES

In 2011 the Company acquired additional shares in its two subsidiaries. The effect of these transactions in the total amount of US\$ 300 million was accounted for as a reduction of additional paid-in capital.

AMOUNTS AVAILABLE FOR DISTRIBUTION TO SHAREHOLDERS

Amounts available for distribution to shareholders are based on Rosneft Oil Company's statutory accounts prepared in accordance with Russian accounting standards, which differ significantly from US GAAP (see Note 2). 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.

17. | 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	20,847	13,031	9,441
Export customs duty on petroleum products and petrochemicals sales	6,035	3,712	2,690
Total export customs duty	26,882	16,743	12,131

18. | INCOME AND OTHER TAXES

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

	2011	2010	2009
Current income tax expense	3,306	2,897	2,106
Deferred income tax benefit	(189)	(253)	(106)
Total income tax expense	3,117	2,644	2,000

The Company does not file a consolidated tax return, rather each legal entity files separate tax returns with various authorities, primarily in the Russian Federation.

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:

	2011	2010
DEFERRED INCOME TAX ASSET ARISING FROM TAX EFFECT OF		
Asset retirement obligations	266	209
Property, plant and equipment	72	54
Prepayments and other current assets	26	18
Accounts receivable	20	31
Accounts payable and accruals	107	82
Inventories	7	9
Investments	65	34
Interest swap contract	34	39
Tax loss carry forward	44	-
Other	93	96
Total deferred tax asset	734	572
Valuation allowance for deferred income tax asset	(300)	(273)
Deferred income tax asset, net	434	299
DEFERRED INCOME TAX LIABILITY ARISING FROM TAX EFFECT OF		
Mineral rights	(2,209)	(2,409)
Property, plant and equipment and other	(2,571)	(2,585)
Deferred income tax liability	(4,780)	(4,994)
Net deferred income tax liability	(4,346)	(4,695)

Classification of deferred taxes:

	2011	2010
Current deferred tax assets	216	174
Non-current deferred tax assets	218	125
Current deferred tax liabilities	(127)	(86)
Non-current deferred tax liabilities	(4,653)	(4,908)

Although the Company does not pay tax on a consolidated basis, a reconciliation of expected income tax expense to the actual tax expense for the years ended December 31 is as follows:

	2011	2010	2009
Income before income taxes and minority interest	15,706	13,316	8,519
Statutory income tax rate	20%	20%	20%
Theoretical income tax expense	3,141	2,663	1,704

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	2011	2010	2009
Add/(deduct) tax effect of:			
Change in valuation allowance	27	50	(15)
Effect of income tax relieves	(200)	(331)	(175)
Adjustments of income tax for prior periods	–	–	4
Unrecognized income tax benefits	(28)	20	2
Permanent accounting differences arising from:			
• Non-deductible items, net	94	362	493
• Foreign exchange effects, net	(21)	(20)	(90)
• Accrued tax interest	–	3	–
• Other	104	(103)	77
Income taxes	3,117	2,644	2,000

The effect of income tax relieves represents the impact of lower income tax rates for Rosneft and certain of its subsidiaries under applicable regional laws. These laws provide that the income tax exemptions, ranging from 4% to 4.5%, are granted to oil and gas producing companies which make capital investments, agreed with regional administrations, within the respective region and participate in various social projects, as well as to refining companies and to companies engaged in sale of petroleum products. These exemptions are granted in various regions on an annual or monthly basis.

As of December 31, 2011 and 2010, the Company analyzed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Company believes that it is more likely than not that the majority of deductible tax positions stated in the income tax return would be sustained upon the examination by the tax authorities. This is supported by the results of the examinations of the income tax returns which have been conducted to date.

In addition to income tax, the Company incurred other taxes as follows:

	2011	2010	2009
Mineral extraction tax	14,022	9,051	6,502
Excise tax	1,873	1,105	893
Property tax	390	284	236
Other	626	480	430
Total taxes other than income tax	16,911	10,920	8,061

19. | ASSET RETIREMENT OBLIGATIONS

The movement of asset retirement obligations is as follows:

	2011	2010
Asset retirement obligations as of the beginning of the reporting period	2,328	1,772
Recognition of additional obligations for new wells	99	88
Accretion expense	146	107
Increase as a result of changes in estimates	104	383
Spending on existing obligations	(35)	(22)
Asset retirement obligations as of the end of the reporting period	2,642	2,328

Asset retirement obligations represent an estimate of costs of wells liquidation, recultivation of sand pits, slurry ponds, disturbed lands and dismantling pipelines and power transmission lines.

20. | OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as of December 31 comprise the following:

	2011	2010
Restructured tax liabilities	–	1,020
Long-term lease obligations	166	97
Deferred income	–	20
Liabilities to municipalities under amicable agreements	29	51
Liabilities for rights to use trademarks "Sochi 2014" (Note 11)	24	38
Environmental remediation liability	85	111
Other	17	2
Total other non-current liabilities	321	1,339

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 and RUB 6.4 billion (US\$ 512.2 million and US\$ 210.4 million at the CBR official exchange rate as of the payment dates) for the years ended December 31, 2011 and 2010, respectively. In October 2011, the Company early repaid the principal amount of tax liabilities for a total amount of RUB 8.5 billion (US\$ 259 million at the CBR official exchange rate as of the payment date), and in view of that the Company made a write-off of the major part of the restructured tax liabilities in the total amount of RUB 22.2 billion (US\$ 718.1 million at the CBR official exchange rate as of the date of the write-off). The Company recognized income on the extinguishment of restructured tax liabilities within Other income in the consolidated statements of income and 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 (US\$ 49.0 million at the CBR official exchange rate as of December 31, 2011).

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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 (US\$ 39 million at the CBR official exchange rate as of December 31, 2010) 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 (US\$ 6.1 billion at the CBR official exchange rate as of December 31, 2011).

ENVIRONMENTAL MATTERS

Due to the nature of its business, Rosneft and its subsidiaries are subject to federal legislation regulating environmental protection. The majority of environmental liabilities arise as a result of air pollution, accidental leaks that pollute land and placement of oil waste. The Company considers fines paid and other environmental liabilities as immaterial, given the scale of its operations.

In the course of its operations, the Company seeks to comply with international environmental standards and monitors compliance therewith on a regular basis. With a view to improve environmental activities, the Company takes specific measures to mitigate the adverse impact of its current operations on the environment.

Legislation that regulates environmental protection in the Russian Federation is evolving, and the Company evaluates its liabilities in accordance therewith. Currently it is not possible to reasonably estimate the liabilities of the Company which may be incurred should the legislation be amended.

Management believes that, based on the existing legislation, the Company is unlikely to have liabilities that need to be accrued in addition to the amounts already recognized in the consolidated financial statements and that may have a material adverse effect on the consolidated operating results or financial position of the Company.

SOCIAL AND SPONSORSHIP EXPENSES

The Company is required to maintain certain social infrastructure assets (not owned by the Company and not recorded in the consolidated financial statements) as well as to incur other social and sponsorship costs. The main categories of social costs are health care, education and science, sports activities, culture, and support of war veterans and disabled persons. Charity and sponsorship activities are conducted in collaboration with regional administration and non-governmental charity organizations.

The Company is involved in Russia's social and cultural heritage revival programs. The Company receives certain regional tax incentives enabling it to further develop its business.

The Company incurred US\$ 153 million, US\$ 45 million and US\$ 30 million in social expenses, US\$ 269 million, US\$ 71 million and US\$ 168 million in charity and sponsorship expenses in 2011, 2010 and 2009, respectively. These expenses are presented within Other expenses in the consolidated statements of income and comprehensive income.

PENSION PLANS

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

The Company also maintains a defined contribution corporate pension plan to finance non-state pensions of its employees. Under this plan, in 2011, 2010 and 2009 the Company made and expensed contributions amounting to US\$ 95 million, US\$ 90 million and US\$ 95 million, respectively.

GUARANTEES AND INDEMNITY

As of December 31, 2011, Rosneft and certain subsidiaries provided guarantees for certain debt agreements of other Rosneft subsidiaries. In accordance with the debt agreements, the guarantors obliged to perform on the guarantee and to pay the bank all amounts of outstanding guaranteed liabilities, including interest.

The Company cannot substitute guarantees issued by any novation agreement or mutual offset. The Company's obligations under guarantees issued are valid in case of any change in the loan agreements. After the full payment and settlement of all obligations under the guarantees, Rosneft has the right to subrogate its respective part of all bank claims against the debtor in accordance with the loan agreements. In the event Rosneft makes payments under guarantees issued, it has a right to claim the amounts paid from the debtor.

In November 2009, Rosneft entered into a guarantee agreement in respect of all the obligations of RN-Tuapse Refinery LLC, a Rosneft's wholly owned subsidiary, under the contract for delivery of power generating units with Siemens Industrial Turbomachinery AB for the period through September 30, 2012, in the amount of 960 million Swedish krona (US\$ 139 million at the CBR based cross-rate as of December 31, 2011). In November 2009, Rosneft entered into a debt agreement with a western bank to finance the above delivery contract.

In September 2011, Rosneft entered into a guarantee agreement in respect of all the obligations of Neftepromleasing LLC, a Rosneft's wholly owned subsidiary, under the contract for purchase of oil and gas equipment through September 30, 2016, in the amount of US\$ 500 million. In September 2011, LLC Neftepromleasing entered into a debt agreement with foreign banks to finance the purchase contract. In October 2011, Neftepromleasing LLC fully drew down under this debt agreement.

LITIGATIONS, CLAIMS AND ASSESSMENTS

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 rouble-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 (US\$ 401 million at the CBR official exchange rate as of December 31, 2011). 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 (US\$ 96 million at the CBR official exchange rate as of December 31, 2011) 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.

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 US\$ 160 million 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. The Moscow Arbitrazh Court has recently scheduled a hearing for February 21, 2012 to consider whether it should reopen the relevant proceedings as well.

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.

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.'s response is currently expected to be filed in February, 2012.

The Company and its subsidiary participate in arbitral proceedings related to bankruptcy of OJSC Sakhaneftgaz and OJSC Lenaneftgaz for the recovery of certain loans and guarantees of indemnity in the amount of RUB 1,286 million (US\$ 40 million at the CBR official exchange rate as of December 31, 2011), 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 (US\$ 62 million at the CBR official exchange rate as of December 31, 2011).

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 (US\$ 54 million at the CBR official exchange rate as of the date of payment).

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 2,137 million (US\$ 66 million at the CBR official exchange rate as of December 31, 2011), 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 1,756 million (US\$ 55 million at the CBR official exchange rate as of December 31, 2011). To the extent probable, this contingent liability is 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.

LICENCE AGREEMENTS

In accordance with certain exploration license agreements or separate agreements concluded with the local and regional authorities, the Company is required to maintain certain levels of expenditures for environmental protection, as well as maintain certain level of capital expenditures. Generally these expenditures are within the normal operating and capital budgets and are accounted for when incurred in accordance with existing accounting policies for respective costs and expenses.

OIL SUPPLIES

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.

BP SHARE SWAP

On January 14, 2011 the Company and BP p.l.c. ("BP") entered into a share swap agreement ("the Share Swap"), whereby BP planned to issue 988,694,683 ordinary shares in exchange for 1,010,158,003 Rosneft's shares. Closing of the Share Swap was stipulated to take place on or before April 14, 2011. On April 13, 2011, the Company, without waiving any of its rights, extended the Share Swap completion deadline through May 16, 2011. On May 16, 2011, the Share Swap was terminated. There was no effect of the Share Swap termination in the consolidated financial statements.

STRATEGIC PARTNERSHIP WITH EXXONMOBIL

In August 2011, Rosneft and ExxonMobil executed a Strategic Cooperation Agreement under which the companies plan to undertake joint exploration and development of hydrocarbon resources in Russia, USA and other countries throughout the world, and to commence technology and expertise sharing activities. The agreement includes approximately US\$ 3.2 billion to be spent funding exploration and development of East Prinovozemelskiy Blocks 1, 2 and 3 in the Kara Sea and the Tuapse Trough License Block in the Black Sea according to final contracts to be signed by the parties based on principles set in the Strategic Cooperation Agreement. Additionally, the agreement provides the Company with an opportunity to acquire equity interest in a number of ExxonMobil's exploration and operating assets in North America, including offshore fields in the Gulf of Mexico, tight oil fields in Texas, USA, Canada and several projects in other countries. The companies have also agreed to conduct a joint study of developing tight oil resources in Western Siberia.

22. | SEGMENT INFORMATION

Presented below is information about the Company's operating segments in accordance with FASB ASC 280, Segment Reporting. 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. The exploration and production segment is engaged in field exploration and development and production of crude oil and natural gas. The refining, marketing 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 assets are allocated between exploration and production and refining, marketing and distribution in proportion to sales of these segments. Drilling services, construction services, banking and finance services, and other activities are combined in the All other category. Substantially all of the Company's operations are conducted in the Russian Federation. Further, the geographical regions within the Russian Federation have substantially similar economic and regulatory conditions. Therefore, the Company has not presented any separate geographical disclosure.

The significant accounting policies applied to each operating segment are consistent with those applied to the consolidated financial statements. Sales of 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, marketing and distribution	All other	Total elimination	Consolidated
Revenues from external customers	1,699	87,437	2,839	–	91,975
Intersegmental revenues	24,083	5,925	8,585	(38,593)	–
Total revenues	25,782	93,362	11,424	(38,593)	91,975
Production and operating expenses and cost of purchased oil, gas and petroleum products and refining costs	2,586	12,568	1,444	–	16,598
Depreciation, depletion and amortization	4,945	816	235	–	5,996
Operating income	11,218	35,484	7,771	(38,593)	15,880
Total other expense, net					(174)
Income before tax					15,706
Total assets	53,975	41,424	10,569	–	105,968

Operating segments in 2010:

	Exploration and production	Refining, marketing and distribution	All other	Total elimination	Consolidated
Revenues from external customers	1,149	59,847	2,051	–	63,047
Intersegmental revenues	17,737	4,337	7,845	(29,919)	–
Total revenues	18,886	64,184	9,896	(29,919)	63,047
Production and operating expenses and cost of purchased oil, gas and petroleum products and refining costs	2,348	3,746	1,084	–	7,178
Depreciation, depletion and amortization	4,503	864	230	–	5,597
Operating income	10,111	28,167	5,140	(29,919)	13,499
Total other expense, net					(183)
Income before tax					13,316
Total assets	49,961	35,871	7,997	–	93,829

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Operating segments in 2009:

	Exploration and production	Refining, marketing and distribution	All other	Total elimination	Consolidated
Revenues from external customers	981	44,358	1,487	–	46,826
Intersegmental revenues	9,723	2,876	5,490	(18,089)	–
Total revenues	10,704	47,234	6,977	(18,089)	46,826
Production and operating expenses and cost of purchased oil, gas and petroleum products and refining costs	1,935	3,239	740	–	5,914
Depreciation, depletion and amortization	3,405	755	190	–	4,350
Operating income	5,172	17,437	4,608	(18,089)	9,128
Total other expense, net					(609)
Income before tax					8,519
Total assets	47,531	28,522	7,179	–	83,232

Below is a breakdown of revenues by domestic and export sales.

	2011	2010	2009
OIL AND GAS SALES			
International sales of crude oil – Europe and other directions	32,496	22,895	18,275
International sales of crude oil – Asia	12,488	9,824	4,744
International sales of crude oil – CIS	1,847	1,363	1,313
Domestic sales of crude oil	100	269	134
Domestic sales of gas	486	416	354
Total oil and gas sales	47,417	34,767	24,820
PETROLEUM PRODUCTS AND PETROCHEMICALS SALES			
International sales of petroleum products – Europe and other directions	17,009	8,401	6,827
International sales of petroleum products – Asia	7,616	5,985	4,895
International sales of petroleum products – CIS	277	172	144
Domestic sales of petroleum products	16,093	11,686	8,630
Domestic sales of petrochemicals	332	297	170
International sales of petrochemicals	1,693	119	70
Total petroleum products and petrochemicals sales	43,020	26,660	20,736

The Company had one major customer in 2011 and one such customer in 2010 and 2009 which accounted for 10% or more of total revenues in each respective year. These customers accounted for revenues of US\$ 13,937 million, US\$ 9,559 million, and US\$ 5,332 million or 15%, 15% and 11% of total revenues, respectively. These revenues are recognized mainly under the refining, marketing and distribution segment. Management does not believe that the Company is dependent on any particular customer.

24. | FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

	Fair value measurement as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
ASSETS				
CURRENT ASSETS				
Trading securities	277	326	–	603
Available-for-sale securities	259	359	–	618
Derivatives	–	3	–	3
NON-CURRENT ASSETS				
Available-for-sale securities	146	13	–	159
Total assets measured at fair value	682	701	–	1,383
CURRENT LIABILITIES:				
• Derivatives	–	(121)	–	(121)
Total liabilities measured at fair value	–	(121)	–	(121)

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	Fair value measurement as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
ASSETS				
CURRENT ASSETS				
Trading securities	154	575	–	729
Available-for-sale securities	129	131	–	260
Derivatives	–	77	–	77
Net assets held for sale	55	–	–	55
NON-CURRENT ASSETS				
Available-for-sale securities	–	17	–	17
Total assets measured at fair value	338	800	–	1,138
CURRENT LIABILITIES				
Derivatives	–	(191)	–	(191)
Total liabilities measured at fair value	–	(191)	–	(191)

The market for a number of financial assets and liabilities is not active. In accordance with requirements of FASB ASC 820-10-35-47 observable inputs of Level 2 were used to determine fair value of such financial assets and liabilities.

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

	Fair value measurement as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	92	–	–	92
Equity method investments	71	–	–	71
Total assets measured at fair value	163	–	–	163

As of December 31, 2011 property, plant and equipment represent the fair value measurement of three twin-hull shuttle oil tankers (see Note 9). As of December 31, 2011, equity method investments represent the Company's investments in OJSC Kubanenergo and OJSC Tomsk Distribution Company measured at fair value (see Note 8).

The Company, in connection with its current activities, is exposed to various financial risks, such as foreign currency risks, commodity price risk, interest rate risks and credit risks. The Company manages these risks and monitors its exposure on a regular basis.

The fair value of cash and cash equivalents, held-to-maturity securities, notes and accounts receivable, accounts payable, and other current assets approximates their carrying value recognized in these financial statements. The fair value of long-term debt differs from the amounts recognized in the consolidated financial statements. The estimated fair value of long-term debt discounted using the estimated market interest rate for similar financial liabilities amounted to US\$ 18,727 million and US\$ 18,555 million as of December 31, 2011 and 2010, respectively. These amounts include all future cash outflows related to the repayment of long-term loans, including their current portion and interest expenses.

A substantial portion of the Company's sales revenues is received in US\$. In addition, substantial financing and investing activities, obligations and commitments are also undertaken in US\$. Significant operating and investing expenditures, other obligations and commitments as well as tax liabilities are denominated in RUB. As a result the Company's is exposed to the corresponding currency risk.

The Company enters into contracts to economically hedge certain of its risks associated with RUB appreciation and increase of interest expense accrued on the Company debt. Hedge accounting pursuant to FASB ASC 815 is not applied to these contracts.

In December 2007, the Company entered into a 5-year interest rate swap contract with a notional amount of US\$ 3 billion. 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 contract. The fair value of the interest swap was recorded in the consolidated balance sheets as of December 31, 2011 and 2010 as other current liabilities in the amount of US\$ 81.4 million and US\$ 157.8 million, respectively. The change in fair value was recorded in the consolidated statement of income and comprehensive income for the 2011 as a reduction in interest expense in the amount of US\$ 76.4 million.

In December 2008, the Company entered into a 5-year interest rate swap contract with a notional amount of US\$ 500 million. Under the terms of the contract, a floating LIBOR rate may be converted into a certain fixed rate. The other party will have a call option to terminate the contract commencing two years after the contract date. The fair value of the interest swap was recorded in the consolidated balance sheets as of December 31, 2011 and 2010 as other current liabilities in the amount of US\$ 29.3 million and US\$ 33.4 million, respectively. The change in fair value was recorded in the consolidated statement of income and comprehensive income for the 2011 as a reduction in interest expense in the amount of US\$ 4.1 million.

The Company entered into fixed interest rate structured deposit agreements with two Russian banks (see Note 4). If on the deposit repayment date the spot RUB/US\$ exchange rate is higher than agreed conversion rate, the other party has a call option to repay amount in RUB which shall be equal to the nominal deposit amount multiplied by the respective conversion rate. Embedded call options were bifurcated from the host contracts and recorded at fair value in the consolidated balance sheets as of December 31, 2011 as Other current assets and Other current liabilities and as of December 31, 2010 as Other current assets (see Note 7). The resulting change in fair values was recorded in the consolidated statement of income and comprehensive income for the 2011 as a component of Foreign exchange gain/(loss).

Structured deposit agreements and related gains and losses are as follows:

Issue date	Expiry date	Nominal amount	Fair value		Foreign exchange gain/loss	
			December 31, 2011	December 31, 2010	2011	2010
May-10	May-11	995	–	11	(11)	11
Jun-10	Jun-11	200	–	5	(5)	5
Jul-10	Jul-11	750	–	15	(15)	15
Sep-10	Sep-11	250	–	6	(6)	6
Oct-10	Oct-11	443	–	10	(10)	10
Nov-10	Nov-11	957	–	27	(27)	27
Dec-10	Dec-11	100	–	3	(3)	3
Feb-11	Feb-12	500	(9)	–	(9)	–
Mar-11	Mar-12	50	(1)	–	(1)	–
Aug-11	Dec-11	100	–	–	–	–
Nov-11	May-12	200	1	–	1	–
Nov-11	Nov-12	200	3	–	3	–
		4,745	(6)	77	(83)	77

Fair values of interest rate swap contracts and embedded call options are based on estimated amounts that the Company would pay or receive upon termination of the contracts as of December 31, 2011.

25. | SUBSEQUENT EVENTS

In February 2012, Rosneft and Sberbank signed a tentative agreement on the acquisition by Rosneft of a 35.3% stake in Taas-Yuryakh Neftegazodobycha LLC. Taas-Yuryakh Neftegazodobycha LLC holds production licences for the Srednebotuobinsk oil and gas condensate field located 160 km north of the ESPO pipeline. The acquisition price was agreed at US\$ 444 million.

SUPPLEMENTARY OIL AND GAS DISCLOSURE (UNAUDITED)

In accordance with FASB ASC 932, Extractive Activities—Oil and Gas, subtopic 235, Notes to Financial Statements, the Company makes certain supplemental disclosures about its oil and gas exploration and production operations. 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 expected future financial results.

In accordance with FASB ASC 932-235-50-1C the Company does not provide complete disaggregated disclosures about its equity investees, because the results are immaterial in comparing with results of consolidated companies.

CAPITALIZED COSTS RELATING TO OIL AND GAS PRODUCING ACTIVITIES

Consolidated entities	As of December 31,	
	2011	2010
Oil and gas properties		
• Proved	71,115	62,960
• Unproved	4,192	4,104
Total capitalized costs	75,307	67,064
Accumulated depreciation, depletion and valuation allowances	(22,952)	(18,370)
Net capitalized costs	52,355	48,694

The share of the Company in the capitalized costs of equity investees on December 31, 2011 and 2010 was US\$ 2,643 million and US\$ 2,631 million, respectively.

Net book value of mineral rights on December 31, 2011 and 2010 was US\$ 15.7 billion and US\$ 16.2 billion, respectively.

COST INCURRED IN OIL AND GAS PROPERTY ACQUISITION, EXPLORATION AND DEVELOPMENT ACTIVITIES

Consolidated entities	2011	2010	2009
Acquisition of properties:			
• Proved	–	–	–
• Unproved	254	140	96
• Exploration costs	448	439	325
• Development costs	7,989	6,618	5,422

The share of the Company in acquisition, exploration and development expenditures of its equity investees was US\$ 522 million, US\$ 324 million and US\$ 493 million in 2011, 2010 and 2009, respectively.

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RESULTS OF OPERATIONS FOR OIL & GAS PRODUCING ACTIVITIES

Consolidated entities	2011	2010	2009
REVENUES			
Sales	26,237	18,284	13,463
Transfers	12,863	12,902	10,056
Total	39,100	31,186	23,519
Production costs (excluding production taxes)	2,445	2,319	1,869
Selling, general and administrative expenses	838	740	630
Exploration expenses	448	439	325
Accretion expenses	146	107	87
Depreciation, depletion, and amortization, and valuation provisions	4,943	4,503	3,318
Taxes other than income tax	14,564	10,034	6,867
Income tax expenses	2,110	1,845	1,029
Results of operation for producing activities	13,606	11,199	9,394

Revenues are based on the market prices determined at the point of delivery from production units.

The Company's share in the operating results generated from oil and gas production of equity investees in 2011, 2010 and 2009 was US\$ 594 million, US\$ 234 million and US\$ 229 million, respectively.

RESERVE QUANTITY INFORMATION

The recording and reporting of proved reserves is governed by criteria established by regulations of the United States Securities and Exchange Commission. The Company's reserves as of December 31, 2011, 2010 and 2009 were appraised by outside unrelated third-party petroleum engineers.

The Company's proved oil and gas reserves are located entirely in the Russian Federation.

Proved reserves are those quantities of oil and gas which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward from known reservoirs, and under the existing economic conditions, operating methods, and government regulation. 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 licence agreements if the renewal of such agreements is reasonably certain. Proved developed reserves are the quantities of oil and gas expected to be recovered from existing wells using existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared with the cost of new well.

Proved undeveloped oil and gas reserves are proved 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 directly offsetting development spacing areas that are reasonably certain of production when drilled unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time.

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 project in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty. 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 included in proved reserves those reserves which the Company intends to extract after the expiry of the current licences. The licences for the development and production of hydrocarbons currently held by the Company generally expire between 2013 and 2051, and the licences for the most important reserves expire between 2013 and 2051. In accordance with the effective version of the law of the Russian Federation, On Subsurface Resources (the "Law"), licences 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 licences issued under the previous version of the Law, the Company extends its hydrocarbon production licences for the whole productive life of the fields. Extension of the licences depends on both current and future compliance with the terms set forth in the licence agreements. As of the date of these financial statements, the Company's operations are generally in compliance with all the terms of the licence agreements and are intended to maintain compliance therewith in the future (see Note 9).

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 tons to barrels using a field specific ratio 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):

	2011		2010		2009	
	Total proved oil and gas reserves, mln boe	Including natural gas reserves, mln boe	Total proved oil and gas reserves, mln boe	Including natural gas reserves, mln boe	Total proved oil and gas reserves, mln boe	Including natural gas reserves, mln boe
CONSOLIDATED ENTITIES						
PROVED DEVELOPED AND UNDEVELOPED RESERVES						
Beginning of year	13,970	1,357	13,951	1,107	13,360	1,070
Revisions of previous estimates	2,201	1,699	319	292	683	56
Extensions and discoveries	1,044	249	541	24	703	51

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	2011		2010		2009	
	Total proved oil and gas reserves, mln boe	Including natural gas reserves, mln boe	Total proved oil and gas reserves, mln boe	Including natural gas reserves, mln boe	Total proved oil and gas reserves, mln boe	Including natural gas reserves, mln boe
Improved recovery	–	–	–	–	–	–
Purchases of minerals in place	–	–	–	–	–	–
Production	(863)	(69)	(841)	(66)	(795)	(70)
End of year	16,352	3,236	13,970	1,357	13,951	1,107
Of which:						
Proved reserves under PSA Sakhalin	95	26	80	27	66	28
PROVED DEVELOPED RESERVES						
Beginning of year	9,769	984	10,204	904	10,032	882
End of year	10,514	1,273	9,769	984	10,204	904
PROVED UNDEVELOPED RESERVES						
Beginning of year	4,201	373	3,747	203	3,328	188
End of year	5,838	1,963	4,201	373	3,747	203
Noncontrolling interests in total proved reserves	109	36	122	15	103	9
Noncontrolling interests in proved developed reserves	71	25	44	5	37	7
ENTITY'S SHARE OF PROVED DEVELOPED AND UNDEVELOPED RESERVES OF INVESTEEES ACCOUNTED FOR BY THE EQUITY METHOD						
Beginning of year	1,228	94	1,195	108	1,086	102
Revisions of previous estimates	64	4	66	-11	56	7
Extensions and discoveries	52	2	39	1	121	4
Improved recovery	–	–	–	–	2	–
Purchases of minerals in place	–	–	–	–	–	–
Production	(79)	(5)	(72)	(4)	(70)	(5)
End of year	1,265	95	1,228	94	1,195	108
PROVED DEVELOPED RESERVES						
Beginning of year	760	87	769	101	763	97
End of year	777	90	760	87	769	101
PROVED UNDEVELOPED RESERVES						
Beginning of year	468	7	426	7	323	5
End of year	488	5	468	7	426	7

The Company's share in the proved developed reserves of equity investees in 2011, 2010 and 2009 was 777 million barrels of oil equivalent, 760 million barrels of oil equivalent and 769 million barrels of oil equivalent, respectively.

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 requirements of FASB ASC 932-235. Estimated future cash inflows from oil and gas production are computed by applying average of the first-day-of-the-month price for each month within 12-month period before the balance sheet date 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% 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 tables 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 FASB ASC 932-235 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.

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	2011	2010	2009
CONSOLIDATED ENTITIES			
Future cash inflows	635,351	449,384	383,839
Future development costs	(32,317)	(34,276)	(29,301)
Future production costs	(333,496)	(215,802)	(177,879)
Future income tax expenses	(43,711)	(31,040)	(27,550)
Future net cash flows	225,827	168,266	149,109
10% annual discount for estimated timing of cash flows	(133,099)	(93,520)	(79,563)
Standardized measure of discounted future net cash flows	92,728	74,746	69,546
ENTITY'S SHARE OF EQUITY METHOD INVESTEEES			
Future cash inflows	59,201	43,594	35,202
Future development costs	(4,424)	(4,132)	(3,851)
Future production costs	(30,273)	(20,835)	(13,831)
Future income tax expenses	(4,668)	(3,648)	(3,426)
Future net cash flows	19,836	14,979	14,094
10% annual discount for estimated timing of cash flows	(10,572)	(8,542)	(7,754)
Standardized measure of discounted future net cash flows	9,264	6,437	6,340
Total consolidated and equity interests in the standardized measure of discounted future cash flows	101,992	81,183	75,886

	2011	2010	2009
CONSOLIDATED ENTITIES			
Sales and transfers of oil and gas produced during the period	(21,253)	(18,093)	(14,153)
Net changes in sales and transfer prices and in production (lifting) costs related to future production	11,625	12,145	35,895
Changes in estimated future development costs	2,495	(8,895)	(8,155)
Previously estimated development costs incurred during the period	7,989	6,618	5,426
Net changes due to revisions in quantity estimates	7,622	1,720	2,510
Net change due to extensions, discoveries, and improved recovery	7,539	3,479	8,800
Net change in income taxes	(4,859)	(1,667)	(6,059)
Accretion of discount	7,475	6,955	3,550
Net change due to purchases and sales of minerals in place	-	-	-
Other	(651)	2,938	6,231
Aggregated change in the standardized measure of discounted future net cash flows for the year	17,982	5,200	34,045

The discounted value of future cash flows as of December 31, 2011, 2010 and 2009 includes the interest of other noncontrolling shareholders in the amount of US\$ 1,083 million, US\$ 685 million and US\$ 892 million, respectively.

Appendix 2

Non-consolidated Financial Statements by OJSC Rosneft

AUDITOR'S OPINION BY CJSC ACG RBS CONCERNING THE FINANCIAL ACCOUNTS OF OJSC ROSNEFT OIL COMPANY FOR THE PERIOD FROM JANUARY 1, 2011 TO DECEMBER 31, 2011

TO SHAREHOLDERS OF OPEN JOINT-STOCK COMPANY ROSNEFT OIL COMPANY

INFORMATION ABOUT THE AUDITED ENTITY

Full name: Open Joint-Stock Company Rosneft Oil Company
Short name: OJSC Rosneft
Number and date of Certificate of State Registration: №024537; December 7, 1995
State Registration Number: 1027700043502.
Location: 26/1 Sofiyskaya Embankment, Moscow, 115035, Russian Federation.

INFORMATION ABOUT THE AUDITOR

Full name: Closed Joint-Stock Company, Auditing and Consulting Group Business Systems Development.
Short name: CJSC ACG RBS.
State registration number: 1027739153430.
Location: Building 3, 5 Sushevsky Val, Moscow, 127018.

Business license:

- Auditing business license № E 000440 issued on June 25, 2002 on the basis of a decision by the Ministry of Finance of the Russian Federation, approved by Order № 123 on June 25, 2002, and valid until June 25, 2012.

Membership of the Self-Regulating Organization of Auditors:

- Corporate member of the Guild of Auditors of Regional Institutes of Professional Book-Keepers on the basis of a decision of the Presidential Council on December 1, 2009 (Minutes № 5/09). Principal entry registration number 10204023936 (minutes № 5/09).

Number in the Register of Auditors and Auditing Organizations of the Self-Regulating Organization of Auditors: 10204023936.

Membership of international organizations of auditing and consulting firms:

- Full member of the network of Crowe Horwath International.

We have audited the attached financial accounts of OJSC Rosneft Oil Company consisting of the Balance Sheet as of December 31, 2011, the Profit & Loss Account, Statement of Changes in Capital, Cash Flow Account, Supplement to the Balance Sheet and Notes to Financial Accounts for 2011.

RESPONSIBILITY OF AUDITED ENTITY FOR THE ACCOUNTS

Management of OJSC Rosneft Oil Company bears responsibility for preparation and accuracy of these consolidated financial accounts and their compliance with established rules for preparation of accounts and for the system of internal control, which is required in order to ensure that the accounts do not contain material misstatements as a result of actions, which are not in good faith, or as a result of error.

RESPONSIBILITY OF THE AUDITOR

Our responsibility is to express an opinion on accuracy of these financial accounts based on the audit, which we have carried out. We have carried out the audit in compliance with federal audit standards. These standards require observance of applicable ethical norms, and planning and conduct of the audit in a way that ensures reasonable certainty that the statements do not contain material misstatements.

The audit included conduct of audit procedures intended to obtain audit proof, confirming numerical indicators and disclosure of information in the accounts. Choice of audit procedures is at our discretion, based on assessment of the risk of material misstatements as a result of actions, which are not in good faith, or as a result of errors. In assessing this risk we considered the system of internal control that was used to ensure correct preparation and accuracy of the accounts in order to choose appropriate auditing procedures, but not in order to express an opinion on the efficiency of the system of internal control.

The audit also included an assessment of the proper character of accounting policy, which was applied, and justification of estimates arrived at by management of the audited entity, as well as assessment of overall presentation of the accounts.

We believe that the auditing proof obtained in the course of the audit gives sufficient grounds for us to express an opinion concerning accuracy of the statements.

OPINION

In our opinion the financial (accounting) statements are an accurate reflection in all material respects of the financial position of OJSC Rosneft Oil Company as of December 31, 2011, and of business results and cash flows in 2011, in accordance with established rules for preparation of financial statements.

ATTACHMENTS

Financial (accounting) statements of OJSC Rosneft Oil Company for the period from January 1 to December 31, 2011 on 44 pages:

- Balance Sheet – on 2 pages.
- Profit & Loss Account – on 2 pages.
- Statement of Changes in Capital – on 2 pages.
- Cash Flow Statement – on 1 page.
- Notes to Financial Accounts – on 37 pages.

10 February 2012

Deputy General Director,
Acting on the basis of warrant
№ 51, dated May 19, 2011
(qualified certification № 04-000029
dated January 16, 2012,
issued for an unlimited period)

R.N. Rakshayev

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BALANCE SHEET

Form №1

on December 31, 2011

Company: OJSC Rosneft

Unit: RUB thousand

Notes	Item	Line code	December 31, 2011	December 31, 2010	December 31, 2009
ASSETS					
I. NON-CURRENT ASSETS					
7	Intangible assets	1110	412,968	307,037	349,242
9	R&D results	1120	350,500	94,405	53,465
6	Fixed assets	1130	578,085,341	465,420,169	376,312,282
	Income-bearing investments in tangible items of value	1140			
8	Rights to use subsurface resources	1145	43,466,523	36,765,963	33,633,000
11	Financial assets	1150	552,675,180	532,133,039	605,869,880
20	Deferred tax assets	1160	4,676,121	3,051,393	3,006,391
9	Other non-current assets	1170	5,356,353	4,047,285	4,679,378
	Total in Section I	1100	1,185,022,986	1,041,819,291	1,023,903,638
II. CURRENT ASSETS					
10	Inventories	1210	79,732,744	69,705,452	55,865,615
	of which:				
	• raw materials, supplies and other similar items	1211	7,347,438	5,080,921	3,787,499
	• expenses in production in progress (distribution expenses)	1212	3,913,517	2,704,409	2,625,479
	• ready products and goods for sale	1213	63,951,387	55,797,128	44,357,445
	• shipped goods	1214	3,444,870	4,405,787	3,537,658
	• deferred costs	1215	1,075,532	1,717,207	1,557,534
	• other inventories and expenses	1219			
	VAT on tangible items of value acquired	1220	17,660,321	16,127,126	17,459,206
14, 17	Accounts receivable	1230	335,842,716	240,631,031	183,739,623
	of which:				
	• Accounts receivable (due within 12 months after the accounting date)	1231	313,629,989	218,137,769	165,886,911
	• Accounts receivable (due more than 12 months after the accounting date)	1232	22,212,727	22,493,262	17,852,712
11	Financial investments (except cash equivalents)	1240	374,955,348	443,781,423	349,088,490
12	Short-term derivative financial instruments, recognized at fair price in the Profit & Loss Account	1241	104,637	2,336,619	
	Long-term derivative financial instruments, recognized at fair price in the Profit & Loss Account	1242			
13	Cash and equivalents	1250	102,020,000	104,782,669	38,721,057
	Other current assets	1260			
	of which:				
	• revenue charged under construction contracts, not yet invoiced	1261			
	Total in Section II	1200	910,315,766	877,364,320	644,873,991
	BALANCE	1600	2,095,338,752	1,919,183,611	1,668,777,629

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Notes	Item	Line code	December 31, 2011	December 31, 2010	December 31, 2009
LIABILITIES					
III. CAPITAL AND RESERVES					
1, 18	Charter capital	1310	105,982	105,982	105,982
	Treasury shares	1320			(117,297)
18	Revaluation of non-current assets	1340	(132,975)	14	49
18	Additional capital (without revaluation)	1350	113,277,035	113,275,154	113,275,154
18	Reserve capital	1360	5,299	5,299	5,299
19	Retained earnings (uncovered loss)	1370	1,006,101,969	798,506,967	631,830,447
	of which:				
	• for previous years	1371	769,282,495	798,506,967	631,830,447
	• for the accounting year	1372	236,819,474		
	Total in Section III	1300	1,119,357,310	911,893,416	745,099,634
IV. LONG-TERM LIABILITIES					
15	Borrowings	1410	622,715,207	550,718,168	484,500,434
20	Deferred tax liabilities	1420	16,084,835	14,050,134	9,973,889
	Estimative liabilities	1430			
	Long-term derivative financial instruments, recognized at fair value in the Profit & Loss Account	1440			
15	Other liabilities	1450	1,577,155	39,647,154	46,072,202
	Total for Section IV	1400	640,377,197	604,415,456	540,546,525
V. SHORT-TERM LIABILITIES					
15	Borrowings	1510	134,994,694	230,144,771	270,377,074
14, 17	Accounts payable	1520	190,978,173	163,814,315	109,682,403
	of which:				
	• trade payables	1521	76,773,288	66,657,894	48,575,175
	• payables to employees	1522	1,944	2,989	23,951
	• payables to government off-budget funds	1523	84	24	22
	• tax payables	1524	32,862,343	29,045,747	21,835,008
	• other creditors	1529	81,340,514	68,107,661	39,248,247
	Deferred income	1530	43,342	47,126	11,100
	Estimative liabilities	1540	5,598,221	2,948,713	2,994,100
12	Short-term derivative financial instruments, recognized at fair value in the Profit & Loss Account	1545	3,889,237	5,825,858	641
	Other liabilities	1550	100,578	93,956	66,152
	Total for Section V	1500	335,604,245	402,874,739	383,131,470
	BALANCE	1700	2,095,338,752	1,919,183,611	1,668,777,629

President of OJSC Rosneft

E.Yu. Khudainatov

Acting General Director of LLC RN-Uchet
(Agreement dated 01.01.2012 № 0001011/3473D)

V.A. Surkov

February 10, 2012

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PROFIT AND LOSS ACCOUNT

Form №2

on December 31, 2011
Company: OJSC Rosneft
Unit: RUB thousand

Notes	Item	Line code	January-December 2011	January-December 2010
2, 19, 24	Revenue	2110	1,372,129,955	1,061,306,372
19	Cost of sales	2120	(929,231,000)	(663,018,584)
	Gross earnings (loss)	2100	442,898,955	398,287,788
19	Commercial costs	2210	(125,801,575)	(126,387,002)
19	Administrative costs	2220	(22,820,359)	(14,703,694)
19	Costs associated with exploratin and appraisal of oil & gas reserves	2230	(9,309,369)	(5,941,459)
2	Earnings (loss) from sales	2200	284,967,652	251,255,633
19	Income from participation in other organizations	2310	4,804,888	2,230,835
19	Interest receivable	2320	24,139,965	22,369,633
15, 19	Interest payable	2330	(18,598,557)	(17,203,321)
19	Income from sale and disposal of other property	2331	105,748,564	44,563,276
19	Costs from sale and disposal of other property	2332	(104,062,995)	(45,047,497)
19	Income from change in fair value of derviative financial instruments	2333	5,329,663	8,578,167
19	Costs from change in fair value of derviative financial instruments	2334	(5,355,593)	(12,044,795)
19	Tax payments	2335	(6,160,831)	(4,931,980)
16, 19	Other income	2340	249,340,065	117,551,311
16, 19	Other costs	2350	(254,993,474)	(131,237,976)
	Earnings (loss) before tax	2300	285,159,347	236,083,286
	Current income tax	2410	(49,754,241)	(43,838,294)
20	of which, permanent tax liabilities (assets)	2421	(6,986,458)	1,039,949
17	Income tax for previous accounting periods	2425	1,824,341	2,836,827
	Tax on estimated income	2426		
20	Change of deferred tax liabilities	2430	(2,034,701)	(4,076,245)
20	Change of deferred tax assets	2450	1,624,728	45,002
	Other	2460		
2	Net earnings (loss)	2400	236,819,474	191,050,576
FOR REFERENCE				
	Earnings from revaluation of non-curent assets, not included in net earnings (loss) for the period	2510		
	Earnings from other operations, not included in net earnings (loss) for the period	2520		
	Total financial earnings for the period	2500	236,819,474	191,050,576

President of OJSC Rosneft

E.Yu. Khudainatov

Acting General Director of LLC RN-Uchet
(Agreement dated 01.01.2012 № 0001011/3473D)

V.A. Surkov

February 10, 2012

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ROSNEFT

STATEMENT OF CHANGES IN CAPITAL

Form №3

on December 31, 2011
Company: OJSC Rosneft
Unit: RUB thousand*1. Capital movement*

Item	Code	Charter capital	Treasury shares	Additional capital	Reserve capital	Retained earnings (uncovered loss)	Total
Capital on December 31, 2009	3100	105,982	(117,297)	113,275,203	5,299	631,830,447	745,099,634
<i>IN 2010</i>							
Increase of capital (total)	3210	-	-	-	-	191,050,576	191,050,576
of which:							
• net earnings	3211	x	x	x	x	191,050,576	191,050,576
• revaluation of property	3212	x	x	-	x	-	-
• income referred directly to capital increase	3213	x	x	-	x	-	-
• additional share issue	3214	-	-	-	x	x	-
• increase in par value of shares	3215	-	-	-	x	-	x
• reorganization of the legal entity	3216	-	-	-	-	-	-
Reduction of capital (total):	3220	-	117,297	-	-	(24,374,091)	(24,256,794)
of which:							
• loss	3321	x	x	x	x	-	-
• revaluation of property	3222	x	x	-	x	-	-
• costs referred directly to reduction of capital	3223	x	x	-	x	-	-
• reduction of par value of shares	3224	-	-	-	x	-	-
• reduction of the number of shares	3225	-	117,297	-	x	-	117,297
• reorganization of the legal entity	3226	-	-	-	-	-	-
• dividends	3227	x	x	x	x	(24,374,091)	(24,374,091)
Change of additional capital	3230	x	x	(35)	-	35	x
Change of reserve capital	3240	x	x	x	-	-	x
Capital on December 31, 2010	3200	105,982	-	113,275,168	5,299	798,506,967	911,893,416
<i>IN 2011</i>							
Increase of capital (total):	3310	-	-	330,639	-	236,845,973	237,176,612
of which:							
• net earnings	3311	x	x	x	x	236,819,474	236,819,474
• revaluation of property	3312	x	x	321,966	x	-	321,966
• income referred directly to capital increase	3313	x	x	8,673	x	26,499	35,172
• additional share issue	3314	-	-	-	x	x	-
• increase in par value of shares	3315	-	-	-	x	-	x
• reorganization of the legal entity	3316	-	-	-	-	-	-
Reduction of capital (total):	3320	-	-	(461,747)	-	(29,250,971)	(29,712,718)
of which:							
• loss	3321	x	x	x	x	-	-
• revaluation of property	3322	x	x	(454,955)	x	-	(454,955)

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Item	Code	Charter capital	Treasury shares	Additional capital	Reserve capital	Retained earnings (uncovered loss)	Total
• costs referred directly to reduction of capital	3323	x	x	(6,792)	x	-	(6,792)
• reduction of par value of shares	3324	-	-	-	x	-	-
• reduction of the number of shares	3325	-	-	-	x	-	-
• reorganization of the legal entity	3326	-	-	-	-	-	-
• dividends	3327	x	x	x	x	(29,250,971)	(29,250,971)
Change of additional capital	3330	x	x	-	-	-	x
Change of reserve capital	3340	x	x	x	-	-	x
Capital on December 31, 2011	3300	105,982	-	113,144,060	5,299	1,006,101,969	1,119,357,310

2. Adjustment for change of accounting policy and correction of errors

Indicator	Code	December 31, 2009	Change of capital in 2010		December 31, 2010
			due to net earnings (loss)	due to other factors	
Capital (total)					
• before adjustments	3400	748,847,750	191,915,583	(24,256,794)	916,506,539
• adjustments due to:					
- change of accounting policy	3410	(3,748,116)	(865,007)	x	(4,613,123)
- correction of errors	3420	-	-	x	-
• after adjustments	3500	745,099,634	191,050,576	(24,256,794)	911,893,416
of which:					
retained earnings (uncovered loss):					
• before adjustments	3401	635,578,563	191,915,583	(24,374,056)	803 120 090
• adjustments due to:					
- change of accounting policy	3411	(3,748,116)	(865,007)	x	(4,613,123)
- correction of errors	3421	-	-	x	-
• after adjustments	3501	631,830,447	191,050,576	(24,374,056)	798,506,967
other capital items, to which adjustments were made:					
• before adjustments	3402	-	-	-	-
• adjusted due to:					
- change of accounting policy	3412	-	-	x	-
- correction of errors	3422	-	-	x	-
• after adjustments	3502	-	-	-	-

3. Net assets

Indicator	Code	December 31, 2011	December 31, 2010	December 31, 2009
Net assets	3600	1,119,400,652	911,940,542	745,110,734

President of OJSC Rosneft

E.Yu. Khudainatov

Acting General Director of LLC RN-Uchet
(Agreement dated 01.01.2012 № 0001011/3473D)

V.A. Surkov

February 10, 2012

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ROSNEFT

CASH FLOW STATEMENT

Form №4

on December 31, 2011
Company: OJSC Rosneft
Unit: RUB bln

Item	Line code	2011	2010
CASH FLOW FROM CURRENT OPERATIONS			
Receipts, total	4110	2,149,863,456	1,580,880,096
of which:			
• from sales of production, goods, works and services	4111	1,866,096,520	1,393,042,991
• from lease payments, licence payments, royalties, commissions and other similar payments	4112	55,774,420	44,654,063
• from resale of financial investments	4113		6,642,972
• other receipts	4119	227,992,516	136,540,070
Payments, total	4120	(1,974,125,475)	(1,349,549,065)
of which:			
• to suppliers (sub-contractors) for raw materials, other materials, works, services	4121	(1,474,642,720)	(1,023,477,905)
• payroll	4122	(7,844,592)	(5,330,857)
• interest on debt securities	4123	(21,507,392)	(16,379,182)
• income tax	4124	(62,499,319)	(40,449,550)
• taxes other than income tax	4125	(360,735,656)	(253,617,024)
• other payments	4129	(46,895,796)	(10,294,547)
Net cash flow from operations	4100	175,737,981	231,331,031
CASH FLOWS FROM INVESTMENT OPERATIONS			
Receipts, total	4210	328,990,018	163,157,958
of which:			
• from sale of non-current assets (except financial investments)	4211	50,146	23,398
• from sale of shares in other organizations (participatory stakes)	4212		131,054
• from repayment of loans, sale of debt securities (cash claim rights in respect of other entities)	4213	311,174,050	155,857,141
• dividends, interest on debt financial investments and similar other income from participation in other organizations	4214	17,695,622	6,727,275
• other receipts	4219	70,200	419,090
Payments, total	4220	(430,055,492)	(323,687,402)
of which:			
• from acquisition, creation, modernization, reconstruction and preparation for use of non-current assets	4221	(166,307,168)	(130,453,885)
• from acquisition of the shares of other organizations (participatory stakes)	4222	(2,017,070)	(18,527,017)
• from acquisition of debt securities (cash claim rights in respect of other entities), provision of loans to other entities	4223	(224,763,921)	(149,847,372)
• interest on debt obligations, included in the value of an investment asset	4224		
• other payments	4229	(36,967,333)	(24,859,128)
Net cash flow from investment operations	4200	(101,065,474)	(160,529,444)
CASH FLOW FROM FINANCING			
Receipts, total	4310	232,020,935	293,761,916
of which:			
• credits and loans received	4311	231,986,641	293,720,290
• payments by owners (participants)	4312		
• from share issue, increase of equity participation	4313		
• from issue of bonds, promissory notes and other debt securities, etc	4314		
• other receipts	4319	34,294	41,626
Payments, total	4320	(311,288,350)	(295,995,963)
of which:			
• to owners (participants) in connection with purchase from them of shares (participatory stakes) of the organization or their ceasing to be owners (participants)	4321		

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Item	Line code	2011	2010
• for payment of dividends and other payments for distribution of earnings to owners (participants)	4322	(28,403,624)	(23,650,762)
• for settlement (repurchase) of promissory notes and other debt securities, and return of credits and loans	4323	(279,642,445)	(269,439,906)
• other payments	4329	(3,242,281)	(2,905,295)
Net cash from financing	4300	(79,267,415)	(2,234,047)
Net cash in the accounting period	4400	(4,594,908)	68,567,540
Balance of cash and equivalents at the start of the accounting period	4450	104,782,655	38,721,043
Balance of cash and equivalents at the end of the accounting period	4500	102,019,986	104,782,655
Impact of change in the exchange rate of the rouble to other currencies	4490	1,832,239	(2,505,928)

President of OJSC Rosneft

E.Yu. Khudainatov

Acting General Director of LLC RN-Uchet
(Agreement dated 01.01.2012 № 0001011/3473D)

V.A. Surkov

February 10, 2012

NOTES TO FINANCIAL (ACCOUNTING) STATEMENTS OF OJSC ROSNEFT OIL COMPANY FOR 2011

The present Notes are an integral part of financial (accounting) statements of OJSC Rosneft Oil Company (hereinafter also referred to as 'the Company') for 2011, prepared in accordance with existing legislation of the Russian Federation.

01. | FORM OF INCORPORATION AND AREA OF ACTIVITY**COMPANY DESCRIPTION**

Open Joint Stock Company Rosneft Oil Company (hereinafter 'OJSC Rosneft Oil Company' or 'the Company') was established by Order of the President of the Russian Federation № 327 dated April 1, 1995, 'On Priority Measures for Improvement of Activities of Oil Companies', and by Decree of the Government of the Russian Federation № 971 dated September 29, 1995, 'On Reorganization of State Enterprise Rosneft into Open Joint Stock Company Rosneft Oil Company'. The Company is a legal entity, acting on the basis of its Charter and applicable laws of the Russian Federation.

COMPANY LEGAL ADDRESS (PRINCIPAL PLACE OF BUSINESS)

26/1 Sofiyskaya Embankment, Moscow 115035, Russia.

Governing Bodies of the Company**THE GENERAL MEETING OF SHAREHOLDERS**

The General Meeting of Shareholders is the highest governing body of the Company. Its competence, procedure for its convening, conduct and work are defined by federal law and by the Company Charter.

The address, at which the General Meeting of Shareholders is held in the form of joint presence is determined by the Board of Directors of the Company.

The Annual General Meeting of Shareholders is held no earlier than two months and no later than six months after the end of the financial year.

The General Meeting of Shareholders is chaired by the Chairman of the Board of Directors of the Company or, in case of his absence, by a member of the Board selected by Board members.

THE BOARD OF DIRECTORS OF THE COMPANY

General management of the Company is carried out by its Board of Directors except for matters reserved to the General Meeting of Shareholders in accordance with Russian federal law and the Company Charter.

Members of the Company's Board of Directors are elected by the Annual General Meeting of Shareholders until the close of the next Annual General Meeting of Shareholders.

Membership of the Board of Directors of Rosneft in office from January 1, 2011 through December 31, 2011 was elected by Annual General Meetings of Shareholders held on: June 18, 2010; June 10, 2011; and September 13, 2011 (unnumbered minutes).

Membership of the Board of Directors of Rosneft as of December 31, 2011, was as follows:

1.	Alexander Dmitrievich Nekipelov	Chairman of the Board of Directors of Rosneft (since June 10, 2011), Vice-President of the Russian Academy of Sciences
2.	Andrey Leonidovich Kostin	Vice-Chairman of the Board of Directors of Rosneft, President and Chairman of the Management Board of OJSC VTB Bank
3.	Sergey Vladimirovich Shishin	Vice-Chairman of the Board of Directors of Rosneft (since June 10, 2011), Senior Vice-President of OJSC VTB Bank
4.	Hans-Joerg Rudloff	Vice-Chairman of the Board of Directors of Rosneft (since June 10, 2011), Chairman of the Supervisory Board of Barclays Capital
5.	Vladimir Leonidovich Bogdanov	Member of the Board of Directors of Rosneft, CEO of OJSC Surgutneftegaz
6.	Matthias Warnig	Member of the Board of Directors of Rosneft (since September 13, 2011), Managing Director of Nord Stream AG
7.	Nikolay Petrovich Tokarev	Member of the Board of Directors of Rosneft, President of OJSC Transneft
8.	Eduard Yurievich Khudainatov	Member of the Board of Directors of Rosneft (since June 10, 2011)
9.	Dmitry Yevgenievich Shugayev	Member of the Board of Directors of Rosneft (since June 10, 2011), Deputy CEO of Russian Technologies State Corporation

In accordance with the Regulation on the Board of Directors, remuneration is paid to members of the Board of Directors on the basis of a decision by the General Meeting of Shareholders, based on the Company's business results for the year.

The Annual General Meeting of Shareholders on June 10, 2011 decided (unnumbered minutes) to award remuneration for their period of service in the form of shares in Rosneft to independent members of the Board of Directors, Andrey Leonidovich Kostin (25,238 shares), Alexander Dmitrievich Nekipelov (25,238 shares), Hans-Joerg Rudloff (25,238 shares), Andrey Georgievich Reus (20,821 shares), Nikolay Petrovich Tokarev (20,821 shares), Vladimir Leonidovich Bogdanov (18,928 shares) and Sergey Mikhailovich Bogdanchikov (14,021 shares).

The Company's obligation to pay remuneration to the above-mentioned members of the Board of Directors of Rosneft for the period in which they carried out their duties by the transfer of shares in the Company has been carried out as of December 31, 2011.

SOLE EXECUTIVE BODY OF THE COMPANY

The Sole Executive Body of the Company is the President of OJSC Rosneft Oil Company.

Eduard Yurievich Khudainatov was appointed President of the Company as of September 6, 2010 (Minutes №17 dated September 4, 2010).

COLLEGIATE EXECUTIVE BODY OF THE COMPANY

In accordance with the Charter, the collegiate executive body of the Company is the Management Board.

Membership of the Rosneft Management Board as of December 31, 2011, is as follows:

1.	Eduard Yurievich Khudainatov	President and Chairman of the Management Board
2.	Larisa Vyacheslavovna Kalanda	Vice-President, Deputy Chairman of the Management Board
3.	Pavel Sergeevich Fedorov	First Vice-President
4.	Gani Gaisinovich Gilayev	Vice-President
5.	Petr Ivanovich Lazarev	Head of Treasury

The members of Rosneft's Management Board receive salaries as stipulated by their labor contract, and are not entitled to additional remuneration for their service on the Management Board.

The Board of Directors of Rosneft decided to terminate ahead of schedule the authority of the collegiate management body (Management Board) of Rosneft on June 10, 2011 (Minutes № 1, June 10, 2011). The number of members of the Company's Management Board was set at five. A new membership of the collegiate management body (Management Board) of Rosneft was appointed from June 11, 2011 for a period of 3 (three) years.

FINANCIAL CONTROL

Financial control within the Company is the responsibility of the Internal Audit Commission. The nature of activities by the Internal Audit Commission is defined by the Regulation on the Internal Audit Commission of Rosneft, which is approved by the General Meeting of Shareholders.

The Company's Internal Audit Commission consists of 5 (five) members elected by the General Meeting of Shareholders for the period until the next Annual General Meeting of Shareholders.

Membership of the Internal Audit Commission of the Company as of December 31, 2011 is as follows:

1.	Irina Sergeevna Marchuk	Head of Department at the Ministry of Economic Development of the Russian Federation
2.	Georgy Avtandilovich Nozadze	Head of Department at the Ministry of Economic Development of the Russian Federation
3.	Sergey Alexandrovich Pakhomov	Deputy Head of Department at the Federal Agency for State Property Management
4.	Tatyana Vladimirovna Fisenko	Director of the Finance Department at the Ministry of Energy of the Russian Federation.
5.	Alexander Sergeevich Yugov	Deputy Head of Department at the Federal Agency for State Property Management

All members of the Company Audit Commission are state officials and do not receive any remuneration for their work on the Commission.

CHARTER CAPITAL

Rosneft shareholder structure as of December 31, 2011 was as follows:

- OJSC ROSNEFTEGAS held 7,965,816,383 ordinary shares of the Company equal to 75.16% of Rosneft's total ordinary shares and charter capital;
- OJSC Sberbank of Russia was the nominal holder of 1,343,007,712 ordinary shares of Rosneft, equal to 12.67% of total ordinary shares and charter capital;
- LLC RN-Razvitie held 1,010,158,003 ordinary shares of Rosneft, equal to 9.53% of total ordinary shares and charter capital;
- other legal entities with stakes of under 1% each were holders and nominal holders of 229,595,839 ordinary shares of Rosneft, equal to 2.17% of total ordinary shares and charter capital;
- individuals held 49,599,879 ordinary shares of Rosneft, equal to 0.47% of total ordinary shares and charter capital;
- Russian Federation was represented by the Federal Agency for State Property Management which held 1 ordinary share of the Company equal to 0.000000009% of Rosneft's total ordinary shares and charter capital.

COMPANY BUSINESS

As stipulated in Paragraph 3.4 of Article 3 of the Charter approved by the Annual General Meeting of Shareholders on June 19, 2009 (unnumbered minutes), the Company's business consists of: prospecting, exploration, production, and refining of oil, gas and gas condensate, as well as sale of oil, gas and gas condensate and products of their refining to customers in the Russian Federation and other countries, together with various associated businesses and business associated with precious metals and gemstones. The Company pursues the following core activities (the list is not exhaustive):

1. geological prospecting and exploration work for discovery of oil, gas, coal and other mineral resources; production, transportation and refining of oil, gas, coal and other mineral resources and of timber; production of petroleum products, petrochemicals and other outputs, including electricity, wood-processing products, and consumer goods and services; storage and sale (including sale on domestic and export markets) of oil, gas, petroleum products, coal, electricity, wood-processing products, and other products obtained by refining of hydrocarbons and other raw materials;
2. investment business, including operations with securities;
3. execution of orders for federal government needs and for regional consumers of outputs, produced by the Company and by its subsidiaries and dependent companies, including supplies of oil, gas and petroleum products to regions where they have operations;
4. investment management, construction, and engineering, technical and service support for exploration, production, refining and marketing projects, as well as R&D, procurement and marketing, economic, international trading and legal support for business of the Company and of its subsidiaries, and also of dependent companies and of customers. Analysis of the state of markets for goods, services and securities, as well as conduct of research, sociological and other works. Regulation and coordination of the business of subsidiaries and dependent companies;
5. leasing of real estate and other property, use of leased property;
6. support for the interests of the Russian Federation in preparation and implementation of production sharing agreements with respect to sub-soil resource blocks and hydrocarbon fields;
7. organization of advertising and publishing activities, exhibitions, shows, auctions, etc.;
8. mediation, consulting, marketing and other forms of activity, as well as foreign trade activity (including import-export operations), works and services on a contract basis;
9. ensuring protection of Company employees and property;
10. use of precious metals and gemstones in technical processes (as materials and as parts of equipment);
11. preparation and holding of events related to mobilization, civil defense, and protection of information, which is classified as a state secret.

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COMPANY BRANCHES AND OFFICES:

1. Branch in the Republic of Chechnya at the address: 7/84 Prospect Revolutsii, 364051 Grozny;
2. Office in the Northern Caucasus, at the address: 54 Krasnaya Street, 350610 Krasnodar;
3. Office in Yamal-Nenets Autonomous District, at the address: 3 Microregion 10, 629830 Gubkinsky;
4. Office in the Russian Far East at the address: 17 Khabarovskaya Street, Yuzhno-Sakhalinsk, 693010 Sakhalin Region;
5. Office in Stavropol Territory at the address: 5 Pioneers Fiftieth Anniversary Street, 356880 Neftekumsk;
6. Office in Khanty-Mansiysk Autonomous District (Ugra) at the address: 26 Lenin Street, 628309 Nefteugansk;
7. Office in the Komi Republic at the address: 1 Pripolyarnaya Street, 169710 Usinsk;
8. Office in Khabarovsk Territory at the address: 107 Leningradskaya Street, 680007 Komsomolsk-on-Amur;
9. Office in Arkhangelsk Region at the address: 30 Talagi Village, 163530 Primorsky District;
10. Office in Primorsky Territory at the address: 5a Uborevicha Street, 690000 Vladivostok;
11. Office in the Asia-Pacific region at the address: Tower D, The China World Trade Center, 6A Jianguomenwai, Chaoyang District, 100022 Beijing, People's Republic of China;
12. Office in the Middle East at the address: Office A 1101, Tower C6, Sector W35, Bainunah Street, Bateen area, Abu Dhabi, UAE;
13. Office in the Republic of Ingushetia at the address: 75 Nuradilova Street, 386300 Malgobek.

02. | PRODUCTION INDICATORS

The Company produced 81.280 mln tonnes of oil in 2011, which is 0.378 mln tonnes (0.5%) less than in the previous year.

In 2011, revenue from sale of products, works and services (excluding VAT and customs duties) was RUB 1,372,130 mln, up by 29% from RUB 1,061,306 mln in 2010.

The Company's earnings from sale of production, works and services in 2011 was RUB 284,968 mln, representing an increase of 13% from RUB 251,256 mln in 2010.

Crude oil throughput at refineries in 2011 was 40.33 mln tonnes, which is 0.53 mln tonnes (1.3%) more than in 2010.

The Company sold 38.7 mln tonnes of its own petroleum products in 2011, which is 1.5 mln tonnes (4%) more than in the previous year. Export sales of petroleum products were 19.8 mln tonnes, which is 0.2 mln tonnes more than in 2010.

Net income in 2011 was RUB 236,819 mln, which is 24% more than RUB 191,051 mln in 2010.

The Company obtained 17 new licenses in 2011 for geological study, exploration and production of raw hydrocarbons, as follows:

- five licenses awarded by decision of the Government of the Russian Federation, without conduct of competitions or auctions, for geological study, exploration and production of raw hydrocarbons within the boundaries of the federal areas, Magadan-1, Magadan-2, Magadan-3, Lisyansky and Kashevarovsky on the shelf of the Sea of Okhotsk;
- one license obtained at auction for exploration and production of raw hydrocarbons in the boundaries of the Atchibarsky area in Stavropol Territory;
- three licenses, obtained as the result of a competition, for geological study, exploration and production of raw hydrocarbons within the boundaries of the area defined as "the north-western extremity of stratum BP-14 at the Tarasovskoye field" in Yamal-Nenets Autonomous District, at the Naulsky area in Nenets Autonomous District, and at an area including the northern extremity of the Chaivo field on the shelf of the Sea of Okhotsk;
- one license, obtained as the result of a field discovery, for exploration and production of raw hydrocarbons within the boundaries of the Baikalovskoye field in Krasnoyarsk Territory;
- five licenses obtained for sub-soil geological study in order to prospect for and evaluate raw hydrocarbon fields within the boundaries of the Nazrano-Yandyrsky, North-Achaluksky and Krasnogorsky areas in the Republic of Ingushetia, and the Ondodominsky and Lodochny areas in Krasnoyarsk Territory;
- two auxiliary licenses, as follows:
 - for geological study and extraction of ground water for technical use in the boundaries of the North-Salymsky license area in Khanty-Mansiysk Autonomous District;
 - for construction and operation of underground facilities, not associated with mineral resource production, in order to drill slanted wells from the coastline of Sakhalin Island to the Lebedinsky area in Sakhalin Region.

Average headcount of Rosneft employees in 2011 was 1,755, which is 267 more than in the previous year.

03. | REPORTING METHODOLOGY

Rosneft's accounting statements are prepared in accordance with requirements of the laws of the Russian Federation on accounting and with requirements set out in documents that constitute the system for regulation of accounting in the Russian Federation.

04. | CHANGE OF OPENING BALANCES IN ACCOUNTS FOR 2011

This section reflects adjustment of opening and comparable indicators in compliance with Decree № 66n of the Ministry of Finance of the Russian Federation dated July 3, 2010, 'On accounting forms for an organization' and change of accounting policy.

04. | CHANGE OF OPENING BALANCES IN ACCOUNTS FOR 2011

Table 1. Change of opening balances in the Balance Sheet (Form № 1)

Item	Line number	2009				2010	
		31.12.09	Change	31.12.09	31.12.10	Change	31.12.10
Intangible assets	1110	3,358,598	(3,009,356) Transfer of data between lines, including transfer of cost of licenses to line 1145, 'Sub-soil usage rights' (3,023,347)	349,242	3,132,521	(2,825,484) Transfer of data between lines, including transfer of cost of licenses to line 1145, 'Sub-soil usage rights' (2,875,755)	307,037
Results of R&D	1120	-	53,465 Transfer of data from line 1170 'Other non-current assets' and the line 'Construction in progress'	53,465	-	94,405 Transfer of data from line 1170 'Other non-current assets' and the line 'Construction in progress'	94,405
Fixed assets	1130	287,121,412	89,190,870 Transfer of data from the line 'Construction in progress'	376,312,282	329,703,446	135,716,723 Transfer of data from the line 'Construction in progress'	465,420,169
Construction in progress	130	90,883,319	(90,883,319) This line has been eliminated from the balance sheet and its data have been transferred to other lines, including line 1130, 'Fixed assets'	-	138,901,641	(38,901,641) This line has been eliminated from the balance sheet and its data have been transferred to other lines, including line 1130, 'Fixed assets'	-
Sub-soil usage rights	1145	-	33,633,000 Transfer of the value of sub-soil usage rights and recalculation of amortization by a per tonne method due to changeover to a successful-efforts accounting method*	33,633,000	-	36,765,963 Transfer of the value of sub-soil usage rights and recalculation of amortization by a per tonne method due to changeover to a successful-efforts accounting method*	36,765,963
Geological exploration assets	147	33,672,012	(33,672,012) Transfer of the value of sub-soil usage rights to line 1145 'Sub-soil usage rights' (28,370,751) and writing down of capital costs for geological exploration due to changeover to a successful-efforts accounting method* (5,301,261)	-	36,597,062	(36,597,062) Transfer of the value of sub-soil usage rights to line 1145 'Sub-soil usage rights' (30,344,687) and writing down of capital costs for geological exploration due to changeover to a successful-efforts accounting method* (6,252,375)	-
Deferred tax assets	1160	2,094,199	912,192 Deferred tax assets have been recalculated due to changeover to a successful-efforts accounting method*	3,006,391	2,062,695	988,698 Deferred tax assets have been recalculated due to changeover to a successful-efforts accounting method*	3,051,393
Other non-current assets	1170	4,679,378	-	4,679,378	4,053,948	(6,663) Transfer of data to line 1120, 'R&D results' (-2,096) and writing down of expenses of future periods due to change of accounting policy (4,567)	4,047,285
Inventories, of which	1210	27,705,185	28,160,430	55,865,615	34,887,958	34,817,494	69,705,452
Deferred costs	1215	1,557,534	-	1,557,534	1,755,947	(38,740) Deferred costs have been written down due to change of accounting policy	1,717,207
Ready products and goods for resale	1213	16,197,015	28,160,430	44,357,445	20,940,894	34,856,234	55,797,128
Receivables, of which	1230	211,900,053	(28,160,430)	183,739,623	275,487,265	(34,856,234)	240,631,031

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Item	Line number	2009		2010			
		31.12.09	Change	31.12.09	31.12.10	Change	31.12.10
Receivables, which are expected to be paid within 12 months from the accounting date	1231	194,047,341	(28,160,430) Reflects transfer of accrued customs duties to line 1213, 'Ready products and goods for resale'	165,886,911	252,994,003	(34,856,234) Reflects transfer of accrued customs duties to line 1213, 'Ready products and goods for resale'	218,137,769
Financial investments (except for cash equivalents)	1240	349,086,282	2,208 Discount on acquired promissory notes has been recalculated**	349,088,490	443,751,842	29,581 Discount on acquired promissory notes has been recalculated**	443,781,423
Total			(3,772,952)			(4,774,220)	

Item	Line number	2009		2010			
		31.12.09	Change	31.12.09	31.12.10	Change	31.12.10
Revaluation of non-current assets	1340	-	49 Sums of revaluation of non-current assets have been transferred from line 1350, 'Surplus capital'	49	-	14 Sums of revaluation of non-current assets have been transferred from line 1350, 'Surplus capital'	14
Surplus capital (without recalculation)	1350	113,275,203	(49)	113,275,154	113,275,168	(14)	113,275,154
Retained earnings (uncovered loss)	1370	635,578,563	(3,748,116) Adjustment due to change of accounting policy, including write-down of capitalized geological exploration costs and recalculation of amortization of sub-soil usage rights and associated deferred tax assets and liabilities in connection with changeover to a successful-efforts accounting method* (3,750,324)	631,830,447	803,120,090	(4,613,123) Adjustment due to change of accounting policy, including write-down of capitalized geological exploration costs and recalculation of amortization of sub-soil usage rights and associated deferred tax assets and liabilities in connection with changeover to a successful-efforts accounting method* (4,599,397)	798,506,967
Deferred tax liabilities	1420	9,998,725	(24,836) Deferred tax liabilities have been recalculated due to changeover to a successful-efforts accounting method*	9,973,889	14,211,231	(161,097) Deferred tax liabilities have been recalculated due to changeover to a successful-efforts accounting method*	14,050,134
Outstanding payment of earnings to shareholders (founders)	630	66,152	(66,152) Transfer of outstanding payment of earnings to shareholders (founders) from line 630 to line 1550, 'Other liabilities'	-	93,956	(93,956) Transfer of outstanding payment of earnings to shareholders (founders) from line 630 to line 1550, 'Other liabilities'	-
Other liabilities	1550	-	66,152	66,152	-	93,956	93,956
Total			(3,772,952)			(4,774,220)	

Table 2. Change of indicators in the Profit & Loss Account (Form № 2) (RUB thousand)

Line name	№Line number	Data in previous accounts for 2010	Changes	Data in present accounts for 2010	Explanation
Cost of sales	2120	(667,758,779)	4,740,195	(663,018,584)	In connection with the changeover to a successful-efforts accounting method* data in the line 'Cost of sales' have been:
Gross profit (loss)	2100	393,547,593	4,740,195	398,287,788	<ul style="list-style-type: none"> reduced by the amount of expenses on additional exploration of oil & gas reserves and the amount of recalculation of amortization of sub-soil usage rights using a per-tonne method, equal to RUB 5,134,441; increased by the amount of previously capitalized expenses for creation of project-technology documents, equal to RUB 394, 246.
Administrative costs	2220	(14,799,811)	96,117	(14,703,694)	<ol style="list-style-type: none"> Data in the line 'Administrative costs' have been reduced by the amount of expenses incurred at the regional stage of geological exploration due to changeover to a successful-efforts accounting method* in the amount of RUB 139,424; Data in the line 'Administrative costs' have been increased by the amount of written-down deferred costs that do not satisfy criteria for asset recognition in the amount of RUB 43,307.
Costs associated with oil & gas exploration and evaluation	2230	-	(5,941,459)	(5,941,459)	Costs associated with oil & gas exploration and evaluation are reflected in a separate line due to changeover to a successful-efforts accounting method.*
Profit (loss) from sales	2200	252,360,780	(1,105,147)	251,255,633	
Interest receivable	2320	22,342,260	27,373	22,369,633	Reflects charging of discount on received promissory notes on a monthly basis**
Income from change in fair value of derivative financial instruments	2333	-	8,578,167	8,578,167	Due to change in the format for presentation of income and costs from change in fair value of derivative financial instruments in the Profit & Loss account, these indicators have been transferred from items 2340, 'Other income' and 2350, 'Other costs' to the separate items 2333, 'Income from change in fair value of derivative financial instruments' and 2334, 'Costs from change in fair value of derivative financial instruments'.
Costs from change in fair value of derivative financial instruments	2334	-	(12,044,795)	(12,044,795)	
Other income	2340	126,129,478	(8,578,167)	117,551,311	
Other costs	2350	(143,282,771)	12,044,795	(131,237,976)	
Pre-tax profit (loss)	2300	237,161,060	(1,077,774)	236,083,286	
Change of deferred tax liabilities	2430	(4,212,506)	136,261	(4,076,245)	Deferred tax assets and deferred tax liabilities have been recalculated due to changeover to a successful-efforts accounting method*.
Change of deferred tax assets	2450	(31,504)	76,506	45,002	
Net income (loss)	2400	191,915,583	(865,007)	191,050,576	

* Since January 1, 2011 the Company has used successful-efforts method for accounting of expenses associated with geological exploration. According to this method, only expenses associated with acquisition of rights to use of sub-soil resources and construction of exploration and prospecting/evaluation wells are capitalized. All other expenses associated with geological exploration are recognized as expenses of the current reporting period and reflected in the separate line, 'Costs associated with exploration and evaluation of oil & gas reserves' in the Profit & Loss Account.

** Since January 1, 2011 the Company charges discount on received promissory notes on a monthly basis, whereas the charge was previously made upon payment or sale of the bills.

05. | ACCOUNTING POLICY

The Company's accounting policy is based on the principles established by Accounting Regulation 1/2008, 'On Accounting Policy of Organizations', approved by Order of the Ministry of Finance of the Russian Federation № 106n, dated October 6, 2008. This policy consists of:

- standalone accounting, which means that the Company's assets and liabilities are recorded separately from assets and liabilities of other legal entities and individuals;
- continuity of business operations, which assumes that the Company intends to continue its business in the foreseeable future and has no intentions or need for voluntary liquidation or substantial reduction of its business and that liabilities will therefore be settled according to the established procedure;
- consistent application of accounting policy in Company business;
- accrual based accounting.

SUBSTANTIAL ACCOUNTING METHODS, ENVISAGED BY ACCOUNTING POLICY IN 2011, ARE REFLECTED BELOW IN RESPECTIVE SECTIONS OF THESE NOTES TO ACCOUNTING (FINANCIAL) STATEMENTS

Information on changes to accounting policy, introduced since January 1, 2012:

- Depreciation of housing assets and outdoor amenities is charged in the standard fashion. Previously depreciation was not charged on housing assets (residential buildings, hostels, apartments, etc.) and external amenities that were booked in accounts before January 1, 2007, except for cases where housing assets and outdoor amenities were used to generate income.

2. Spending on creation of intangible assets and results of R&D work that are obtained from the Company's own capabilities or using a sub-contractor are subject to capitalization from the development stage, starting from the time when the Company can prove:
- that creation of the intangible asset is technically achievable;
 - that the Company intends to and is capable of creating the intangible asset and of using it;
 - that the intangible asset is likely to create economic advantages;
 - that sufficient technical, financial and other resources for completion of development and use of the intangible asset are available;
 - that expenses on development of the intangible asset can be accurately measured.

Expenses incurred at the studies stage are not capitalized. Previously all expenses associated with creation of such items were capitalized, with the exception of agreements for scientific studies.

3. Intangible assets include:
- licenses for production of oil & gas;
 - exclusive sub-soil usage rights in the making of international agreements, giving rights to implementation of exploration & production projects on the territory of foreign countries and of the Russian Federation (license, concession agreement, agreement on sub-soil usage, agreement on participatory rights, etc.);
 - licenses for geological study and production of minerals (mixed licences), provided that production of minerals at the license area is commercially viable;
 - other licenses giving rights to sub-soil usage (for construction of underground gas storage facilities, extraction of minerals or of ground water).

These were previously reflected in the Balance Sheet in the line, 'Sub-soil usage rights'.

4. The concept of commercially viable production has been established, which is a criterion for dividing capitalized expenses on construction of prospecting/exploration wells and acquisition of oil & gas licenses in the Balance Sheet between intangible and tangible prospecting assets, intangible assets and fixed assets. Commercial viability of production is understood to refer to the time at which, with respect to a sub-soil area where prospecting and evaluation of mineral fields are being carried out, probability (more probable than not) that economic advantage from mineral production will exceed the incurred expenses has been established and confirmed by documents, on condition that production of the minerals is technically feasible and that the resources needed for mineral production are available to the organization.

5. Several new concepts have been included in accounting policy:

- 'Tangible prospecting assets', which are exploration/prospecting-evaluation wells at sub-soil areas where commercial viability of production has not yet been established. They were previously reflected on the Balance Sheet in the line, 'Fixed assets'.
- 'Intangible prospecting assets', which are licenses for geological study and production, and licenses for geological study at sub-soil areas, where commercial viability of production has not yet been established. They were previously reflected on the Balance Sheet in the line, 'Sub-soil usage rights.'

If commercial viability of production at a sub-soil area is confirmed, the prospecting assets which relate to that area must be reclassified as follows:

- licenses for geological study and production are reclassified as intangible assets;
- prospecting/exploration wells are reclassified as fixed assets (production wells in the process of construction).

6. All Company advertising costs (without specification of production types) are accounted as part of sales costs. Such costs were previously reflected as part of administrative costs.

06. | FIXED ASSETS AND CONSTRUCTION IN PROGRESS

Fixed assets consist of assets, which are intended for use in production of outputs, execution of works, provision of services, or for management needs, and which are intended to serve in that capacity for a period of more than 12 months.

Fixed assets include buildings, structures, machinery, equipment, measurement and control devices, computer equipment, transport vehicles, tools, fixtures and fittings, etc. The fixed assets owned by the Company also include land plots and natural resources. In determining the structure and groups of fixed assets, the Company applies the Russian Fixed Assets Classifier approved by Decree № 359 of the State Committee of the Russian Federation for Standardization, Methodology and Certification, dated December 26, 1994.

Items intended exclusively for leasing are recognized in line 1130, 'Fixed assets'.

An asset is recorded in financial accounts as a fixed asset from the date when it is ready to be put into operation. In obedience to the principle of priority of content over form, assets, which have been built and are factually in use, are also recorded in accounts as fixed assets, regardless of whether documents have been submitted for their state registration. Depreciation is applied to such assets in the standard fashion.

For purposes of statutory accounting, Rosneft uses the straight-line depreciation method:

- fixed assets put in operation prior to January 1, 2002 are depreciated at rates established by Decree of the Council of Ministers of the USSR № 72, dated October 22, 1990;
- fixed assets put in operation after January 1, 2002 are depreciated at rates that depend on their standard useful lives as established by Decree № 1 of the Government of the Russian Federation, dated January 1, 2002.

Standard useful lives for key groups of fixed assets are:

.....
Buildings	30-100 years
.....
Structures	10-15 years
.....
Machines and equipment	5-7 years
.....

- fixed assets with value up to RUB 10,000, which were put into operation after January 1, 2002 and before January 1, 2006 were written down in full when they were recorded in accounts, but since January 1, 2006 fixed assets with value not exceeding RUB 20,000 per unit are subject to straight-line depreciation;
- vehicles recorded in accounts before January 1, 2002 are not subject to straight-line depreciation, but are depreciated per 1000 kilometers on the clock as a percentage of their cost, in compliance with Resolution № 1072 of the USSR Council of Ministers, from October 22, 1990.

Fixed assets are recorded on the balance sheet at their residual value.

No further revaluation of fixed assets is carried out following completion of their compulsory revaluations, which are carried out on the basis of decrees of the Government of the Russian Federation.

Table 3. Fixed assets (RUB thousand)

Fixed asset groups	Period	At the previous accounting date		Change during the period		At the accounting date	
		Historical cost	Accrued depreciation	Addition	Disposal	Historical cost	Accrued depreciation
Fixed assets, Total	2011	490,539,450	160,836,004	108,622,201	4,357,201	594,804,450	205,828,508
	2010	412,532,263	125,410,851	80,665,307	2,658,120	490,539,450	160,836,004
Buildings and structures	2011	419,835,932	137,551,222	85,231,026	1,564,484	503,502,474	176,776,563
	2010	353,459,870	107,091,423	67,406,374	1,030,312	419,835,932	137,551,222
Machinery, equipment and vehicles	2011	69,361,168	22,664,930	22,999,474	2,751,903	89,608,739	28,373,722
	2010	57,731,689	17,761,713	13,201,834	1,572,355	69,361,168	22,664,930
Other fixed assets, total	2011	1,342,350	619,852	391,701	40,814	1,693,237	678,223
	2010	1,340,704	557,715	57,099	55,453	1,342,350	619,852
of which fixed assets, on which depreciation is not accrued	2011	560,473	-	14,178	1,397	573,254	-
	2010	543,831	-	16,833	191	560,473	-

Historical cost of fixed assets as of December 31, 2011 was RUB 594,804, having increased since 2010 due to commissioning of new assets. Assets worth RUB 108,622 mln were commissioned.

Table 4. Fixed assets requiring state registration (RUB thousand)

	31.12.2011	31.12.2010	31.12.2009
Fixed assets, for which state registration of ownership rights has not yet been completed	119,842,808	51,092,114	60,025,269
of which, pending acceptance of ownership documents for registration by state authorities	113,676,076	50,109,396	55,192,237

Table 5. Use of fixed assets (RUB thousand)

Fixed asset groups	31.12.2011	31.12.2010	31.12.2009
Fixed assets leased out, total, of which	507,284,353	439,602,238	361,569,518
• buildings	26,156,449	25,043,175	19,770,326
• structures	408,303,159	354,035,288	296,649,910
fixed assets in storage and temporary disuse	22,942,491	19,745,387	18,271,181
Fixed assets received under lease terms, total, of which	53,130,185	52,072,977	51,160,602
• land plots	51,087,299	50,296,551	49,421,812
• other types of fixed assets	2,042,886	1,776,426	1,738,790
Change in the value of fixed assets as a result of further construction, further equipping, reconstruction, partial liquidation	9,389,501	9,550,083	7,561,099

Table 6. Construction in progress (RUB thousand)

Construction in progress by asset types	31.12.2011	31.12.2010	31.12.2009
Equipment pending installation	4,835,625	2,584,411	71,915
Construction in progress	173,835,256	123,716,646	82,829,340
of which, advances made for capital construction	25,705,937	26,632,072	15,745,129
Investments in various non-current assets (acquisition of various fixed assets, prospecting and exploration drilling, etc.)	10,438,518	9,415,666	6,289,615
Total	189,109,399	135,716,723	89,190,870

Value of construction work in 2011 was RUB 158,722 mln (not including VAT). Investments in acquisition of fixed-asset equipment, requiring and not requiring assembly, totaled RUB 3,069 mln (not including VAT).

07. | INTANGIBLE ASSETS

Intangible assets include: trademarks, patents, exclusive rights to software and data bases, etc.

Intangible assets are recorded on the balance sheet at factual (historical) cost, defined in accordance with Accounting Regulation 14/2007, 'Accounting of Intangible Assets', approved by Decree № 153n of the Ministry of Finance of the Russian Federation, dated December 27, 2007, as amended by Decree №132n of the Ministry of Finance of the Russian Federation, dated October 25, 2010.

Intangible assets are not subject to revaluation.

Historical cost of intangible assets is amortized in a straight line depending on their useful life, as set by decision of a special commission.

The Company sets the useful life of an intangible asset when that asset is first recorded in accounts.

The useful life of an intangible asset depends on:

- the period, during which the Company has rights to the intellectual property or means of individualization and the period of the Company's control over the asset;
- the expected period of use of the asset, during which the Company expects to obtain economic benefits from it.

The useful life of an intangible asset is tested by the Company each year to establish whether it needs to be revised. If there has been a substantial change in the length of time, during which the Company expects to use an asset, its period of useful life must be revised.

Useful lives of main groups of intangible assets are as follows:

• Trademarks	5-17 years
• Patents	5-25 years
• Exclusive rights to software and data bases	2-6 years

Amortization is not charged on non-tangible assets, useful life of which cannot be established.

Intangible assets are subject to straight-line amortization. The method used for defining amortization of an intangible asset is tested by the Company each year in the course of inventory audit to determine whether it needs to be amended. If calculations of expected future economic benefits from use of the intangible asset have changed substantially, the method for defining amortization of the asset must be amended. Such amendments are reflected in accounts as changes in valuation figures.

If the schedule of future economic benefits cannot be calculated with sufficient accuracy in the course of inventory auditing, the method of amortization is not changed.

During annual inventory audit at the end of the accounting year the Company checks for impairment (loss of value) of intangible assets and of capital investments in uncompleted intangible assets. If impairment is discovered the value of intangible assets reflected in accounts is reduced by the amount of their impairment.

No requirements for adjustment of the amortization method or impairment of intangible assets were discovered during the accounting period.

Intangible assets are recorded on the balance sheet at their residual value.

Table 7. Intangible assets (RUB thousand)

Groups of intangible assets	Period	At the previous accounting date		Changes during the period		At the accounting date	
		Historical cost	Accrued amortization and impairment losses	Addition	Disposal	Historical cost	Accrued amortization and impairment losses
Total intangible assets:	2011	419,082	162,316	35,341	2,456	451,967	254,993
	2010	409,654	74,403	9,428	-	419,082	162,316
Trademarks	2011	6,816	1,333	54	359	6,511	1,728
	2010	6,758	491	58	-	6,816	1,333
Patents	2011	10,834	1,678	478	-	11,312	2,742
	2010	9,905	710	929	-	10,834	1,678
Exclusive rights to software and data bases	2011	399,335	157,819	22,458	-	421,793	249,522
	2010	392,991	73,202	6,344	-	399,335	157,819

Table 8. Investments in progress for creation of intangible assets (RUB thousand)

Investments in progress	31.12.2011	31.12.2010	31.12.2009
Investments in creation of various intangible assets, total,	215,994	50,271	13,991
of which:			
• Trademarks	2,501	743	122
• Patents	269	580	774
• Exclusive rights to software and data bases	133,236	25,227	11,439
• Other intangible assets	79,988	23,721	1,656

Intangible assets, received for use, are accounted off the Balance Sheet and their value is determined on the basis of the fee for their use, which is stipulated by the relevant agreement.

Table 9. Intangible assets, received by the Company for use (RUB thousand)

Value by groups of intangible assets	31.12.2011	31.12.2010	31.12.2009
Total, of which	6,587,888	5,862,491	5,654,578
• Non-exclusive rights to software, rights of access to information resources	6,587,888	5,862,491	5,654,578

Table 10. Fully depreciated intangible assets (RUB thousand)

Value by groups of intangible assets	31.12.2011	31.12.2010	31.12.2009
Total, of which	5	266	-
• Trademarks	-	261	-
• Patents	5	5	-

08. | COSTS RELATED TO EXPLORATION AND EVALUATION OF OIL & GAS RESERVES

When comparing costs that arise in exploration and evaluation of oil & gas fields and that are incurred before the stage of 'Hydrocarbons production', with income at the stage of 'Hydrocarbons production', the Company uses the principles of successful-efforts accounting, according to which costs are capitalized only if they lead to discovery of proven reserves.

Costs that arise in exploration and evaluation of oil & gas fields lead to creation of the following exploration and evaluation assets:

- rights to usage of sub-soil resources (licenses for geological study, licenses for geological study and exploration);
- cost of drilling prospecting/exploration wells.

The following expenses are not capitalized in the value of assets and are referred to costs of the current period as costs associated with exploration and evaluation of oil & gas reserves:

- expenses incurred at the regional stage;
- expenses for conduct of geological exploration work that are not related to drilling of prospecting/exploration wells, including expenses for additional exploration of fields that have been brought into operation and fields that have been prepared for industrial use;
- expenses for maintenance of sub-soil resource areas, at which geological exploration work is being carried out, including fields, that have been brought into industrial use;
- expenses for preparation of technical project documents.

Expenses that arise in exploration and evaluation of oil & gas fields are reflected in the Profit & Loss Account, (Form № 2) in the separate line, 'Costs associated with exploration and evaluation of oil & gas'.

SUB-SOIL USAGE RIGHTS

Sub-soil usage rights include licenses for geological study; licenses for oil & gas production; licenses for geological study, exploration and production of oil & gas (mixed licenses), sub-soil usage rights associated with international agreements, giving the right to implementation of projects in exploration & production of oil and gas on foreign territory or the territory of the Russian Federation (license, production sharing agreement, concession agreement, agreement on sub-soil usage rights, agreement on provision of rights to share participation, etc.), and other licenses issued in accordance with the law 'On Sub-soil Resources' (licenses for construction and exploitation of underground structures, licenses for ground water extraction, licenses for production of sand, etc.).

Sub-soil usage rights are valued on the basis of factual expenses for their acquisition.

Sub-soil usage rights are amortized as follows:

- licenses for geological study; licenses for oil & gas production; licenses for geological study, exploration and production of oil & gas (mixed licenses), and sub-soil usage rights associated with international agreements, giving the right to implementation of projects in exploration & production of oil and gas on foreign territory or the territory of the Russian Federation are amortized by write-down of their value proportionally to volumes of oil & gas (per-tonne amortization);
- other licenses issued in accordance with the law 'On Sub-soil Resources', (licenses for construction and exploitation of underground structures, licenses for ground water extraction, licenses for production of sand, etc.) are amortized by a straight-line method based on the period of validity of the license.

The Company checks its sub-soil usage rights for impairment (reduction in value of the assets) at the end of each accounting year. If impairment is discovered the usage rights are reflected in financial accounts at their impaired value. No impairment of sub-soil usage rights was discovered in the accounting period.

Transfer of the value of licenses, which were reflected in 2010 accounts as part of the lines 'Intangible assets' and 'Geological exploration assets' to the line 'Sub-soil usage rights' is disclosed in Section 4, 'Changes of opening balances in accounts for 2011' of these Notes to Financial (Accounting) Statements.

Table 11. Sub-soil usage rights (RUB thousand)

License groups	Period	At the previous accounting date		Changes during the period		At the accounting date	
		Historical cost	Accrued amortization and impairment losses	Addition	Disposal	Historical cost	Accrued amortization and impairment losses
Sub-soil usage rights, total:	2011	36,816,612	50,649	6,716,306	252	43,532,666	66,143
	2010	33,675,954	42,954	3,172,089	31,431	36,816,612	50,649
Licenses for geological study	2011	626	-	26	-	652	-
	2010	621	-	5	-	626	-
Oil & gas production licenses	2011	2,262,305	50,328	396,482	-	2,658,787	65,756
	2010	2,262,189	42,692	116	-	2,262,305	50,328

License groups	Period	At the previous accounting date		Changes during the period		At the accounting date	
		Historical cost	Accrued amortization and impairment losses	Addition	Disposal	Historical cost	Accrued amortization and impairment losses
Licenses for geological study, exploration & production of oil & gas (mixed licenses)	2011	34,552,744	52	6,319,705	-	40,872,449	64
	2010	31,380,857	42	3,171,954	67	34,552,744	52
Other licenses issued in accordance with the law 'On Sub-soil Resources'	2011	685	269	93	-	778	323
	2010	671	220	14	-	685	269

09. | OTHER NON-CURRENT ASSETS

Other non-current assets consist of assets, which are expected to provide economic gains no sooner than 12 months into the future. Other non-current assets include R&D costs, deferred costs and other assets.

Other non-current assets are valued by factual expenses.

Deferred costs are reflected as other non-current assets if the period of their writing down exceeds 12 months after the accounting date.

Deferred costs, which relate to several periods, are written down in equal portions.

R&D expenditures are written down as ordinary business costs from the first day of the month following the month, when factual application of the R&D results began.

Writing down of costs for each executed R&D task (theme) is carried out monthly on a straight-line basis at 1/12 of the annual sum, assuming factual use of the R&D results in the process of Company production or management.

The period of time during which R&D costs are written down is defined by the Company independently, based on the expected period of use of the R&D results. The period cannot exceed 5 years.

In case of early termination of use of R&D results by the Company, the costs are referred to other costs on the basis of an Order for writing-off of the R&D.

Table 12. Other non-current assets (RUB thousand)

Other non-current assets by types		Value at the previous accounting date	Value at the accounting date
Total, of which	2011	4,047,285	5,356,353
	2010	4,679,378	4,047,285
Deferred costs with write-down period exceeding 12 months, total	2011	4,047,285	5,356,353
	2010	4,679,378	4,047,285
of which, by types:	2011	869,487	1,415,524
• software	2010	1,100,009	869,487
• rights to use of Olympic insignia	2011	2,709,574	2,423,863
	2010	3,354,315	2,709,574

Table 13. Amounts and changes in R&D results (RUB thousand)

R&D types	Period	At the previous accounting date		Changes in the reporting period		At the accounting date	
		Historical cost	Part of value written down to costs	Additions	Disposals	Historical cost	Part of value written down to costs
R&D, total	2011	3,869	1,773	-	-	3,869	3,708
	2010	-	-	3,869	-	3,869	1,773

Table 14. Expenses for R&D in progress (RUB thousand)

Types of R&D	Period	At the previous accounting date	Changes in the reporting period				At the accounting date
			Expenses in the period	Expenses written down in the period	Recognized as intangible assets or R&D		
Expenses for R&D in progress, total	2011	92,309	258,384	354	-	350,339	
	2010	53,465	42,713	-	3,869	92,309	

10. | INVENTORIES

Inventories are accounted at factual cost, based on factual expenses for their acquisition less VAT and other refundable taxes (excepting cases specially provided for by laws of the Russian Federation).

Writing down of inventory at its disposal is carried out as follows:

- oil, construction materials, equipment, spare parts, fuel, packaging, accessories, tools, and other inventory is written down at cost of each inventory unit ('batch');
- petroleum products are written down at their average cost in total inventory;

- semi-products made by the Company are written down at their average cost in total inventory;
- oil & gas produced by the Company is written down at average cost for all operators.

Special clothing provided for use is accounted as part of materials. Cost of special clothing with a period of use in excess of 12 months is depreciated by a straight-line method during the standard period of its use. Cost of special clothing with a period of use less than 12 months is written down at once when it is provided for use.

Materials, fuel, spare parts, and other inventory are recorded in accounting at their factual acquisition cost.

Production in progress and ready products are recorded at factual cost, and goods are recorded at their purchase price.

Ready products and goods, which have been shipped, but ownership rights to which have not passed to the buyer, are recorded in 'Shipped goods'.

Deferred costs are expenses that were paid in the accounting period, but which relate by definition to receipt of income in periods subsequent to the accounting period, and which, at the time of accounting, ensure future economic gains.

Deferred costs, for which the write-down period does not exceed 12 months from the accounting date, are reflected as part of inventories.

Deferred costs that relate to several periods are written down by a proportional method.

Minor expenses in the accounting period relating to future accounting periods are fully recorded as part of expenses in the current accounting period.

Deferred costs are recorded on the Balance Sheet in the following way:

- as part of current assets in the line, 'Deferred costs', if the relevant income is expected to be received within 12 months from the accounting date;
- as part of non-current assets in the line, 'Other non-current assets', if the relevant income is expected to be received later than 12 months or after completion of a full business cycle from the accounting date.

If it is impossible to establish the period when income will be received, such costs are recorded as part of current assets in the line 'Deferred costs'.

Transfer of long-term deferred costs to short-term deferred costs is carried out:

- at the time when receipt of income from use of the object of the deferred costs is expected in less than 365 days from the accounting date;

or:

- at a later date, being a quarterly and annual accounting date, if, during that accounting quarter, the time of receipt of income from the deferred costs becomes less than 365 days into the future.

In compliance with prudential requirements, the Company makes estimative provisions when recording decline of inventory value in accounts.

Provisions against decline of value of inventory are made at the end of each accounting year for specific categories of inventory and (or) types of analogous or related inventory, in respect of which circumstances in the accounting year led to lowering of their current (market) value.

Value of inventories is reflected on the Balance Sheet (Form № 1) with subtraction of impairment provisions. Provisions for reduction of the value of inventories totaled RUB 59.9 mln on the accounting date.

Table 15. Inventories (RUB thousand)

Inventory types	As of 31.12.2011	As of 31.12.2010	As of 31.12.2009
Total	79,732,744	69,705,452	55,865,615
Materials and supplies	7,347,438	5,080,921	3,787,499
Expenses related to production in progress	3,913,517	2,704,409	2,625,479
Ready products and goods for resale	63,951,387	55,797,128	44,357,445
Shipped goods	3,444,870	4,405,787	3,537,658
Deferred costs	1,075,532	1,717,207	1,557,534

11. | FINANCIAL INVESTMENTS

Financial investments are valued by amounts factually spent when they are booked in accounts. Subsequently, all financial investments, which have public measures of market value, are reappraised at market value, and financial investments, which do not have public measures of market value, are not reappraised, but are tested for impairment.

Initial value of debt securities, for which there are no public measures of market value, is not adjusted for difference compared with their face value.

At the time of their disposal, any assets, which were recorded as financial investments, and which have public measures of market value, are appraised by the Company using the most recent valuation.

Financial investments, which do not have public measures of market value, are appraised at the initial value of each unit at the time of its disposal. Change in value of shares of subsidiaries, which have public measures of market value, is reflected in accounts at current market value, and any surplus is referred to surplus capital, unless sale or other disposal of the shares is foreseen in a period exceeding 12 months from the accounting date.

Non-income-bearing investments made within Rosneft Group of Companies for purposes of production development and to generate indirect economic gain for the Company through strengthening of the overall financial position of the Group are treated in accounts as part of financial investments.

Sums of money held on deposit accounts in banks with maturity less than 91 days are not considered to be financial investments and are recorded in accounts in the line, 'Cash'.

Short-term debt on financial investments is converted into long-term debt if payment times are extended by agreement to more than 365 days after the accounting date.

Long-term debt on financial investments is converted into short-term debt if less than 365 days remain from the accounting date until the agreed time of payment.

Table 16. Financial investments (RUB thousand)

Financial investments by types	Period	At the previous accounting date	At the accounting date
Total	2011	975,914,462	927,630,528
	2010	954,958,370	975,914,462
Long-term investments, total	2011	532,133,039	552,675,180
	2010	605,869,880	532,133,039
Participatory units and shares	2011	121,831,259	145,823,475
	2010	106,746,138	121,831,259
Long-term loans extended	2011	395,368,099	309,267,559
	2010	474,799,968	395,368,099
• of which, interest-free loans to Rosneft Group subsidiaries	2011	135,842,144	234,414,630
	2010	193,020,493	135,842,144
Bank deposits	2011	-	-
	2010	24,195,360	-
Promissory notes and bonds received	2011	-	-
	2010	128,414	-
• of which, interest-free promissory notes	2011	-	-
	2010	128,414	-
Other long-term financial investments	2011	14,933,681	97,584,146
	2010	-	14,933,681
Short-term investments, total	2011	443,781,423	374,955,348
	2010	349,088,490	443,781,423
Short-term loans extended	2011	278,823,844	279,973,798
	2010	280,420,576	278,823,844
• of which, interest-free loans to Rosneft Group subsidiaries	2011	198,583,196	15,624,724
	2010	203,456,866	198,583,196
Bank deposits	2011	149,993,666	39,386,295
	2010	50,344,200	149,993,666
Promissory notes and bonds received	2011	14,221,849	49,727,346
	2010	16,165,789	14,221,849
• of which, interest-free promissory notes	2011	127,804	127,804
	2010	-	127,804
Accounts receivable, obtained through assignment agreements	2011	124,143	97,693
	2010	1,393,980	124,143
Other short-term financial investments	2011	617,921	5,770,216
	2010	763,945	617,921

Change in amounts of long-term financial investments in 2011 from RUB 532,133 mln to RUB 552,675 mln was mainly due to: acquisition by the Company of stakes in voting shares of subsidiaries and other companies in the amount of RUB 23,992 mln; settlement and reclassification, mainly by subsidiaries, of previously extended loans in the amount of RUB 86,101 mln; increase in the value of other long-term financial investments in the amount of RUB 82,651 mln through acquisition of credit notes and investment units; and increase of provisions for temporary impairment of long-term financial investments in the amount of RUB 1,064 mln.

Change in amounts of short-term investments in 2011 from RUB 443,781 mln to RUB 374,955 mln was mainly due to: reduction of bank deposits in the amount of RUB 110,607 mln; change in the sum of other short-term investments in the amount of RUB 40,631; and increase of provisions for temporary impairment of short-term financial investments by RUB 5,437 mln.

Table 17. List of subsidiaries and dependent companies

Name of company	Factual value of financial investment as of 31.12.2011		Rosneft stake	
	(RUB thousand)	% of charter capital	% of voting shares	
OIL PRODUCTION				
1	LLC RN-Severnaya neft	6,249,936	100.00	
2	LLC RN-Yuganskneftegaz	14,166,170	100.00	
3	LLC RN-Krasnodarneftegaz	2,976,488	100.00	
4	LLC RN-Purneftegaz	8,527,192	100.00	
5	LLC RN-Stavropolneftegaz	3,355,057	100.00	

Name of company	Factual value of financial investment as of 31.12.2011		Rosneft stake	
	(RUB thousand)	% of charter capital	% of voting shares	
6 LLC RN-Sakhalinmorneftegaz	2,879,435	100.00		
7 CJSC Vankorneft	1,882,003	93.96		93.96
8 OJSC Rosneft-Dagneft Oil Company	368,085	68.70		68.70
9 OJSC Grozneftegaz	43	51.00		51.00
10 OJSC RN Ingneft	51	51.00		51.00
11 LLC Polar Lights Company	288,931	50.00		
12 OJSC Dagneftegaz	131,832	40.00		40.00
13 OJSC Verkhnechonskneftegaz	7,480,493	25.94		25.94
OIL REFINING				
14 LLC RN-Tuapse Oil Refinery	279,447	100.00		
15 LLC RN-Komsomolsk Oil Refinery	573,357	100.00		
16 LLC RN-Primorsky Oil Refinery	10	100.00		
17 CJSC Vostochnaya Petrochemical Company	576,384	100.00		100.00
18 OJSC Rosneft Oil Company – MZ Nefteprodukt	108,102	65.42		65.42
PETROLEUM PRODUCT MARKETING				
19 LLC RN-Nakhodkanefteprodukt	1,050,611	100.00		
20 LLC RN-Arkhangelsknefteprodukt	546,456	100.00		
21 LLC RN-Tuapsenefteprodukt	2,028,708	100.00		
22 LLC RN-Vostoknefteprodukt	97,910	100.00		
23 OJSC Rosneft Oil Company-Stavropoliye	238,201	100.00		100.00
24 LLC RN-Bunker	10	100.00		
25 LLC RN-Kemerovonefteprodukt	10	100.00		
26 LLC RN-Krasnoyarsknefteprodukt	10	100.00		
27 LLC RN-Novosibirsknefteprodukt	10	100.00		
28 LLC RN-Chechenefteprodukt	10	100.00		
29 LLC RN-Ekaterinburgnefteprodukt	10	100.00		
30 LLC RN-Chelyabinsknefteprodukt	10	100.00		
31 LLC RN-Ingushnefteprodukt	100	100.00		
32 LLC RN-Aero	240,010	100.00		
33 LLC RN-Trade	480,010	99.9999		
34 OJSC Rosneft Oil Company-Kubannefteprodukt	612,569	89.50		96.61
35 OJSC Rosneft Oil Company – Kabardino-Balkarskaya Fuel Company	1,044,977	99.81		99.89
36 OJSC Rosneft Oil Company-Kurgannefteprodukt	113,043	83.32		90.33
37 OJSC Rosneft Oil Company – Karachaevo-Cherkessknefteprodukt	57,161	85.99		85.99
38 OJSC Rosneft Oil Company-Smolensknefteprodukt	190,953	66.67		86.97
39 OJSC Rosneft Oil Company-Altainefteprodukt	51,260	64.18		78.59
40 OJSC Rosneft Oil Company-Yamalnefteprodukt	48,622	49.52		49.52
41 OJSC Rosneft Oil Company-Murmansknefteprodukt	6,676	45.38		45.38
42 OJSC Rosneft Oil Company-ARTAG	30	38.00		50.67
43 LLC RN-Abkhazia	47	51.00		
44 LLC Yu-Kuban	9,215	49.00		
OTHER ORGANIZATIONS				
SAKHALIN PROJECTS				
45 CJSC RN-Shelf-Far East	32,124	100.00		100.00
46 LLC West Kamchatka Holding B.V	3,040	60.00		60.00
47 LLC RN-Kaiganneftegaz	4,520	100.00		
48 CJSC RN-Astra	10	100.00		100.00
49 LLC East-Schmidt Invest	4,950	99.00		
50 LLC West-Schmidt Invest	4,950	99.00		
51 OJSC Rosneft-Sakhalin	110	55.00		55.00

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ROSNEFT

Name of company	Factual value of financial investment as of 31.12.2011		Rosneft stake	
	(RUB thousand)	% of charter capital	% of voting shares	
MANAGEMENT OF FOREIGN PROJECTS				
52	LLC RN Foreign Projects	17,250,743	100.00	
53	LLC RN Foreign Investments	685,000	100.00	
54	LLC RN Exploration	28,099	99.996	
55	LLC Rosneft Shell Caspian Ventures Ltd	316	51.00	51.00
56	LLC National Petroleum Consortium	3,606,754	20.00	
SERVICE COMPANIES				
57	LLC RN-Bureniye	4,611,819	100.00	
58	LLC RN-Service	1,621,305	22.5855	
59	LLC RN-Networks	20	100.00	
60	LLC RN-Pozharnaya Bezopasnost	203,461	100.00	
61	LLC Dubininskoye	26,015,000	100.00	
62	CJSC RN-Mamontovo	9,952,145	100.00	100.00
63	LLC RN-Inform	10	100.00	
64	LLC RN-Uchet	10	100.00	
65	LLC RN-Stroi	192,310	100.00	
66	LLC RN-Zdorovie	10	100.00	
67	OJSC Purnefteotdacha	308	61.54	61.54
68	LLC Private security firm RN-Okhrana	32,021	99.98	
69	LLC Komsomolskneftezavodremstroi	30	100.00	
70	LLC KNPZ-Service	30	100.00	
FINANCE				
71	OJSC Russian Regional Development Bank	2,758,375	84.67	84.67
72	LLC Okhabank	23,489	33.40	
RESEARCH & DEVELOPMENT				
73	LLC Arctic Research Center	300,000	100.00	
74	LLC RN-SakhalinNIPmorneft	33,799	100.00	
75	LLC RN-UfaNIPneft	77,010	100.00	
76	LLC Rosneft Oil Company – NTC	81,750	100.00	
77	LLC RN-KrasnoyarskNIPneft	10	100.00	
LOGISTICS AND TRANSPORT				
78	LLC Rosneft-Mongolia	76,134	100.00	
79	CJSC YUKOS-Transservice	8,902,080	100.00	100.00
80	LLC Vostok Asia Transit	2,294	66.00	
81	CJSC Rosnefteflot	6,170	51.00	51.00
82	LLC Pipeline consortium Burgas-Alexandroupolis	374,337	33.33	
OTHER ORGANIZATIONS				
83	CJSC Sakhalinmorneftegaz-Shelf	3,750	100.00	100.00
84	CJSC Sakhalinmorneftegaz-AMK	10	100.00	100.00
85	CJSC Ordalia 2000	820	100.00	100.00
86	LLC FTT Service	2,325	100.00	
87	LLC Private security firm SKB	0.0001	100.00	
88	LLC Accounting and Reporting	0.0003	100.00	
89	LLC YUKOS CIS Investment	28,787	100.00	
90	LLC RN-Shelf Abkhazii	96	100.00	
91	OJSC Okha Cogeneration Plant	1,288,499	81.99	81.99
92	LLC Val Shatskogo	264,992	85.86	
93	LLC Vostok-Energy	56,100	51.00	
94	CJSC Vlakra	3,381,594	50.00	50.00

Name of company	Factual value of financial investment as of 31.12.2011		Rosneft stake	
	(RUB thousand)	% of charter capital	% of voting shares	
95 LLC Pursatcom	1,742	49.00		
96 CJSC Rosshelf	248,326	26.42	26.42	
97 CJSC Publishing house Neftyanoye Khozyaistvo	4	25.00	25.00	
98 CJSC Ros&Nefit	12	25.00	25.00	
99 LLC Neftyanik Kubani Sanatorium	3,670,467	96.20		
IN LIQUIDATION AND BANKRUPTCY				
100 OJSC VARUST	13,900	60.25	60.25	
101 OJSC Moscow Gas Company	50	50.00	50.00	
TOTAL:	142,505,663			

Table 18. Main operations for acquisition and disposal of long-term financial investments (RUB thousand)

Financial investments	Factual value of financial investment at the time of acquisition or disposal	Ownership stake, %
FINANCIAL INVESTMENTS ACQUIRED		
Shares of OJSC INTER RAO UES	3,537,441	0.96
FINANCIAL INVESTMENTS CREATED (FORMED)		
Shares of OJSC RN Ingneft	51	51
Stake in charter capital of LLC Arctic Research Center	300,000	100
FINANCIAL INVESTMENTS DISPOSED OF BY SALE OR REDEMPTION		
Stake in charter capital of LLC RN-Energo	5,043	100
FINANCIAL INVESTMENTS DISPOSED OF DUE TO LIQUIDATION		
Stake in charter capital of LLC Caspoil	103,413	75.1
Stake in charter capital of LLC Private security firm Granit	0.0001	100

There were changes in the scale of investments in the following companies:

- LLC National Oil Consortium, increase of factual investments by RUB 3,526.754 mln (ownership stake was unchanged);
- LLC RN-Foreign Projects, increase of factual investments by RUB 16,565.743 mln (ownership stake was unchanged);
- LLC RN Pozharnaya bezopasnost, increase of factual investments by RUB 203.451 mln (ownership stake was unchanged).

12. | DERIVATIVE FINANCIAL INSTRUMENTS RECORDED AT FAIR PRICE IN THE PROFIT & LOSS ACCOUNT

Derivative financial instruments (derivatives) are financial instruments, which meet all of the following criteria:

- value of the instrument changes in accordance with change of a specific interest rate, value of a security, price for a good, exchange rate of a foreign currency, index of prices or interest rates, credit rating or credit index, or other 'base point' changes;
- acquisition of the derivative does not require investment or requires initial net investment, which is less than for other instruments, price for which has a similar dependence on market factors; other types of contract, for which analogous reaction to change of market factors is expected;
- settlement of the financial instrument is carried out in the future.

Derivatives are recorded at fair value.

Profits or losses arising during the period in the form of adjustments due to change of fair value are recorded in the Profit & Loss Account.

Change in the fair value of a derivative financial instrument is to be understood as the difference between fair value at the start of the accounting period (or the date of acquisition, if later) and at the end of the accounting period.

Derivative financial instruments, which are recorded at fair value in the Profit & Loss Account, are recorded in assets (liabilities) on the Balance Sheet in lines with the same name, depending on their maturity.

The Company transfers long-term derivative financial instruments into short-term instruments:

- when there are 365 days remaining until the contract is executed;

or:

- at a later date, being a quarterly or annual accounting date, from which there are less than 365 days remaining until the date of contract execution.

Derivative financial instruments recognized at fair price in the Profit & Loss Account as of December 31, 2011 were as follows:

- Options accounted at fair value: short-term assets of RUB 104.637 mln and short-term liabilities of RUB 325.413 mln. The Company has placed structured dual-currency deposits at a fixed rate of interest, which is applicable until February-November 2012. Agreement terms include the definition of a right: if the exchange rate of the rouble to the dollar on the repayment date exceeds the rate of conversion stipulated in the agreement, the other party has the right (option) to make the repayment in roubles in an amount equal to the nominal sum multiplied by the respective conversion exchange rate, i.e. the right of the bank counterparty to acquire foreign currency from the Company at a previously agreed exchange rate on a specific date is a substantial condition in the transactions. Such a condition is qualified for purposes of financial accounting as an option for sale of foreign currency (a derivative instrument, appraised at fair value). So the inbuilt options for each of the transactions were separated out from the main contract and had fair value of RUB 104.637 mln as an asset and RUB 325.413 as a liability on December 31, 2011. Fair value of the options in each transaction was determined by application of the Black-Scholes model, using a software system supplied by Bloomberg.

- Swaps accounted at fair value: short-term liabilities of RUB 3,564,824,000. Assessment of fair value of swap transactions uses data obtained and calculated in the Bloomberg system using the Black-Scholes model. An interest swap is a classic instrument for hedging floating interest rates in a credit portfolio. If the Company is concerned about the future level of a floating rate, it can make the rate fixed through an interest swap. Such a swap has a double benefit since it both protects the Company from interest risk, i.e. risk arising from uncertainty as to future levels of floating rates, and enables the Company to know its future interest expenses in advance.

13. | CASH

The line 'Cash and cash equivalents' reflects deposits with maturity less than 91 days:

- RUB 71,409 mln at the start of the year;
- RUB 52,642 mln at the end of the year

There were no limitations on use of cash by the Company as of December 31, 2011.

14. | ACCOUNTS RECEIVABLE AND PAYABLE

Accounts receivable and payable are recorded in financial accounts in accordance with the terms of relevant agreements.

Provisions for doubtful debts are created with respect to settlements with other organizations and individuals for products, goods works and services, advances made and other accounts receivable and the provisions are recorded in accounts as part of other costs.

Short-term receivables and payables are transferred to long-term if due payment times are extended to more than 365 days under agreement.

Long-term receivables and payables are transferred to short-term if there are less than 365 days remaining until payment is due under agreement.

Similarly, a part of long-term receivables and payables is transferred to short-term if the amounts are to be settled in parts in different periods under agreement.

Table 19. Accounts receivable (RUB thousand)

Receivables by types	Period	Balance at the previous accounting date	Balance at the accounting date
Accounts receivable, total	2011	240,631,031	335,842,716
	2010	183,739,623	240,631,031
Long-term accounts receivable	2011	22,493,262	22,212,727
	2010	17,852,712	22,493,262
• of which:	2011	22,493,262	22,212,727
• Other receivables, of which	2010	17,852,712	22,493,262
• Interest on long-term deposits and loans	2011	22,195,297	20,313,657
	2010	17,577,023	22,195,297
Short-term accounts receivable	2011	218,137,769	313,629,989
	2010	165,886,911	218,137,769
• of which:	2011	104,917,796	112,716,979
• Trade receivables	2010	77,578,826	104,917,796
• Advances made	2011	12,588,432	19,581,085
	2010	17,584,035	12,588,432
• Other receivables, including	2011	100,631,541	181,331,925
	2010	70,724,050	100,631,541
• Receivables due from the budget and government non-budgetary funds	2011	20,850,138	17,876,291
	2010	16,755,394	20,850,138
• Underpayments and losses, which are still subject to dispute	2011	278,437	41,631
	2010	197,590	278,437
• Settlement of commission agreements	2011	53,491,796	127,638,767
	2010	27,828,675	53,491,796
• Interest on deposits and loans	2011	21,027,996	30,084,989
	2010	9,715,030	21,027,996

Company receivables as of December 31, 2010 were RUB 240,631 mln. Receivables grew by RUB 95,212 mln during 2011 to RUB 335,843 mln as of December 31, 2011 including creation of provisions totaling RUB 768 mln for doubtful debts. The main reason for increase of accounts receivable was growth in 2011 of world prices for oil, which led to increase of the sums owed by foreign customers.

Table 20. Accounts payable (RUB thousand)

Payables by type	Period	Balance at the previous accounting date	Balance at the accounting date
Payables	2011	163,814,315	190,978,173
	2010	109,682,403	163,814,315
Trade payables	2011	66,657,894	76,773,288
	2010	48,575,175	66,657,894
Payables to Company employees	2011	2,989	1,944
	2010	23,951	2,989
Payables to the budget and government non-budgetary funds	2011	29,045,771	32,862,427
	2010	21,835,030	29,045,771
Advances received	2011	22,137,732	18,210,981
	2010	13,567,125	22,137,732
Other payables	2011	45,969,929	63,129,533
	2010	25,681,122	45,969,929

Accounts payable as of December 31, 2010 were RUB 163,814 mln. They increased by RUB 27,164 mln during 2011 and were RUB 190,978 mln as of December 31, 2011. The main reason for increase of payables during 2011 was growth of world prices for oil, which led to growth of payables to subsidiaries for oil received, operating services, processing services, etc., as well as higher current payables relating to mineral extraction tax.

15. | LONG AND SHORT-TERM CREDITS AND LOANS, OTHER LIABILITIES AND LOAN COLLATERAL

Outstanding credits and loans are recorded in accounts in accordance with the terms of relevant agreements.

The Company transfers short-term loans and borrowings to long-term if maturities are extended by agreement to more than 365 days from the accounting date. The Company transfers long-term loans and borrowings to short-term, when there are less than 365 days remaining until payment is due.

Interest payable on loans and borrowings is accrued in a straight line regardless of terms of provision of the loan (credit). Costs relating to loans (credits) are included in other costs at one time and in full.

Borrowings in 2010–2011 were used to finance Company business, including: financing of day-to-day business, replenishment of working capital, etc.

Accounts as of the accounting date record outstanding borrowings with interest charged. Total interest charged on borrowing during the accounting period was RUB 18,400 mln. Total interest increased by RUB 2,922 mln compared with the previous year.

Table 21. Long- and short-term credits and loans (RUB thousand)

Credits and loans by types	Balance on 31.12.2010	Received (accrued)	Settled (repaid)	Transfer of borrowings from long-term to short-term	Balance on 31.12.2011
Long-term credits and loans	550,718,168	223,585,223	203,398,634	51,810,450	622,715,207
of which					
• long-term credits	540,913,823	197,203,238	182,071,706	17,265,042	573,310,397
• long-term loans	5,419,790	26,376,778	21,321,721	34,545,408	45,020,255
• long-term interest under credit and loan agreements	4,384,555	5,207	5,207	-	4,384,555
Short-term credits and loans	230,144,771	220,738,827	264,078,454	(51,810,450)	134,994,694
of which					
• short-term credits	-	112,412,720	107,212,720	-	5,200,000
• short-term loans	141,245,221	89,800,993	134,913,407	(31,318,124)	64,814,683
• current part of long-term credits and loans	85,047,799	-	-	(20,492,326)	64,555,473
• current part of long-term interest under credit and loan agreements	3,745,618	18,416,017	21,798,354	-	363,281
• short-term interest under credit agreements and loan agreements	59,259	109,097	107,099	-	61,257
• own short-term promissory notes	46,874	-	46,874	-	-

Table 22. Other long-term liabilities (RUB thousand)

Other long-term liabilities by types	Balance on 31.12.2010	Received (accrued)	Settled (repaid)	Balance on 31.12.2011
Other long-term liabilities, of which:	39,647,154	-	38,069,999	1,577,155
• Tax and duty payables (restructured)	39,647,154	-	38,069,999	1,577,155

The Company has not issued bonds, so there are no sums payable on bonds.

In December 2011 the Company took an unsecured syndicated credit from a syndicate of western banks in the amount of USD 1.4 bln and €470 mln, which was fully drawn down on December 14, 2011.

Average-weighted cost of the Company's portfolio of credit and loan liabilities increased from 3.05% at the start of the year to 3.77% as of December 31, 2011. The average floating rate, including the LIBOR and EURIBOR rates, increased from 0.41% to 0.78% over the same period and average-weighted margin increased from 2.65% to 2.99%.

The repayment schedule for long-term credits and loans as of December 31, 2011 is shown below:

	RUB million
2012	64,555
2013	67,322
2014	39,570
2015	55,970
2016 and later	455,469
Total long-term debt:	682,886

Collateral on credits is mainly in the form of export oil deliveries. Value of collateral as of December 31, 2011 was RUB 88,835 mln, consisting of USD 1,907 mln and €223 mln at the CBR exchange rate on the operation date. Collateral structure is presented in the following table:

Form of collateral	Share in total collateral, %
Oil and petroleum product revenues	49.4
Guarantees	50.6

16. | ASSETS AND LIABILITIES EXPRESSED IN FOREIGN CURRENCY

Changes in foreign currency exchange rates, particularly of the US dollar, have significant impact on the Company's financial results.

Table 23. Exchange rate of the rouble against the US dollar

As of December 31	RUB/USD exchange rate
2011	32.20
2010	30.48
2009	30.24
2008	29.38
2007	24.55

Foreign exchange gains and losses, which arose in the course of the year in operations with assets and liabilities expressed in foreign currency, and also in their recalculation at the accounting date, were referred to the Other Income and Expenses Account.

Table 24. Exchange rate differences referred to other income and expenses (RUB thousand)

Exchange rate differences	2011	2010
Foreign exchange gain	208,406,536	100,957,593
Foreign exchange loss	220,335,338	105,158,729

17. | TAX LIABILITIES

The Company's tax liabilities are accounted on an accrual basis.

Rates of main taxes paid by the Company in 2011 were:

- corporate income tax – 20 %;
- VAT – 18 %.

Mineral extraction tax is included in cost of production, goods, works and services and amounted to RUB 352,450 mln in 2011 compared with RUB 245,628 mln in 2010.

Export duties charged in 2011 were RUB 855,270 mln, compared with RUB 565,885 mln in 2010.

Current income tax in 2011 was RUB 49,754 mln, compared with RUB 43,838 mln in 2010.

Current tax payables of the Company to the budget were RUB 14,990.3 mln as of December 31, 2011. The Company was owed a sum of RUB 4.1 mln by government non-budgetary funds.

Total tax receivables to the budget as of December 31, 2011 were RUB 17,872.1 mln, consisting of:

- RUB 12,161 mln of VAT (including VAT on export operations);
- RUB 5,017.5 mln of income tax;
- RUB 693.6 mln of other taxes.

Tax payables decreased by RUB 2,951.4 mln, compared with December 31, 2010, due to use by the Company of a notification procedure for reimbursement of VAT, and also due to reimbursement of VAT for previous periods thanks to establishment of sustainable and positive court practice and factual reimbursement of VAT by tax bodies on the basis of decisions by the Federal Tax Service regarding sums, reimbursement of which had previously been refused.

According to provisions of Chapter 14 of the Russian Tax Code, entitled 'Tax Control', inspections of tax payers and payers of mandatory contributions as well as inspections of conduct by tax officials (carried out either at premises of the tax authorities or of the tax payer) can refer to the three calendar years preceding the year, in which the inspection is carried out. Company management is confident that calculation of tax liabilities is in accordance with tax law.

18. | CAPITAL**CHARTER CAPITAL**

Company charter capital as of December 31, 2010 was RUB 105,981,778.17, divided into 10,598,177,817 ordinary shares with par value of RUB 0.01 each.

RESERVE AND SURPLUS CAPITAL

Company capital includes sums of surplus and reserve capital. In compliance with documents of incorporation, reserve capital represents 5% of charter capital. This was fully paid up as of December 31, 2011 to a total of RUB 5.29 mln.

The Company's surplus capital as of December 31, 2011 was RUB 113,144 mln, compared with RUB 113,275 mln as of December 31, 2010. Change of surplus capital by RUB 131 mln was mainly due to revaluation of shares.

NET ASSETS

Net assets of the Company as of December 31, 2011 were RUB 1,119,401 mln. Net assets increased by RUB 207,460 mln or 23% compared with the previous accounting date to a level of RUB 911,941 mln. The Company's net assets exceeded its charter capital by RUB 1,119,295 mln as of December 31, 2011.

19. | INCOME AND EXPENSES, RETAINED EARNINGS

Revenue from sale of products, works and services is recorded in accounts as products are shipped, works are performed and services are provided, and as customers present documents for settlement.

The Company uses the method of direct costing, so that administrative expenses are completely written down to sales accounts, i.e. they are fully recognized in the accounting period, and are not distributed proportionately between inventory in production and unsold goods inventory.

Sales expenses are distributed between products (goods) sold and products shipped but not sold, taking account of residual goods inventory.

Use of profit is reflected in accounts in the year following the accounting year, in accordance with a decision of the meeting of shareholders. Profit, which shareholders decided not to pay as dividends, is shown in accounts in the line, 'Retained earnings'. Use of this profit for capital investments does not reduce the amount recorded in the line, 'Retained earnings'.

As of December 31, 2011 retained earnings of previous years amounted to RUB 769,282 mln, compared with RUB 798,507 mln as of December 31, 2010.

Change in retained earnings of previous years was due to:

- allocation of RUB 29,251 mln as dividends;
- unclaimed dividends of 26 mln.

Retained earnings in the accounting year were RUB 236,819 mln. The following revenues and costs had impact on size of retained earnings in the accounting year:

Table 25. Income and expenses (RUB thousand)

	2010	2011
Net revenue from sale of goods, products, works and services (less VAT, excises, and other compulsory payments)¹	1,061,306,372	1,372,129,955
Of which:		
• core business sales	1,012,914,498	1,310,797,862
• trade and purchase	46,073,280	58,372,901
• intermediary	2,318,594	2,959,192
Cost of goods sold, products, works and services:	663,018,584	929,231,000
Of which:		
• core business sales	623,320,612	878,558,377
• trade and resale	39,697,972	50,672,623
• intermediary	-	-
Gross profit	398,287,788	442,898,955
Sales costs	126,387,002	125,801,575
Administrative costs	14,703,694	22,820,359
Costs associated with exploration and evaluation of oil & gas reserves	5,941,459	9,309,369
Profit (loss) from sales of goods, works and services	251,255,633	284,967,652
Profit (loss) from other income and expenses	(15,172,347)	191,695
Of which:		
• Interest income	22,369,633	24,139,965
• Interest expenses	17,203,321	18,598,557
• Income from participation in other organizations	2,230,835	4,804,888

¹ Net revenue from sale of goods, products, works and services less VAT and customs duties. Customs duties in 2010 were RUB 461,682,943,000 and in 2011 they were RUB 652,811,090,000.

	2010	2011
Tax payments	4,931,980	6,160,831
Of which:		
• Property tax	4,800,953	6,033,821
Income from sale and disposal of other property	44,563,276	105,748,564
Of which:		
• Income from sale of fixed assets	38,692	50,265
• Income from disposal of long-term promissory notes	103,665	-
• Income from sale of inventory	426,192	171,966
• Income from assignment of claim rights to receivables	958,325	16,635,943
• Income from sale of shares and participatory stakes	1,370,000	3,537,441
• Income from sale of short-term securities	41,558,930	85,245,680
Costs from sale and other disposal of other assets	45,047,497	104,062,995
of which:		
• Cost of shares and participatory stakes disposed of	90	5,043
• Residual cost of fixed assets sold	9,776	14,393
• Cost of long-term promissory notes that were disposed of	103,665	-
• Cost of inventory that was disposed of	218,425	140,974
• Cost of assignment of claim rights to receivables	737,194	15,580,409
• Cost of short-term securities that were disposed of	41,388,915	85,366,251
Income from change in the fair value of derivative financial instruments	8,578,167	5,329,663
Costs from change in the fair value of derivative financial instruments	12,044,795	5,355,593
Other sundry income	117,551,311	249,340,065
Of which:		
• Fines, penalties and forfeits sanctioned by a court	378,098	199,992
• Write-off of accounts payable, for which the claim period had expired, as a result of inventory audit	1,652,377	5,591
• Income of previous years, recognized in the accounting year	2,667,946	5,666,362
• Income from sale and purchase of foreign currency	3,034,439	4,573,601
• Reimbursement of excise payments	7,311,656	7,709,247
• Exchange rate differences	100,957,593	208,406,536
Other sundry costs	131,237,976	254,993,474
Of which:		
• Bank services	699,435	1,286,556
• Acknowledged fines, penalties and forfeits	2,145,300	1,570,755
• Costs from sale and purchase of foreign currency	2,545,409	3,499,227
• Losses of previous years, recognized in the accounting year	7,193,833	2,665,738
• Exchange rate differences	105,158,729	220,335,338

Table 26. Expenses breakdown (RUB thousand)

Types of expenses	2011
Material costs	656,461,159
Payroll	5,858,645
Social contributions	490,389
Amortization	47,379,650
Costs, associated with exploration and evaluation of oil & gas reserves	9,309,369
Other expenses	367,663,091
Total	1,087,162,303

20. | DEFERRED TAX ASSETS AND LIABILITIES, PERMANENT TAX ASSETS AND LIABILITIES

Permanent and temporary differences between accounting profit and taxable profit in the accounting period are recorded in accounts. Temporary and permanent differences, calculated by comparison of accounting data and data of tax accounts by income and expense lines for the accounting period, lead to creation of 'Permanent tax liabilities and assets' and of 'Deferred tax liabilities and assets'.

The Company prepares data to reflect its income tax position on a monthly basis.

Deferred income tax assets and liabilities are shown in detail on the Balance Sheet as parts of non-current assets and long-term liabilities, respectively.

The summary amount of permanent tax assets (liabilities) is shown in the Profit & Loss Account for reference purposes.

The rate of income tax applied for calculation of deferred and permanent tax assets and liabilities is 20%.

Table 27. Deferred and permanent tax assets and liabilities (RUB thousand)

Item	Balance at start of year	Charged in the accounting year	Settled in the accounting year	Balance at end of year
Deferred tax assets	3,051,393	2,481,909	857,181	4,676,121
Deferred tax liabilities	14,050,134	2,938,343	903,642	16,084,835
Permanent tax assets	X	16,089,431	X	X
Permanent tax liabilities	X	9,102,973	X	X

Contingent income tax expenses were RUB 57,032 mln. Permanent and temporary differences, leading to adjustment of contingent income (expenses) from income tax are shown in the table.

Table 28. Permanent and temporary differences, leading to adjustment of contingent income (expenses) from income tax (RUB thousand)

Item	Balance at start of year	Charged in the accounting year	Settled in the accounting year	Balance at end of year
Positive permanent differences	X	45,514,865	X	X
Negative permanent differences	X	80,447,155	X	X
Temporary differences subtracted	15,256,965	12,409,545	4,285,905	23,380,605
Taxable temporary differences	70,250,670	14,691,715	4,518,210	80,424,175

21. | DIVIDENDS**NUMBER AND PAR VALUE OF SHARES**

Equity of OJSC Rosneft Oil Company is equivalent to Company capital as per documents of incorporation. Owners of ordinary shares have the right to one vote at the Meeting of Shareholders per one share, which they have acquired.

The Company has placed 10,598,177,817 ordinary shares with par value of RUB 0.01 each, representing total par value of RUB 105,981,778.17.

DIVIDEND AMOUNT

Net income of the Company in 2011 was RUB 236,819 mln. Net income per share in 2011 was RUB 22.35.

Recommendations to be made to the General Meeting of Shareholders concerning the amount of dividends on Company shares for 2011 will be provisionally decided by the Board of Directors during the first half of 2012.

The Annual General Meeting of Shareholders on June 10, 2011 (unnumbered minutes, dated June 16, 2010) decided to make payments on ordinary shares of OJSC Rosneft Oil Company for 2010 totaling RUB 29,251 mln, which represents RUB 2.76 per share.

As of December 31, 2011 the Company had paid total RUB 29,217.65 mln in dividends. Dividends were paid to all persons listed in the register of shareholders of OJSC Rosneft Oil Company, except for persons, information on whom was not provided in full by nominees, and persons, who had failed to provide timely information to the issuer's registrar concerning changes to the data recorded in their registration forms.

22. | CONTINGENT LIABILITIES

1. In 2006 Yukos Capital S.a.r.l., a former subsidiary of OJSC Yukos Oil Company, initiated proceedings in various arbitration courts against OJSC Yuganskneftegaz, which was subsequently annexed to Rosneft, alleging failure to implement four rouble loan agreements. The International Commercial Arbitration Court of the Russian Chamber of Commerce (hereinafter ICAC of the RCC) made four rulings in favor of Yukos Capital S.a.r.l. in respect of the aforementioned loans with total value of about RUB 12.9 bln.

In 2007 the Company successfully contested the rulings by the ICAC of the RCC, which were overturned by Russian courts, including the Supreme Arbitration Court of the Russian Federation. However, Yukos Capital S.a.r.l. made an application for rulings of the ICAC of the RCC to be upheld in the Netherlands. The District Court in Amsterdam refused to allow implementation of the aforementioned rulings in the Netherlands because they had been properly overturned by a competent court. Yukos Capital S.a.r.l. appealed against this decision and on April 28, 2009 the Amsterdam Appeal Court overturned the ruling of the District Court and permitted Yukos Capital S.a.r.l. to implement the ruling of the ICAC of the RCC in the Netherlands. The Company appealed to the Supreme Court of the Netherlands for the ruling of the Amsterdam Appeal Court to be revised.

At the start of 2010 Yukos Capital S.a.r.l. made a further claim against the Company to the London High Court for recognition and implementation of the ICAC rulings in England and Wales, and also for awarding of interest on the sums referred to by these rulings.

On June 25, 2010 the Netherlands Supreme Court ruled that the appeal by the Company against the ruling of the Amsterdam Appeal Court, by which the ICAC were implemented in the Netherlands, should not be heard. Although Rosneft disagrees with the rulings of the aforementioned Dutch courts, it obeyed them on August 11, 2010, and carried out the relevant payments with respect to the claim against the Company.

In addition to the above-mentioned payments, Yukos Capital S.a.r.l. has maintained its claim in the London High Court for payment of interest, calculated on the basis of legal provisions, in the sum of USD 160 mln as of the date when the claim was submitted. On June 14, 2011 the London High Court delivered a provisional verdict on two preliminary matters, which it had agreed to consider before delivering a verdict on the substance

of the claim. Although the Court found in favour of Yukos Capital S.a.r.l. in both instances, it allowed Rosneft to appeal against the decisions. On July 5, 2011 the Company gave notice that it will appeal and the argumentation of its appeal was submitted on July 19, 2011. Hearings in the English Appeal Court are scheduled for March 2012. A schedule for hearing the substance of the case will be confirmed as soon as a verdict has been delivered on the Company's appeal. The Company intends to make every effort to defend its position in the remaining court proceedings in England.

In 2007 claims were presented to the Moscow Arbitrage Court for loan transactions by Yukos Capital S.a.r.l. to be declared void. Hearing of the claims was suspended in 2009. A decision on resumption of the hearing is to be taken at a meeting of the Court on February 21, 2012.

- In May 2007 a court in Amsterdam upheld an application by the company Glendale Group Limited for preventative arrest of RUB 3.5 bln in cash, which may be transferred to Rosneft as a result of court claims in the Netherlands. Glendale Group Limited justified the application by the existence of a RUB 3.5 bln debt on 8 promissory notes issued by OJSC Yuganskneftegaz in 2003. The court requested Rosneft to present its objections to the claim before October 15, 2008, and the Company asserted lack of jurisdiction of this dispute in the Netherlands, which was rejected by the court on May 13, 2009. The court again requested Rosneft to present its objections to the claim before June 24, 2009, and Rosneft made an application before that date for originals of the promissory notes to be presented by the claimant. The court rejected this claim on February 17, 2010 since Glendale Group Limited had in the meantime presented the promissory notes to the court. On July 7, 2010 Rosneft submitted objections to the claim and a request for hearing of the dispute to be stopped, which was rejected. On December 7, 2011 the Company submitted to the Court additions to its objections to the claim, and Glendale Group Limited must submit its response to the Company's objections by March 28, 2012.
- The Company is at present taking court action to challenge decisions of the tax body on refusal to refund VAT. The sum at issue is not substantial.
- Decisions by tax authorities as a result of inspections at Company offices in 2004-2005 (the sum at issue is RUB 1.3 bln) and in 2006-2007 (the sum at issue is RUB 0.7 bln) are also being disputed in court. Positive verdicts have been delivered on the claims by the Company: a positive verdict concerning the tax inspection for 2004-2005 has come into legal force and was left unchanged by a cassation court; and a positive verdict concerning the tax inspection for 2006-2007 has come into legal force, but an appeal has been lodged by the tax body, which is due to be heard on March 1, 2012. The management of Rosneft believes that outcome of these court hearings will not have substantial impact on the business results or the financial situation of the Company.
- In August 2011 the Khanty-Mansi Inter-district Prosecutor's Office for Nature Conservation submitted joint claims against the Company and its subsidiary OJSC RN-Yuganskneftegaz relating to failure to fulfil obligations for use of associated gas at five Company fields, which are operated by OJSC RN-Yuganskneftegaz. The claims call for flaring of oil gas to be limited to 5% of the total amount of gas produced. The claims by the Prosecutor's Office were upheld in 2011 by a first-level court. The unfavourable verdicts of the first-level court have been amended: the verdict prohibiting flaring of oil gas has been quashed, and a compliance schedule has been issued with respect to the verdict requiring the Company to observe license conditions.
- On October 28, 2008 the Russian Federal Antimonopoly Service delivered a ruling and recommendation with respect to violation by Rosneft of antimonopoly legislation. A court application was made contesting the ruling and recommendation.

On December 24, 2008 the Russian Antimonopoly Service issued a resolution, based on the ruling and recommendation of October 28, 2008, to impose an administrative fine of RUB 1,508.7 mln on Rosneft for violation of antimonopoly legislation. Court application has also been made to contest this resolution. In 2010 a first-level arbitration court merged these two cases into a single case. On February 25, 2011 the court decided to terminate proceedings in this case. The court decision on termination of proceedings and, correlatively, the resolution by the Federal Antimonopoly Service on imposition of a fine came into legal force on March 25, 2011. As a result, the fine of RUB 1,508.7 mln was paid on April 22, 2011.

In August 2011 the Russian Federal Antimonopoly Service made a ruling with respect to Rosneft, accusing the Company of setting monopolistically high prices for diesel fuel and jet fuel in the period from October 2010 to January 2011. In January 2012 the Company was served with a ruling of the Federal Antimonopoly Service, based on inspections, by which the Company is liable to payment of a fine under civil law. The fine of RUB 1,375 mln is due for payment by February 29, 2012.

23. | OPERATIONS WITH RELATED PARTIES

In its ordinary business, OJSC Rosneft Oil Company carries out transactions with companies, which are defined as related parties under Russian law.

A list of related parties is drawn up based on the nature of the relationships between the companies, taking account of the priority of content over form.

Rosneft also treats as related parties any companies, which are not affiliates under Russian law, but which are defined as such by IFRS No. 24, 'Related Party Disclosures' (companies controlled by the state as well as shareholders, who have the right to dispose of more than 10% and less than 20% of voting shares).

Sums of transactions and settlements with related parties are disclosed separately for the following groups of related parties, which have various relationships with Rosneft:

- subsidiaries (companies consolidated by Rosneft as subsidiaries);
- dependent companies (companies consolidated by Rosneft as dependent);
- main owners (shareholders disposing of more than 10% of voting shares);
- organizations controlled by the state;
- participants in joint activities with Rosneft;
- other related parties.

SUBSIDIARIES

Information disclosure in this group relates to transactions with subsidiaries, in which Rosneft owns more than 50% of ordinary voting shares either directly or through other organizations, or which Rosneft controls in another fashion.

Table 29. Operations with subsidiaries (RUB thousand)

	2010	2011
SALES AND OTHER INCOME		
Sales of oil & gas	75,506,061	83,159,431
Sales of petroleum products and petrochemicals	235,336,394	309,968,750
Property lease-out	49,787,525	62,383,756
Other sales (including sales of goods) and incomes	49,682,392	48,482,787
	410,312,372	503,994,724

	2010	2011
EXPENSES AND COSTS		
Purchase of oil & gas	28,862,520	47,291,474
Purchase of petroleum products and petrochemicals	1,905,648	1,345,300
Logistics and transport services	58,588,296	60,790,986
Oil & gas production services	138,413,249	162,284,427
Processing fees	48,213,091	58,359,066
Other	17,452,162	21,409,380
	293,434,966	351,480,633
OTHER TRANSACTIONS		
Fixed asset acquisitions	-	70
Credits and loans issued	17,227,210	63,909,510
Repayment of credits and loans issued	102,209,830	147,791,524
Short-term credits and loans received	69,176,924	25,546,578
Repayment of short-term credits and loans	57,448,948	21,321,722
Long-term credits and loans received		26,611,036
Repayment of long-term credits and loans	219,008	68,913,586
Bank deposits placed	-	4,000,000
Bank deposits redeemed	-	4,000,000
Interest receivable	11,561,169	11,627,100
Dividends received	2,214,551	3,551,453

Table 30. Assets and liabilities involved in transactions with subsidiaries (RUB thousand)

	Balance on 31.12.2010	Balance on 31.12.2011
ASSETS		
Cash and equivalents	11,396,279	12,550,204
Accounts receivable, of which	111,096,603	177,791,315
• long-term	21,058,561	19,197,117
• short-term advances made	28,392,738	27,004,056
• provision against doubtful debts, end of period	25,448	9,002
Short- and long-term financial investments,	774,915,298	707,147,502
• of which, long-term	502,044,516	432,413,857
	897,408,180	897,489,021
LIABILITIES		
Short-term accounts payable	117,454,825	137,145,361
Short- and long-term credits and loans (including interest)	148,140,593	109,892,577
• of which, long-term loans and borrowings	5,419,790	45,020,254
	265,595,418	247,037,938

DEPENDENT COMPANIES

Information disclosure in this group relates to transactions with dependent companies, in which Rosneft owns more than 20% but less than 50% of ordinary voting shares either directly or through other organizations, and over which Rosneft exercises substantial influence.

Table 31. Operations with dependent companies (RUB thousand)

	2010	2011
SALES AND OTHER INCOME		
Sales of oil & gas	1,625,308	1,787,748
Sales of petroleum products and petrochemicals	2,603,816	2,237,593
Property lease-out	128,944	112,791
Other income	2,751,071	1,084,302
	7,109,139	5,222,434
EXPENSES AND COSTS		
Purchase of oil & gas	14,236,748	23,557,491
Logistics and transport services	1,531,030	3,102,858
Property leasing costs	27,684	27,905

	2010	2011
Other costs	47,755	87,986
	15,843,217	26,776,240
OTHER OPERATIONS		
Credits/loans issued	4,167,562	338,108
Repayment of credits/loans issued	173,246	15,219
Interest receivable	538,986	546,132
Dividends received	16,284	19,837

Table 32. Assets and liabilities involved in operations with dependent companies (RUB thousand)

	Balance on 31.12.2010	Balance on 31.12.2011
ASSETS		
Accounts receivable, of which	2,897,106	3,184,576
• long-term	1,053,392	1,033,196
• short-term advances made	130,563	189,687
• provision for doubtful debts, end of accounting period	38,452	39,126
Short- and long-term financial investments,	22,591,045	23,040,455
• of which, long-term	16,324,716	18,912,715
	25,488,151	26,225,031
LIABILITIES		
Short-term accounts payable	509,190	251,376
Short- and long-term credits and loans (including interest)	970	970
• of which, long-term credits and loans	-	-
	510,160	252,346

REMUNERATION TO PRINCIPAL MANAGERS

Principal managers, for purposes of information disclosure, are: the Company President, Vice-Presidents, members of the Board of Directors, members of the Management Board, members of the Internal Audit Commission, heads of autonomous sub-divisions (departments and directorates), as well as other officials, who are appropriately empowered.

Short-term remuneration of principal managers, consisting of salaries and bonuses, totaled RUB 3,211,220,000 in 2011. This sum includes personal income tax and contributions to off-budget funds. Severance payments in 2011 totaled RUB 388,103,000.

The Company also provides insurance for its principal managers. Insurance contributions in 2011 totaled RUB 1,298,058,000.

Information on remuneration to members of the Board of Directors and of the Internal Audit Commission is given in Section 1 of these Notes to Financial Accounts.

PRINCIPAL OWNERS

Dividends paid to the principal owner in 2010 for 2009 were RUB 18,321 mln and RUB 21,986 mln in 2011 for 2010.

COMPANIES CONTROLLED BY THE GOVERNMENT

Such companies include former sub-divisions of RAO UES, as well as OJSC Gazprom, OJSC RZhd (Russian Railways), OJSC Sberbank, Vneshekonombank, OJSC VTB Bank, OJSC Gazprombank, OJSC Transneft, as well as federal government bodies, including tax bodies.

Table 33. Operations with companies controlled by the Government (RUB thousand)

	2010	2011
SALES AND OTHER INCOME		
Sales of oil & gas	52,359,410	129,233,366
Sales of petroleum products and petrochemicals	18,000,359	29,717,130
Gains on disposal of financial investments	-	3,537,441
Other income	50,280	352,092
	70,410,049	162,840,029
EXPENSES AND COSTS		
Purchase of oil & gas	35,868,975	78,950,932
Logistics and transport services	114,511,536	143,253,217
Customs duties	529,055,215	832,402,488
Property leasing costs	547,780	666,305
Insurance costs	368,376	1,382,151

	2010	2011
Costs of disposal of financial investments	680,213	2,915,123
Other expenses	1,510,124	5,166,644
	682,542,219	1,064,736,860
OTHER OPERATIONS		
Short-term credits and loans received	43,809,630	54,786,815
Short-term credits and loans repaid	43,794,312	54,773,302
Long-term credits and loans repaid	39,579,366	3,280,772
Deposits placed	900,683,556	718,878,558
Deposits redeemed	815,925,357	570,519,069
Interest payable	247,271	14,771
Interest receivable	6,946,532	7,168,490
Guarantees and collateral issued	25,607,744	19,310,010

Table 34. Assets and liabilities participating in operations with companies controlled by the Government (RUB thousand)

	Balance on 31.12.2010	Balance on 31.12.2011
ASSETS		
Cash and cash equivalents, including deposits placed for up to 91 days	76,600,366	54,754,966
Accounts receivable, of which	18,028,241	20,953,158
• long-term receivables	31,298	79,274
• short-term advances made	7,454,693	8,488,278
• provisions for doubtful debts, end of period;	561,643	55,826
Short- and long-term financial investments,	149,644,514	34,406,744
• of which, long-term	75,000	3,520,449
	244,273,121	110,114,868
LIABILITIES		
Short-term payables	5,930,067	5,440,917
Short- and long-term credits and loans (including interest)	3,353,532	-
	9,283,599	5,440,917

PARTICIPANTS IN JOINT ACTIVITY

There were no transactions with companies, which were participants in joint activity with Rosneft, during 2010-2011.

OTHER RELATED PARTIES

The group of 'other related parties' includes a non-state pension fund and insurance companies, acting in the interests of Company employees, and other companies.

Table 35. Operations with other related parties (RUB thousand)

	2010	2011
SALES AND OTHER INCOME		
Sales of oil & gas	245,193	285,328
	245,193	285,328
EXPENSES AND COSTS		
Insurance costs	135,809	-
Costs related to non-state pension fund agreements	270,385	286,861
	406,194	286,861

Table 36. Assets and liabilities participating in operations with other related parties (RUB thousand)

	Balance on 31.12.2010	Balance on 31.12.2011
ASSETS		
Accounts receivable	82	-
	82	-
LIABILITIES		
Short-term accounts payable	141	791
	141	791

Settlements between the Company and related parties were mainly in cash during the accounting period.

24. | INDICATORS BY SEGMENTS

In compliance with accounting rule No. 12/2010, 'Information by segments', provision of information by segments takes account of economic, currency, credit and price risks, to which the Company may be exposed.

Table 37. Business segments (RUB thousand)

Segment	Net revenue in the accounting year		
	Total	External market	Domestic market
Oil	633,242,645	523,298,619	109,944,026
Gas	16,143,779	-	16,143,779
Petroleum products	631,363,413	306,687,266	324,676,147
Other sales	91,380,118	-	91,380,118
Total:	1,372,129,955	829,985,885	542,144,070

The line 'Other sales' includes: sale of materials and fixed assets, income from leasing of fixed assets, etc.

25. | OTHER ASPECTS OF COMPANY BUSINESS**ENVIRONMENTAL PROTECTION ISSUES**

Business of companies in the oil & gas sector is always associated with risk of environmental harm. Company managers believe that business of the Company complies with legislation concerning protection of the environment, so that the Company is not at risk of significant liabilities.

INSURANCE

The Company continues to carry out insurance of property, means of transport, cargoes, transportation, construction and assembly work, and responsibility of directors and managers.

ENERGY RESOURCES

Data on total spending on energy resources used in 2011².

Table 38. Data on energy resources used (RUB thousand)

Nº	Type of energy	Sum
1	Electricity	24,361
2	Heat	3,943

President of OJSC Rosneft Oil Company

E.Yu. Khudainatov

Acting General Director of LLC RN-Uchet
(Agreement dated January 1, 2012 № 0001011/3473D)

V.A. Surkov

February 10, 2012

² Required by Article 22 of the Federal Law No. 261 'On Energy Saving and Improvement of Energy Efficiency and on Amendments to Certain Legal Acts of the Russian Federation', dated November 23, 2009. In accordance with Article 2, of Law No. 261, an energy resource is an energy carrier, whose energy is used or can be used in business or other activity, and also a type of energy (atomic, heat, electric, electromagnetic, or other).

Appendix 3

Main Risk Factors

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ROSNEFT

INDUSTRY RISKS

RISKS ASSOCIATED WITH PRICES FOR CRUDE OIL, GAS AND PETROLEUM PRODUCTS

DESCRIPTION

The Company has limited means to control prices for its production, which depend mainly on world market conditions, and the balance of supply and demand in various Russian regions.

Decline of prices may lead to reduction in volumes of crude oil and gas, which the Company can produce profitably, and this may in turn lead to reduction in the volume of Rosneft reserves, which can be efficiently developed, and to lower economic efficiency of prospecting and exploration programs.

MINIMIZATION

Rosneft has sufficient opportunities for reallocating goods flows in case of significant price difference between domestic and international markets. The Company is also able to reduce capital and operating expenses quickly in order to meet its commitments in case of sharp decline in prices for crude oil, gas and petroleum products.

RISKS ASSOCIATED WITH DEPENDENCE ON MONOPOLISTIC PROVIDERS OF TRANSPORTATION SERVICES

DESCRIPTION

Rosneft depends on monopolistic providers for transportation of oil and oil products, and has no control over the infrastructure that they use and tariffs they set.

The Company works with the Russian crude oil pipeline monopoly, Transneft, the petroleum product pipeline monopoly, Transnefteprodukt, and with the rail monopoly, Russian Railways (RZHD). Any serious failure in operation of the Transneft pipeline system, restrictions on access to its capacities or tariff growth negatively affect Rosneft's operating results and financial position. Use of railway services exposes Rosneft to risks, such as potential failure of deliveries due to deterioration of railway infrastructure in Russia. Incompatibility of Russia's wide-gauge track with rail track in most foreign countries lead to additional expenses and logistical obstacles. Another substantial risk arises from high levels of traffic on rail routes to the Far East due to growth in exports of coal from Western Siberia and Krasnoyarsk Territory and to increase of crude oil transportation via the railway section of the Eastern Siberia – Pacific Ocean pipeline route.

MINIMIZATION

In order to minimize its dependence on monopolistic providers of transport services Rosneft delivers a part of its crude oil and petroleum product exports via its own sea terminals (Murmansk, De Kastri, Tuapse and Nakhodka).

RISKS RELATED TO GEOGRAPHIC AND CLIMATIC CONDITIONS

DESCRIPTION

Rosneft operates in regions that have stable climates and are not generally subject to natural hazards and disasters. However, abnormally low temperatures during the winter in a number of northern regions may complicate operations of the Company's oil production enterprises. Exports via Black Sea terminals to Mediterranean ports may be restricted by throughput capacity of the Bosphorus Strait and by weather conditions (storm winds) in the Black Sea during the autumn. Also, severe ice conditions may lead to closure of export terminals on the Baltic Sea and at De-Kastri during the winter.

Any extended hold-ups in functioning of export terminals may have adverse effect on operating results and financial position of the Company.

MINIMIZATION

Rosneft minimizes these risks by taking account of complex climate conditions when planning field construction. Ability to reallocate goods flows enables Rosneft to minimize a part of its logistics risks.

RISKS ASSOCIATED WITH SALE OF PRODUCED GAS

DESCRIPTION

Rosneft is exposed to several risks in connection with sales of the gas it produces. The Unified Gas Supply System ('UGSS') is owned and operated by OJSC Gazprom and transports practically all gas in Russia. Gazprom is the monopoly supplier of gas in Russia and defines terms of access to the UGSS for third parties. Domestic prices for gas are set by the Russian Government and they remain below international levels although growth of domestic prices is expected.

MINIMIZATION

The Company minimizes these risks by reaching agreements with Gazprom and by using conservative forecasts for gas price growth when taking decisions on implementation of gas projects.

RISKS ASSOCIATED WITH FACTUAL AMOUNTS OF RESERVES

DESCRIPTION

Estimates of the value and amount of economically recoverable crude oil and gas reserves, rates of production, net present value of future cash flows and the timing of development expenditures necessarily depend upon several variables and assumptions and are subjective. Further uncertainty attaches to estimates of reserves using the Russian classificatory system, since this system considers only geological factors and does not take account of the economic viability of reserve production.

Prospecting drilling involves risks of additional unforeseen expenses due to complex geology, anomalous levels of formation pressure (either high or low), heterogeneity in geological formations, equipment breakdowns and accidents, unfavorable weather, the need to observe environmental law and prescriptions by Government agencies, and shortages or late delivery of drilling rigs and equipment.

Due to the above-mentioned factors the amount of the Company's proved reserves may decline due to causes that are beyond the Company's control, which may in turn lead to decline in production volumes with unfavorable impact on the Company's operating results and financial position.

MINIMIZATION

Rosneft is a world leader by amounts of oil reserves and has an enormous resource base, which minimizes risks associated with decline of oil production due to future revision of reserve amounts.

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ROSNEFT

COMPETITION RISKS**DESCRIPTION**

The oil & gas industry is intensely competitive. Rosneft competes mainly with other leading Russian oil & gas companies in the following areas of business:

- purchase of exploration and production licenses at auctions held by Russian Government agencies;
- acquisition of other Russian companies;
- engaging the services of leading independent service companies;
- obtaining equipment for capital projects, which may be in short supply;
- employment of highly skilled and experienced staff;
- acquisition of existing retail enterprises and of land plots to develop new retail enterprises;
- acquisition of, or gaining access to, oil refining facilities.

MINIMIZATION

Rosneft is among industry leaders in Russia and globally, and has a considerable portfolio of new projects to maintain and strengthen its positions in the future, which substantially improves the Company's competitive position.

COUNTRY AND REGIONAL RISKS**RISKS ASSOCIATED WITH COUNTRIES AND REGIONS OF OPERATION****DESCRIPTION**

Rosneft has operations in all Federal Districts of the Russian Federation and outside the country. Rosneft is currently taking part in a large number of projects with a broad range of foreign partners, including partners from Northern, Latin and Central America. Implementation of projects in certain countries may be complicated by various risks associated with specifics of legal regulation, and with the political and investment climate in those countries.

MINIMIZATION

The Concept for Long-Term Socio-Economic Development of the Russian Federation up to 2020 defines sectors, which could be successfully developed in specific regions of the Russia Federation.

Risks of military conflicts, social unrest, strikes, and declaration of a state of emergency in regions where the Company has operations are negligible.

The Company carries out multilateral assessment of risks when taking decisions on participation in international projects and constantly monitors risks in countries where projects are being implemented with the Company's involvement.

FINANCIAL RISKS**CURRENCY RISK****DESCRIPTION**

Most of Rosneft's gross revenue is generated from export of crude oil and petroleum products. Consequently, fluctuations in exchange rates of foreign currencies against the rouble influence the Company's business results, subjecting the Company to currency risk.

MINIMIZATION

The Company's currency risk is substantially reduced by existence of expenses that are denominated in foreign currency. Rosneft is a large borrower on international debt capital markets, and the bulk of its loans are denominated in US dollars. Current liabilities for servicing of these loans are also denominated in dollars. This revenue and liability structure acts as an in-built hedging mechanism, where factors compensate one another by acting in opposite directions. A balanced structure of claims and liabilities in foreign currency minimizes impact of currency risk on the Company's business results. The Company manages risk pertaining to the share of claims and liabilities, which are not balanced, by entering into forward agreements for sale of foreign currency.

INTEREST RATE RISK**DESCRIPTION**

As a major borrower, Rosneft is exposed to risks associated with changes in interest rates. The Company's primary source of debt financing is international debt capital markets. The majority of its debt portfolio is represented by US dollar-denominated loans that bear interest at rates determined with reference to LIBOR and EURIBOR interbank loan rates. Accordingly, an increase in LIBOR/EURIBOR rates can lead to higher costs of debt servicing, which, in turn, may adversely affect the Company's solvency and liquidity.

MINIMIZATION

The Company has a balanced policy for use of internal and loan financing and has active ratings from Moody's (Baa1), Fitch (BBB) and S&P (BBB-). Rosneft carries out transactions with derivative financial instruments in order to obtain a fixed rate of interest on a part of its loan portfolio. Growth of the Company's credit rating and that of the Russian Federation are important factors in reducing the cost of borrowing for the Company in the future, and also help to keep down the cost of hedging risks associated with changes of interest rates.

INFLATION RISK**DESCRIPTION**

Change in the consumer price index has some impact on the Company's financial position. However, existing and forecast levels of inflation are far from critical for the Company and the oil & gas industry as a whole. A 'critical' level of inflation is one, which is triple the level forecasted by the Ministry of Economic Development for the current year.

MINIMIZATION

Rosneft is not taking any special measures to reduce this risk, viewing it as insignificant.

2011
ROSNEFT**RISK ASSOCIATED WITH INVESTMENT IN PROJECTS WITH RETURN ABOVE 10% A YEAR****DESCRIPTION**

Rosneft has a target rate of return equal to 10% for investments in its core business, including acquisition of stakes in Russian and international companies, as well as investments in non-core business, and investments for management of surplus cash (over and above amounts needed for maintaining current liquidity). This is associated with a number of risks.

MINIMIZATION

The Company operates a risk management system, which includes clear corporate procedures for decision-making in respect of such investments. The Rosneft Investment Committee holds regular meetings to consider various investment projects. Decisions concerning investments in excess of USD 50 mln must be taken at the level of the Management Board and decisions on investment sums in excess of USD 500 mln are taken by the Board of Directors. The annual investment program is approved by the Board of Directors as part of the Company's business plan. Cash in trust management is mainly placed in roubles and US dollars in highly rated financial instruments of Russian and foreign issuers, which minimizes the level of risk across the portfolio. Instruments and issuers are approved by Rosneft in order to ensure control over levels of risk.

LEGAL RISKS**RISK ASSOCIATED WITH CHANGES IN CURRENCY REGULATION****DESCRIPTION**

Rosneft is heavily involved in foreign economic activities. A part of the Company's assets and liabilities is denominated in foreign currency. So the Government mechanism of currency regulation has impact on Company business.

A number of statutory acts were passed in 2011 aimed at optimizing and simplifying currency control procedures.

Russian legislation concerning currency regulation and control was not subject to any substantial changes affecting the business of Rosneft during the reporting period.

MINIMIZATION

Rosneft constantly monitors changes in currency regulation and control, strictly adheres to established rules and carries out the law-guided recommendations of currency control authorities.

RISKS ASSOCIATED WITH CHANGES IN TAX LEGISLATION**DESCRIPTION**

The main changes to tax law in the reporting year were as follows:

- introduction of consolidated tax payer groups from 2012;
- introduction of new rules for control over transfer price formation from 2012;
- introduction of rules for taxation of members of an investment syndicate;
- introduction of measures for tax support of territorial development zones in the Russian Federation;
- changes to the method of application of mineral extraction tax rates in production of natural gas from all field types and also to tax deductions in production of dehydrated, desalted and stabilized crude oil at sub-surface license areas in Tatarstan or Bashkortostan;
- clarification of a list of services in respect of exported goods for purposes of application of a zero rate of VAT and clarification of the method for confirming application of such a rate.

The Company carries out careful analysis of draft legislation and laws that have been approved in the field of taxation in order to reduce risks associated with changes to tax law. Rosneft constantly monitors changes to tax legislation and assesses and forecasts the impact of such changes on its business, so that likelihood of risks arising in connection with amendments to legislation on tax and duties that have come into force is not significant. Some new measures can be assessed as positive, since they tend to reduce the tax burden on the Company, optimize tax administration and overcome omissions in tax legislation.

MINIMIZATION

Tax legislation is a particularly changeable branch of law, where legal statutes are subject to frequent amendments, additions and clarifications, which may be substantial in nature, as shown by the information provided above concerning tax changes in 2011. Rosneft constantly monitors changes to tax legislation, so that likelihood of risks arising in connection with amendments to legislation on tax and duties that have come into force is not significant.

RISKS ASSOCIATED WITH CHANGE IN CUSTOMS REGULATION AND DUTIES**DESCRIPTION**

Rosneft is involved in foreign trade, and is therefore subject to several risks that arise from changes to legislation concerning Government regulation of foreign trade, and to customs legislation governing procedures for transportation of goods across the customs border, establishment and application of customs regimes, and the setting and levying of customs charges.

Customs regulation is carried out in accordance with international agreements of the Russian Federation in the area of customs issues, with the provisions of the Customs Code of the Customs Union, the Federal Law on Customs Regulation, the Customs Code of the Russian Federation, the Federal Law on the Customs Tariff and other federal laws and legal acts adopted in accordance with such laws in the sphere of Government regulation of foreign trade.

The Federal Law №311-FZ on Customs Regulation in the Russian Federation, (dated 27.11.2010) establishing the procedure and rules for customs regulation in the Russian Federation was passed and is in force for purposes of ensuring fulfilment by the Russian Federation of the international agreements which constitute the legal and contractual basis of the Customs Union as part of Eurasian Economic Community.

At the present time, in accordance with the Federal Law № 164-FZ on the Principles of Government Regulation of Foreign Trade Activity (dated 08.12.2003), crude oil can be exported without quantitative limitations or export licensing. Quantitative limitations on exports can only be introduced by decision of the Government of the Russian Federation in exceptional cases, which are set out in the aforementioned Federal Law.

Rosneft uses the services of professional organizations – customs brokers, acting in the Company's name and on its instructions – for documentation of customs operations, payment of customs duties and other actions connected with observance of the customs regime for export of crude oil and petroleum products. However, it should be noted that delegation of customs operations to customs brokers does not exempt Rosneft from potential risk of civil liability in case of violations of customs legislation. In order to avoid such eventualities Rosneft constantly works with and monitors actions by customs brokers.

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The procedure for setting rates of export customs duties on crude oil (TN VED code 2709 00) and specific goods categories, produced from crude oil, as listed by the Russian Government, is described in clause 4 of Article 3 of the Federal Law № 5003-I on Customs Tariffs (dated 21.05.1993).

According to this procedure export duty rates on crude oil and petroleum products are based on the average price for Urals crude oil on international commodity markets (Mediterranean and Rotterdam) during the most recent monitoring period and come into force on the 1st day of the calendar month following the end of the monitoring period.

Export duties on crude oil set by the Russian Government in 2011 were as follows:

- First quarter: USD 317.5 per tonne in January 2011; USD 346.6 per tonne in February 2011; USD 365.0 per tonne in March 2011;
- Second quarter: USD 423.7 per tonne in April 2011; USD 353.7 per tonne in May 2011; USD 462.1 per tonne in June 2011;
- Third quarter: USD 445.1 per tonne in July 2011; USD 438.2 per tonne in August 2011; USD 444.1 per tonne in September 2011;
- Fourth quarter: USD 411.4 per tonne in October 2011; USD 393 per tonne in November 2011; USD 406.6 per tonne in December 2011.

MINIMIZATION

In the course of its business Rosneft carries out constant analysis and monitoring of changes to customs legislation and takes account of risks associated with new provisions. The Company also maintains efficient interaction with and control over the actions of customs brokers.

RISKS ASSOCIATED WITH CHANGES TO ANTIMONOPOLY LEGISLATION

DESCRIPTION

Rosneft has significant shares of wholesale markets in the Russian Federation for automotive gasoline, diesel fuel, jet fuel and fuel oil, so Company business in this sphere is subject to additional requirements intended to protect competition, entailing risks associated with changes to antimonopoly legislation. Antimonopoly legislation is carried out in accordance with Russian federal laws and legal acts associated with these laws. The principal law governing antimonopoly regulation is the Federal Law on Protection of Competition. At the end of 2011 substantial amendments were made to antimonopoly legislation, having impact on Company business. The amendments came into force in January 2012. Amendments which could have positive impact on Company business include: clarification of the concept of concerted actions and their decriminalization, which will minimize the number of antimonopoly actions initiated by territorial antimonopoly agencies in respect of Rosneft's sales companies; establishment of conditions in which a price cannot be recognized as monopolistically high; and differentiation of administrative liability for abuse of dominant position (Article 14.31 of the Administrative Code of the Russian Federation) depending on consequences of the abuse. Inclusion in the Administrative Code of a procedure for setting fines for violations described in Articles 14.31 and 14.32 of the Code and a list of circumstances that mitigate and aggravate responsibility can be seen as a negative amendment, since its application will substantially increase the level of fines for antimonopoly violations (by eight times on average).

MINIMIZATION

Rosneft constantly monitors both amendments to existing legislation and law drafts, which are in preparation, assessing the nature of any amendments and taking account of them in its business in order to minimize risks arising from changes in antimonopoly requirements. The Company takes all necessary measures in its business selling petroleum products on the domestic market to minimize the risks indicated above, constantly monitoring market price levels and making full use of market instruments when carrying out sales of petroleum products, and also implementing other recommendations of antimonopoly bodies which are intended to ensure that petroleum product pricing is economically justified.

RISKS ASSOCIATED WITH CHANGES IN LICENSING REQUIREMENTS FOR THE COMPANY'S CORE BUSINESS OR LICENSING OF USAGE RIGHTS FOR GOODS, WHICH ARE IN LIMITED SUPPLY (INCLUDING NATURAL RESOURCES)

DESCRIPTION

Changes were made in 2011 to legal regulation of **sub-surface resource use**, through amendments to Federal Law № 2395-I (21.02.1992) on Sub-surface Resources (hereinafter 'the Law on Sub-surface Resources'), which is the act of federal legislation regulating issues of sub-surface resource use (the main activity of Rosneft).

The amendments define the procedure for provision of usage rights at sub-surface areas of local importance. It is established that sub-surface areas of local importance are to be defined as areas containing commonly found sub-surface resources, and resources that can be used for construction and exploitation of underground facilities of local and regional importance which are not connected with mineral extraction. The list of commonly found sub-surface sites is prepared and approved by regional executive authorities by agreement with the Russian Federal Agency on Subsoil Use (Rosnedra) or its territorial branches. The procedure for preparation, review, and consent to lists of sub-surface areas of local importance or refusal of consent to such lists is established by Rosnedra. The amendments also establish that decisions to hold competitions or auctions for usage rights at sub-surface areas of local importance, on the composition and working methods of competition or auction commissions, and also the procedure and terms for conduct of such competitions or auctions are defined by public authorities in the respective region. Further actions by the Company in this sphere will be based on these amendments to legislation aimed at regulating the provision of sub-surface usage rights procedures.

Another alteration to legal regulation of sub-surface resource use during the reporting period was the coming into force of a provision that enables the boundaries of a sub-surface area, which has been provided for use, to be adjusted in return for a payment in order to ensure fully adequate geological study, rational use and protection of the sub-surface resources. The procedure for boundary adjustment and the size of the payment in such instances will be defined by a regulatory act of the Government of the Russian Federation.

MINIMIZATION

These amendments are expected to have positive impact for the Company and to enable more complete, in-depth and rational development of mineral resources.

Following the approval of the new legal acts, the Company is carrying out a systematic review of the boundaries of license areas in instances where there are grounds for boundary changes to be made.

DESCRIPTION

There were substantial changes during the reporting year to the legal regulation of **licensing for certain types of activity** due to the passing of Federal Law № 99-FZ on Licensing of Certain Types of Activity. The most important changes are: shortening of the list of the types of activity, which are subject to licensing (from 105 to 49); unification of several types of activity, which previously required separate licenses; and a ruling that validity of new licenses will not be limited in time. These changes are intended to unify the regulation of licensing for various types of activity and the requirements which organizations must satisfy in order to obtain the respective licenses. The Company is obtaining required permit-documents in accordance with the provisions of the new legislation, which came into force on November 3, 2011.

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MINIMIZATION

Legal risks associated with change in the requirements for licensing of Rosneft's main activity can only have negative consequences to a small extent, since the Company possesses all necessary funds and equipment, uses the provisions of current Russian law to guide the conduct of its business, implements requirements and carries out all necessary measures for compliance with standards of industrial safety as set out in Russian law concerning operation of particularly hazardous facilities and on HSE.

DESCRIPTION

With respect to legal regulation of land use and construction, rules were clarified in the reporting year for provision and confiscation of land plots that are required for conduct of works associated with sub-surface resource use, rules were specified for the division of land plots that are in government or municipal ownership, changes were made to the procedure for taking ownership of land plots by the owners of buildings and structures located on those land plots, the procedure for issue of construction permits was clarified, and the legal content of the concepts 'reconstruction' and 'major repairs' was specified, with separate specifications for transport and communications infrastructure facilities.

Further, the Federal Law № 41-FZ (20.03.2011) on Amendments to the Urban Planning Code of the Russian Federation and to Various Legal Acts concerning Territorial Planning extended validity of the regulation, by which land plots in government or municipal ownership can be made available and by which construction permits can be issued in the absence of rules for land use and construction. The Law also extended the validity of transition rulings, which regulate changes in the type of permitted use of land plots, transfer of land plots from various categories to the urban land category, and exclusion of land plots from urban land boundaries.

MINIMIZATION

The Company is obtaining ownership rights to land plots, including acquisition of land plots that were formerly in government and municipal ownership, and is obtaining permit-documents in compliance with current laws.

We believe that the changes, which are described, harmonize current practise for obtaining rights to land plots and permit-documents, and for obtaining permission from government bodies, and that they will simplify Company access to land plots, which it needs for the purposes of sub-surface use.

DESCRIPTION

Aspects of use, protection, conservation and replacement of protected forests and of protected areas of forests were specified in the reporting year. The changes, which have been made, facilitate access to forest areas, which is required for conduct of sub-surface geological studies and development of mineral fields in regions of Northern European Russia, and of Western and Eastern Siberia, where a lake-and-marsh landscape with numerous watercourses can occupy up to 85% of the territory of license areas, and also in regions where forest-tundra, forest-steppe and other environmentally valuable forest types are predominant (access is assured on the basis of licenses, which were issued before a prohibition on placement of facilities for sub-surface use in protected forests or protected areas of forests came into force, i.e. before 31.12.2010).

Also the Federal Law № 427-FZ (12.12.2011) on Amendments to Articles 2 and 3 of the Federal Law on the Entry into Force of the Land Code of the Russian Federation and Specific Legal Acts of the Russian Federation offers an extension until January 1, 2015, of the regulation which allows forest areas that are part of the forest fund to be put at the disposal of legal entities without the conduct of a state cadastral review (except in cases where forest areas are made available for purposes of recreation).

MINIMIZATION

Further actions by the Company for acquisition of prospective sub-surface area and of rights to forest areas will be guided by these changes.

RISKS ASSOCIATED WITH INABILITY TO EXTEND VALIDITY OF LICENSES FOR PARTICULAR TYPES OF BUSINESS OR FOR USE OF THE OBJECTS OF LICENSING, SUPPLY OF WHICH IS LIMITED (INCLUDING NATURAL RESOURCES)

DESCRIPTION

The licensing regime for geological study, exploration and production of oil & gas is regulated by Russian Federal Law № 2395-1 on Sub-surface Resources (on Minerals), dated February 21, 1992 with amendments and additions, and also by legal acts passed in accordance with that Law. Rosneft operates on the basis of numerous licenses for geological study, exploration and production of hydrocarbons.

Following acquisition of subsidiaries in October 2006 Rosneft became the holder of a larger number of licenses, although several of these licenses belong to Company subsidiaries and joint ventures.

Rosneft is also obliged to obtain and extend the validity of other licenses, permits, agreements, and rights to land use and approvals for development of its fields.

At present most of the Company's licenses for geological study expire in 2013–2015. Russian legislation allows amendments to prospecting licenses regarding extension of periods for geological study.

Most of the Company's licenses for production and combined licenses for exploration and production expire in 2017–2025. Existing legislation permits extension of the validity of exploration and production licenses from 20–25 years to complete field exhaustion.

The Company therefore benefits from mutual dependence, underwritten by legislation, between a license and the relevant development project. This makes it possible to individualize the conditions of mineral use to suit specific field conditions, and also to tailor the conditions of mineral use as regards the period of license validity. The Company takes account of scheduled expiry of mineral-use rights, as specified in the license, and organizes work for license extension to match provisions of the field development project (up to field exhaustion).

Existing legislation on sub-surface resources includes grounds for earlier termination, suspension or restriction of mineral-use rights. If government bodies consider that Rosneft has failed to meet conditions of its licenses, permits or agreements, they may impose a fine, suspend or terminate the Company's mineral-use rights. In any case, administrative steps for early termination are only taken by Rosnedra and its territorial subdivisions at the end of a three-month period, during which the license holder can take steps to eliminate the relevant violations.

However, any suspension, restriction or termination of Rosneft's licenses could have adverse effect on the Company's business results and its financial position.

MINIMIZATION

Rosneft observes its license agreements, and also monitors them and keeps them up to date, so the Company views risks of early termination of its mineral-use rights as minimal.

RISKS ASSOCIATED WITH CURRENT LEGAL DISPUTES, TO WHICH THE COMPANY IS A PARTY**DESCRIPTION**

Rosneft has previously participated or is currently participating in the following court cases, which may have substantial impact on the Company's financial results:

1) In 2006 the International Commercial Arbitration Court of the Russian Chamber of Commerce upheld claims by Yukos Capital S.a.r.l. for recovery of debt from OJSC Yuganskneftegaz (the legal predecessor of OJSC Rosneft Oil Company) under four loan agreements. These court decisions are hereafter referred to as the 'Arbitration Verdicts'. The sum to be recovered consisted of RUB 11,233.0 mln loan principal, RUB 1,702.9 mln accrued interest and USD 0.9 mln arbitration fees and court costs. Yukos Capital S.a.r.l. made an application to the Court of Amsterdam (Netherlands) for the Arbitration Verdicts to be upheld and implemented in the Netherlands. In May 2007 Rosneft successfully contested the Arbitration Verdicts in the Moscow Arbitration Court based on procedural violations in the earlier court case. This decision was upheld by appeal and supervisory courts in the Russian Federation. On February 28, 2008 the Amsterdam Court refused to uphold the Arbitration Verdicts and order their execution in the Netherlands. On April 28, 2009 the Amsterdam Appeal Court overturned the ruling of the Amsterdam Court and ordered that the Arbitration Verdicts should be executed in the Netherlands. The Company appealed to the Supreme Court of the Netherlands on April 28, 2009 for the ruling of the Amsterdam Appeal Court to be revised, but on June 25, 2010 the Supreme Court ruled that the appeal by the Company should not be heard.

In addition to the legal case in the Netherlands, Yukos Capital S.a.r.l. made a further claim in 2009 and at the start of 2010 for the Arbitration Verdicts to be upheld and implemented in the USA, and in England and Wales, Ireland, and Jersey, and also for awarding of interest on the sums referred to in the Arbitration Verdicts. In accordance with a court order by the English court on April 6, 2010, the Company agreed to provide security agreed by the parties for purposes of the courts cases in England and the Netherlands, and the court cases in the USA, Ireland, and Jersey were terminated.

As stated above, on June 25, 2010 the Supreme Court of the Netherlands ruled that the appeal by the Company against the verdict of the Amsterdam Appeal Court from April 28, 2010 should not be heard. Although Rosneft disagrees with the rulings of the aforementioned Dutch courts, on August 11, 2010 it made a payment to Yukos Capital S.a.r.l. equivalent to the sum indicated in the Arbitration Verdicts.

Apart from the above-mentioned payments, Yukos Capital S.a.r.l. is maintaining its application to the High Court of Justice in London for payment of interest, calculated by reference to legal statutes, amounting to USD 160 mln at the time when the application was made. Rosneft will make every effort to defend its position in respect of the remaining claims in the ongoing legal proceedings in England. Hearings concerning certain preliminary matters as part of the above-mentioned court case were held in May 2011. On June 14, 2011 the London High Court delivered a provisional verdict on two preliminary matters, which it had agreed to consider before delivering a verdict on the substance of the claim. Although the Court found in favour of Yukos Capital S.a.r.l. in both instances, it allowed Rosneft to appeal against the decisions. On July 5, 2011 the Company gave notice that it will appeal and the argumentation of its appeal was submitted on July 19, 2011. Hearings in the English Appeal Court took place in March 2012. A schedule for hearing the substance of the case will be confirmed as soon as a verdict has been delivered on the Company's appeal. The Company intends to make every effort to defend its position in the remaining court proceedings in England.

2) In 2007 CJSC Vesta Investment Company, which is a shareholder of Rosneft, brought a claim in the Moscow Arbitration Court for four loan agreements between the company Yukos Capital S.a.r.l. as lender and OJSC Yuganskneftegaz as borrower to be declared void (fictitious). Total amount of the borrowing under the terms of the disputed agreements is RUB 11.2 bln. Rosneft, as the legal successor of OJSC Yuganskneftegaz, is participating in the proceedings as co-defendant. Hearing of the case was temporarily interrupted, but the Moscow Arbitration Court has now resumed conduct of the case and hearings are scheduled for April 11, 2012.

3) In May 2007 a court in Amsterdam (the Netherlands) upheld an application by the company Glendale Group Limited for preventative arrest of RUB 3.5 bln in cash, which may be transferred to Rosneft as a result of court claims in the Netherlands. Glendale Group Limited justified the application by the existence of a RUB 3.5 bln debt on eight promissory notes issued by OJSC Yuganskneftegaz in 2003. Various process pleas relating to the claim were heard in 2008-2010, and on July 7, 2010 the Company presented its defense and a plea for hearings in the case to be terminated (rejected by the Amsterdam court on July 20, 2011). On August 31, 2011 Glendale Group Ltd. submitted objections to the defense by Rosneft, in response to which the Company submitted its explanations. Further objections by Glendale Group Ltd. to the defense by Rosneft are due to be presented by March 28, 2012. A decision by the Amsterdam court on the procedure for further hearings is currently being awaited.

Rosneft is also involved in a number of other courts cases, which arise in the course of its ordinary business and do not entail substantial financial risk for the Company.

MINIMIZATION

Rosneft regularly monitors verdicts delivered by higher courts and assesses trends in the interpretation of laws at the level of regional arbitration courts, making full use of its monitoring data both for the purposes of defending its rights and lawful interest in court and for regulation of issues that arise in the course of Company business. Risks associated with changes in court practice are therefore believed to be insignificant.

Appendix 4

Information on Observance by OJSC Rosneft of the Corporate Code of Conduct

Prepared in accordance with Guidelines regarding Composition and Form of Presentation of Information on Observance of the Corporate Code of Conduct in annual reports of joint-stock companies, as approved by Resolution № 03-849/r of the Federal Commission for the Securities Market, dated April 30, 2003.

INFORMATION ON OBSERVANCE
BY OJSC ROSNEFT OF THE CORPORATE CODE OF CONDUCT

ROSNEFT

Code provision	Observed/ Not observed	Notes
GENERAL MEETING OF SHAREHOLDERS		
1	Observed	<p>Sub-clause 9.4.1 of clause 9.4, 'Notice of the General Meeting of Shareholders' of Article 9 of the Charter of OJSC Rosneft, 'General Meeting of Shareholders';</p> <p>Clause 1 of Article 13, 'Convening and preparing for a General Meeting of Shareholders' of Chapter 3, 'General Meeting of Shareholders', of the Corporate Code of Conduct of OJSC Rosneft.</p>
2	Observed	<p>In accordance with clause 4 of Article 51 of the Federal Law 'On Joint Stock Companies' the list of persons eligible to attend the general meeting of shareholders shall be available for viewing to the persons included in the list and holding no less than 1% of the Company shares;</p> <p>Sub-clause 5.8.1 of clause 5.8, 'Shareholder Rights', of Article 5, 'Authorised Capital. Shares. Shareholder Rights', of the Charter of OJSC Rosneft;</p> <p>Clause 4.3, 'Viewing the list of persons who have the right to attend the General Meeting of Shareholders', of Article 4, 'Preparation for holding of a General Meeting of Shareholders', of the Regulation on the General Meeting of Shareholders.</p>
3	Observed	<p>Clause 9.5, 'Information (materials) for the General Meeting of Shareholders', of Article 9, 'the General Meeting of Shareholders', of the Charter of OJSC Rosneft;</p> <p>Clause 4.6, 'Provision of information (materials) that must be provided to persons eligible to attend the General Meeting of Shareholders', of Article 4, 'Preparations for holding of a General Meeting of Shareholders', of the Regulation on the General Meeting of Shareholders;</p> <p>Clause 3 of Article 6, 'Placement of information in the Internet', of the Regulation on Information Policy of OJSC Rosneft.</p>
4	Observed	<p>Sub-clause 2.2.1 of clause 2.2, 'Reviewing proposals and requests of Shareholders', of Article 2, 'Proposals and Requests' of the Regulation on the General Meeting of Shareholders of OJSC Rosneft;</p> <p>Clause 5 of Article 13, 'Convening and preparing for a General Meeting of Shareholders', of Chapter 3, 'The General Meeting of Shareholders' of the Corporate Code of Conduct of OJSC Rosneft.</p>
5	Observed	<p>Clause 5.5, 'Persons attending the General Meeting of Shareholders', of Article 5, 'Holding of a General Meeting of Shareholders in the form of joint presence', of the Regulation on the General Meeting of Shareholders of OJSC Rosneft;</p> <p>Sub-clause 3.2.18 of clause 3.2, 'Responsibilities of a Management Board member', of Article 3, 'Rights, obligations, and responsibilities of Management Board members', of the Regulation on the Collegiate Executive Body (Management Board) of OJSC Rosneft;</p> <p>Sub-clause 4.3.15 of clause 4.3, 'Responsibilities of the President', of Article 4, 'Powers and responsibility of the President', of the Regulation on the Sole Executive Body (President) of OJSC Rosneft;</p> <p>Sub-clause 3.1.2 of clause 3.1, 'Rights and obligations of the Internal Audit Commission', of Article 3, 'Rights and obligations of the Internal Audit Commission. Responsibility of members of the Internal Audit Commission', of the Regulation on the Internal Audit Commission of OJSC Rosneft;</p> <p>Clause 2 of Article 14, 'Holding of a General Meeting of Shareholders', of Chapter 3, 'General Meeting of Shareholders'; clause 1 of Article 19, 'Obligations of executive bodies', of Chapter 4, 'Executive Bodies of the Company'; clause 3 of Article 27, 'Certified public accountants of the Company. Auditing', of Chapter 5, 'Monitoring of financial and business activities of the Company', of the Corporate Code of Conduct of OJSC Rosneft.</p>
6	Observed	<p>This requirement is met in practice;</p> <p>Pursuant to clause 5.5, 'Persons attending General Meetings of Shareholders', of Article 5, 'Holding of a General Meeting of Shareholders in the form of joint presence', of the Regulation on the General Meeting of Shareholders of OJSC Rosneft, candidates included in ballots for election of various Company bodies may attend the General Meeting of Shareholders.</p> <p>Such candidates are sent notification with information on holding of the General Meeting of Shareholders;</p>

Code provision	Observed/ Not observed	Notes
7	Observed	<p>Clause 5.6, 'Registration of persons attending the General Meeting of Shareholders held in the form of joint presence', of Article 5, 'Holding of a General Meeting of Shareholders in the form of joint presence', of the Regulation on the General Meeting of Shareholders of OJSC Rosneft;</p> <p>Clause 1 of Article 14, 'Holding of a General Meeting of Shareholders', of Chapter 3, 'General Meeting of Shareholders', of the Corporate Code of Conduct of OJSC Rosneft.</p>
BOARD OF DIRECTORS		
8	Observed	Clause 10.1. (3), 'Competences of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft.
9	Not observed	The Audit Committee of the Board of Directors of OJSC Rosneft has carried out preliminary review of a Concept for Development of a Risk Management System of OJSC Rosneft.
10	Observed	Pursuant to sub-clause 10.1.3 of clause 10.1, 'Competences of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft, appointment of the Company's President or early termination of his/her authority is in the competence of the Board of Directors.
11	Observed	<p>The Board of Directors, in accordance with:</p> <p>Sub-clause 10.1.2 (19) of clause 10.1, 'Competences of the Board of Directors', of Article 10, 'The Board of Directors', defines performance indicators and approves the amount of annual bonuses (premiums) for the Company's managerial staff (senior managers);</p> <p>Sub-clause 10.1.3 (3) of clause 10.1, 'Competences of the Board of Directors', of Article 10, 'The Board of Directors', of the Charter of OJSC Rosneft, approves terms and conditions of agreements with the President of the Company and members of Management Board, and approves changes and amendments to such agreements;</p> <p>Pursuant to clause 5 of Article 3 of the Regulation on the HR and Remuneration Committee of the Board of Directors of OJSC Rosneft, the HR and Remuneration Committee develops principles and criteria for defining amounts of remuneration paid to such persons.</p> <p>In accordance with clause 2 of Article 16 of the Corporate Code of Conduct of OJSC Rosneft, specific requirements for professional qualifications of members of executive bodies are stipulated by internal documents of the Company.</p> <p>Additional criteria for selection of candidates to occupy such posts are defined by the HR and Remuneration Committee of the Board of Directors in accordance with clause 3 of Article 3 of the Regulation on the HR and Remuneration Committee.</p>
12	Observed	<p>Sub-clause 10.1.3 (3) of clause 10.1, 'Competences of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft.</p> <p>The Board of Directors approves the terms of agreements with the Company President and members of the Management Board, and approves amendments and additions to such agreements.</p>
13	Observed	Sub-clause 3.2.1. of clause 3.2 'Responsibilities of members of the Board of Directors' of Article 3 'Rights and obligations of members of the Board of Directors' of the Regulation on the Board of Directors of OJSC Rosneft.
14	Observed	<p>Clause 1 of Article 7, 'Independent members of the Board of Directors', of Chapter 2, 'The Board of Directors', of the Corporate Code of Conduct of OJSC Rosneft;</p> <p>Sub-clause 2.1.2 of clause 2.1, 'Procedure for creation and composition of the Board of Directors', of Article 2, 'Structure of the Board of Directors', of the Regulation of the Board of Directors of OJSC Rosneft.</p>
15	Observed	Complied with in practice.
16	Observed	Complied with in practice.

Code provision	Observed/ Not observed	Notes
17 The charter of the joint-stock company should require the board of directors to be elected by cumulative voting.	Observed	Sub-clause 10.2.4 of clause 10.2, 'Election of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft states that the Board of Directors is elected by cumulative voting at the General Meeting of Shareholders of the Company and consists of 9 members.
18 Internal documents of the joint-stock company should require members of the board of directors to refrain from any actions that will or may potentially cause a conflict between their interests and interests of the company, and to disclose information concerning such a conflict, should it occur.	Observed	Clause 3.2., 'Obligations of a member of the Board of Directors', of Article 3, 'Rights and obligations of members of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft; Clause 3 of Article 6, 'The Board of Directors in the system of corporate conduct (management) of the Company', of Chapter 2, 'The Board of Directors', of the Corporate Code of Conduct of OJSC Rosneft.
19 The internal documents of the joint-stock company should require members of the board of directors to notify the board in writing of their intention to close any transactions with securities of the company or of its subsidiaries (affiliates), and to disclose any information on transactions closed by them with such securities.	Observed	Clause 4 of Article 6, 'The Board of Directors in the system of corporate conduct (management) of the Company', of Chapter 2, 'The Board of Directors', of the Corporate Code of Conduct of OJSC Rosneft; Clause 3.2, 'Responsibilities of members of the Board of Directors', of Article 3, 'Rights and obligations of members of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft; Article 6 of the Regulation on Insider Information of OJSC Rosneft.
20 The internal documents of the joint-stock company should require the board of directors to hold meetings at least once every six weeks.	Observed	Sub-clause 4.1.1. of Article 4, 'Convening and preparing for a meeting of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft.
21 The board of directors of the joint-stock company should meet at least once every six weeks in any year, for which a company annual report is compiled.	Observed	Meetings of the Board of Directors of OJSC Rosneft were held at least once every 6 weeks during 2011 (33 meetings were held in total).
22 The internal documents of the joint-stock company should contain procedures to be followed at meetings of the board of directors.	Observed	Clause 10.4, 'Meeting of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft; Article 4, 'Convening and preparing for a meeting of the Board of Directors'; Article 5, 'Holding of a meeting of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft.
23 Internal documents of the joint-stock company should stipulate that any transactions by the company with value in excess of 10 percent of company assets should be approved by the board of directors, except for transactions in the normal course of business.	Observed	In accordance with clause 10.1, 'Competences of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft, it is within the competence of the Board of Directors to take decisions whether to close, modify, or terminate any transactions ahead of time, if such transactions cause or may cause liabilities equal to or exceeding the cash equivalent of USD 500,000,000, which is more than 10% of the value of Company assets.
24 Internal documents of the joint-stock company should include the right of members of the board of directors to receive information from executive bodies and managers of structural divisions of the company, which is necessary for them to discharge their functions, as well as sanctions for failure to provide such information.	Observed	Article 7, 'Provision of information to members of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft.
25 A committee of the board of directors in charge of strategic planning should be created, or the function of such a committee should be vested in another committee (other than the audit committee and HR and remuneration committee).	Observed	The Strategic Planning Committee of OJSC Rosneft, formed in accordance with resolutions of the Board of Directors, based on the Regulation on creation and functioning of Committees of the Board of Directors and the Regulation on the Strategic Planning Committee of the Board of Directors, continued to operate during the accounting period.
26 A committee of the board of directors in charge of audit (audit committee) should be created, which makes recommendations to the board of directors on choice of a certified public accountant for the joint-stock company and liaises with the accountant and with the internal audit commission of the company.	Observed	The Audit Committee of OJSC Rosneft, formed in accordance with resolutions of the Board of Directors, based on the Regulation on creation and functioning of Committees of the Board of Directors and the Regulation on the Audit Committee of the Board of Directors, continued to operate during the accounting period.

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Code provision	Observed/ Not observed	Notes
27 The audit committee should include only independent and non-executive directors.	Observed	<p>The Audit Committee of the Board of Directors of OJSC Rosneft consists of:</p> <ol style="list-style-type: none"> 1. Hans-Joerg Rudloff, Chairman of Committee (independent non-executive director). 2. Andrey Leonidovich Kostin (independent non-executive director). 3. Matthias Warnig (independent non-executive director). <p>Internal Company documents state that the Audit Committee shall consist only of members of the Board of Directors who are not executive directors of the Company, and shall be headed by an independent director. This is specified in:</p> <ul style="list-style-type: none"> • clause 4 of Article 9, 'Audit Committee of the Board of Directors', of Chapter 2, 'The Board of Directors', of the Corporate Code of Conduct of OJSC Rosneft; • clause 2.7, 'Creation of Committees of the Board of Directors', of Article 2, 'Structure of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft; • clause 4 of Article 2, 'Creation of Committees of the Board of Directors', of the Regulation on procedures for creation and functioning of BoD Committees of OJSC Rosneft; • clause 2 of Article 2, 'General provisions regarding the Committee', of the Regulation on the Audit Committee of the BoD of OJSC Rosneft.
28 The audit committee should be headed by an independent director.	Observed	<p>The Chairman of the BoD Audit Committee of OJSC Rosneft is Hans-Joerg Rudloff (independent director). This stipulation is declared in the following internal documents of the Company:</p> <ul style="list-style-type: none"> • clause 4 of Article 9, 'The Audit Committee of the Board of Directors', of Chapter 2, 'The Board of Directors', of the Corporate Code of Conduct of OJSC Rosneft; • sub-clause 2.7.6. of clause 2.7, 'Creation of Committees of the Board of Directors', of Article 2, 'Structure of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft; • clause 4 of Article 2, 'Creation of Committees of the Board of Directors', of the Regulation on the procedure for creation and functioning of Committees of the Board of Directors of OJSC Rosneft; • clause 2 of Article 2, 'General provisions concerning the Committee', of the Regulation on the Audit Committee of the Board of Directors of OJSC Rosneft.
29 The internal documents of the joint-stock company should stipulate right of access for all members of the audit committee to any company documents and information, on condition that they do not disclose confidential information.	Observed	<p>Clause 2 of Article 8, 'Support for activities of Committees of the Board of Directors', of the Regulation on the procedure for creation and functioning of Committees of the Board of Directors of OJSC Rosneft;</p> <p>Article 6, 'Interaction of the Committee with executive bodies of the Company', of the Regulation on the Audit Committee of the Board of Directors of OJSC Rosneft.</p>
30 A committee of the board of directors for human resources and remuneration should be created, with the functions of identifying criteria for selection of candidates to the board of directors and developing a remuneration policy.	Observed	<p>Work continued during the accounting period by the HR and Remuneration Committee of OJSC Rosneft, created by resolutions of the Board of Directors in accordance with the Regulation on the procedure for creation and functioning of Committees of the Board of Directors of the Company and the Regulation on the HR and Remuneration Committee of the Board of Directors.</p>
31 The HR and remuneration committee should be headed by an independent director.	Observed	<p>The Chairman of the HR and Remuneration Committee of the Board of Directors of OJSC Rosneft is Andrey Leonidovich Kostin (independent director).</p> <p>This requirement is stipulated in the following internal documents of the Company:</p> <ul style="list-style-type: none"> • clause 4 of Article 10, 'The HR and Remuneration Committee of the Board of Directors', of Chapter 2, 'The Board of Directors', of the Corporate Code of Conduct of OJSC Rosneft; • sub-clause 2.7.6. of clause 2.7, 'Creation of Committees of the Board of Directors', of Article 2, 'The structure of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft; • clause 4 of Article 2, 'Creation of Committees of the Board of Directors', of the Regulation on the procedure for creation and functioning of Committees of the Board of Directors of OJSC Rosneft; • clause 2 of Article 2, 'General provisions concerning the Committee', of the Regulation on the HR and Remuneration Committee of the Board of Directors of OJSC Rosneft.

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Code provision	Observed/ Not observed	Notes
32	Observed	<p>The HR and Remuneration Committee of the Board of Directors of OJSC Rosneft consists of:</p> <ol style="list-style-type: none"> 1. Andrey Leonidovich Kostin, Chairman of the Committee (non-executive director). 2. Matthias Warnig (independent non-executive director). 3. Hans-Joerg Rudloff (non-executive director). <p>This requirement is stipulated in the following documents of the Company:</p> <ul style="list-style-type: none"> • clause 4 of Article 10, 'The HR and Remuneration Committee of the Board of Directors', of Chapter 2, 'The Board of Directors', of the Corporate Code of Conduct of OJSC Rosneft; • clause 2.7, 'Creation of Committees of the Board of Directors', of Article 2, 'The structure of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft; • clause 4 of Article 2, 'Creation of Committees of the Board of Directors', of the Regulation on the procedure for creation and functioning of Committees of the Board of Directors of OJSC Rosneft; • clause 2 of Article 2, 'General Provisions concerning the Committee', of the Regulation of the HR and Remuneration Committee of the Board of Directors of OJSC Rosneft.
33	Observed	<p>This function is vested in the Audit Committee of the Board of Directors of OJSC Rosneft:</p> <ul style="list-style-type: none"> • clause 1 of Article 2, 'General provisions concerning the Committee', clause 1 of Article 3, 'Functions of the Committee', and clause 2 of Article 7, 'Interaction of the Committee with structural divisions in charge of internal control and internal audit', of the Regulation on the Audit Committee of the Board of Directors of OJSC Rosneft.
34	Not observed	<p>Article 12 of the Corporate Code of Conduct of OJSC Rosneft sets forth underlying principles for the settlement of corporate conflicts.</p> <p>Clause 6 of Article 12 of the Corporate Code of Conduct of OJSC Rosneft provides for the possibility of such a committee being created to help prevent and effectively settle corporate conflicts involving the Company and its Shareholders.</p> <p>No committee of the Board of Directors for settlement of corporate conflicts has been created at OJSC Rosneft. The issue is under consideration.</p>
35	Not observed	<p>No committee of the Board of Directors for settlement of corporate conflicts has been created at OJSC Rosneft. The issue is under consideration.</p>
36	Not observed	<p>No committee of the Board of Directors for settlement of corporate conflicts has been created at OJSC Rosneft. The issue is under consideration.</p>
37	Observed	<p>Revised versions of the following documents were approved by the Board of Directors of OJSC Rosneft in October 2008:</p> <ol style="list-style-type: none"> 1. Regulation on the procedure for creation and functioning of committees of the Board of Directors of OJSC Rosneft; 2. Regulation on the Audit Committee of the Board of Directors of OJSC Rosneft; 3. Regulation on the HR and Remuneration Committee of the Board of Directors of OJSC Rosneft; 4. Regulation on the Strategic Planning Committee of the Board of Directors of OJSC Rosneft.
38	Observed	<p>In accordance with sub-clause 10.4.2. of Clause 10.4, 'Meeting of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft, a quorum for convening a meeting of the Board of Directors must be more than half the number of elected members of the Board of Directors.</p>
EXECUTIVE BODIES		
39	Observed	<p>Clause 8.1 of Article 8, 'Management Bodies of the Company', and Article 12, 'Management of the Company', of the Charter of OJSC Rosneft.</p>

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Code provision	Observed/ Not observed	Notes
<p>40 The charter or internal documents of the joint-stock company should require that any transactions with real estate and obtaining of loans by the company must be approved by the management board, unless such transactions are classified as major transactions as treated as normal business activities of the company.</p>	Observed	<p>Sub-clause 12.8.10 of clause 12.8 of Article 12, 'The Management Board of the Company', of the Charter of OJSC Rosneft specifies that the Management Board should decide whether any of the following transactions (or number of interrelated transactions) should be closed, modified, or terminated ahead of time:</p> <ol style="list-style-type: none"> 1. any transaction involving real estate, when aggregate book value of the real estate or value of the transaction is up to the equivalent in cash of USD 500,000,000 (five hundred million U.S. dollars), except for lease agreements in respect of real estate closed as part of normal business, which are within the competence of the President, in accordance with provisions of clause 11.6 of the Charter; 2. any transaction related to purchase, disposal, or possible disposal of assets that are not directly used for core business activities of the Company (non-core assets), if such a transaction(s) implies or may imply accrual of liabilities to the Company up to the equivalent in cash of USD 500,000,000 (five hundred million U.S. dollars); 3. any transaction related to purchase or disposal, or possible disposal of property that is vital for the Company's business (tangible and intangible assets used for extraction and processing of oil, natural gas, and gas condensate, and also capacities for sale, storage, processing and transportation of hydrocarbons, disposal of which will materially affect carrying out of such business by the Company), if such a transaction(s) implies or may imply accrual of liabilities to the Company up to the equivalent in cash of USD 500,000,000 (five hundred million U.S. dollars); 4. any gratis transaction (including charity, benefaction, donation), payment of membership fees (other expenses) related to membership of the Company in non-profit organizations, up to the equivalent in cash of USD 25,000,000 (twenty-five million U.S. dollars); 5. agreements with constituent entities of the Russian Federation and municipalities, which imply or may imply accrual of liabilities to the Company up to the equivalent in cash of USD 25,000,000 (twenty-five million U.S. dollars); 6. any other transaction, including a transaction in the normal course of business (other than a conversion transaction), which implies or may imply accrual of liabilities to the Company in an amount between the equivalent of USD 50,000,000 (fifty million U.S. dollars) and the equivalent of 500,000,000 (five hundred million U.S. dollars), unless such transactions are within the competence of the Board of Directors of the Company.
<p>41 Internal documents of the joint-stock company should contain a procedure for approval of operations, which are outside the company's business plan.</p>	Observed	<p>Sub-clause 10.1.8 of clause 10.1, 'Competence of the Board of Directors', of Article 10, 'The Board of Directors', of the Charter of OJSC Rosneft states that:</p> <p>The Board of Directors decides whether to implement, modify, or terminate ahead of time the following transactions (or number of interrelated transactions):</p> <ul style="list-style-type: none"> • non-standard operations (operations not foreseen by the company business plan), or transactions, which imply or may imply any adjustments of the business plan. <p>Sub-clause 12.8.6 of clause 12.8 of the Charter of OJSC Rosneft on the competence of the Management Board:</p> <ul style="list-style-type: none"> • preliminary consideration (before consideration by the Board of Directors) and approval of expenses not foreseen by the Company business plan
<p>42 Executive bodies should not include any person who is a shareholder, general director (manager), member of any management body, or employee of a legal entity, which is a competitor of the joint-stock company.</p>	Observed	<p>Clause 3.3, 'Conflict of interests of members of the Management Board with interests of the Company', of Article 3, 'Rights, obligations, and responsibilities of members of the Management Board', of the Regulation on the Collegiate Executive Body (Management Board) of OJSC Rosneft;</p> <p>Clause 2.4, 'Conflict of interests of the President with interests of the Company', of Article 2, 'Purpose and principles of activities of the President', of the Regulation on the Sole Executive Body (President) of OJSC Rosneft.</p>
<p>43 Executive bodies of the joint-stock company should not include any person who has been found guilty of any economic crime or crime against government, the interests of government or local authorities, or if they have been subject to any administrative penalties for violations in the sphere of business and finance, taxation, or the securities market. If the office of the sole executive body is executed by a management organization or a manager, the general director and management board members of the management organization or the manager should meet the aforementioned requirements for the general director and members of the management board of the joint-stock company itself.</p>	Observed	Complied with in practice.
<p>44 The Charter or internal documents of the joint-stock company should prohibit any management organization (manager) from exercising analogous functions in a competitor company or from being involved in any property relationships with the company, other than providing management services.</p>	Observed	Clause 2.4, 'Conflict between interests of the President and of the Company', of Article 2, 'Appointment and activities of the President', of the Regulation on the Sole Executive Body (President) of Rosneft.

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Code provision	Observed/ Not observed	Notes
45	Observed	<p>Clause 1 of Article 19, 'Responsibilities of executive bodies', of Chapter 4, 'Executive bodies of the Company', of the Corporate Code of Conduct of OJSC Rosneft;</p> <p>Clause 3.2, 'Responsibilities of members of the Management Board', of Article 3, 'Rights, obligations, and responsibilities of members of Management Board', of the Regulation on the Collegiate Executive Body (Management Board) of OJSC Rosneft;</p> <p>Clause 4.3, 'Obligations of the President', of Article 4, 'Powers and responsibilities of the President', of the Regulation on the Sole Executive Body (President) of OJSC Rosneft.</p>
46	Not observed	There are no regulations concerning a management organization (manager) in the Company Charter. This requirement is not applicable to management of the business of OJSC Rosneft.
47	Partially observed	<p>Clause 3 of Article 19 of the Corporate Code of Conduct of OJSC Rosneft and Article 8 of the Regulation on the Collegiate Executive Body (Management Board) of OJSC Rosneft call for annual provision by executive bodies of reports on their activities to the Board of Directors and such other reports as may be requested by the Board of Directors.</p> <p>Work plans of the Management Board include review of monthly reports by senior managers of Rosneft concerning execution of instructions of the Board of Directors.</p>
48	Observed	<p>Article 7, 'Obligations for preservation of official (professional) confidentiality in respect of insider information', of the Regulation on insider information of OJSC Rosneft.</p> <p>Sub-clause 4.3.5. of clause 4.3., 'Duties of the President', of Article 4 of the Regulation on the Chief Executive Officer (President) of Rosneft.</p> <p>Sub-clause 3.2.5. of clause 3.2., 'Duties of a member of the Management Board', of Article 3 of the Regulation on the Collegiate Executive Body (Management Board) of OJSC Rosneft.</p>
SECRETARY OF THE COMPANY		
49	Observed	Article 15, 'The Corporate Secretary', of the Charter of the Company and the Regulation on the Corporate Secretary of OJSC Rosneft, provides for the existence of a special officer in the Company, i.e. the Corporate Secretary, whose task is to ensure compliance with procedures that guarantee the exercise of rights and lawful interests of shareholders. On April 24, 2010 the Board of Directors of OJSC Rosneft appointed a Corporate Secretary of OJSC Rosneft (Minutes №5).
50	Observed	<p>Article 15, 'The Corporate Secretary of the Company', of the Charter of OJSC Rosneft;</p> <p>Articles 21-23 of Chapter 4, 'The Corporate Secretary of the Company' of the Corporate Code of Conduct of OJSC Rosneft;</p> <p>Articles 3, and 6-11 of the Regulation on the Corporate Secretary of OJSC Rosneft.</p>
51	Partially observed	Requirements for any candidate to the post of Corporate Secretary of the Company are set out in Article 5, 'Requirements for the Corporate Secretary', of the Regulation on the Corporate Secretary of OJSC Rosneft.
MATERIAL CORPORATE ACTS		
52	Partially observed	Complied with in practice.
53	Observed	Complied with in practice.
54	Not observed	<p>In compliance with Article 84.6 of the Federal Law 'On Joint-Stock Companies', from the time of receipt by the Company of a compulsory or voluntary offer decisions on a number of issues, including those indicated in point 54 of the present Appendix, are made solely by the General Meeting of Shareholders.</p> <p>These restrictions cease to operate 20 days after the end of the period when the voluntary or compulsory offer is in force.</p>
55	Not observed	Stocks of OJSC Rosneft are traded at Russian stock exchange (the MICEX), and also as global depository receipts (GDRs) on the London Stock Exchange, and their current market value is determined by trading on these exchanges.
56	Observed	

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Code provision	Observed/ Not observed	Notes
57	Not observed	Procedures for reorganization, including share conversion carried out as part of reorganization, are regulated in detail by the Federal Law on Joint-Stock Companies and by standards for securities issue and registration of securities prospectuses, which were approved by Decree № 07-4 of the Federal Service for Financial Markets (25.01.2007).
DISCLOSURE OF INFORMATION		
58	Observed	The Regulation on Information Policy of OJSC Rosneft (approved by the Board of Directors of OJSC Rosneft on May 17, 2006 and approved with amendments on April 14, 2011).
59	Not observed	Disclosure of information, including disclosure of information at various stages of the issue procedure, is in accordance with requirements of Russian law and the Regulation on Information Policy of OJSC Rosneft.
60	Observed	Clause 9.5, 'Information (materials) for the General Meeting of Shareholders', of Article 9, 'The General Meeting of Shareholders', of the Charter of OJSC Rosneft.
61	Observed	http://www.rosneft.ru/ In accordance with Article 4 of the Regulation on Information Policy of OJSC Rosneft, disclosure of information on the Company in the Internet is one method of disseminating information about the Company.
62	Observed	Disclosure of information meets requirements of law of the Russian Federation and the Regulation on Information Policy of OJSC Rosneft.
63	Observed	Disclosure of information meets requirements of Russian law and the Regulation on Information Policy of OJSC Rosneft.
64	Observed	The Regulation on Insider Information of OJSC Rosneft (approved by resolution of the Board of Directors of OJSC Rosneft in May 2006 and approved with amendments on December 30, 2011).
CONTROL OVER FINANCIAL AND BUSINESS ACTIVITIES		
65	Observed	The Regulation on Internal Control over Financial and Business Activities of OJSC Rosneft (approved by the Board of Directors of OJSC Rosneft in May 2006).
66	Observed	Creation of the Internal Control and Audit Department in OJSC Rosneft is envisaged by the following internal documents of the Company: <ul style="list-style-type: none"> clause 2 of Article 24, 'The System for Control over Financial and Business Activities of the Company', of Chapter 5 of the Corporate Code of Conduct of OJSC Rosneft; clause 1 of Article 4, 'Organization of Internal Control', of the Regulation on Internal Control over the Financial and Business Activities of OJSC Rosneft.
67	Observed	Article 7, 'Organizational Structure of the Internal Control and Audit Department', of the Regulation on Internal Control of Financial and Business Activities of OJSC Rosneft.
68	Observed	Complied with in practice. Provisions of Article 7, 'Organizational Structure of the Internal Control and Audit Department', of the Regulation on Internal Control of Financial and Business Activities of OJSC Rosneft.
69	Observed	Complied with in practice. Provisions of Article 7, 'Organizational Structure of the Internal Control and Audit Department' of the Regulation on Internal Control over Financial and Business Activities of OJSC Rosneft.
70	Observed	Time limits for presentation of documents and materials for appraisal of financial and business transactions are defined by internal documents regulating activity of the Control and Audit Department and the Internal Audit Department.

	Code provision	Observed/ Not observed	Notes
71	Internal documents of the joint-stock company should oblige the internal control and audit service to notify the audit committee of any violations that may be discovered and, if there is no such committee, to notify the board of directors.	Observed	Clause 2 of Article 12, 'Measures to Eliminate Violations and Shortcomings Discovered in the course of Internal Audit', of the Regulation on Internal Control of Financial and Business Activities of OJSC Rosneft.
72	The Charter of the joint-stock company should oblige the internal control and audit service to make a preliminary appraisal of advisability of operations that were not foreseen in the financial and business plan of the joint-stock company (non-standard operations).	Not observed	Not applicable. In accordance with sub-clause 10.1.8 (1) of Clause 10 of the Charter of OJSC Rosneft the Board of Directors solely decides whether to implement non-standard operations or transactions, which imply or may imply any adjustments of the business plan.
73	Internal documents of the joint-stock company should include a procedure for approval of any non-standard operation by the board of directors.	Observed	In accordance with clause 10.1.8 (1) of the Charter of Rosneft, the Board of Directors is responsible for any decision concerning execution, change or early termination of non-standard operations of the Company. The procedure for preparation of materials for review of such an issue by the Board of Directors is defined by the Rosneft Corporate Standard, 'Preparation and conduct of meetings of the Board of Directors and of Committees of the Board of Directors of Rosneft'.
74	There should be an internal document approved by the board of directors defining the procedure for audit of financial and business activities of the joint-stock company by the internal audit commission.	Observed	The Regulation on the Internal Audit Commission of OJSC Rosneft (a new version was approved by the General Meeting of Shareholders of OJSC Rosneft in June 2009).
75	The audit committee should give an assessment of the opinion of the certified public accountant prior to its presentation to shareholders at the general meeting of shareholders.	Observed	Clause 1 of Article 9, 'The Audit Committee of the Board of Directors', of Chapter 2, 'The Board of Directors', of the Corporate Code of Conduct of OJSC Rosneft; Clause 1 of Article 3, 'Functions of the Committee', of the Regulation on the Audit Committee of the Board of Directors of OJSC Rosneft.
DIVIDENDS			
76	There should be an internal document approved by the board of directors, by which the board of directors is governed when making recommendations on the amount of dividends to be paid (regulation on dividend policy).	Observed	The Regulation on Dividend Policy of OJSC Rosneft (approved by the Board of Directors of OJSC Rosneft in May 2006 and approved with amendments on March 3, 2011).
77	The regulation on dividend policy should include a procedure for determining a minimum share of net profit of the joint-stock company to be applied in payment of dividends, and should define the conditions, in which dividends on preference stocks, as prescribed in the company charter, are not paid or are paid only in part.	Observed	Clause 2 of Article 4, 'Principles of Dividend Policy of the Company', of the Regulation of OJSC Rosneft on Dividend Policy; The Company Charter does not foresee placement of preference stocks.
78	Information on dividend policy of the joint stock company and changes to it should be published in a periodical, publication of which is prescribed by the company charter for publishing of announcements of general meetings of shareholders, and should also be placed on the company web site in the Internet.	Observed	Information on dividend policy of OJSC Rosneft and changes to it is placed on the web site of the Company in the Internet.

Appendix 5

Taxation of Dividends and Capital Gains

The following summary of material U.S. federal income, United Kingdom and Russian tax consequences of ownership of securities is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect as of January 1, 2012. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the securities. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of securities. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of the securities, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of January 1, 2012, and of any actual changes in applicable tax laws after such date.

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CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

This section is a summary, under current law, of certain U.S. federal income tax considerations relevant to beneficial owners of the ordinary shares or GDRs that are eligible for benefits as U.S. residents under the current income tax convention between the United States and Russia (the "Treaty") in respect of their investment in the ordinary shares or GDRs ("U.S. shareholders"). In general, a shareholder will be eligible for such benefits if the shareholder:

- Is:
 - An individual U.S. citizen or resident;
 - A U.S. corporation; or
 - A partnership, estate, or trust to the extent the shareholder's income is subject to taxation in the United States as the income of a resident, either in the shareholder's hands or in the hands of the shareholder's partners or beneficiaries;
- Is not also a resident of Russia for Russian tax purposes;
- Is the beneficial owner of the ordinary shares or GDRs (and the dividends paid with respect thereto);
- Holds the ordinary shares or GDRs as a capital asset for tax purposes;
- Does not hold the ordinary shares or GDRs in connection with the conduct of business through a permanent establishment, or the performance of personal services through a fixed base, in Russia; and
- Is not subject to an anti-treaty shopping provision in the Treaty that applies in limited circumstances.

This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, and does not address the tax treatment of investors who are subject to special rules. It is based upon the assumption that prospective shareholders are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject.

This summary has been written to support the marketing of the ordinary shares or GDRs. It is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding U.S. federal income tax penalties. Investors should consult their own tax advisors in determining the tax consequences to them of investing in the ordinary shares or GDRs, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

In general, for U.S. federal income tax purposes, U.S. shareholders will be treated as the beneficial owners of the ordinary shares underlying their GDRs.

TAXATION OF DIVIDENDS

U.S. shareholders must include the gross amount of cash dividends paid in respect of the ordinary shares or GDRs, without reduction for Russian withholding tax, in ordinary income on the date that they are treated as having received them, translating dividends paid in rubles into U.S. dollars using the exchange rate in effect on that date. Such dividends generally will constitute foreign-source "passive category income" (or, for certain U.S. shareholders, "general category income") for U.S. foreign tax credit purposes, and will not be eligible for the "dividends received" deduction generally allowed to corporate shareholders. If the rubles so received are converted into U.S. dollars on the date of receipt, the U.S. shareholder generally should not recognize foreign currency gain or loss on such conversion; any gain or loss on a subsequent conversion or other disposition of such rubles generally will be treated as U.S.-source ordinary income or loss.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by a non-corporate U.S. shareholder in respect of the ordinary shares or GDRs before January 1, 2013 will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends received in respect of the ordinary shares or GDRs will be qualified dividends if the Company:

- Is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules; and
- Was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC").

The Treaty has been approved for the purposes of the qualified dividend rules. Based on the Company's audited financial statements and relevant market data, the Company does not believe that it was treated as a PFIC with respect to the 2011 taxable year, nor does it anticipate becoming a PFIC for the 2012 taxable year.

Russian tax withheld from dividends will be treated, up to the 10% rate provided under the Treaty, as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, generally is eligible for credit against the U.S. federal income tax liability of U.S. shareholders or, if they have elected to deduct such taxes, may be deducted in computing taxable income. See"—Russian Federation Tax Considerations—Taxation of Dividends—Non-Resident Holders" regarding the position that the Company intends to take in respect of its obligation to withhold Russian withholding tax on dividends that it pays to the Depository.

In the case of any refund of Russian withholding tax pursuant to the Treaty, fluctuations in the ruble dollar exchange rate between the date that a U.S. shareholder is treated as receiving a dividend and the date that it receives the related refund of Russian withholding tax may give rise to foreign currency gain or loss, which generally is treated as ordinary income or loss for U.S. tax purposes.

TAXATION OF SALES OR OTHER TAXABLE DISPOSITIONS

Sales or other taxable dispositions by U.S. shareholders generally will give rise to capital gain or loss equal to the difference between the U.S. dollar value of the amount realized on the disposition and the U.S. shareholder's U.S. dollar basis in the ordinary shares or GDRs. Any such capital gain or loss generally will be long-term capital gain or loss, subject to taxation at reduced rates for non-corporate taxpayers, if the ordinary shares or GDRs were held for more than one year. The deductibility of capital losses is subject to limitations.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Dividends paid in respect of the ordinary shares or GDRs, and payments of the proceeds of a sale of the ordinary shares or GDRs, paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. A holder that is not a U.S. person generally will not be subject to information reporting or backup withholding, but may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries. The amount of any backup withholding will be allowed as a credit against the shareholder's U.S. federal income tax liability and may entitle the shareholder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

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U.K. TAX CONSIDERATIONS

The comments below are of a general nature and are based on current UK tax law and published H.M. Revenue & Customs practice as of January 1, 2012, as well as the provisions of the 1994 Income and Capital Gains Tax Convention between the United Kingdom and Russia (referred to in this discussion as the "UK Treaty"), each of which is subject to change, possibly with retroactive effect.

The summary only covers the principal UK tax consequences for the absolute beneficial owners of ordinary shares and GDRs (and any dividends paid in respect of them), in circumstances where the dividends paid are regarded for UK tax purposes as that person's own income (and not the income of some other person) and who:

- Are resident (and, in the case of individuals only, ordinarily resident and domiciled) in the United Kingdom for tax purposes;
- Are not resident in Russia;
- Do not have a permanent establishment or fixed base in Russia with which the holding of the ordinary shares or GDRs is connected; and
- Have not (and are not deemed to have) acquired the ordinary shares or GDRs by virtue of an office or employment.

Such absolute beneficial owners of the ordinary shares or GDRs are referred to in this discussion as "UK holders." In addition, the summary only addresses the principal UK tax consequences for UK holders who hold the ordinary shares or GDRs as capital assets. It does not address the UK tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares or securities. It also does not address the UK tax consequences for holders that are banks, financial institutions, insurance companies, collective investment schemes, tax-exempt organizations or persons connected with the Company.

Further, the summary assumes that:

- A holder of the GDRs is, for UK tax purposes, beneficially entitled to the underlying ordinary shares and to the dividends on those ordinary shares;
- The UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the shares and/or voting rights of the Company; and
- The ordinary shares will not be registered in a register kept in the United Kingdom by or on behalf of the Company.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK tax law and H.M. Revenue & Customs practice, of the acquisition, ownership and disposition of ordinary shares or GDRs in their own particular circumstances, by consulting their own tax advisors.

TAXATION OF DIVIDENDS

WITHHOLDING TAX

The Company need not make any deduction from payments of dividends for or on account of UK tax.

TAX LIABILITY FOR INDIVIDUAL HOLDERS

Dividends received by individual UK holders will generally be subject to UK income tax on the full amount of the dividend paid (before the deduction of any Russian withholding tax), grossed up for the amount of the non-refundable dividend tax credit referred to below, with potential credit for Russian tax deducted at source (as described below).

Higher rate taxpayers are currently subject to UK income tax on the gross amount of such dividends at a rate of 32.5%, and other individual taxpayers at a rate of 10%. For the tax year 2011–12 and subsequent tax years, an additional rate of income tax on dividends will be imposed at 42.5% for taxpayers whose income is above £150,000.

Individual UK holders are entitled to a dividend tax credit equal to one ninth of the full amount of the dividend paid (before deduction of any Russian withholding tax). This tax credit is set against the UK holder's UK tax liability on the gross dividend, but cannot be claimed as a cash payment in the event that the UK holder's tax liability is less than the associated credit. After taking into account the tax credit, the effective rate of tax for higher rate taxpayers will be 25% of the dividend paid, and the effective rate of tax for other individual taxpayers will be 0%. For dividends subject to the additional rate of income tax, the effective rate of tax will be approximately 36% of the dividend paid. An individual's dividend income is treated as the top slice of their total income which is chargeable to UK income tax.

TAX LIABILITY FOR CORPORATE SHAREHOLDERS

A UK holder within the charge to corporation tax will, subject to certain anti-avoidance rules, generally be entitled to exemption from UK corporation tax in respect of dividend payments if the dividend falls within certain broadly defined classes. If the conditions for the exemption are not satisfied, or a UK holder elects for an otherwise exempt dividend to be taxable, the dividend will be subject to UK corporation tax at the applicable rate. UK corporation tax will be chargeable on the gross amount of any dividends, subject to any applicable credit for Russian tax deducted at source (as described below).

CREDIT FOR RUSSIAN WITHHOLDING TAX

When the Company pays dividends to UK holders, it generally must, for Russian tax purposes, act as a tax agent to withhold tax and remit the amount of tax due to the Russian state budget. See "Taxation—Russian Federation Tax Considerations— Taxation of Dividends." Under the UK Treaty, UK holders may be able to obtain relief at source, or a refund from the Russian tax authorities, in respect of withholding tax to the extent that it is levied at a rate in excess of 10% of the gross amount of the dividend. However, see "Taxation —Russian Federation Tax Considerations —Taxation of Dividends" and "Taxation —Russian Federation Tax Considerations — Tax Treaty Relief Procedures". Credit may be given to (i) individual UK holders and (ii) corporate UK holders whose dividends are not exempt from UK corporation tax, for Russian tax withheld from dividends, subject to general rules regarding the calculation and availability of such credit. These rules include a requirement to take all reasonable steps to minimize the amount of Russian withholding tax (for example, by claiming relief under the UK Treaty). Any excess credits over the UK tax payable in respect of the dividends would generally not be refundable.

PROVISION OF INFORMATION

Persons in the United Kingdom paying "foreign dividends" to, or receiving "foreign dividends" on behalf of, another person, may, in certain circumstances, be required to provide certain information to H.M. Revenue & Customs regarding the identity of the payee or the person entitled to the "foreign dividend", and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in accordance with guidance published by H.M. Revenue & Customs applicable for the 2011–2012 tax year, dividend payments in respect of ordinary shares or GDRs should not be treated as falling within the scope of the requirement. There is no guarantee that equivalent guidance will be issued in respect of future years.

TAXATION OF CAPITAL GAINS

The disposal or deemed disposal of ordinary shares or GDRs by UK holders may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains (where the UK holder is an individual) and UK corporation tax on chargeable gains (where the UK holder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief. In addition, individual UK holders who dispose of their ordinary shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the UK. Any gains or losses in respect of currency fluctuations relating to the ordinary shares or GDRs would also be brought into account on the disposal.

The principal factors that will determine the extent to which an individual UK holder's gain will be subject to CGT are the extent to which they realize any other capital gains in that year, the extent to which they have incurred capital losses in that or any earlier year, and the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the "annual exemption").

The annual exemption for individuals is GBP 10,600 for the 2011–2012 tax year. If, after all allowable deductions, an individual UK holder's taxable income for the year exceeds the basic rate income tax limit, a taxable capital gain accruing on a disposal or deemed disposal of ordinary shares or GDRs will be taxed at 28%. In other cases, a taxable capital gain accruing on a disposal or deemed disposal of ordinary shares or GDRs may be taxed at 18% or 28% or at a combination of both rates.

A UK holder that is a company is entitled to an indexation allowance that applies to reduce capital gains to the extent that they arise due to inflation. Indexation allowance may reduce a chargeable gain but not create an allowable loss.

CREDIT FOR RUSSIAN WITHHOLDING TAX

As discussed under the heading "—Taxation Russian Federation Tax Considerations—Taxation of Capital Gains—Non-Resident Holders", certain capital gains may be subject to Russian withholding tax. Credit against UK tax may be given for Russian tax withheld, subject to general rules regarding the calculation and availability of such credit, including a requirement to take all reasonable steps to minimise the amount of Russian tax on such capital gains. See "—Russian Federation Tax Considerations—Tax Treaty Procedures".

STAMP DUTY AND STAMP DUTY RESERVE TAX

No stamp duty will be payable in the UK in connection with a transfer of ordinary shares provided that any instrument of transfer is executed and retained outside the UK. No stamp duty reserve tax ("SDRT") will be payable in the UK in respect of any agreement to transfer ordinary shares for so long as they continue to be registered on a share register maintained outside the UK.

No stamp duty or SDRT will arise in the UK in respect of any dealings in the GDRs within a clearance service, where such dealings are effected in electronic book entry form in accordance with the procedures of the clearance service.

INHERITANCE TAX

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by, the owner of ordinary shares or GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the UK. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit.

Individual UK holders should consult an appropriate professional adviser if they make a gift or transfer of value of any kind or intend to hold ordinary shares or GDRs through trust arrangements.

RUSSIAN FEDERATION TAX CONSIDERATIONS

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the ordinary shares or the GDRs and to the purchase, ownership and disposition of such ordinary shares or GDRs by their Russian resident and non-resident holders. The summary is based on the laws of Russia in effect on January 1, 2009. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisors regarding the tax consequences of investing in the ordinary shares or the GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby. The Russian tax rules applicable to the ordinary shares and the GDRs are characterized by uncertainties and by an absence of interpretative guidance. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a "non-resident holder" means:

- A physical person, actually present in the Russian Federation for less than 183 days in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) that holds securities; or
- A legal person or organization, in each case not organized under Russian law, that holds and disposes of securities otherwise than through a permanent establishment in Russia.

For the purposes of this summary, a "Russian resident holder" means:

- A physical person, actually present in the Russian Federation for 183 days or more in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) that holds securities;
- A legal person or organization, in each case organized under Russian law, that holds securities; or
- A legal person or organization, in each case organized under a foreign law, that holds and disposes of securities through its permanent establishment in Russia.

TAXATION OF DIVIDENDS

A Russian company that pays dividends generally must act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian state budget. However, the applicable withholding tax rate will depend on the status of the dividend's recipient.

RUSSIAN RESIDENT HOLDERS

Dividends paid to Russian resident holders of ordinary shares are generally subject to Russian withholding tax at a rate of 9%. The effective rate of this tax may be lower than 9% owing to the fact that the Company should calculate this tax by multiplying the tax rate (9%) by the difference between

(i) the dividends to be distributed by the Company to its shareholders (other than to non-resident companies and non-resident individuals) and (ii) dividends collected by the Company in the current and preceding tax periods from other Russian entities.

There are uncertainties in relation to withholding tax on dividends payable to Russian resident GDR holders. In particular, it is unclear whether this income may be treated as dividends for Russian tax purposes and what tax rate applies to this income. Also, there are no specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners. It is unclear therefore how the Russian tax authorities and courts will ultimately treat GDR holders in this regard. In 2005 and 2006, the Ministry of Finance expressed an opinion that GDR holders (rather than the relevant depository) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residence of the GDR holders is duly confirmed.

In view of the foregoing, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the ordinary shares or the GDRs.

NON-RESIDENT HOLDERS

Dividends paid to non-resident holders of ordinary shares generally will be subject to Russian withholding tax, which will be withheld by the Company acting as a tax agent. The applicable domestic rates of withholding tax on such dividends currently are:

- 15% in the case of dividends paid to non-resident holders that are legal entities or organizations; and
- 30% in the case of dividends paid to non-resident individual holders.

These rates may be reduced under the terms of income tax treaties to which Russia is a party. However, because the beneficial ownership concept is not developed in Russian law, it is not clear whether the Depository (the legal holder of the shares) or a GDR holder should be treated for the purposes of such treaties as the beneficial owner of the ordinary shares underlying the GDRs.

Unless the Company receives adequate clarification from the Russian tax authorities that, subject to certain certification requirements, it is appropriate under Russian law to withhold Russian withholding tax in respect of dividends that it pays to the Depository at reduced rates under the relevant treaties instead of at the domestic rates applicable to such payments (currently 15%), the Company intends to withhold Russian withholding tax at the domestic rates applicable to such dividends, regardless of whether the Depository (the legal owner of the shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant income tax treaty if it were the beneficial owner of the dividends for purposes of that treaty.

Although non-resident GDR holders may apply for a refund under the relevant income tax treaty of a portion of the amount withheld by the Company, the Company cannot make any assurances that the Russian tax authorities will grant any refunds.

TAXATION OF CAPITAL GAINS

RUSSIAN RESIDENT HOLDERS

Legal Entities and Organizations

Capital gains arising from the sale of ordinary shares or GDRs by any Russian resident holder that is a legal entity or organization will be taxable at a regular Russian tax rate of 24%. Russian tax law requires that profit arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profits and losses from operations with securities that are not quoted on a stock exchange and from operating profits and losses. Therefore, Russian resident holders that are not individuals may be able to apply losses arising in respect of sales of the ordinary shares or GDRs only to offset capital gains, or as a carry forward to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a dealer license. Transactions with the ordinary shares and the GDRs will also be subject to transfer pricing rules established by the Tax Code.

Individuals

Under Russian law, capital gains arising from a sale, exchange or other disposition of the ordinary shares or the GDRs by Russian resident holders will be subject to tax at a rate of 13% on an amount equal to the sales price less the acquisition value of the securities less other documented expenses related to the purchase, holding and sale of such securities. If the sale is made by a resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a registered permanent establishment in Russia, such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The amount of tax withheld will be calculated after taking into account deductions for the acquisition value and related expenses. The tax agent would be required to report to the Russian tax authorities the income realized by the resident individual and tax withheld upon the sale of securities by 1 April of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the resident holder would have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

Because Russian law related to taxation of income derived by Russian resident holders (including legal entities, organizations and individuals) on a sale, exchange or other disposition of the ordinary shares or the GDRs is not entirely clear, Rosneft urges Russian residents to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the ordinary shares or the GDRs.

NON-RESIDENT HOLDERS

legal Entities and Organizations

Under current Russian law, capital gains arising from the sale, exchange or other disposition of ordinary shares or GDRs by nonresident holders (legal entities or organizations) should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of the Company's assets.

The Company believes that immovable property located in Russia does not currently, and will not, constitute more than 50% of its assets. However, because the determination of whether more than 50% of the Company's assets consist of immovable property located in Russia is inherently factual and is made on an ongoing basis, and because the relevant laws and regulations are not entirely clear, there can be no assurance that immovable property located in Russia does not currently, or will not, constitute more than 50% of such assets.

If more than 50% of the Company's assets were to consist of immovable property located in Russia, then non-resident holders of ordinary shares or GDRs would be subject to a 20% withholding tax on the gross proceeds from a sale, exchange or other disposition of ordinary shares or GDRs, or 24% withholding tax on the capital gain realized from such sale, exchange or other disposal, capital gain being the difference between the sales price and acquisition costs of the ordinary shares or GDRs. However, gains arising from the sale of the ordinary shares or the GDRs on a foreign stock exchange by a non-resident holder that is a legal entity or organization should not be subject to taxation in Russia.

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Individuals

Under Russian personal income tax law, gains from a sale, exchange or other disposal of ordinary shares or GDRs by nonresident holders who are individuals will likely be considered Russian source income, but will be subject to tax at the rate of 30% at the source of payment only if the sale was made by a non-resident holder through or to a professional dealer or broker that is a Russian legal entity or a foreign company with a permanent establishment in Russia.

According to Russian tax legislation, taxation of income for non-resident individual holders will depend on whether this income is received from Russian or non-Russian sources. Russian tax law gives no clear indication as to how the sale of securities should be sourced, other than that income from the sale of securities "in Russia" is Russian source. As there is no further definition of what should be considered to be a sale "in Russia", the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the shares, or other similar criteria.

Any sale of securities in Russia by non-resident individual holders will be considered Russian source income and will be subject to tax at the rate of 30% on an amount equal to the sales price minus the acquisition value of the securities and other documented expenses related to the purchase, holding and sale of such securities. If the sale is made by a non-resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a registered permanent establishment in Russia, such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The amount of tax withheld will be calculated after taking into account deductions for the acquisition value and related expenses. The tax agent would be required to report to the Russian tax authorities the income realized by the resident individual and tax withheld upon the sale of the securities by 1 April of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the non-resident holder would have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

A non-resident holder may be exempt from Russian withholding tax on the sale, exchange or other disposition of ordinary shares or GDRs in Russia under the terms of a double tax treaty between Russia and the country of residence of the non-resident holder. For example, under the U.S.-Russia Tax Treaty, U.S. holders are exempt from the withholding tax on capital gains unless 50% or more of the assets of the Company are represented by immovable property located in Russia. The U.K.-Russia Tax Treaty provides for an exemption from withholding tax on capital gains received by U.K. holders unless the gains relate to shares that derive all or substantially all of their value directly or indirectly from immovable property in Russia and are not quoted on an approved stock exchange. See "—Tax Treaty Procedures."

TAX TREATY PROCEDURES

The relief at source and refund procedures discussed below may be more complicated with respect to GDRs due to separation of legal ownership and beneficial ownership of the ordinary shares underlying the GDRs. Russian tax law does not provide for clear guidance regarding availability of double tax treaty relief for GDR holders. Therefore, the Company cannot assure prospective GDR holders that relief at source or refunds will be available under the applicable tax treaty in respect of Russian taxes payable or withheld in respect of dividends on ordinary shares represented by GDRs.

The Profits Tax Chapter of the Tax Code does not provide for the requirement that a non-resident holder that is a legal entity or organization must obtain tax treaty clearance from Russian tax authorities prior to receiving any income at a reduced rate of withholding tax at source under an applicable tax treaty. However, in connection with a tax audit, the Russian tax authorities may still dispute the non-resident's eligibility for the double tax treaty relief and require the tax agent (i.e., the company paying dividends or the Russian purchaser of the shares) to pay tax.

A non-resident investor seeking to obtain a reduced rate of Russian withholding tax at source under an income tax treaty must provide a confirmation of its tax treaty residence that is certified by the competent authorities in the relevant treaty jurisdiction in advance of the Company's payment of dividends. The residence confirmation needs to be reviewed on an annual basis and certified by the relevant authority. The residence confirmation may need to bear an apostille.

If the Russian tax authorities were to approve a certification process for the purposes of allowing the Company to withhold Russian withholding tax at reduced treaty rates in respect of dividends that it pays to the Depository, it is anticipated that a U.S. GDR holder would be required to provide the Company with the U.S. GDR holder's certification of its last filed U.S. federal income tax return in the form of an IRS Form 6166 (an "IRS Form 6166") in order to allow the Company to comply with that certification process.

For this purpose, it also may be necessary for a non-resident GDR holder to demonstrate its legal title to the relevant GDR interest.

The Deposit Agreement provides that the Depository will make all reasonable efforts to provide the Company with certifications and other documents that are required in order to comply with any certification process that has been approved by the Russian tax authorities for this purpose.

An IRS Form 6166 can generally be obtained by filing a request (generally an IRS Form 8802) with the Internal Revenue Service Center in Philadelphia, Pennsylvania, U.S. Residency Certification Request, P.O. Box 42530, Philadelphia PA 19101-2530, USA. U.S. GDR holders should consult their tax advisors and the instructions to IRS Form 8802 for further details on how to obtain this certification.

Under current Russian tax law and practice, advance relief from withholding taxes will generally be impossible for individual investors because it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before the year end as currently required.

If a non-resident does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian payer, the non-resident holder may apply for a refund within three years from the end of the tax period in which the tax was withheld, if the recipient is a legal entity or organization, or within the one-year period from the end of the tax period in which the tax was withheld, if the recipient is an individual. To process a claim of a refund, the Russian tax authorities require:

- An apostilled confirmation of the tax treaty residence of the non-resident at the time the income was paid;
- An application for refund of the tax withheld in a format provided by the Russian tax authorities (Form 1012DT for dividends and interest and 1011DT for other income); and
- Copies of the relevant contracts and payment documents confirming the payment of the tax withheld to the Russian Federation state budget.

The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within four months of the filing of the application for the refund and the relevant documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

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Responsibility Statement

To the best of my knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Rosneft.

The management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of Rosneft.

Eduard Khudainatov

President of OJSC Rosneft Oil Company

February 3, 2012

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General Information About Rosneft

Date of State Registration and Certificate Number:

- Date of state registration of a legal entity: December 7, 1995.
- Certificate number: 024.537.
- Date of entry into the Unified State Register of Legal Entities regarding a legal entity registered prior to July 1, 2002: August 12, 2002.
- Certificate of Entry into the Unified State Register of Legal Entities Regarding a Legal Entity Registered Prior to July 1, 2002: Series 77 No. 004856711.
- Principal State Registration Number: 1027700043502.

Activities

Rosneft's core activities are: prospecting and exploration of hydrocarbons; production, transportation, and refining of hydrocarbons; production and transportation of petroleum products and petrochemicals; storage and sale (both in the domestic and international markets) of hydrocarbons, petroleum products and petrochemicals; sale of consumer goods and services.

The Company is also engaged in various non-core activities.

Pursuant to Resolution of the Russian Government No.1226-r of August 20, 2009, OJSC Rosneft Oil Company was included in the Russian Government's List of Strategic Enterprises and Organizations.

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Rosneft Oil Company

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