



## **Rosneft Oil Company**

### **Consolidated Financial Statements**

*as of December 31, 2011 and 2010 and  
for the years ended December 31, 2011, 2010 and 2009  
With Report of Independent Auditors*

Rosneft Oil Company

Consolidated Financial Statements

as of December 31, 2011 and 2010

and for the years ended December 31, 2011, 2010 and 2009

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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.

*Ernst & Young LLC*

February 3, 2012

Rosneft Oil Company  
Consolidated Balance Sheets

*(in millions of US dollars, except share amounts)*

	Notes	As of December 31,	
		2011	2010
<b>ASSETS</b>			
<b>Current assets:</b>			
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
<b>Total current assets</b>		<b>25,642</b>	<b>23,043</b>
<b>Non-current assets:</b>			
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
<b>Total non-current assets</b>		<b>80,326</b>	<b>70,786</b>
<b>Total assets</b>		<b>105,968</b>	<b>93,829</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
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
<b>Total current liabilities</b>		<b>12,993</b>	<b>11,693</b>
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
<b>Total non-current liabilities</b>		<b>26,173</b>	<b>26,632</b>
<b>Equity:</b>			
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
<b>Total shareholders' equity</b>		<b>65,761</b>	<b>54,535</b>
Noncontrolling interests		1,041	969
<b>Total equity</b>		<b>66,802</b>	<b>55,504</b>
<b>Total liabilities and equity</b>		<b>105,968</b>	<b>93,829</b>

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

# Rosneft Oil Company

## Consolidated Statements of Income and Comprehensive Income

*(in millions of US dollars, except earnings per share data)*

	Notes	For the years ended December 31,		
		2011	2010	2009
<b>Revenues</b>				
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
<b>Total</b>		<b>91,975</b>	<b>63,047</b>	<b>46,826</b>
<b>Costs and expenses</b>				
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
<b>Total</b>		<b>76,095</b>	<b>49,548</b>	<b>37,698</b>
<b>Operating income</b>		<b>15,880</b>	<b>13,499</b>	<b>9,128</b>
<b>Other income/(expenses)</b>				
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
<b>Total other expenses, net</b>		<b>(174)</b>	<b>(183)</b>	<b>(609)</b>
<b>Income before income tax</b>		<b>15,706</b>	<b>13,316</b>	<b>8,519</b>
Income tax	18	(3,117)	(2,644)	(2,000)
<b>Net income</b>		<b>12,589</b>	<b>10,672</b>	<b>6,519</b>
Net income attributable to noncontrolling interests		(137)	(272)	(5)
<b>Net income attributable to Rosneft</b>		<b>12,452</b>	<b>10,400</b>	<b>6,514</b>
Other comprehensive income		53	2	18
<b>Comprehensive income</b>		<b>12,505</b>	<b>10,402</b>	<b>6,532</b>
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

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

Rosneft Oil Company

Consolidated Statements of Changes in Shareholders' Equity

for the years ended December 31, 2011, 2010 and 2009

*(in millions of US dollars, except share amounts)*

	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
<b>Balance at December 31, 2008</b>	<b>9,598</b>	<b>20</b>	<b>13,108</b>	<b>(7,521)</b>	<b>(40)</b>	<b>33,336</b>	<b>38,903</b>	<b>695</b>	<b>39,598</b>
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
<b>Balance at December 31, 2009</b>	<b>9,597</b>	<b>20</b>	<b>13,108</b>	<b>(7,525)</b>	<b>(22)</b>	<b>39,250</b>	<b>44,831</b>	<b>706</b>	<b>45,537</b>
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)	–
<b>Balance at December 31, 2010</b>	<b>9,599</b>	<b>20</b>	<b>13,110</b>	<b>(7,511)</b>	<b>(20)</b>	<b>48,936</b>	<b>54,535</b>	<b>969</b>	<b>55,504</b>
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)
<b>Balance at December 31, 2011</b>	<b>9,588</b>	<b>20</b>	<b>12,899</b>	<b>(7,615)</b>	<b>33</b>	<b>60,424</b>	<b>65,761</b>	<b>1,041</b>	<b>66,802</b>

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

Rosneft Oil Company  
Consolidated Statements of Cash Flows  
*(in millions of US dollars)*

	Notes	For the years ended December 31,		
		2011	2010	2009
<b>Operating activities</b>				
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
<b>Net cash provided by operating activities</b>		<b>15,749</b>	<b>15,172</b>	<b>10,319</b>

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



Rosneft Oil Company  
Consolidated Statements of Cash Flows (continued)  
*(in millions of US dollars)*

	Notes	For the years ended December 31,		
		2011	2010	2009
<b>Investment activities</b>				
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)
Margin call deposit returned		–	–	1,208
Placements under reverse REPO agreements		(1,053)	(403)	(22)
Receipts under reverse REPO agreements		768	22	–
<b>Net cash used in investing activities</b>		<b>(13,606)</b>	<b>(12,439)</b>	<b>(8,788)</b>
<b>Financing activities</b>				
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)
<b>Net cash used in financing activities</b>		<b>(988)</b>	<b>(558)</b>	<b>(877)</b>
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)
<b>Cash and cash equivalents at end of period</b>		<b>5,172</b>	<b>4,154</b>	<b>1,997</b>
<b>Supplementary disclosures of cash flow information</b>				
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
<b>Supplementary disclosure of non-cash activities</b>				
Income tax offsets		–	–	289

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

Rosneft Oil Company  
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)*

**1. 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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 1. General (continued)

#### *Nature of Operations (continued)*

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	Voting
		Common Shares	Shares
		%	%
<b><u>Exploration and production</u></b>			
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
<b><u>Refining, marketing and distribution</u></b>			
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
OJSC Syzran Refinery	Petroleum refining	100.00	100.00
CJSC Neftegor'sk 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-Karachaevo-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

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 1. General (continued)

#### *Nature of Operations (continued)*

Name	Nature of Business	Preferred and Common Shares	Voting Shares
		%	%
LLC RN-Trade	Marketing and distribution	100.00	100.00
CJSC Exponeft	Marketing and distribution	45.38	45.38
CJSC Irkutsknefteprodukt	Marketing and distribution	100.00	100.00
OJSC Samaranefteprodukt	Marketing and distribution	100.00	100.00
LLC Samara Terminal	Marketing and distribution	100.00	100.00
OJSC Buryatnefteprodukt	Marketing and distribution	97.48	98.88
CJSC Khakasnefteprodukt VNK	Marketing and distribution	100.00	100.00
OJSC Tomsknefteprodukt VNK	Marketing and distribution	100.00	100.00
OJSC Belgorodnefteprodukt	Marketing and distribution	100.00	100.00
CJSC Bryansknefteprodukt	Marketing and distribution	100.00	100.00
OJSC Voronezhnefteprodukt	Marketing and distribution	100.00	100.00
CJSC Lipetsknefteprodukt	Marketing and distribution	100.00	100.00
CJSC Orelnefteprodukt	Marketing and distribution	100.00	100.00
CJSC Penzanefteprodukt	Marketing and distribution	100.00	100.00
CJSC Tambovnefteprodukt	Marketing and distribution	100.00	100.00
CJSC Ulyanovsknefteprodukt	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 Mytischki Fuel Company	Marketing and distribution	100.00	100.00
OJSC Stavropolnefteprodukt	Marketing and distribution	100.00	100.00
LLC U-Kuban	Marketing and distribution	100.00	100.00
LLC RN-Ingushnefteprodukt	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
<b>Other</b>			
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-Dalniy 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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 2. 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 3, 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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### *Foreign Currency Translation (continued)*

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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### *Goodwill and Other Intangible Assets (continued)*

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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### *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.



# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### *Oil and Gas Exploration and Development (continued)*

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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### *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:

<b>Asset Group</b>	<b>Average Useful Life</b>
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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### *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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### *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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### *Asset Retirement Obligations (continued)*

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.

#### *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.

Rosneft Oil Company  
Notes to Consolidated Financial Statements (continued)

**2. Significant Accounting Policies (continued)**

***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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### *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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### *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 trouble 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.



# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### *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.

Rosneft Oil Company  
Notes to Consolidated Financial Statements (continued)

**3. Cash and Cash Equivalents**

Cash and cash equivalents as of December 31 comprise the following:

	<b>2011</b>	<b>2010</b>
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
<b>Total cash and cash equivalents</b>	<b>5,172</b>	<b>4,154</b>

Restricted cash as of December 31 comprises the following:

	<b>2011</b>	<b>2010</b>
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
<b>Total restricted cash</b>	<b>117</b>	<b>30</b>

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.

**4. Short-Term Investments**

Short-term investments as of December 31 comprise the following:

	<b>2011</b>	<b>2010</b>
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
<b>Total short-term investments</b>	<b>4,655</b>	<b>6,814</b>

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 4. Short-Term Investments (continued)

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
<b>Total</b>	<b>603</b>			<b>727</b>		

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	4.5%	December 2013
Nominally interest-free promissory notes (with weighted average effective interest rate)	24	2.06% - 6.66%	February 2012 - April 2013	-	-	-
<b>Total</b>	<b>618</b>			<b>260</b>		

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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 4. Short-Term Investments (continued)

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%.

### 5. Accounts Receivable, net

Accounts receivable as of December 31 comprise the following:

	<b>2011</b>	<b>2010</b>
Trade receivables	<b>5,687</b>	4,077
Value-added tax and excise receivable (Note 22)	<b>1,937</b>	2,126
Other taxes	<b>345</b>	283
Banking loans to customers	<b>748</b>	789
Other	<b>464</b>	375
Less: allowance for doubtful accounts	<b>(145)</b>	(138)
<b>Total accounts receivable, net</b>	<b>9,036</b>	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.

### 6. Inventories

Inventories as of December 31 comprise the following:

	<b>2011</b>	<b>2010</b>
Materials and supplies	<b>764</b>	451
Crude oil and associated gas	<b>1,469</b>	595
Petroleum products and petrochemicals	<b>1,778</b>	1,065
<b>Total inventories</b>	<b>4,011</b>	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).

### 7. Prepayments and Other Current Assets

Prepayments and other current assets as of December 31 comprise the following:

	<b>2011</b>	<b>2010</b>
Prepayments to suppliers	<b>743</b>	665
Prepaid customs duties	<b>1,600</b>	1,315
Insurance prepayments	<b>7</b>	6
Derivatives (Note 24)	<b>3</b>	77
Other	<b>82</b>	93
<b>Total prepayments and other current assets</b>	<b>2,435</b>	2,156

Prepaid customs duties represent export duties related to the export of crude oil and petroleum products (see Note 17).

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 8. Long-Term Investments

Long-term investments as of December 31 comprise the following:

	2011	2010
<i>Equity method investments</i>		
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
<b>Total equity method investments</b>	<b>4,210</b>	<b>2,174</b>
<i>Available-for-sale securities</i>		
INTER RAO UES	146	–
Other securities in Company's banks	13	17
<i>Held-to-maturity securities</i>		
Russian government bonds	40	49
<i>Loans</i>		
Long-term loans	9	–
Long-term loans to equity investees	409	679
<i>Notes receivable, net (long-term portion)</i>	<b>216</b>	–
<i>Cost method investments</i>	<b>16</b>	17
<b>Total long-term investments</b>	<b>5,059</b>	<b>2,936</b>

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 Petr leos 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)
<b>Total equity share in profits</b>		<b>577</b>	<b>60</b>	<b>112</b>

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 8. Long-Term Investments (continued)

#### *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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 8. Long-Term Investments (continued)

#### *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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 8. Long-Term Investments (continued)

#### *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.

### 9. 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
<b>Total property, plant and equipment</b>	<b>97,570</b>	<b>85,361</b>	<b>(29,822)</b>	<b>(24,171)</b>	<b>67,748</b>	<b>61,190</b>

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.



# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 9. Property, Plant and Equipment, net (continued)

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):

	<b>2011</b>	<b>2010</b>
Oil and gas properties	<b>30</b>	27
Less: accumulated depletion	<b>(8)</b>	(6)
Oil and gas properties, net	<b>22</b>	21
<i>Other property, plant and equipment</i>		
Plant and machinery	<b>13</b>	17
Vehicles	<b>249</b>	181
Total	<b>262</b>	198
Less: accumulated depreciation	<b>(77)</b>	(85)
Property, plant and equipment, net	<b>185</b>	113
<b>Total net book value of leased property</b>	<b>207</b>	134

Rosneft Oil Company  
Notes to Consolidated Financial Statements (continued)

**10. Leased Property, Plant and Equipment, net (continued)**

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)
<b>Present value of capital lease payments</b>	<b>184</b>

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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 11. Goodwill and Intangible Assets (continued)

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 trademarks "Sochi 2014"	172	172	(78)	(47)	94	125
Rights to use technology in petrochemical production	90	–	–	–	90	–
Other	62	61	(17)	(12)	45	49
<b>Total intangible assets</b>	<b>954</b>	<b>951</b>	<b>(252)</b>	<b>(184)</b>	<b>702</b>	<b>767</b>

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
<b>Total amortization expense for the five succeeding years</b>	<b>287</b>

### 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
<b>Total other non-current assets</b>	<b>1,689</b>	<b>957</b>

Rosneft Oil Company  
Notes to Consolidated Financial Statements (continued)

**13. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of December 31 comprise the following:

	<b>2011</b>	<b>2010</b>
Trade accounts payable	<b>3,015</b>	1,457
Salary and other benefits payable	<b>521</b>	442
Advances received	<b>553</b>	601
Dividends payable	<b>4</b>	10
Banking customer accounts	<b>1,231</b>	1,067
Accrued expenses	<b>194</b>	163
Other	<b>303</b>	121
<b>Total accounts payable and accrued liabilities</b>	<b>5,821</b>	<b>3,861</b>

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:

	<b>2011</b>	<b>2010</b>
Customer deposits – currencies other than RUB	<b>109</b>	86
Customer deposits – RUB denominated	<b>452</b>	271
Promissory notes payable	<b>27</b>	84
Promissory notes payable – Yukos related	<b>1,237</b>	1,312
Borrowings – RUB denominated – Yukos related	<b>263</b>	269
Repurchase agreements	<b>–</b>	27
Other borrowings	<b>377</b>	286
	<b>2,465</b>	2,335
Current portion of long-term debt	<b>2,269</b>	3,163
<b>Total short-term loans and borrowings and current portion of long-term debt</b>	<b>4,734</b>	<b>5,498</b>

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.

Rosneft Oil Company  
Notes to Consolidated Financial Statements (continued)

**14. Short-Term Loans and Long-Term Debt (continued)**

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:

	<b>2011</b>	<b>2010</b>
Bank loans – currencies other than RUB	<b>20,502</b>	20,690
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US\$ denominated	–	110
Customer deposits – currencies other than RUB	<b>68</b>	44
Customer deposits – RUB denominated	<b>165</b>	277
Promissory notes payable	<b>3</b>	69
Other borrowings	<b>88</b>	30
	<b>20,826</b>	21,220
Current portion of long-term debt	<b>(2,269)</b>	(3,163)
<b>Total long-term debt</b>	<b>18,557</b>	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.

Rosneft Oil Company  
Notes to Consolidated Financial Statements (continued)

**14. Short-Term Loans and Long-Term Debt (continued)**

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
<b>Total long-term debt</b>	<b>20,826</b>

**15. Income and Other Tax Liabilities**

Income and other tax liabilities as of December 31 comprise the following:

	<u>2011</u>	<u>2010</u>
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
<b>Total income and other tax liabilities</b>	<b>2,146</b>	<b>1,971</b>

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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 16. Shareholders' Equity (continued)

#### *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
<b>Total export customs duty</b>	<b>26,882</b>	<b>16,743</b>	<b>12,131</b>

### 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)
<b>Total income tax expense</b>	<b>3,117</b>	<b>2,644</b>	<b>2,000</b>

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
<i>Deferred income tax asset arising from tax effect of:</i>		
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
<i>Deferred income tax liability arising from tax effect of:</i>		
Mineral rights	(2,209)	(2,409)
Property, plant and equipment and other	(2,571)	(2,585)
Deferred income tax liability	(4,780)	(4,994)
<b>Net deferred income tax liability</b>	<b>(4,346)</b>	<b>(4,695)</b>

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 18. Income and Other Taxes (continued)

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
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
<b>Income taxes</b>	<b>3,117</b>	<b>2,644</b>	<b>2,000</b>

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
<b>Total taxes other than income tax</b>	<b>16,911</b>	<b>10,920</b>	<b>8,061</b>



Rosneft Oil Company  
Notes to Consolidated Financial Statements (continued)

**19. Asset Retirement Obligations**

The movement of asset retirement obligations is as follows:

	<b>2011</b>	<b>2010</b>
Asset retirement obligations as of the beginning of the reporting period	<b>2,328</b>	1,772
Recognition of additional obligations for new wells	<b>99</b>	88
Accretion expense	<b>146</b>	107
Increase as a result of changes in estimates	<b>104</b>	383
Spending on existing obligations	<b>(35)</b>	(22)
<b>Asset retirement obligations as of the end of the reporting period</b>	<b>2,642</b>	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:

	<b>2011</b>	<b>2010</b>
Restructured tax liabilities	–	1,020
Long-term lease obligations	<b>166</b>	97
Deferred income	–	20
Liabilities to municipalities under amicable agreements	<b>29</b>	51
Liabilities for rights to use trademarks "Sochi 2014" (Note 11)	<b>24</b>	38
Environmental remediation liability	<b>85</b>	111
Other	<b>17</b>	2
<b>Total other non-current liabilities</b>	<b>321</b>	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).

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

As of December 31, 2011 and 2010, total accrued environmental remediation liabilities were US\$ 123 million and US\$ 145 million, respectively, of which US\$ 38 million and US\$ 34 million, respectively, were included in Accrued expenses (see Note 13). Environmental remediation liabilities will be settled over four years and are discounted using 11% discount rate.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 21. Related Party Transactions

In the normal course of business the Company enters into transactions with other parties which are directly or indirectly controlled by the Russian Government. Such enterprises are OJSC Gazprom, OJSC Russian Railways, OJSC Sberbank, Vnesheconombank, OJSC Bank VTB, OJSC Gazprombank, OJSC AK Transneft, certain power and utility companies, and federal agencies, including tax authorities.

Total amounts of transactions and balances with companies controlled by the Russian Government for each of the reporting periods ending December 31, as well as related party balances as of December 31 are provided in the tables below:

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b><i>Revenues and income</i></b>			
Oil and gas sales	967	248	164
Petroleum products and petrochemicals sales	849	644	293
Support services and other revenues	53	50	103
Interest income	244	228	95
	<b>2,113</b>	<b>1,170</b>	<b>655</b>
<b><i>Costs and expenses</i></b>			
Production and operating expenses	339	173	192
Pipeline tariffs and transportation costs	6,172	4,152	3,054
Other expenses	227	3	69
Interest expense	1	8	109
Banking fees	11	9	12
	<b>6,750</b>	<b>4,345</b>	<b>3,436</b>
<b><i>Other operations</i></b>			
Sale of short-term and long-term investments	48	–	505
Purchase of short-term and long-term investments	306	21	31
Proceeds from short-term and long-term debt	–	–	2
Repayment of short-term and long-term debt	112	1,412	3,466
Borrowings issued	36	–	–
Deposits placed	991	3,466	1,897
Deposits withdrawn	5,684	797	86
		<b>December 31, 2011</b>	<b>December 31, 2010</b>
<b><i>Assets</i></b>			
Cash and cash equivalents		1,703	2,520
Accounts receivable		371	171
Prepayments and other current assets		486	502
Short-term and long-term investments		342	4,444
		<b>2,902</b>	<b>7,637</b>
<b><i>Liabilities</i></b>			
Accounts payable		48	50
Short-term and long-term debt (including interest)		4	114
		<b>52</b>	<b>164</b>

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 21. Related Party Transactions (continued)

Total amounts of transactions with related parties (except for those controlled by the Russian Government), which are primarily equity investees and joint ventures, for each of the reporting periods ending December 31, as well as related party balances as of December 31 are provided in the tables below:

	2011	2010	2009
<b><i>Revenues and income</i></b>			
Oil and gas sales	53	43	27
Petroleum products and petrochemicals sales	171	130	115
Support services and other revenues	307	203	336
Interest income	35	36	27
Dividends received	30	37	178
	596	449	683
<b><i>Costs and expenses</i></b>			
Production and operating expenses	315	343	261
Cost of purchased oil, gas and petroleum products and refining costs	2,714	1,480	1,342
Other expenses	357	111	218
Interest expense	1	3	–
	3,387	1,937	1,821
<b><i>Other operations</i></b>			
Purchase of short-term and long-term investments	168	8	121
Proceeds from short-term and long-term debt	1	1	78
Repayment of short-term and long-term debt	47	141	1
Loans issued	11	162	69
Repayment of borrowings issued	216	4	3
		December 31, 2011	December 31, 2010
<b><i>Assets</i></b>			
Accounts receivable		269	247
Prepayments and other current assets		9	9
Short-term and long-term investments		500	460
		778	716
<b><i>Liabilities</i></b>			
Accounts payable		269	132
Short-term and long-term debt (including interest)		208	258
		477	390

### 22. Commitments and Contingencies

#### ***Russian Business Environment***

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 and throughout 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Company's future consolidated financial position, consolidated results of operations and business prospects.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 22. Commitments and Contingencies (continued)

#### *Russian Business Environment (continued)*

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

#### *Taxation*

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

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

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

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

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

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

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

**Rosneft Oil Company**  
**Notes to Consolidated Financial Statements (continued)**

**22. Commitments and Contingencies (continued)**

***Taxation (continued)***

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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 22. Commitments and Contingencies (continued)

#### *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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 22. Commitments and Contingencies (continued)

#### *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 ruble-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.

## Rosneft Oil Company

### Notes to Consolidated Financial Statements (continued)

#### 22. Commitments and Contingencies (continued)

##### *Litigations, Claims and Assessments (continued)*

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 Sakhaneftegaz and OJSC Lenaneftegaz 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 Oil Company

## Notes to Consolidated Financial Statements (continued)

### 22. Commitments and Contingencies (continued)

#### *Litigations, Claims and Assessments (continued)*

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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 23. 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:

	<b>Exploration and production</b>	<b>Refining, marketing and distribution</b>	<b>All other</b>	<b>Total elimination</b>	<b>Consolidated</b>
Revenues from external customers	1,699	87,437	2,839	–	91,975
Intersegmental revenues	24,083	5,925	8,585	(38,593)	–
<b>Total revenues</b>	<b>25,782</b>	<b>93,362</b>	<b>11,424</b>	<b>(38,593)</b>	<b>91,975</b>
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:

	<b>Exploration and production</b>	<b>Refining, marketing and distribution</b>	<b>All other</b>	<b>Total elimination</b>	<b>Consolidated</b>
Revenues from external customers	1,149	59,847	2,051	–	63,047
Intersegmental revenues	17,737	4,337	7,845	(29,919)	–
<b>Total revenues</b>	<b>18,886</b>	<b>64,184</b>	<b>9,896</b>	<b>(29,919)</b>	<b>63,047</b>
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

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 23. Segment Information (continued)

Operating segments in 2009:

	<b>Exploration and production</b>	<b>Refining, marketing and distribution</b>	<b>All other</b>	<b>Total elimination</b>	<b>Consolidated</b>
Revenues from external customers	981	44,358	1,487	–	46,826
Intersegmental revenues	9,723	2,876	5,490	(18,089)	–
<b>Total revenues</b>	<b>10,704</b>	<b>47,234</b>	<b>6,977</b>	<b>(18,089)</b>	<b>46,826</b>
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.

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Oil and gas sales</b>			
International sales of crude oil – Europe and other directions	<b>32,496</b>	22,895	18,275
International sales of crude oil – Asia	<b>12,488</b>	9,824	4,744
International sales of crude oil – CIS	<b>1,847</b>	1,363	1,313
Domestic sales of crude oil	<b>100</b>	269	134
Domestic sales of gas	<b>486</b>	416	354
<b>Total oil and gas sales</b>	<b>47,417</b>	34,767	24,820
<b>Petroleum products and petrochemicals sales</b>			
International sales of petroleum products – Europe and other directions	<b>17,009</b>	8,401	6,827
International sales of petroleum products – Asia	<b>7,616</b>	5,985	4,895
International sales of petroleum products – CIS	<b>277</b>	172	144
Domestic sales of petroleum products	<b>16,093</b>	11,686	8,630
Domestic sales of petrochemicals	<b>332</b>	297	170
International sales of petrochemicals	<b>1,693</b>	119	70
<b>Total petroleum products and petrochemicals sales</b>	<b>43,020</b>	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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 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
<b>Assets:</b>				
<b>Current assets</b>				
Trading securities	277	326	–	603
Available-for-sale securities	259	359	–	618
Derivatives	–	3	–	3
<b>Non-current assets</b>				
Available-for-sale securities	146	13	–	159
<b>Total assets measured at fair value</b>	<b>682</b>	<b>701</b>	<b>–</b>	<b>1,383</b>
<b>Current liabilities:</b>				
Derivatives	–	(121)	–	(121)
<b>Total liabilities measured at fair value</b>	<b>–</b>	<b>(121)</b>	<b>–</b>	<b>(121)</b>

	Fair value measurement as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
<b>Current assets</b>				
Trading securities	154	575	–	729
Available-for-sale securities	129	131	–	260
Derivatives	–	77	–	77
Net assets held for sale	55	–	–	55
<b>Non-current assets</b>				
Available-for-sale securities	–	17	–	17
<b>Total assets measured at fair value</b>	<b>338</b>	<b>800</b>	<b>–</b>	<b>1,138</b>
<b>Current liabilities:</b>				
Derivatives	–	(191)	–	(191)
<b>Total liabilities measured at fair value</b>	<b>–</b>	<b>(191)</b>	<b>–</b>	<b>(191)</b>

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
<b>Assets:</b>				
<b>Non-current assets</b>				
Property, plant and equipment	92	–	–	92
Equity method investments	71	–	–	71
<b>Total assets measured at fair value</b>	<b>163</b>	<b>–</b>	<b>–</b>	<b>163</b>

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).

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 24. Fair Value of Financial Instruments and Risk Management (continued)

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).

Rosneft Oil Company  
Notes to Consolidated Financial Statements (continued)

**24. Fair Value of Financial Instruments and Risk Management (continued)**

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 2010	May 2011	995	–	11	(11)	11
June 2010	June 2011	200	–	5	(5)	5
July 2010	July 2011	750	–	15	(15)	15
September 2010	September 2011	250	–	6	(6)	6
October 2010	October 2011	443	–	10	(10)	10
November 2010	November 2011	957	–	27	(27)	27
December 2010	December 2011	100	–	3	(3)	3
February 2011	February 2012	500	(9)	–	(9)	–
March 2011	March 2012	50	(1)	–	(1)	–
August 2011	December 2011	100	–	–	–	–
November 2011	May 2012	200	1	–	1	–
November 2011	November 2012	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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### 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

<i>Consolidated entities:</i>	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)
<b>Net capitalized costs</b>	<b>52,355</b>	<b>48,694</b>

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

<i>Consolidated entities:</i>	2011	2010	2009
<b>Acquisition of properties:</b>			
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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### Supplementary Oil and Gas Disclosure (unaudited) (continued)

#### *Results of Operations for Oil & Gas Producing Activities*

<i>Consolidated entities:</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>			
Sales	<b>26,237</b>	18,284	13,463
Transfers	<b>12,863</b>	12,902	10,056
<b>Total</b>	<b>39,100</b>	31,186	23,519
Production costs (excluding production taxes)	<b>2,445</b>	2,319	1,869
Selling, general and administrative expenses	<b>838</b>	740	630
Exploration expenses	<b>448</b>	439	325
Accretion expenses	<b>146</b>	107	87
Depreciation, depletion, and amortization, and valuation provisions	<b>4,943</b>	4,503	3,318
Taxes other than income tax	<b>14,564</b>	10,034	6,867
Income tax expenses	<b>2,110</b>	1,845	1,029
<b>Results of operation for producing activities</b>	<b>13,606</b>	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.



# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### Supplementary Oil and Gas Disclosure (unaudited) (continued)

#### Reserve Quantity Information (continued)

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):

<i>Consolidated entities:</i>	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
<i>Proved developed and undeveloped reserves:</i>						
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
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
<b>Proved developed reserves</b>						
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
<b>Proved undeveloped reserves</b>						
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

Rosneft Oil Company  
Notes to Consolidated Financial Statements (continued)

**Supplementary Oil and Gas Disclosure (unaudited) (continued)**

***Reserve Quantity Information (continued)***

<i>Entity's share of proved developed and undeveloped reserves of investees accounted for by the equity method:</i>	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
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	<b>1,265</b>	<b>95</b>	<b>1,228</b>	<b>94</b>	<b>1,195</b>	<b>108</b>
<b>Proved developed reserves</b>						
Beginning of year	760	87	769	101	763	97
End of year	777	90	760	87	769	101
<b>Proved undeveloped reserves</b>						
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.

# Rosneft Oil Company

## Notes to Consolidated Financial Statements (continued)

### Supplementary Oil and Gas Disclosure (unaudited) (continued)

#### *Standardized Measure of Discounted Future Net Cash Flows and Changes therein Relating to Proved Oil and Gas Reserves (continued)*

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.

<i>Consolidated entities:</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Future cash inflows	<b>635,351</b>	449,384	383,839
Future development costs	<b>(32,317)</b>	(34,276)	(29,301)
Future production costs	<b>(333,496)</b>	(215,802)	(177,879)
Future income tax expenses	<b>(43,711)</b>	(31,040)	(27,550)
Future net cash flows	<b>225,827</b>	168,266	149,109
10% annual discount for estimated timing of cash flows	<b>(133,099)</b>	(93,520)	(79,563)
Standardized measure of discounted future net cash flows	<b>92,728</b>	74,746	69,546
 <i>Entity's share of equity method investees:</i>			
Future cash inflows	<b>59,201</b>	43,594	35,202
Future development costs	<b>(4,424)</b>	(4,132)	(3,851)
Future production costs	<b>(30,273)</b>	(20,835)	(13,831)
Future income tax expenses	<b>(4,668)</b>	(3,648)	(3,426)
Future net cash flows	<b>19,836</b>	14,979	14,094
10% annual discount for estimated timing of cash flows	<b>(10,572)</b>	(8,542)	(7,754)
Standardized measure of discounted future net cash flows	<b>9,264</b>	6,437	6,340
<b>Total consolidated and equity interests in the standardized measure of discounted future cash flows</b>	<b>101,992</b>	81,183	75,886

Rosneft Oil Company  
Notes to Consolidated Financial Statements (continued)

**Supplementary Oil and Gas Disclosure (unaudited) (continued)**

***Standardized Measure of Discounted Future Net Cash Flows and Changes therein Relating to Proved Oil and Gas Reserves (continued)***

<b>Consolidated entities:</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Sales and transfers of oil and gas produced during the period	<b>(21,253)</b>	(18,093)	(14,153)
Net changes in sales and transfer prices and in production (lifting) costs related to future production	<b>11,625</b>	12,145	35,895
Changes in estimated future development costs	<b>2,495</b>	(8,895)	(8,155)
Previously estimated development costs incurred during the period	<b>7,989</b>	6,618	5,426
Net changes due to revisions in quantity estimates	<b>7,622</b>	1,720	2,510
Net change due to extensions, discoveries, and improved recovery	<b>7,539</b>	3,479	8,800
Net change in income taxes	<b>(4,859)</b>	(1,667)	(6,059)
Accretion of discount	<b>7,475</b>	6,955	3,550
Net change due to purchases and sales of minerals in place	–	–	–
Other	<b>(651)</b>	2,938	6,231
<b>Aggregated change in the standardized measure of discounted future net cash flows for the year</b>	<b>17,982</b>	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.