IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the Base Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the attached Base Prospectus. In accessing the attached Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

THE ATTACHED BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE ATTACHED BASE PROSPECTUS MAY ONLY BE DISTRIBUTED TO PERSONS THAT ARE NOT "U.S. PERSONS" AS DEFINED IN REGULATION S UNDER THE US SECURITIES ACT OF 1933 (THE ***SECURITIES ACT***) OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) WHO ARE ALSO QUALIFIED PURCHASERS (AS DEFINED BELOW). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THE ATTACHED BASE PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THE ATTACHED BASE PROSPECTUS HAVE NOT BEEN, AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144 A UNDER THE US SECURITIES ACT (***RULE 144A***) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A (A ***QIB***) THAT IS ALSO A "QUALIFIED PURCHASER" AS DEFINED IN SECTION 2(A)(51) OF THE US INVESTMENT COMPANY ACT OF 1940 (THE ***INVESTMENT COMPANY ACT***) (A ***QP***) THAT (A) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (B) IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (C) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN ROSNEFT INTERNATIONAL FINANCE LIMITED (THE ***ISSUER***), (D) IS ACQUIRING ANY SECURITIES DESCRIBED IN THE ATTACHED BASE PROSPECTUS FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QUALIFIED PURCHASER, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN U.S.$200,000, (E) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (F) WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: In order to be eligible to view the attached Base Prospectus or make an investment decision with respect to any securities, investors must be (i) "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) that are also "qualified purchasers" (as defined in Section 2(A)(51) of the Investment Company Act), or (ii) "non-U.S. persons" (as defined in Regulation S under the Securities Act) outside the United States who are not acting for the account or benefit of U.S. Persons. By accessing these materials, you shall be deemed to have represented to us that you (i) are a qualified institutional buyer and a qualified purchaser or (ii) are outside the United States and are not a U.S. Person and are not acting for the account or benefit of a U.S. Person.

Under no circumstances shall the attached Base Prospectus constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities being offered, in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached Base Prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the attached Base Prospectus.

The Notes are not eligible for placement and circulation in the Russian Federation, unless, and to the extent, otherwise permitted by Russian law. The information provided in the attached Base Prospectus is not an offer, or an invitation to make offers, sell, exchange or otherwise transfer the Notes in the Russian Federation or to or for the benefit of any Russian person or entity.

The attached Base Prospectus and information contained herein does not constitute an advertisement or an offer of any securities in the Russian Federation. It is not intended to be, and must not be, distributed or circulated in the Russian Federation unless and to the extent otherwise permitted under Russian law.

You are reminded that the attached Base Prospectus has been delivered to you on the basis that you are a person into whose possession the attached Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the attached Base Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

The attached Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither Rosneft Oil Company (the ***Company***), the Issuer, Barclays Bank PLC, Citigroup Global Markets Limited, J.P. Morgan Securities plc, VTB Capital plc, Deutsche Bank AG, London Branch, Merrill Lynch International, Morgan Stanley & Co. International plc (the ***Dealers***) nor any person who controls them nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the attached Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Company, the Issuer and the Dealers.

ROSNEFT OIL COMPANY

U.S.$10,000,000,000 Programme for the Issuance of Loan Participation Notes

to be issued by, but with limited recourse to,

Rosneft International Finance Limited

for the sole purpose of financing loans to

ROSNEFT OIL COMPANY

Under the Programme for the Issuance of Loan Participation Notes (the ***Programme***) described in this base prospectus (the ***Base Prospectus***), Rosneft International Finance Limited (the ***Issuer***), subject to compliance with all relevant laws, regulations and directives, may from time to time issue loan participation notes (the ***Notes***) on the terms set out herein, as completed by a final terms document (each, ***Final Terms***) or a series prospectus (each, ***Series Prospectus***) setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed U.S.$10,000,000,000 (or the equivalent in other currencies).

Notes will be issued in Series (as defined in "*Overview of the Programme*") and the sole purpose of issuing each Series will be to finance loans (each a ***Loan***) to Rosneft Oil Company (the ***Company***) as borrower, on the terms of a facility agreement between the Issuer and the Company dated 28 November 2012 (the ***Facility Agreement***), as amended, supplemented and replaced from time to time and as amended and supplemented by a loan supplement to be entered into in respect of each Loan on each Issue Date (as defined below) (each a ***Loan Supplement*** and, together with the Facility Agreement, each a ***Loan Agreement***) between the Issuer and the Company. Except as provided in the Trust Deed (as defined herein), the Issuer will (a) charge, in favour of Deutsche Trustee Company Limited (the ***Trustee***) for the benefit of itself and the Noteholders (as defined herein), by way of first fixed charge as security for its payment obligations in respect of each Series of Notes and under the Trust Deed certain of its rights and interests under the relevant Loan Agreement, including its right to principal, interest and other amounts as lender under the relevant Loan Agreement and amounts received pursuant to the relevant Loan in an account of the Issuer (as described herein), in each case other than the Reserved Rights (as defined in the Trust Deed) and certain amounts relating to the Reserved Rights and (b) assign, in favour of the Trustee for the benefit of itself and the Noteholders, certain rights under the relevant Loan Agreement other than the Reserved Rights (the ***Assigned Rights***).

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of a Series of Notes, the obligation of the Issuer to make any such payment constitutes an obligation only to account to holders of the Notes (***Noteholders***), on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of such Series of Notes, for an amount equivalent to all principal, interest and additional amounts (if any, other than amounts received by the Issuer in respect of the Reserved Rights) actually received by or for the account of the Issuer pursuant to the corresponding Loan Agreement. The Issuer will have no other financial obligations under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely on the covenant to pay under the relevant Loan Agreement and the credit and financial standing of the Company in respect of the financial servicing of the Notes.**

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. PROSPECTIVE INVESTORS SHOULD HAVE REGARD TO THE FACTORS DESCRIBED UNDER THE SECTION ENTITLED "RISK FACTORS" BEGINNING ON PAGE 16 OF THIS BASE PROSPECTUS.

The Notes and the corresponding Loans (together, the *Securities*) have not been, and will not be, registered under the United States Securities Act of 1933 (the *Securities Act*) or with any securities regulatory authority of any State or other jurisdiction of the United States. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, US persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States to non-US persons in reliance on Regulation S (*Regulation S*) under the Securities Act (the *Regulation S Notes*) and within the United States to qualified institutional buyers (*QIBs*), as defined in Rule 144A (*Rule 144A*) under the Securities Act, that are also qualified purchasers (*QPs*), as defined in Section 2(a)(51) of the Investment Company Act, in reliance on the exemption from registration under the Securities Act provided by Rule 144A and the exemption from registration under the Investment Company Act provided by Rule 3(c)(7) (the *Rule 144A Notes*). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Base Prospectus, see "*Subscription and Sale*" and "*Transfer Restrictions*".

This Base Prospectus has been approved by the Central Bank of Ireland (the ***Central Bank***), as competent authority under Directive 2003/71/EC (the ***Prospectus Directive***). The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes that are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any Member State of the European Economic Area. Application will be made to the Irish Stock Exchange for the Notes issued under the Programme during the period of 12 months from the date hereof to be admitted to the Official List (the ***Official List***) and trading on its regulated market (the ***Main Securities Market***). Reference in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Main Securities Market. The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. Unlisted Notes may also be issued pursuant to the Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Irish Stock Exchange (or any other stock exchange).

Regulation S Notes will initially be represented by interests in a global unrestricted Note in registered form (each, a ***Regulation S Global Note***), which will be deposited with a common depositary for Euroclear Bank SA/NV (***Euroclear***) and Clearstream Banking, société anonyme (***Clearstream, Luxembourg***), and registered in the name of the nominee of the common depository, on its issue date as set out in the relevant Final Terms (the ***Issue Date***). Beneficial interests in a Regulation S Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Rule 144A Notes will initially be represented by one or more global restricted Note in registered form (each, a ***Rule 144A Global Note*** and together with any Regulation S Global Notes, the ***Global Notes***), which will be deposited with a custodian for, and registered in the name of Cede & Co., the nominee of, The Depository Trust Company (***DTC***) on its Issue Date. Beneficial interests in a Rule 144A Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "*Clearing and Settlement*". Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

The minimum specified denomination of any Notes issued under the Programme shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes), provided that (i) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.$200,000 (or its equivalent in other currencies) and (ii) Notes with a maturity of less than 365 days shall be held in amounts of not less than €300,000 (or its equivalents in other currencies).

The Programme has been assigned ratings of BBI- CUP by Standard & Poor's Credit Market Services Europe Limited (***Standard & Poor's***), and (P)Baa1 by Moody's Investors Services Limited (***Moody's***). The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms, and if such Series of Notes is rated, it will be rated by Standard & Poor's, Moody's and/or Fitch Ratings Limited (***Fitch***), as indicated in such applicable Final Terms. A rating is not a recommendation to sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not by a credit rating agency established in the European Community and registered under Regulation (EC) No 1060/2009 (the ***CRA Regulation***) unless this is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted application for registration in accordance with the CRA Regulation and such registration is not refused or (ii) the rating provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA registered under the CRA Regulation or (iii) the rating is provided by a credit rating agency not established in the EEA is certified under the CRA Regulation. For the purposes of the credit ratings referred to in this Base Prospectus and in any applicable Final Terms, each of Standard & Poor's, Fitch and Moody's is established in the European Union and is registered under the CRA Regulation. As such, each of Standard & Poor's, Fitch and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. Please also refer to "*Risk Factors—Risks Related to the Issuer, the Notes and the Trading Market—Ratings of the Notes may be limited*".

Arrangers and Permanent Dealers

Barclays **Citigroup** **J.P. Morgan** **VTB Capital**

Permanent Dealers

BofA Merrill Lynch **Deutsche Bank** **Morgan Stanley**

The date of this Base Prospectus is 28 November 2012

IMPORTANT INFORMATION ABOUT THIS BASE PROSPECTUS

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Company, as well as the Company and its subsidiaries taken as a whole (***Rosneft*** or the ***Group***), which, due to the particular nature of the Issuer, the Company, the Group, the Notes and the Loans, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Company and the Group. The Issuer (whose registered office appears on page 59 of this Base Prospectus) and the Company (whose registered office appears on page 59 of this Base Prospectus) each accepts responsibility for the information contained in this Base Prospectus and any applicable Final Terms in relation to Notes issued by it. To the best of the knowledge and belief of the Issuer and the Company (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is factually accurate and does not omit anything likely to affect the import of such information.

In addition, the Company, having made all reasonable enquiries, confirms that (i) this Base Prospectus contains all information with respect to the Company, the Group, the Loans and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Base Prospectus with regard to the Company are in every material particular true and accurate and not misleading; (iii) to the best knowledge of the Company, the statements contained in this Base Prospectus relating to the Group are in every material particular true and accurate and not misleading; (iv) the opinions, expectations and intentions expressed in this Base Prospectus with regard to the Company are honestly held, have been realised after considering all relevant circumstances and are based on reasonable assumptions; (v) there are no other facts in relation to the Company, the Group, the Loans and the Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Base Prospectus misleading in any material respect; and (vi) all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements. Accordingly, save as set out in the paragraph above, the immediately preceding sentence, and save as set out below, the Company accepts responsibility for the information contained in this Base Prospectus.

This Base Prospectus does not constitute an offer to sell Notes, or an invitation by or on behalf of the Issuer, the Company, the Arrangers or the Dealers (each as defined under "*Overview of the Programme*") to subscribe for or purchase any Notes.

This Base Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the ***Order***) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as ***relevant persons***). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

The distribution of this Base Prospectus and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Persons who come into possession of this Base Prospectus are required by the Issuer, the Company, the Arrangers and the Dealers to inform themselves about and to observe any such restrictions.

No person is authorised to provide any information or make any representation not contained in this Base Prospectus and any information or representation not contained in this Base Prospectus must not be relied upon as having been authorised by or on behalf of the Issuer, the Company, the Trustee, the Paying Agents, Transfer Agents, Principal Paying Agent, Calculation Agent and Registrars (the ***Agents***), any of the Arrangers or the Dealers. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, at any time or in any circumstances, imply that the information contained in it is correct as at any time subsequent to its date or that there has been no adverse change in the financial position of the Issuer, the Company or the Group since the date hereof.

None of the Issuer, the Company, the Trustee, the Agents, the Arrangers or the Dealers or any of its or their respective representatives makes any representation or warranty, express or implied, to any offeree or purchaser of the Notes offered hereby, regarding the legality of an investment by such offeree or purchaser under applicable investment or similar laws. Each investor should consult with their own advisers as to the legal, tax, business, financial and related aspects of any purchase of the Notes. To the fullest extent permitted by law, none of the Arrangers or the Dealers accepts any responsibility for the contents of this

Base Prospectus or for any other statement made or purported to be made by an Arranger or a Dealer or on its behalf in connection with the Issuer, the Company or the issue and offering of the Notes. Each Arranger and each Dealer accordingly disclaims any and all liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Base Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained by such prospective purchaser. The Company, the Issuer, the Trustee, the Agents, the Arrangers and the Dealers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which any Notes constitute a legal investment for prospective investors whose investment authority is subject to legal restrictions. Such prospective investors should consult their legal advisers regarding such matters. This Base Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Company, the Arrangers or the Dealers that any recipient of this Base Prospectus should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arrangers or the Dealers undertakes to review the financial condition or affairs of the Issuer or the Company during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers or the Dealers.

The Arrangers and the Dealers and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange non-public market financing for, and enter into derivatives transactions with, the Company and its affiliates. The Arrangers and the Dealers are acting exclusively for the Company and the Issuer and no one else in connection with the Programme and the Notes and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to this offering.

This Base Prospectus contains summaries with respect to certain terms of the Trust Deed and the Facility Agreement, but reference should be made to the actual documents for complete information with respect thereto. These documents will be made available free of charge to prospective investors upon request to the Company or at the office of the Principal Paying Agent in London.

The Issuer is a company incorporated for an unlimited duration under the laws of Ireland. The registered office of the Issuer is located at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland. For further information about the Issuer, see "*The Issuer*".

This Base Prospectus has been filed with and approved by the Central Bank as required by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the ***Prospectus Regulations***). This Base Prospectus, as approved by the Central Bank, will be filed with the Companies Registration Office in accordance with Regulation 38(1)(b) of the Prospectus Regulations.

Where the Issuer wishes to issue Notes with a maturity of less than one year, it shall ensure that the Notes are issued in accordance with an exemption granted under section 8(2) of the Central Bank Act, 1971, as amended.

Any investment in any Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Notes.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE ARRANGERS OR THE DEALERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS BASE PROSPECTUS, AND NOTHING CONTAINED IN THIS BASE PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE.

EACH PERSON RECEIVING THIS BASE PROSPECTUS ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE ARRANGERS, THE DEALERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS

INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY NOTES ISSUED UNDER THIS PROGRAMME FROM TIME TO TIME MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER, THE COMPANY AND THE GROUP AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT. EACH PURCHASER OF THE NOTES SHOULD BE AWARE THAT IT MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

INFORMATION CONTAINED IN THIS BASE PROSPECTUS IS NOT AN OFFER, OR AN INVITATION TO MAKE OFFERS, SELL, PURCHASE, EXCHANGE OR TRANSFER ANY SECURITIES IN THE RUSSIAN FEDERATION, AND DOES NOT CONSTITUTE AN ADVERTISEMENT OF OFFERING OF ANY SECURITIES IN THE RUSSIAN FEDERATION. THE SECURITIES REFERENCED TO IN THIS BASE PROSPECTUS HAVE NOT BEEN AND WILL NOT BE REGISTERED IN THE RUSSIAN FEDERATION OR ADMITTED TO PUBLIC PLACEMENT AND/OR PUBLIC CIRCULATION IN THE RUSSIAN FEDERATION AND ARE NOT INTENDED FOR "PLACEMENT" OR "CIRCULATION" IN THE RUSSIAN FEDERATION EXCEPT AS PERMITTED BY RUSSIAN LAW.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER FEDERAL OR STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES, NOR HAVE THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES. THE NOTES WILL NOT BE REGISTERED UNDER THE SECURITIES ACT. SUBJECT TO CERTAIN EXCEPTIONS, NOTES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO U.S. PERSONS. FURTHER INFORMATION WITH REGARD TO RESTRICTIONS ON THE OFFERS AND SALE OF THE NOTES AND THE DISTRIBUTION OF THIS BASE PROSPECTUS IS SET OUT UNDER "*SUBSCRIPTION AND SALE*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT, OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (***RSA 421-B***) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

The Company has agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the ***Exchange Act***) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

STABILISATION

In connection with the issue of any Series of Notes, the Dealers (if any) appointed as stabilising manager(s) (the ***Stabilising Manager(s)***) (or any person acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, this is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Series of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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OVERVIEW OF THE GROUP

This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Base Prospectus, including the more detailed information regarding Rosneft's business and the Financial Statements and related notes included elsewhere in this Base Prospectus. Certain statements in this overview include forward-looking statements that also involve risks and uncertainties as described in "Forward-Looking Statements". Information is presented in this Base Prospectus on the basis of certain conventions and definitions that are set forth in "Presentation of Financial and Other Information."

Rosneft is a vertically integrated oil and gas group with upstream and downstream operations located principally in Russia. Rosneft's three key areas of operations are exploration and production of hydrocarbons, production of petroleum products and petrochemicals as well as distribution and sales of its products.

Headquartered in Moscow, Rosneft is one of the world's largest publicly-traded oil companies by proved reserves of hydrocarbons, and in terms of proved liquid hydrocarbon reserves and crude oil production. According to the Reserves Report (as defined in "*Presentation of Financial and Other Information.*") prepared by D&M, at 31 December 2011, Rosneft's proved hydrocarbon reserves under PRMS standards were 23,352 million barrels of oil equivalent, consisting of 18,351 million barrels of oil and 850 billion cubic metres of gas. According to PRMS, as of 31 December 2011, Rosneft's proved reserves had reserve life of 25 years at current production level (including 21 years for oil and 68 years for gas). Rosneft's reserves are located both in traditional oil and gas producing regions (the southern part of European Russia, Western Siberia, central Russia and Timano-Pechora in northern Russia) and in new regions (Eastern Siberia, the Russian Far East and sea shelfs). See *"Classification of Reserves and Resources" and "Presentation of Financial and Other Information".*

In addition to its reserves, Rosneft has substantial resources potential. These resources are primarily located in Russian offshore and Eastern Siberia. As of 30 September 2012, Rosneft held licences for 29 offshore areas in Russia's seas and has acquired licences for two additional offshore areas in November 2012. According to the Resources Report, Rosneft's onshore prospective resources (excluding Sharjah) were estimated at 10,947 million barrels of oil and condensate and 747 billion cubic metres of gas, prospective resources at 12 out of Rosneft's 31 offshore areas were estimated at 66,067 million barrels of oil and condensate resources and 8,863 billion cubic metres of gas resources. During the course of 2011 and 2012, Rosneft acquired 19 new blocks in offshore areas, however, their resource potential was not recognised in the Resources Report, because ownership of these blocks had not been fully transferred to Rosneft as of the time when the Resources Report was prepared.

Rosneft also conducts exploration activities outside Russia, concentrated mostly in Algeria, Abkhazia, Canada, United Arab Emirates and Venezuela. In particular, Rosneft is involved in two projects for development of two oil fields—Junin-6 and Carabobo-2 located in the Faja extra heavy oil belt in the basin of Orinoco river in Venezuela in partnership with Corporación Venezolana del Petróleo S.A. (***CVP***), a subsidiary of PDVSA. The first block—Junin-6—will be developed by PetroMiranda S.A., a joint venture created by CVP and NPC. NPC is a joint venture of five Russian companies (Rosneft, Gazprom Neft, TNK-BP, Lukoil and Surgutneftegas) each having a 20% stake in NPC. CVP holds a 60% interest and NPC holds a 40% interest in the joint venture. According to an audit by D&M, as of 31 December 2011 contingent resources of the block accounting for Rosneft's share equal to 803 million barrels of oil and 2.86 billion cubic metres of gas, according to PRMS. In September 2012, Rosneft has entered into a memorandum of understanding with CVP in respect of establishment of a joint venture for the development of Carabobo-2 block and has agreed the form of agreement with CVP for the establishment and management of the joint venture, which is currently awaiting approval by the National Assembly of Venezuela. In the event of approval of the form of joint venture agreement by the National Assembly of Venezuela, CVP will hold a 60% interest and Rosneft will hold a 40% interest in the new joint venture. According to PDVSA estimate, oil-in-place reserves at Carabobo-2 block amount to approximately 6.5 billion tonnes of oil.

Rosneft produces hydrocarbons through 12 fully consolidated production and development units, four producing joint-ventures (which Rosneft accounts for using the equity method) and through Sakhalin-1, an unincorporated joint venture consolidated into Rosneft under the proportionate consolidation method. Rosneft production and development operations spread across all major oil and gas regions of Russia: Western Siberia, central Russia (Samara Region and Republic of Udmurtia), northern Russia (Timano-Pechora), Eastern Siberia, the Russian Far East (Sakhalin Island), as well as the North Caucasus and other

parts of southern Russia. Except where expressly stated otherwise, all Rosneft operational information herein includes the share of any minority interest owners and also Rosneft's proportionate share of the respective results of operations accounted for using the equity method.

During the nine months ended 30 September 2012, Rosneft produced 664.5 million barrels of crude oil and 11.02 billion cubic metres of natural and associated gas which is 2.5% and 19.0% more than for the same period of the previous year. Rosneft produced 868.6 million barrels of crude oil and 12.79 billion cubic metres of natural and associated gas in the year ended 31 December 2011. This represents a 2.5% and 3.6% growth in comparison with the previous year volumes respectively. In 2011, Rosneft's average daily production output was at 2,380 thousand barrels per day, compared to 2,322 and 2,182 thousand barrels per day in 2010 and 2009, respectively.

Rosneft's downstream refining assets include seven large oil refineries in Russia (at Komsomolsk, Tuapse, Angarsk, Achinsk, Samara, Novokuibyshevsk and Syzran, with an aggregate annual throughput capacity of 51.8 million tonnes of crude oil as of 31 December 2011), and four mini-refineries with a total aggregate annual capacity of 0.5 million tonnes. Rosneft also owns a 50% stake in Strezhevsky mini-refinery in Western Siberia. In 2011, Rosneft acquired a 50% interest in Ruhr Oel GmbH (a joint venture between Rosneft and BP), which owns stakes in four refineries in Germany—Gelsenkirchen (Ruhr Oel GmbH stake equals 100%), MiRO (24%), PCK Schwedt (37.5%), and Bayernoil (25%). The share of Ruhr Oel GmbH refining capacity in these four refineries equals 23.2 million tonnes per year (Rosneft's net holding in Ruhr Oel GmbH refining capacity is 11.6 million tonnes), which is approximately 20% of overall German refining capacity. Total throughput of Rosneft's refineries amounted to 57.9 million tonnes in 2011 (including Rosneft's share in total throughput of Ruhr Oel GmbH refineries of 7.21 million tonnes). See "*Management's Discussion and Analysis of Financial Condition and Results of Operations-Changes in the Production Volumes of Crude Oil, Gas and Petroleum Products—Petroleum Product Output*".

Rosneft produces petrochemicals (ethylene, propylene and polyethylene) at the Angarsk Polymer Plant in Russia, with annual ethylene production capacity of 0.2 million tonnes per year and annual propylene production capacity of 0.1 million tonnes per year and at the Gelsenkirchen refinery, which has a petrochemical facility with 1.0 million tonnes of ethylene capacity. Rosneft also owns the Neftegorsk and Otradnensky gas-processing plants in Samara region with total annual capacity of 1.9 billion cubic metres of gas.

Rosneft supplies crude oil to its own refineries in Russia and Germany and sells crude oil in the domestic and international markets (including, primarily, CIS, European and Asian-Pacific countries). Rosneft processed 37.75 million tonnes and 50.65 million tonnes of crude oil at its Russian refineries during the 9 months ended 30 September 2012 and the 12 months ended 31 December 2011, respectively.

For the nine months ended 30 September 2012 Rosneft sold 49.9 million tonnes (365.0 million barrels) of crude oil to third parties, of which 0.5 million tonnes (3.6 million barrels) was sold on the domestic market and 49.4 million tonnes (361.4 million barrels) was exported. The Company exported 31.3 million tonnes (229.0 million barrels) of oil to Europe and to countries other than CIS and Asia-Pacific countries, 4.7 million tonnes (34.4 million barrels) of oil to the CIS and 13.4 million tonnes (98.0 million barrels) to Asia-Pacific countries.

Rosneft sold 64.2 million tonnes (469.6 million barrels) of crude oil in 2011, of which 0.3 million tonnes (2.2 million barrels) were sold on the domestic market and 63.9 million tonnes (467.4 million barrels) were exported. The Company exported 41.2 million tonnes (301.4 million barrels) of oil to Europe and to countries other than CIS and Asia-Pacific countries, 4.6 million tonnes (33.6 million barrels) of oil to the CIS and 18.1 million tonnes (132.4 million barrels) to Asia-Pacific countries out of which 15 million tonnes (110 million barrels) were delivered by pipeline to China under a long term contract, with the remaining amounts exported via the ports of Kozmino and De-Kastri.

Rosneft sold most of the crude oil that it exported to third party international oil traders, mainly via Transneft transport capacities, including export pipelines and via Russian sea ports. Rosneft sold 8.18 billion cubic metres and 9.74 billion cubic metres of gas in the 9 months ended 30 September 2012 and the 12 months ended 31 December 2011 respectively. In 2011, Rosneft sold approximately 32% of its gas directly to Gazprom. Of the remaining 68%, Rosneft sold to independent gas traders and independent industrial consumers, in both cases through the Unified Gas Supply System (***UGSS***), a gas transportation system owned and operated by Gazprom.

Rosneft owns developed infrastructure for the sale of petroleum products on the domestic market. The Company owns a chain of marketing companies engaged in wholesale and retail sale of petroleum

products, including their storage, transport and transhipment. In the first nine months of 2012, Rosneft sold 16.2 million tonnes of petroleum products domestically and 17.6 million tonnes of petroleum products for export (excluding bunker fuel and petroleum products sold from Ruhr Oel GmbH refineries). Rosneft sold 21.43 million tonnes of petroleum products domestically and 24.85 million tonnes for export (excluding bunker fuel and petroleum products sold from Ruhr Oel GmbH refineries) in 2011. In the first nine months of 2012 and in 2011, gasoline (including high and low octane gasoline) accounted for 38% and 40% of petroleum products revenues on the domestic market, while diesel fuel accounted for 44% and 45%, fuel oil accounted for 3% and 4%, and jet fuel accounted for 8% and 6%, respectively.

Rosneft's retail business covers 44 regions of Russia from Murmansk in the north to the North Caucasus in the south, and from Bryansk in the west to Sakhalin Island in the east. Rosneft sells gasoline, diesel fuel and lubricants through its retail network. The Company's network of filling stations consists of approximately 1,700 stations and is currently the second largest network of filling stations in Russia. The Company's retail sales of petroleum products amounted to 5.0 million tonnes and 6.5 million tonnes for the nine months ended 30 September 2012 and for 2011, respectively, which represented 11.7% and 11.9% of total petroleum products. Average daily sales volume of petroleum products per filling station was 10.6 tonnes in 2011, compared to 8.7 tonnes in 2010 and 8.0 tonnes in 2009.

Rosneft is 75.16% owned by ROSNEFTEGAZ, which is fully owned by the Russian Federation, Rosneft is one of the largest tax payers in the Russian Federation with RUB 1,374 billion (U.S.$46.7 billion) charged in taxes and export duties in 2011, which represented over 11% of the Russian total budget revenues, according to Russian Ministry of Finance. Rosneft has been recognised as a strategic company by the Russian Government and is one of the few Russian companies, which meet the licensing criteria for the development of the continental shelf of the Russian Federation.

Strategy

Rosneft aims to continue to develop its business to transform itself into a global energy company, providing consistently high returns to shareholders through sustainable growth, increased efficiency and development and application of innovative technologies. Rosneft sets for itself the following strategic objectives:

Global leadership in production: maintain production levels at the existing fields, developing greenfield projects, offshore and tight oil reserves, exploring new resources, and expanding into international projects

As the world's largest publicly-traded oil group by proved reserves of liquid hydrocarbons, ensuring effective development of its reserves is one of Rosneft's key objectives. Since its IPO in 2006 until 2011, Rosneft's cumulative average growth rate for crude oil production was 8%. Rosneft produced 664.5 million barrels of crude oil during the nine months ended 30 September 2012 and 868.64 million barrels of crude oil during 2011. Rosneft's existing proved reserves consist of assets that are currently producing or under development. Rosneft intends to ensure the development of its reserves while maintaining industry competitive levels of capital expenditures and operating costs per barrel. The Group's average lifting costs in 2011 calculated as exploration and development operating expenses divided by production volume were at RUB 81.6 (U.S.$2.8) per barrel of oil equivalent in 2011.

Currently, the key production units for Rosneft are Yugansneftegaz and Purneftegaz in Western Siberia, Vankorneft in Eastern Siberia and Samaraneftegaz in Central Russia. Furthermore, Yurubcheno-Tokhomskoye field in Eastern Siberia and the northern extremity of the Chaivo field located on the shelf of the Sakhalin Island are important prospective producing assets for Rosneft. Rosneft expects these assets to drive its production growth in the medium term.

Yuganskneftegaz is the key oil producing asset for Rosneft. It accounted for 56% of Rosneft's total crude oil production (including Rosneft's share in production subsidiaries consolidated on equity basis) in 2011, having produced 488.14 million barrels of crude oil. Yuganskneftegaz' assets are located primarily in Western Siberia with the largest field, Priobskoye, being depleted by about 24% to date. Rosneft intends to apply enhanced oil recovery methods to increase reserve utilisation efficiency on Yuganskneftegaz' fields.

Rosneft also plans to develop its new fields located in Eastern Siberia and the Far East. According to the Reserves Report as of 31 December 2011, 2P reserves of the Vankorskoye field were estimated at 3.3 billion barrels of oil equivalent. Commercial production at this field started only six years after the acquisition of this asset by Rosneft. *See also "History"*. The advantage of the Vankorskoye field is not only its substantial reserves but also high average production rates of new wells which equal up to 3,500 barrels

of oil per day. Rosneft owns 11 licences to areas around Vankorskoye field and Rosneft currently believes that these areas have potential to increase its proved reserves.

Yurubcheno-Tokhomskoye field developed by VSNK is another important source of production growth for the Group. According to the Reserves Report as of 31 December 2011, 2P reserves of Yurubcheno-Tokhomskoye field (including Tersk Kamov Licence Block) equal 997 million barrels of oil equivalent. The Group plans to start production at this field in 2016. Oil from Yurubcheno-Tokhomskoye field will be exported to the Asia-Pacific market through the ESPO pipeline. The production on Yurubcheno-Tokhomskoye field is currently expected to start in 2016 and Rosneft expects to reach peak production level for this field at 100,000 barrels of oil per day by 2018.

The northern extremity of the Chaivo field, located offshore of Sakhalin island and developed by Sakhalinmorneftegaz had 2P reserves of 136.7 million barrels of oil and condensate and 5.0 billion cubic metres of gas, according to the Reserves Report as of 31 December 2011. The Group plans to start production at this field in 2014. Peak production is expected to reach 32,000 barrels of oil per day.

Extraction of tight oil from unconventional reservoirs at existing Rosneft fields in Western Siberia is another potential source of production growth for Rosneft. Such reserves are concentrated in Achimov, Bazhenov and Tyumen formations. Amounts of tight oil reserves under Russian classification (ABC1+C2) at Rosneft licence areas are estimated by the Company at 5.8 billion barrels, with the production potential of such reserves being in excess of 300,000 barrels per day. The Company has entered into cooperation agreement with ExxonMobil for the development of tight oil reserves and resources in Yuganskneftegaz' region of activity.

Replacement of extracted reserves is a key priority for Rosneft. The Group's target level for proved reserve replacement ratio is set to be at least 100% of its annual production volume in any year. The proved oil reserve replacement ratio was 162% in 2011 under SEC standards.

According to the Annual Financial Statement for 2011, the Group's finding and development costs calculated as the Group's exploration and development costs divided by increase in hydrocarbon reserves amounted to RUB 84.13 (U.S.$2.86) per barrel of oil equivalent in 2011 – one of the lowest in the oil industry.

Rosneft will concentrate its exploration efforts in the following geographical areas of Russia: licence areas around Vankorskoye field, Irkutsk region and Evenkia in Eastern Siberia, and in the shelfs of the Black Sea, Azov Sea, Caspian Sea, Okhotsk Sea and Arctic seas.

According to Rosneft's internal estimate, currently, approximately 90% of Rosneft's prospective resources, amounting to approximately 189.58 billion barrels of oil equivalent (including 66,067 million barrels of oil and condensate resources and 8,863 billion cubic metres of gas resources included in the Resources Report), are concentrated in the Russian offshore, including approximately 138.82 billion barrels of oil equivalent in Barents Sea, Kara Sea and Pechora Sea shelfs, 24.21 billion barrels of oil equivalent in the Black Sea, Azov Sea and Caspian Sea shelfs and 26.55 billion barrels of oil equivalent in the Okhotsk Sea shelf. Rosneft actively cooperates with leading international oil companies in exploration of offshore resources. In 2011 and 2012, Rosneft has signed strategic cooperation agreements (i) with ExxonMobil for the joint exploration and development of subsoil of East Prinovozemelsky Blocks 1,2,3 blocks in Kara Sea and Tuapse Trough Licence Block in the Black Sea; (ii) with Eni for Fedynsky and Central Barents blocks in Barents Sea and the Western Chernomorsky block in the Black Sea and (iii) with Statoil for the joint exploration and development of Perseevsky block in Barents Sea and Kashevarovsky and Lisyansky blocks and Magadan 1 block in the Okhotsk Sea. Each agreement gives Rosneft partners a 33.33% interest in exchange for certain obligations to finance the geological exploration of the areas. Under the agreements, Rosneft's partners will finance relevant exploration activities under carry financing arrangements for an aggregate amount of approximately U.S.$5 billion to cover several years of exploration. Agreements also provide for the exchange of technologies and personnel training as well as give Rosneft the option to participate in certain international projects of its partners.

Rosneft intends to extend its resource potential in the Russian Arctic. The Company has applied for licences in this region for subsoil blocks with large estimated resource potential.

Gas business development: monetisation of associated and natural gas reserves

As at 31 December 2011, Rosneft's proved gas reserves were 850 billion cubic metres, with an additional 388 billion cubic metres of probable reserves and 310 billion cubic metres of possible reserves under PRMS classification. Over 90% of Rosneft's proved gas reserves are located in Western Siberia (Purneftegaz and

Yugansknefteqaz) and Eastern Siberia (Vankorneft). Purneftegaz is Rosneft's largest production and development unit in terms of gas production, accounting for approximately 30% of Rosneft's gas production in the nine months ended 30 September 2012. Purneftegaz accounts for 69% of Rosneft's proven gas reserves.

In 2011, Rosneft's natural and associated gas production was 12.79 billion cubic metres, which was 3.6% higher than in 2010, primarily as a result of increased production of associated gas in Samaraneftegaz, Vankorskoye field and Yugansknefteqaz.

Rosneft is undertaking a programme aimed at increasing its associated gas utilisation rate to 95% with a view to increase its overall gas production margins and improve its environmental compliance. The programme envisages construction of gas gathering facilities, booster compressor stations and underground storage facilities as well as gas operated power stations. As part of this programme, Rosneft is constructing the infrastructure for delivery of associated gas from the Vankorskoye field to Gazprom's gas transport system. The construction of this infrastructure, which will enable Rosneft to implement an efficient utilisation system for associated gas, is a crucial element of Rosneft's gas strategy. The infrastructure includes a gas pipeline to Khalmer-payutinskoye field, a gas preparation unit and a compressor station. Completion of the construction work is scheduled for 2013 and will enable utilisation of more than 95% of the gas produced at the field. This programme, when completed in 2013, will substantially increase Rosneft's gas production.

Rosneft sells its gas in the domestic market only. Domestic market prices are currently lower than the market prices in Europe or Asia but have increased steadily. Rosneft's average gas sales price (excluding VAT) was RUB 1,470 (U.S.$50.00) per thousand cubic metres in 2011, RUB 1,289 (U.S.$42.45) per thousand cubic metres in 2010 and RUB 1,058 (U.S.$33.36) per thousand cubic metres in 2009. Rosneft sells its gas to end users, as well as to Gazprom. The Company's long term strategy envisages significant expansion of its gas business.

As part of this strategy, Rosneft has entered into a joint venture with ITERA Group, one of the largest independent producers and traders of natural gas operating in the CIS and the Baltic States, by acquiring an interest in the capital of Itera, an existing company. Rosneft has a 51% interest in this joint venture and has transferred a 100% interest in its subsidiary, owner of a licence for Kynsko-Chaselsky subsoil block, to Itera in order to increase the production potential of the joint venture. The joint venture will provide Rosneft with access to the regional distribution network. Rosneft intends to consider using the joint venture as an operator of its gas business. In 2011, Itera's gas production was 12.6 billion cubic metres of gas and its proved reserves amounted to 228.30 billion cubic metres of gas and 12.64 million barrels of condensate, under PRMS classification. As a result of its entry into this joint venture, Rosneft's long-term gas production target has been increased to 100 billion cubic metres of gas.

In 2012, Rosneft and INTER RAO UES have entered into a long-term contract for the supply of up to 875 billion cubic metres of gas. The contract envisages annual supplies of up to 35 bcm of gas produced by Rosneft to the power plants of INTER RAO – Electric Power Plants (or any other INTER RAO UES power plants) starting from 1 January 2016 until 31 December 2040. In 2012, Rosneft also entered into a 5 year contract with Fortum for the annual supply of approximately 2.3 to 2.5 billion cubic metres of gas and into a 3 year contract with E.ON for the annual supply of approximately 1.6 billion cubic metres of gas.

Completion of refinery modernisation program: upgrading product offering and output to meet the growing domestic demand for higher quality fuels and to comply with latest technical regulations for the quality of motor fuel

Since 2008, Rosneft has been implementing a large-scale refinery expansion and upgrade programme aimed at increasing the refining volumes in order to meet the growing domestic demand for high-quality fuels and at improving the quality of refining capacities in order to comply with new technical regulations for the quality of motor fuel passed by the resolution No 826 of the Commission of Customs Union dated 18 October 2011, which require all motor fuel produced by the Russian refineries to comply with Euro-5 quality standards from 2016. A total of 14 units have been built or upgraded since the start of the modernisation programme, which should be substantially completed by 2016.

The programme is intended to increase primary refining capacity at Rosneft plants by 7 million tonnes, conversion capacity by 17.7 million tonnes and reforming capacity by 30 million tonnes. Additionally, Rosneft intends to increase the light product yields from 56.6% in 2011 to nearly 80%.

Rosneft intends to develop a petrochemical business, primarily in the Far East, and aims at supplying its products primarily to the growing Chinese market. The key element of this strategy is the project for development of the Far Eastern Petrochemical Company (FEPCO), a petrochemical complex in Nakhodka, a sea port located in the Far East, with an input capacity of 3.4 million tonnes. Once completed, the complex will specialise in the production of polymers (polyethylene, polypropylene, monoehylene glycol, as well as other polymers). It is envisaged that the complex will have its own sea terminal for shipment of its products for export. As part of the drive to develop the petrochemical business, in 2011, Rosneft started a project for the expansion of capacities at the Angarsk Polymer Plant. The project is expected to be completed in 2016 and includes reconstruction of existing capacities, and construction of new ones, including Russia's biggest facility for the production of low pressure polyethylene with 345,000 tonnes annual capacity.

Efficient domestic and export marketing of crude oil and petroleum products: enlarging retail network, optimising logistics and increasing the efficiency of distribution channels

Rosneft currently supplies most of its crude oil:

- to its own refineries in Russia and Germany;
- to meet its obligations under long-term export contracts, such as the contract between CNPC and Transneft, under which Rosneft has committed to supplying 15 million tonnes of oil to CNPC annually until 2030;
- through commercial tenders.

Rosneft owns and operates a developed infrastructure for the sale of petroleum products on the domestic and international markets. In the first nine months of 2012, Rosneft sold 16.2 million tonnes of petroleum products domestically and 17.6 million tonnes of petroleum products for export (excluding bunker fuel and petroleum products sold from Ruhr Oel GmbH refineries). Rosneft sold 21.4 million tonnes of petroleum products domestically and 24.85 million tonnes for export (excluding bunker fuel and petroleum products sold from Ruhr Oel GmbH refineries) in 2011. Oil products produced by Rosneft's German refineries are sold through the BP distribution network in Europe. Rosneft's share of sold petroleum products produced by German refineries amounted to 6.8 million tonnes in the first nine months of 2012 and 5.9 million tonnes in 2011.

Rosneft's strategy of domestic petroleum products distribution is aimed at further developing a proprietary distribution network and signing direct contracts with end users. This strategy consists of the following key components:

- increasing the number of petrol stations in the vicinity of Rosneft refineries and their optimisation through divestiture of petrol stations with low sales volumes;
- increasing the sale of jet fuel, bunker fuel and lubricants to end users through dedicated marketing companies; and
- improving the quality of fuels and other petroleum products through modernisation of its refineries.

Technological leadership: gaining a technological edge through in-house scientific research and collaboration with strategic partners, commitment to implementation of best practices in environmental and health and safety procedures

Technology and innovation is of crucial importance in today's business environment to ensure that an oil company remains competitive and capable of sustainable growth. Rosneft strives for:

- consistent application of the latest know-how and equipment;
- use of global best practices;
- improvement of the quality of management and control over business processes; and
- continuous enhancement of skill levels of Rosneft specialists.

Rosneft's Corporate Scientific and Project Complex consists of 10 regional research and development (R&D) and project institutes, of which seven specialise in exploration and production and three in refining and petrochemicals.

Rosneft began monitoring, testing, adapting and applying promising technologies designed by Russian and foreign companies as part of the implementation of the Group's new technology system. Rosneft has created a technology know-how repository with information on more than 200 technologies.

Rosneft is involved in international projects, programmes and partnerships as part of the implementation of the Group's innovative development programme. In August 2011, Rosneft and ExxonMobil signed an agreement on strategic cooperation, which includes significant scientific and technical cooperation. In 2012, Rosneft signed strategic cooperation agreements with Eni and Statoil, which provide for the mutual exchange of staff, technologies and best practices between the partners. In 2011 Rosneft set up the Arctic Research and Design Center for Offshore Development, whose mission is to engage in research and development of offshore production technologies and to provide scientific support for the implementation of offshore projects on Russia's Arctic shelf. The Arctic Research and Design Center for Offshore Development seeks to: bring together the knowledge of leading sector institutes in Russia, including the competence of Rosneft's seven sector institutes, cooperate with international research and design centres and perform full-cycle design works for the Group's offshore projects. As part of the strategic cooperation agreement with ExxonMobil, in June 2012 Rosneft and ExxonMobil have agreed the key terms of ExxonMobil's participation in the Arctic Research and Design Center for Offshore Development.

Rosneft has the following priorities in health, safety and environmental (HSE) areas:

- continuing to improve industrial safety, working conditions and protection of the environment;
- improving industrial and environmental safety at production facilities to match the best practice of international petroleum majors;
- consistently reduce industrial accident and injury rates, and negative environmental impact;
- further developing the Company's Integrated Management System for HSE.

Recent Developments

TNK-BP Acquisition

On 22 October 2012, Rosneft announced two separate agreements in principle to acquire an aggregate 100% equity interest in TNK-BP, Russia's third largest hydrocarbon producer operating in Russia's major hydrocarbon regions (including Western Siberia, Volga-Urals and Eastern Siberia) with assets in Ukraine, Belarus, Venezuela, Vietnam and Brazil, through two separate transactions (together, the ***TNK-BP Acquisition***):

- acquisition of a 50% equity interest in TNK-BP from BP, (the ***BP Acquisition***); and
- acquisition of a 50% equity interest in TNK-BP from AAR, (the ***AAR Acquisition***).

The BP Acquisition and the AAR Acquisition are entirely independent, and either could be consummated without the other, leaving Rosneft with only a 50% equity interest in TNK-BP. (See "*Risk Factors—Rosneft's acquisition of TNK-BP Limited is subject to significant uncertainties and risks*".)

On 22 November 2012, Rosneft entered into definitive agreements with BP with respect to the BP Acquisition, following the approval of the BP Acquisition by Rosneft's Board of Directors on 20 November 2012. Under the terms of the BP Acquisition, BP will sell its 50% interest in TNK-BP Limited, the ultimate holding company of TNK-BP, and its subsidiary TNK Industrial Holdings Limited to Rosneft for U.S.$17.1 billion in cash (plus interest thereon in the amount of U.S.$1.6 million per day from and including 18 October 2012 to and excluding the closing date) and 1,360,449,797 Rosneft shares, representing a 12.84% stake in Rosneft, currently held in treasury. BP will have the benefit of any Rosneft dividends on such shares having a record date after 18 October 2012. The completion of the BP Acquisition is subject to regulatory approvals, and is expected to occur in the first half of 2013.

In addition, BP has entered into an agreement to purchase from Rosneft's parent, ROSNEFTEGAZ, a further 600 million Rosneft shares, representing a 5.66% stake in Rosneft, at a price of U.S.$8.00 per share (plus interest thereon at a rate of 3.5% per annum from and including 18 October 2012 to but excluding the closing date). Again, BP will have the benefit of any dividends on such shares having a record date after 18 October 2012. On completion of these transactions, BP will hold 19.75% of Rosneft shares, inclusive of its existing 1.25% holding in Rosneft, which, in accordance with Russian law and Rosneft's Charter, would entitle BP to two seats on Rosneft's Board of Directors. BP has agreed not to dispose of any of the Rosneft shares acquired in the transaction for at least 360 days following the completion of the transaction.

Under the terms of the agreement in principle for the AAR Acquisition, Rosneft would acquire AAR's 50% equity interest in TNK-BP for a cash consideration of U.S.$28.0 billion (plus interest thereon at a rate of 3.75% per annum from and including 16 October 2012 to but excluding the closing date), subject to the negotiation of definitive agreements, corporate and regulatory approvals and certain other conditions.

The management of Rosneft believes that the TNK-BP Acquisition is strategically important for the Group and, if and when completed, should place it in a leading position globally among public companies operating in the oil and gas sector, reinforce its position as a regional downstream leader in Russia and Europe, as well as create significant synergies with TNK-BP, including in joint development areas, optimisation of oil and oil product supply logistics, production and sales of natural gas, as well as with respect to cost and asset optimisation. Even if Rosneft ultimately acquires only 50% of TNK-BP, Rosneft believes that the acquisition will be of strategic benefit. Based on press reports, the Russian President has publically supported the BP Acquisition, and the combined TNK-BP Acquisition was subsequently approved by the Russian Government.

If both the BP Acquisition and the AAR Acquisition are completed, Rosneft will become the largest publically traded oil and gas company in the world with daily production of 4.6 million barrels of oil equivalent and proved reserves of 38.3 billion barrels of oil equivalent under PRMS standards. Rosneft (together with TNK-BP) will have the largest refining capacity in Europe of approximately 1.9 million barrels per day and will have the largest retail network of filling stations in Russia consisting of approximately 2,500 filling stations. There can, however, be no assurance that either the BP Acquisition or the AAR Acquisition will be completed. The completion of only one, without the other, would limit the expected benefits of the overall TNK-BP Acquisition and entail certain risks, disadvantages and issues. See "*Risk Factors—Rosneft's acquisition of TNK-BP Limited is subject to significant uncertainties and risks*".

The total consideration payable by Rosneft under the definitive agreements for the BP Acquisition and the agreement in principle for the AAR Acquisition would amount to U.S.$45.1 billion in cash, excluding applicable interest as described above, and a 12.84% equity interest in Rosneft. Rosneft intends to fund the cash component of the consideration with its existing cash resources (Cash, cash equivalents and short-term investments and Financial assets on the consolidated balance sheets of Rosneft and TNK-BP amounted to over U.S.$15 billion as at 30 September 2012, in accordance with the financial statements of Rosneft and TNK-BP for the relevant period prepared in accordance with the IFRS) and a combination of new borrowings from Russian and international banks, proceeds of issues of debt securities in Russia (including domestic RUB bonds issuance programme for the maximum amount of up to the equivalent of approximately U.S.$3 billion, less the amount issued under that programme in October 2012 for the equivalent of approximately U.S.$600 million) and internationally (including the Notes), as well as internal cash flows, prepayments from offtakers under long-term export contracts and the proceeds from asset disposals as part of Rosneft's ongoing asset optimization programme. As at the date of this Base Prospectus, Rosneft has received a commitment from a syndicate of international banks to lend to Rosneft approximately U.S.$30 billion, including up to U.S.$7.5 billion of long-term financing, to fund the combined TNK-BP Acquisition.

INTER RAO UES Fortum and E.ON Contracts

In 2012, Rosneft and INTER RAO UES have entered into a long-term contract for the supply of up to 875 billion cubic metres of gas. The contract envisages annual supplies of up to 35 bcm of gas produced by Rosneft to the power plants of INTER RAO—Electric Power Plants (or any other INTER RAO UES power plants) starting from 1 January 2016 until 31 December 2040. In 2016, Rosneft will supply 32.3 bcm of gas to INTER RAO UES. Under the agreement, natural gas and dry stripped gas will be supplied from oil fields, which will allow Rosneft to significantly increase associated gas utilisation.

In 2012, Rosneft also entered into a 5 year contract with Fortum for the annual supply of approximately 2.3 to 2.5 billion cubic metres of gas and into a 3 year contract with E.ON for the annual supply of approximately 1.6 billion cubic metres of gas.

Acquisition of Taas-Yuryakh Neftegazodobycha LLC

In March 2012, the Company acquired a 35.3% interest in Taas-Yuryakh Neftegazodobycha LLC from Sberbank Capital LLC for RUB 13 billion. Taas-Yuryakh Neftegazodobycha LLC holds licences for oil production at the Srednebotuobinskoye oil, gas and condensate field located 160 km north of the ESPO pipeline. Oil reserves of the field are estimated at 665 million barrels of C1 and 285 million barrels of C2 category. This investment is accounted for using the equity method.

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Base Prospectus prior to making any decision to invest in any Notes. Each of the risks highlighted below could have a material adverse effect on Rosneft's businesses, operations, financial condition or prospects, which in turn could have a material adverse effect on its ability to service the Company's payment obligations under the Loan and thus on debt service on the Notes. In addition, the trading price of the Notes could decline due to any of these risks, and investors could lose some or all of their investment.

Potential investors should note that the risks described below are not the only risks Rosneft faces. Rosneft has described only the risks it considers to be material. However, there may be additional risks that Rosneft currently considers not to be material or of which it is not currently aware, and any of these risks could have the effects set forth above.

An investment in the Notes involves a high degree of risk. Investors should carefully consider the following information about these risks, together with the information contained in this Base Prospectus, before they decide to buy Notes. The actual occurrence of any of the following risks could adversely affect Rosneft's operating results and financial condition. In that case, the value of the Notes could also decline and investors could lose all or part of their investment.

The risks and uncertainties discussed below are those that Rosneft believes are material, but these risks and uncertainties may not be the only ones that Rosneft faces. Additional risks and uncertainties, including those Rosneft's management currently is not aware of or deems immaterial, may also result in decreased revenues, increased expenses or other events that could lead to a decline in the value of the Notes.

Information is presented in this Base Prospectus on the basis of certain conventions and definitions that are set forth in "Presentation of Financial and Other Information."

Risks Relating to Rosneft and the Oil and Gas Industry

Global economic developments and Russian market conditions may adversely affect Rosneft's business, financial condition and results of operations

Rosneft's results of operations are significantly influenced by general economic conditions, in particular in the countries in which it operates and those in which it makes sales. The economic situation in these markets has in various ways been adversely affected by weakening economic conditions and the turmoil in the global financial markets. Market volatility has continued throughout 2010, 2011 and into 2012. In particular, global financial markets have experienced increased volatility since the second half of 2011, a period which has seen the sovereign rating downgrades of, amongst others, the United States, France, Japan, Austria, Greece, Ireland, Portugal, Spain and Italy. There can be no assurance that a further economic downturn or financial crisis will not occur. The countries in which Rosneft operates, particularly Russia, and most of the countries in which Rosneft's products are sold, have experienced declining gross domestic product (***GDP***), reduced industrial production, increasing rate of unemployment and decreasing asset values. See *"—Risks Relating to Russia—Economic Risks—Economic instability in Russia and other markets in which Rosneft operates could harm Rosneft's business and investment plans."*

A deterioration in the financial condition of Rosneft's customers could have an adverse impact on their credit ratings and/or access to capital which, in turn, could lower demand for Rosneft's products and services. Furthermore, a worsening in the financial condition of Rosneft's joint venture partners could adversely affect Rosneft's operations. In addition, a deterioration in the global financial markets could lead to the downgrade of lenders' credit ratings, both in Russia and abroad, making access to credit more difficult and costly.

Adverse economic developments of the kind described above have negatively affected and may continue to negatively affect Rosneft's business in a number of ways and could have a material adverse effect on Rosneft's operating results and financial condition.

Economic instability in the European monetary system may adversely affect Rosneft's business, financial condition and results of operations

There have been continued concerns over the stability of the European monetary system and the stability of certain European economies, notably Greece, Ireland, Portugal, Spain and Italy. Though repeated summits of, and attempts by, European leaders to find a lasting solution to such countries' ability to repay their debt have produced bail-out packages and restructuring agreements for certain countries such as

Greece, there remain continuing doubts concerning the stability of the European monetary system and economy. There can be no assurance that a further decline in the stability of European economies or collapse of the European monetary system will not occur. See also *"—Global economic developments and Russian market conditions may adversely affect Rosneft's business, financial condition and results of operations"*.

Further deterioration or collapse of European economies or the European monetary system could have a material adverse effect on Rosneft's operating results and financial condition.

A substantial or extended decline in crude oil, refined products or petrochemical products prices would have a material adverse effect on Rosneft's operating results and financial condition

Rosneft's business, financial condition and results of operations depend substantially upon prevailing prices of crude oil, refined products and petrochemical products. Historically, prices for oil, refined products and petrochemical products have fluctuated widely in response to even relatively minor changes in many factors. Rosneft does not and will not have control over certain factors affecting prices for crude oil, refined products and petrochemical products. These factors include:

- global and regional supply and demand and expectations regarding future supply and demand for crude oil, refined products or petrochemical products;
- Russian and foreign governmental regulations and actions, including export restrictions and taxes on crude oil and refined products, which can substantially affect profitability;
- the ability and willingness of the Organisation of Petroleum Exporting Countries (***OPEC***) and other crude oil-producing nations to influence global production levels and prices;
- the worldwide military and political environment and uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or further acts of terrorism, including in the United States, the Middle East, the CIS or other resource-producing regions;
- prices and availability of alternative and competing fuels;
- global and regional social, economic and political conditions, particularly in the Middle East and other oil-producing regions;
- prices and availability of new technology; and
- weather and climate conditions, natural disasters and industrial accidents.

In addition, certain other factors, such as the cost of exploring for, developing, producing, processing and marketing crude oil-refined products and petrochemical products, as well as the loss, decline and failure to develop refineries, transport, storage facilities and other infrastructure, though partially controlled by Rosneft, can be affected by uncontrollable circumstances and developments.

Future crude oil, refined products and petrochemical price movements cannot be predicted with certainty. For example, crude oil pricing has been particularly volatile over the past several years. According to data from the U.S. Department of Energy, the spot price per barrel for Brent crude, an international benchmark oil blend, in 2008 ranged from a low of U.S.$33.73 on 26 December to a high of U.S.$143.95 on 3 July, averaging U.S.$96.94 per barrel for the year; in 2009 ranged from a low of U.S.$39.41 on 18 February to a high of U.S.$78.68 on 1 December, averaging U.S.$61.74 per barrel for the year; in 2010 ranged from a low of U.S.$67.18 on 25 May to a high of U.S.$93.63 on 23 December, averaging U.S.$79.61 per barrel for the year; and in 2011 ranged from a low of U.S.$93.52 on 4 January to a high of U.S.$126.64 on 2 May, averaging U.S.$111.26 per barrel for the year. In the first nine months of 2012, the price ranged from a low of U.S.$88.69 on 25 June to a high of U.S.$128.14 on 13 March. On 20 November 2012, the price was U.S.$110.01 per barrel.

International prices for refined products and petrochemical products, which typically follow changes in international oil prices, have also fluctuated considerably in recent years, leading to changes in refining margins that can significantly affect Rosneft's profitability. Rosneft's revenues, operating results and future rate of growth are highly dependent on the prices received for its crude oil, refined products and petrochemical products. In addition, lower prices may reduce the amount of crude oil that Rosneft can produce effectively (thereby decreasing the size of its reserves) or reduce the economic viability of projects planned or in development, leading to a reduction in capital expenditures or the inability to meet certain

strategic goals. A decline or volatility in the prices of crude oil, refined products or petrochemical products could have a materially adverse effect on Rosneft's operating results and financial condition.

Rosneft does not currently engage in any hedging transactions or other derivatives trading to reduce the impact of fluctuations of crude oil or gas prices on its financial condition.

Recent amendments to Russian customs law have shifted the tax dynamics and affected the profitability of Rosneft's upstream and downstream operations and further Russian tax amendments may negatively affect Rosneft's profitability

On 1 October 2011, the first stage of a new tax regime for the Russian oil industry took effect (the ***60-66 Amendments***). The 60-66 Amendments reduced the marginal export duty rate on crude oil from 65% to 60% and unify export duties for light and dark oil products at 66% of the export duty on crude oil. More specifically, the 60-66 Amendments increased the export duty on fuel oil from 46.7% to 66% while decreasing the export duty on light petroleum products from 67% to 66%. Starting from 1 May 2011, the Russian Government introduced a special export duty for gasoline equivalent to 90% of the export duty for crude oil. Starting from 1 June 2011, the Russian Government introduced a special export duty for naphtha equivalent to 90% of the export duty for crude oil. Further tax amendments aimed at improving the profitability of upstream operations while incentivising Russian oil companies to invest in upgrading their refineries have been passed and are expected to continue to be passed in the future.

The Russian government receives substantial revenues from export duties on crude oil and refined products, as well as from upstream taxation, such as mineral extraction tax (***MET***). Rosneft has no control over changes to Russian customs or tax law. The Russian government may institute changes in MET rates or export duties in an attempt to promote macroeconomic goals, while at the same time altering profitability dynamics of Rosneft's operations negatively, including in ways that could have a material adverse effect on Rosneft's financial results. Future legislative initiatives in the sphere of customs and tax regulation, which have a downward effect on the profitability of operations may, if approved, adversely affect Rosneft's operating results and financial condition.

If adverse market conditions or a decline in hydrocarbon prices occur, Rosneft may not achieve its strategic objectives and may be unable to finance its planned capital expenditures on time or complete them on budget

Rosneft's management has developed strategic objectives, including global leadership in production, development of the gas business, refinery modernisation and the efficient domestic and export marketing of crude oil and petroleum products, under which Rosneft seeks to achieve several ambitious operational targets. See "*Business—Strategy*". There can be no assurance, however, that the Group will be able to meet any of these strategic goals on time or at all.

Development of Rosneft's business requires significant capital expenditures, including in exploration and development, production, transportation, refining and marketing, as well as to meet its obligations under environmental laws and regulations. These projects run the risk of cost overrun and there can be no assurance that these projects will be completed on time, which may increase the capital expenditures required. Anticipated capital expenditures may also increase in the future. Rosneft expects to finance a substantial part of these capital expenditures out of net cash provided by operating activities. If international crude oil prices fall, however, Rosneft will have to finance more of its planned capital expenditures from outside sources, including bank borrowings and offerings of debt or equity securities in the domestic and international capital markets. The global banking and capital markets have been unstable since August 2008 and are characterised by severe reductions in liquidity, greater volatility and the general widening of credit spreads. As a result, many lenders have reduced or ceased providing funding to borrowers, particularly in emerging markets, and there has been a general increase in the cost of borrowing. Rosneft may be unable to raise the financing required for its future capital expenditures on acceptable terms or at all. If Rosneft is unable to raise the necessary financing, it will have to reduce planned capital expenditures, which could adversely affect its operating results and financial condition in the future.

The Group is currently undertaking a series of large-scale modernisation projects at its refineries, aimed at improving efficiency and production capabilities at these facilities. See "*Business—Refining Facilities*". There can be no assurance that these modernisation projects will be sufficient to produce fuel to Euro-4 and Euro-5 quality standards.

Rosneft's prospecting, exploration and production licences may be suspended or terminated prior to the end of their terms and Rosneft may be unable to obtain or maintain valid applicable and required permits and authorisations

The Russian law No. 2395-1, "On Subsoil" dated 21 February 1992, as amended (the ***Subsoil Law***), the Regulation On subsoil licensing No. 3314-1 approved by the Resolution of the Higher Council of the Russian Federation dated 15 July 1992, as amended, and regulations issued thereunder govern Russia's licensing regime for prospecting, exploration and production of hydrocarbons. Under current Russian legislation, the Federal Agency for Subsoil Use (***Rosnedra***) and the Federal Service for Supervision in the Sphere of Nature Use (***Rosprirodnadzor***) that report to the Ministry of Natural Resources and Environment of the Russian Federation (***Minprirody)***, are responsible for issuing subsoil licences and monitoring compliance with subsoil licence terms. Rosneft conducts its activities under numerous prospecting, exploration and production licences. Rosneft holds most of these licences following the consolidation of its producing subsidiaries in 2006, while Rosneft's subsidiaries and joint ventures hold a part of the licences. The Subsoil Law provides that fines may be imposed and/or licences may be suspended or early terminated if the relevant licensee fails to comply with licence requirements (such as development and operational obligations), make timely payments of levies and taxes for the subsoil use, provide geological information to controlling bodies or meet other requirements. The imposition of any such penalties may affect Rosneft's operating results and financial condition.

Rosneft must also obtain and maintain other supporting licences, permits, authorisations, rights to use land plots and forest areas and approvals to develop its fields. Most of Rosneft's production and combined prospecting, exploration and production licences expire between 2017 and 2051. The licence to Priobskoye field, one of Rosneft's most significant fields, expires in 2044 and the licence to Vankorskoye field, developed by Vankorneft, expires in 2017. Rosneft has 189 licences which expire in the next five years. Rosneft has been working to secure the extension of its licences. During the period from 2007 until 30 September 2012, Rosneft obtained extensions for 127 licences, including 11 licences in 2012. Currently, the applicable law provides for the extension of exploration and production licences in line with the terms for development of the fields specified in development project documentation. Operational figures for Rosneft's expected future production and reserves in this Base Prospectus are based on the assumption that Rosneft's licences will be extended, as necessary.

The Subsoil Law provides that fines may be imposed and licences may be suspended or terminated early if any of Rosneft's subsidiaries which hold a licence, or Rosneft itself, fails to comply with licence requirements or the Subsoil Law.

In general, regulatory authorities can exercise considerable authority in issuing and renewing licences and in monitoring licencees' compliance with licence terms.

Rosneft may be unable to comply with certain requirements of licence agreements for some or all of these licence blocks. If the authorities find that Rosneft has failed to fulfil the terms of its licences, permits or authorisations, or if Rosneft operates in its licence blocks in a manner that violates Russian law, they may impose fines on Rosneft or suspend or early terminate its licences. Furthermore, Rosneft may have to increase spending to comply with licence terms. Any suspension, restriction or early termination of subsoil use rights under Rosneft's licences could adversely affect Rosneft's operating results and financial condition.

In addition, because Rosneft did not own or control all of its subsidiaries when they obtained their initial subsoil licences, it cannot be certain that all of the licences of its subsidiaries were issued, or the preceding and current licences were re-issued, in accordance with all applicable laws and regulations at the time. If it were determined that any of the mineral licences held by Rosneft were issued and/or re-issued in violation of applicable laws, such licences would be subject to revocation. A loss of any such licence could adversely affect Rosneft's operating results and financial condition.

Development, exploration and production projects involve many uncertainties and operating risks that can prevent oil and gas companies from achieving profits and can cause substantial losses

Rosneft's development and exploration projects may be delayed or unsuccessful for many reasons, including cost overruns, lower crude oil and gas prices, delays in the completion of important infrastructure projects, equipment shortages and mechanical difficulties. These projects will also often require the use of new and advanced technologies, which can be expensive to develop, purchase and implement, and may not function as expected. In addition, some of Rosneft's development projects, and most of its exploration projects, are or will be located on the offshore shelf areas, in permafrost or in other hostile environments,

or will involve production from challenging reservoirs, which can increase such problems. The climate and topography of the regions where Rosneft's fields are located limit access to certain fields and facilities during certain times of the year. During the summer and early fall, some fields are partially flooded and operating capacity is limited. If warmer weather starts earlier or ends later in the year, Rosneft's operating capacity becomes more limited than it otherwise would be. In winter, extreme cold or snowstorms could limit access to certain wells and extreme cold could cause the temporary suspension of operations for wells with a high watercut. Such weather conditions could also limit Rosneft's exploration operations. Extreme weather conditions could impede Rosneft's development plans for its fields and facilities and otherwise adversely affect its operating results and financial condition.

Crude oil and gas reserves and resource data are only estimates and are inherently uncertain and the actual size of accumulations may differ materially from these estimates

D&M carries out an annual independent audit of Rosneft's reserves under PRMS and SEC standards. An extract from the Reserves Reports is included as Annex A to this Base Prospectus. See "*Annex A: Extract from the Reserves Reports of DeGolyer and MacNaughton*". D&M also prepared Resources Reports. Pursuant to the Resources Report, prospective onshore resources and 12 out of 31 offshore areas have been estimated as at 31 December 2011 in accordance with PRMS classification. There are numerous uncertainties inherent in estimating quantities of proved, probable and possible reserves and in projecting future rates of production and the timing of development expenditures, including many factors beyond the control of Rosneft. The oil, natural gas and gas condensate reserves data included in this Base Prospectus represent only estimates and should not be construed as exact quantities. Petroleum engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner, and estimates can vary significantly. Estimates of the value and quantity of economically recoverable oil and gas reserves, rates of production, future net revenues and the timing of development expenditures are based on existing economic and operating conditions using prices and costs consistent with the effective date the estimate is made (prices and costs averaged for the previous 12 months). In addition, estimates necessarily depend upon a number of variable factors and assumptions, including the following:

- historical production from the area compared with production from other comparable producing areas;
- interpretation of geological and geophysical data; and
- the assumed effects of regulations by governmental agencies.

Because all reserves estimates are subjective, each of the following items may differ materially from those assumed in estimating reserves:

- the quantities of oil and gas that are ultimately recovered;
- the production and operating costs incurred;
- the amount and timing of future development expenditures; and
- oil and gas prices.

Results of drilling, testing and production after the date of the Reserves Report may require substantial upward or downward revisions in Rosneft's reserves data. Reserve estimates may be materially different than the quantities of crude oil that are ultimately recovered, and, if recovered, the revenue therefrom could be materially less than, and the costs related thereto could be higher than estimated amounts. The significance of such estimates is highly dependent upon the accuracy of the assumptions on which they were based, the quality of the information available and the ability to verify such information against industry standards. The reserves estimates assume, among other things, that the future development of Rosneft's oil fields and economic recoverability of Rosneft's oil will be similar to development and economic recoverability in the prior years. These economic assumptions may prove to be incorrect. In particular, the Russian economy is less stable and subject to more significant and sudden changes than the economies of many other countries, and thus economic assumptions in Russia are subject to a significant degree of uncertainty. Potential investors should not place full reliance on the forward-looking statements in this Base Prospectus regarding Rosneft's estimated reserves or on comparisons of similar estimates concerning companies operating in countries with more developed economies.

A substantial part of Rosneft's resources are prospective resources. The probability that prospective resources will be discovered, or be economically recoverable, is considerably lower than for proved, probable and possible reserves. Volumes and value estimates associated with prospective resources should be considered highly speculative.

Additionally, in estimating its proved oil and gas reserves, Rosneft has assumed that the production licences for its Russian fields will be renewed and the fields will be produced until the economic limit of production is reached. If any production licences for its Russian fields are not renewed, Rosneft-estimated oil and gas reserves may materially decrease.

PRMS standards differ in certain material respects from SEC standards. In addition, the Russian reserves system is based on methodology, which is significantly different from that utilised by SEC and PRMS, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. See "*Presentation of Financial and Other Information—Presentation of Reserves*" and "*Appendix I: Classification of Reserves and Resources*". Reserves that are calculated using different methodologies cannot be accurately reconciled and the amount of reserves reported under SEC standards could potentially be lower than those reported under PRMS standards or Russian standards. Decreases in crude oil reserves, if material, may affect certain financial data reported by Rosneft in future periods.

Additionally, the Reserves Reports included in this Base Prospectus include reserve estimates only as at 31 December 2011. No more recent reserve estimates than those contained in the 2011 Reserves Report will be included in the Base Prospectus.

Exploration drilling involves numerous risks, including the risk that oil and gas companies will encounter no commercially productive crude oil or gas reserves

Rosneft's proved reserves will decline as reserves are extracted unless such reserves are replaced with new ones. In addition, the volume of crude oil and gas production generally declines as reserves are depleted. Rosneft's future production depends significantly upon its success in finding or acquiring and developing additional reserves

Rosneft is exploring and producing in various geographical areas of Russia, including western Siberia, eastern Siberia, the shelf of Sakhalin Island in the Russian Far East, the southern Russia (including the shelf of the Russian Black Sea, the Sea of Azov and the Caspian Sea), in central Russia and in Russia's Arctic seas. Rosneft also has exploration activities outside Russia, including projects in Algeria, Abkhazia, UAE and Venezuela. In some of those areas, environmental conditions are challenging and costs can be high. The cost of drilling and operating wells can be uncertain. As a result, Rosneft may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of a variety of factors, including difficult drilling conditions, dry holes, abnormal pressure or irregularities in geological formations, equipment failures or accidents, power shortages and other mechanical difficulties, adverse climate conditions (which may limit access to sites to certain times of the year), compliance with governmental requirements, including those relating to environmental protection, and shortages or delays in the availability of drilling rigs and the delivery of equipment. Exploratory projects may require the use of new and advanced technologies, which can be expensive and difficult to implement, and may not function as expected. In addition, Rosneft's overall drilling activity or drilling activity within a particular project area may fail to find commercially productive reservoirs.

If Rosneft is unsuccessful in its exploration and development activities, it may not meet its production targets and its total proved reserves and production will decline over time, which could adversely affect Rosneft's operating results and financial condition.

The Russian government, whose interests may not coincide with those of the Noteholders, controls Rosneft and may exercise significant influence over Rosneft

The Russian Federation, through ROSNEFTEGAZ, indirectly owns 75.16% of Rosneft's ordinary shares and manages this stake through the Federal Agency for Management of Federal Property. The Russian Federation, through ROSNEFTEGAZ, being a shareholder of Rosneft, indirectly manages and controls Rosneft's activities within the framework established by Russian corporate law and rules for state-owned companies and may exercise such control in a manner that does not coincide with the interests of Noteholders. The Russian government may also exercise substantial influence over Russian oil and gas companies (including Rosneft) through its regulatory, taxation and legislative powers. For example, in the

past, the Russian government limited the amount of export sales of crude oil by Russian producers by limiting the share of crude oil that may be transported for export through export oil pipelines. The Russian government also determined the amounts of crude oil, gas and petroleum products for delivery for state needs and to certain customers, such as the military, agricultural concerns and remote regions, which, though in compliance with Russian law, may have been on non-market terms and may have taken priority over sales in the ordinary course of business. Actions such as these could adversely affect Rosneft's operating results and financial condition.

Russian government policies to ensure sufficient supplies of oil and refined products in the domestic market could impact Rosneft's ability to sell its products at optimal prices and impact relations with purchasers (consumers) of its products both on domestic and export markets

Rosneft sells approximately 40% of its refined products in the Russian domestic market. Historically, the Russian government has used and continues to use various administrative and fiscal measures to ensure sufficient supplies of oil and refined products are made available to the domestic market. There is no significant active commodity exchange market for crude oil in Russia and, as a result, prices are contract-specific. For a more detailed discussion of export and domestic product pricing, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Main Factors Affecting Results of Operations—Export Customs Duty on Crude Oil"* and *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Main Factors Affecting Results of Operations—Export Customs Duty on Petroleum Products*".

In addition, the Russian government has the authority to direct Rosneft to deliver significant volumes of crude oil or refined products to the Russian domestic market, which may take precedence over non-Russian sales. Requirements for the delivery of domestic crude oil and refined products, with or without a corresponding limitation or ban on export sales, could be used if the domestic market experiences a shortage of crude oil, liquid hydrocarbons or refined products. Rosneft may be directed to make deliveries to Russian government agencies, the military, railways, agricultural producers, remote regions, specific consumers or refineries or to domestic refineries in Russia in general. Depending on the level of such required supplies, any Russian government-directed deliveries may impact Rosneft's relations with its customers and may lead to delays in payments for crude oil and refined products. In addition, Russian government-directed deliveries may create an oversupply of crude oil or refined products in the domestic market, with a resulting decline in Rosneft's sale price and netbacks. As a result of these factors, an increase in the levels of Russian government-directed deliveries, a revocation of export rights or any further increase in export duties on crude oil or refined products, as well as any increasing disparity between Russian and international market prices for crude oil and refined products, could materially adversely affect Rosneft's business.

The general system of export quotas and licensing of exports was abolished in 1995. At present, quantitative restrictions on exports may be imposed only if required to comply with Russia's obligations under international treaties or for national security purposes. No such restrictions currently apply to the export of crude oil or refined products or gas. However, the legislation may change, and quantitative restrictions on existing or extended legal grounds may be reintroduced.

Transneft and other third party operators control the transport of crude oil and crude oil products in Russia and Rosneft must rely on these entities to maintain transport infrastructure and is subject to price increases for their services

Transneft

The majority of crude oil produced by Rosneft is transported through the Russian national crude oil pipeline network, which is operated as a monopoly by the state-owned company JSC "Transneft" (***Transneft***). While alternative means of transportation that are not dependent on the Transneft system exist in Russia, such means are generally more expensive than the Transneft pipeline system. Transneft has generally avoided serious disruptions in the transport of crude oil to date. Nonetheless, the Transneft-operated system may experience outages or capacity constraints during required maintenance periods resulting in the delay or suspension of shipments. At the same time, while Transneft has been making significant investments to enable the system to expand capacity to accommodate the growth in oil production (specifically, the Eastern Siberia—Pacific Ocean (***ESPO***) oil pipeline), those efforts have contributed to increases in Transneft's tariffs in recent years. Increases in Transneft's tariffs, above those

projected and budgeted by Rosneft, could have a material adverse effect on Rosneft's operating results and financial condition.

The Russian government allocates access to Transneft's pipeline network and is required to provide equitable access to the pipeline to all entities meeting certain technical requirements. Pipeline capacity, including export pipeline capacity, is allocated to oil producers on a quarterly basis, generally in proportion to the amount of crude oil produced and delivered to Transneft's pipeline network in the prior quarter.

Rosneft, along with other Russian crude oil producers, must pay transportation fees to Transneft in order to transport crude oil through the Transneft network. The Federal Tariff Service (the ***FTS***) is responsible for setting Transneft's fees, which have risen in recent years and may continue to rise. Failure to pay these fees could result in the termination or temporary suspension of Rosneft's access to the Transneft network. Transneft has not constrained Rosneft's access to the Transneft crude oil pipeline transportation network in the last five years. Significant increases in Transneft's fees or the termination or suspension of Rosneft's access to the Transneft network would materially adversely affect Rosneft's business, as would any disruption in the Transneft system.

Historically, the Transneft system did not have sufficient capacity to meet the total demand for crude oil pipeline exports of Russian oil producers. However, Transneft has made substantial investments in the development of additional export routes and trans-shipment terminals (e.g., at the Primorsk port) in order to increase capacity. In the last two years, there has been spare capacity in Transneft's pipeline network, despite the fact that Russian oil companies transport approximately 90% of their crude oil through the Transneft system. However, failure by Transneft to maintain or sufficiently increase the capacity of the Transneft system, breakdowns and leakages could require Rosneft to utilise more expensive alternative export routes or to sell excess production on the local market. This could result in a decline in Rosneft's profit margin.

The crude oil that Rosneft transports through the Transneft pipeline network is blended with crude oil of other producers that may differ in quality. Crude oil that Rosneft sells using the Transneft system is of crude oil blend that results from the combination of different types and volumes of crude oil in the system, which is usually referred to as "Urals blend" crude oil. Therefore, the price Rosneft obtains for such blend may be lower than had Rosneft been able to transport its produced, un-blended crude oil independently of Transneft. Any decrease in the average quality of the blended crude oil transported through Transneft could reduce the value of the blended crude oil Rosneft sells and thereby affect Rosneft's operating results and financial condition.

A Russian national pipeline network for refined products is operated, as a monopoly, by OAO AK Transnefteprodukt (***Transnefteprodukt***), a subsidiary of Transneft, which transports roughly 10% of refined products produced in Russia. Transport tariffs for petroleum products are set by the FTS. Any escalation in tariffs for using the Transnefteprodukt pipeline, as well as a disruption in, or the imposition of limitation on the use of the pipeline system, could have an impact on Rosneft's operating results and financial condition.

Rail

Rosneft also depends on railway transportation for its distribution of crude oil and petroleum products, including crude oil shipments to Rosneft's Komsomolsk oil refinery. Due to the increased level of oil production in Russia and the potential for limitations of export capacity through the Transneft system, significant investment in export infrastructure and, in particular, railways has taken place in recent years. However, such alternative means are generally more expensive than transport through the Transneft pipeline system. The Russian national rail system is operated, as a monopoly, by the state-owned company Joint Stock Company "Russian Railways" (***RZD***); its transport fees, which are subject to state oversight, have been increased by 8% in 2011, compared to 2010 rates.

Use of the Russian railway system exposes Rosneft to certain risks, such as potential disruption in transportation schedules due to the declining physical condition of Russian railway facilities, theft during transport and spills, which may result from poorly maintained tank cars or train collisions. Additional costs and logistical constraints are imposed by the incompatibility of the Russian broad-gauge railway system with the railway systems of neighbouring countries. In addition, Rosneft may be affected by railway capacity constraints on eastern rail routes caused by the recent growth in exports of coal from Western Siberia and Krasnoyarsk Territory and by the increases in crude oil transport via the railway section of the

Eastern Siberia-Pacific Ocean pipeline route, and on southern rail routes caused by the priority given by RZD to shipment of goods for construction of Sochi 2014 Olympic Games' infrastructure.

Since the profitability of exporting by rail is lower than that of exporting by pipeline in a declining oil price environment, dependence on rail transportation could theoretically potentially adversely affect Rosneft's results of operations should Rosneft be unable to utilise other transportation methods.

Increased dependence on rail transport could lead to a general increase in transportation costs to the point where the economics of transporting by rail is inefficient, or to an inability of Rosneft and other Russian oil companies to meet export plans, causing a temporary diversion of crude and oil products onto the domestic market and a reduction in domestic prices. Such an increase could materially adversely affect Rosneft's business, financial condition and operating results.

Export pipelines

Pipeline capacity outside of Russia, particularly in CIS countries, has occasionally been subject to restrictions due to political disputes. In January 2007, a dispute between Belarus and Russia regarding the use of the main oil pipeline through Belarus resulted in Belarus' decision to impose transit fees on Russian oil in response to Russian duties levied on oil exports to Belarus. For three days in January 2007, Russia suspended shipments of crude oil through the pipeline through Belarus to Germany, Poland, Hungary, the Czech Republic and Slovakia. Such pipelines could be subject to future disruptions which could affect Rosneft's deliveries of crude outside of Russia, possibly requiring Rosneft to ship oil through less profitable routes.

Ports

Rosneft utilises marine terminals for the transport of a portion of its production. Transport through Rosneft's marine terminals is associated with certain risks, including severe winters resulting in ice conditions that disrupt vessel arrival and departure schedules as well as the loading and unloading of cargo. Specifically, exports via Black Sea terminals to Mediterranean ports may be restricted by throughput capacity of the Bosporus Strait and by weather conditions (storm winds) in the Black Sea during the autumn. Severe ice conditions may lead to the closure of export terminals on the Baltic Sea and at De-Kastri during the winter. Further, it is also possible that marine terminals may be unable to accommodate new generations of larger tonnage vessels without dredging.

Rosneft faces several risks in connection with the marketing of the gas it produces

With the exception of sales by Sakhalinmorneftegaz, Rosneft sells its gas either directly to Gazprom, to independent regional traders or to independent industrial consumers through the UGSS.

The UGSS, which Gazprom owns and operates, transports substantially all gas extracted in Russia or transited through Russia. Under existing regulations, Gazprom must provide access to the UGSS to all domestic independent suppliers on a non-discriminatory basis so long as Gazprom is not using the entire capacity of the UGSS. These "equal access" regulations might not remain in place, however, and Gazprom might fail to comply with them in the future. Moreover, in practice, Gazprom is able to exercise discretion in determining third party access to the UGSS through its priority right to use the UGSS capacity.

The Russian government regulates Gazprom's domestic gas prices in Russia. Although the regulated price has been rising in Russia and is expected to continue to rise to a level closer to export parity levels, it is still significantly below the international market levels. Any increase of the regulated price at a slower-than-expected rate could adversely affect Rosneft's operating results and financial condition.

Rosneft faces several risks arising out of its acquisition of Yuganskneftegaz and other former subsidiaries of Yukos Oil Company (Yukos)

Rosneft faces several risks arising out of its acquisition in late December 2004 of Baikalfinancegroup, which had won an auction for the sale of 76.79% of the shares (100% of the common shares) of OJSC Yuganskneftegaz. In addition, Rosneft faces several risks arising out of its acquisition starting in May 2007 of the shares in former subsidiaries of Yukos Oil Company in the auctions held in connection with Yukos Oil Company's bankruptcy proceedings and in subsequent acquisitions of Yukos Oil Company's assets from the winners of such auctions. See "*Business—History*".

Yukos Oil Company Matters Involving Rosneft as Defendant or Respondent

Rosneft is currently the defendant or respondent in several lawsuits brought by entities controlled by former management of Yukos Oil Company or other third parties that relate to these acquisitions and Rosneft or members of the Group may be named a defendant or respondent in other claims as well. The currently pending lawsuits include:

- On 9 July 2007, Glendale Group Limited (***Glendale***), a BVI incorporated former indirect subsidiary of Yukos, filed against Rosneft in the Amsterdam District Court a writ of summons demanding payment on OJSC Yuganskneftegaz promissory notes in an amount of approximately RUB 3.53 billion plus interest, and costs. On 7 July 2010, Rosneft filed a statement of defence. Rosneft has asserted various defences in the matter including defences related to the validity of the notes and public policy grounds on which the notes should not be enforced under the circumstances. A hearing on the merits of Glendale's claims took place on 30 August 2012. An additional hearing on discreet issues of law took place in November 2012 and the court decision is pending.
- In 2007, lawsuits were filed in Russian arbitrazh courts in Moscow, Samara Region and Tomsk Region to nullify the loan agreements of Yukos Capital S.a.r.l. (***Yukos Capital***) with Yuganskneftegaz, Samaraneftegaz and Tomskneft:
    - In the Moscow Arbitrazh Court, the claimant is ZAO "Investitsionnaya kompania VESTA", a minority shareholder of Rosneft. On 11 July 2012, the Moscow Arbitrazh Court declared invalid the loan agreements between Yukos Capital and Yuganskneftegaz. On 15 October 2012 the 9th Arbitrazh Appellate Court dismissed Yukos Capital's appeal of that judgment.
    - In the Arbitrazh Court of the Samara Region, the claimant is Neft-Aktiv, the direct shareholder of Samaraneftegaz. On 1 February 2012, the Arbitrazh Court of the Samara Region declared invalid the loan agreements between Yukos Capital and Samaraneftegaz. On 17 July 2012, the 11th Arbitrazh Appellate Court dismissed Yukos Capital's appeal of that judgment. Yukos Capital filed a cassation appeal. The hearing is scheduled for 28 February 2013.
    - In the Arbitrazh Court of the Tomsk Region, the claimant is Neft-Aktiv, a direct shareholder of Tomskneft. On 29 October 2012 the Arbitrazh Court of the Tomsk Region declared invalid the loan agreements between Yukos Capital and Tomskneft.
- In 2008, Glendale brought a claim in Russian courts against Angarsk Petrochemical Company to collect debt principal and interest under promissory notes for the total amount of RUB 2,750,687,326.90. Angarsk Petrochemical Company challenged the validity of the promissory notes. The proceedings were suspended on 16 November 2009 and the case remains suspended.
- In 2008, Glendale brought a claim in Russian courts against Tomskneft to collect debt principal and interest under promissory notes for the total amount of RUB 26,478,624,913.03. The first instance court dismissed the claim on 26 June 2009. Glendale filed an appeal, but the proceedings were suspended on 31 August 2009, and remain suspended.
- In March 2010, Yukos Capital initiated proceedings against Rosneft in the Commercial Court in London to enforce four alleged ICC arbitral awards totalling RUB 12 billion, and interest thereon amounting to approximately U.S.$160 million. The awards had previously been annulled in Russia, the seat of the arbitrations. Yukos Capital has since recovered the principal amount, but is still pursuing the interest claim. On 14 June 2011, the Commercial Court ruled on two preliminary issues in favour of the claimant. Rosneft filed an appeal to the Court of Appeal, which was heard on 20 to 22 March 2012. The Court of Appeal's judgment, handed down on 27 June 2012, allowed Rosneft's appeal in part. Yukos Capital prevailed on the first issue, which concerned the scope of the act of state legal doctrine. The second preliminary issue concerned issue estoppel, namely the effect of a decision of the Dutch courts in earlier enforcement proceedings. Yukos Capital contended that the Dutch court's decision created an issue estoppel binding on Rosneft in the English proceedings. The Commercial Court had accepted this contention, but the Court of Appeal unanimously reversed it. The matter is now again before the Commercial Court.
- In February 2010, Yukos Capital commenced proceedings against Tomskneft in the Arbitrazh Court of the Tomsk Region seeking to enforce in Russia a 12 February 2007, ICC arbitral award of approximately RUB 4.35 billion, plus simple interest of 9% per annum, plus penalties of 0.1% per day (from 1 December 2005, through the date of the award), plus costs. On 7 July 2010, the Arbitrazh

Court of the Tomsk Region denied Yukos Capital's enforcement application. On 27 October 2010 Yukos Capital's cassation appeal was dismissed.

- In July 2010, Yukos Capital brought an action against Tomskneft in the Paris Court of First Instance seeking enforcement of the same 12 February 2007 ICC arbitral award in France. On 20 July 2010, the court issued an ex parte preliminary award in Yukos Capital's favor. On 22 February 2011, Tomskneft filed an appeal against this order in the Paris Court of Appeals. Tomskneft claims that Yukos Capital lacks standing to bring this enforcement action because Tomskneft has no assets in France. Tomskneft also argues that recognition of the award should be refused for want of jurisdiction, because of violations of fundamental due process requirements during the arbitral process and on public policy grounds. The Paris Court of Appeals has not yet ruled on the appeal.
- In August 2010, Yukos Capital brought an action in the Southern District of New York to enforce an arbitral award against Samaraneftegaz in the amount of RUB 3,080,711,971 in principal and interest, plus U.S.$435,000 in arbitration costs, U.S.$284,474.54 in legal fees, and post-judgment simple interest of 9% per annum accrued from the date of the award (15 August 2007) through payment of the judgment. Samaraneftegaz has disputed the enforcement of the award, for want of jurisdiction, because of violations of fundamental due process requirements during the arbitral process and on public policy grounds. On 24 July 2012, the court rejected Samaraneftegaz's motion for summary judgment on personal jurisdiction grounds; the proceedings are continuing.
- In August 2010, Yukos Capital commenced proceedings in the Arbitrazh Court of the Samara Region seeking enforcement of the same 15 August 2007 arbitral award in the Russian Federation. On 15 February 2011, the Arbitrazh Court of the Samara Region denied Yukos Capital's enforcement application. The time for cassation appeal from the ruling has lapsed without Yukos Capital having filed such an appeal.
- Since August 2010, Rosneft (as successor to OJSC Yuganskneftegaz), Tomskneft and Samaraneftegaz have received demand letters from Yukos International (UK) BV (***YIUK***) referring to alleged guarantees of a loan agreement, dated 30 September 2003, between, Yukos, Société Générale S.A., JSC "Banque Société Générale S.A Vostok" and others. Rosneft contends that these guarantees are void based on Russian court decisions to this effect as well as an LCIA arbitral award relating to the alleged guarantee from OJSC Yuganskneftegaz. Each of the three entities has responded in writing to YIUK, disputing that YIUK is entitled to any payment. Further demand letters have been sent, but no formal proceedings are known to have been initiated.
- On 27 December 2011, YIUK initiated proceedings in the Amsterdam District Court claiming damages of up to U.S.$333,294,677.05, plus statutory interest with effect from 7 February 2011, plus costs, against Rosneft and others, relating to alleged injury supposedly caused by the entry of a freezing order that YIUK claims restricted its ability to invest certain funds as it chose. Rosneft filed its Statement of Defence on 3 October 2012. That statement asserts various defences including that the court properly granted the freezing order and that YIUK suffered no damages as a result of having its funds deposited in an interest bearing account of its choice.
- In 2012, Stichting Administratiekantoor Financial Performance Holdings (***Stichting FPH***), Luxtona Limited, Financial Performance Holdings B.V., D. Godfrey, D. Feldman filed in the Amsterdam District Court a writ of summons against Rosneft, Yukos CIS Investment Limited, Wincanton Holding B.V. (Wincanton) and the directors of Yukos CIS Investment Limited and Wincanton. Stichting FPH, Luxtona Limited and Financial Performance Holdings B.V. are entities believed to have been established by former Yukos executives. The dispute arises from Rosneft's acquisition of Yukos CIS Investment Limited in the Yukos bankruptcy proceedings, which former Yukos executives consider to be unlawful and which they have been challenging in various fora. The case is at an early stage.

Rosneft accounts for the relevant claims as liabilities or discloses them under IFRS in the Company's Financial Statements. See "*IFRS Consolidated Financial Statements for Rosneft Oil Company for the years ended 31 December 2011, 2010 and 2009*" and "*IFRS Interim Condensed Consolidated Financial Statements for Rosneft Oil Company for the three and nine months ended 30 September 2012 (Unaudited)*".

Finally, Rosneft could face additional claims relating to its acquisition of assets of Yukos of which it is currently unaware and is facing and could continue to face efforts to attach assets in aid of existing or future claims. If any of the lawsuits discussed above or any further claims which may be brought against

Rosneft in connection with its acquisition of assets of Yukos, and if any of its assets are attached in aid of any such claims, this may have an adverse effect on Rosneft's operating results and financial condition.

Other Yukos Matters

The Russian Federation is defending against several legal claims brought by Yukos and Yukos' former shareholders. These include matters brought under the Energy Charter Treaty, matters brought before the European Court of Human Rights, and two matters pursued under bi-lateral investment treaties. Rosneft does not know if additional claims may be brought in the future. Rosneft is not a party to any of these proceedings. These claims relate to matters that led to the sale of the assets of the former Yukos, many of which Rosneft now holds. Rosneft cannot exclude the possibility that parties securing judgments against the Russian Federation might, in the future, attempt to enforce those judgments or awards against Rosneft. Rosneft does not believe such efforts would be lawful, and would vigorously oppose any such efforts. However, depending on the amounts of any future awards or judgments against the Russian Federation, attempts of parties to enforce such awards or judgments against Rosneft may have a material adverse effect on Rosneft's operating results and financial condition.

If the litigation or enforcement actions described above or any additional claims which may be brought against Rosneft in connection with Rosneft's acquisition of the assets of Yukos were to be determined adversely to Rosneft, this, depending on the amount of any potential adverse award or judgment, could have an adverse effect on Rosneft's operating results or financial condition. However, under the terms of the Facility Agreement, the relevant Loan may not be capable of being accelerated. Such actions could result in a significant reduction in the value of Rosneft's and the Group's assets or in Rosneft's ability to gain access to cash, thereby impairing Rosneft's ability to pay amounts of interest and principal in respect of the relevant Loan or materially reducing the amount of any possible recoveries by the holders of the Notes should such events occur.

Rosneft and other members of the Group are currently involved in several litigation and arbitration proceedings and could face additional claims now and in the future arising out of its acquisition of former Yukos assets. The Facility Agreement (see "*Facility Agreement*") provides that certain actual or potential Yukos related claims and events, so called "Excluded Events" (defined in the Facility Agreement, see "*Facility Agreement*"), and certain adverse events arising from the Excluded Events, as set forth more fully below, would not constitute Events of Default (see "*Facility Agreement—Clause 10.1 Events of Default"*). See "*Risk Factors—Rosneft faces several risks arising out of its acquisition of Yuganskneftegaz and other former subsidiaries of Yukos Oil Company (Yukos)*".

The Facility Agreement provides that certain events resulting from, amongst other things, certain insolvency events (not including those procured or sought by a Rosneft Entity (as defined in the Facility Agreement)), non-satisfaction of final judgments, decrees or court orders by Rosneft, the enforcement of security interests on the whole or a material part of the assets of Rosneft or a Principal Subsidiary, the effective seizure of the whole or substantially the whole of the Group's assets or the inability of Rosneft to perform certain of its obligations under the Facility Agreement, do not constitute an Event of Default to the extent such event would arise as the result of any Excluded Event. The effect of carving out the Excluded Events from certain of the Events of Default is that, as a result of one or more claims against Rosneft and/or other members of the Group (including any future attempts to enforce against Rosneft or its assets judgments and/or awards issued against the Russian Federation) arising out of Rosneft's acquisition of former Yukos assets, action or actions may be taken against Rosneft and/or other members of the Group or any of their assets which individually or in the aggregate would have constituted an Event of Default under the Loan but for the carve out in respect of Excluded Events. Accordingly the Trustee would not have the right to declare amounts owing by Rosneft under the relevant Loan as immediately due and payable. This could result in a significant reduction in the value of Rosneft's and the Group's assets, or in Rosneft's ability to gain access to cash, thereby impairing Rosneft's ability to pay amounts of interest and principal in respect of the relevant Loan or materially reducing the amount of any possible recoveries by the holders of the Notes before the holders are able to accelerate the Notes under the Events of Default. (See "*Facility Agreement—Clause 10.1 Events of Default"* for the complete list of Events of Default).

Rosneft faces foreign exchange and inflation risks that could materially adversely affect its operating results and financial condition

Over the past ten years, the U.S. dollar/rouble exchange rate has been volatile. Although the rouble steadily appreciated during the first half of 2011 and the first months of 2012, it experienced depreciation in the second half of 2011 and 2012. In the past three years, the rouble has had periods of material

depreciation. For example, the rouble depreciated against the U.S. dollar by almost 40% and against the Euro by nearly 30% from October 2008 to February 2009, due in part to significant declines in the prices of oil and commodities, which are the principal generators of Russia's export earnings. During the financial crisis in late 2008 and early 2009, the Russian government used its international currency reserves to support the rouble, but has expressed that it may be unwilling or unable to continue such support in the future. A substantial portion of Rosneft's revenues are generated in foreign currency. In addition, financing, investing, debt obligations and commitments are also undertaken in U.S. dollars and Euros. However, significant operating and investing expenditures, other obligations and commitments as well as tax liabilities are denominated in roubles. As a result of any decline of the U.S. dollar and Euro against rouble, Rosneft is exposed to the corresponding currency risk.

According to the Federal State Statistics Service, inflation in Russia in 2011, 2010 and 2009 was 6.1%, 8.8% and 8.8%, respectively. According to the Central Bank of Russian Federation (the ***CBR***), the change of the average invert exchange rate (RUB/U.S.$) compared to the previous period in 2011, 2010 and 2009 was 3.3%, 4.4% and (21.6)%, respectively, while in real terms the rouble rose 12.1%, 11.6% and (22.8)% against the U.S. dollar in those same periods, respectively. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Main Factors Affecting Results of Operations—U.S.$/RUB Exchange Rate and Inflation*". Substantial real appreciation of rouble against the U.S. dollar could materially adversely affect Rosneft's operating results and financial condition.

Rosneft faces competition from other oil and gas companies in its operations, including the acquisition of licences, exploration and producing assets, and it may encounter competition from suppliers of alternative forms of energy sources

The oil industry is intensely competitive. Rosneft competes with other major Russian and international oil companies, some of which have greater resources and have been operating in a competitive economic environment for longer than Rosneft. Rosneft's ability to market its products and crude oil and gas depends on its ability to negotiate contracts with its customers. The key activities in which Rosneft faces competition are (among others):

- the obtaining of licences to use subsoil blocks at auctions or tenders run by governmental authorities and obtaining profitable licences for future exploration and production;
- the acquisition of other companies that may already own licences and/or existing hydrocarbon-producing assets;
- the implementation of foreign projects for prospecting, exploration and development of subsoil areas;
- the engagement of third party service providers (including, among others, oil field services providers) whose capacity to provide key services may be limited;
- the purchasing of capital equipment that may be scarce;
- the employment of the best qualified and most experienced staff;
- access to critical transportation infrastructure;
- the acquisition of existing retail outlets or of sites for new retail outlets;
- the acquisition of or access to refining capacity; and
- marketing of crude oil, oil products and gas.

In addition, Rosneft may encounter competition from suppliers of alternative forms of energy sources, including environmentally friendly renewable energy sources such as solar power or wind-generated power, as a result of continuing high hydrocarbon prices or potential depletion of hydrocarbon reserves in the future. Increased competition, or the inability of Rosneft to remain competitive with its peers, for any of the reasons outlined above, could have a materially adverse effect on Rosneft's operating results and financial condition.

Rosneft is relatively highly leveraged and must observe certain financial and other restrictive covenants under the terms of its indebtedness and any failure to comply with such covenants could put Rosneft into default

Rosneft has total short- and long-term borrowings of RUB 884 billion and total equity of RUB 2,256 billion as at 30 September 2012.

The terms of Rosneft's indebtedness require Rosneft to operate within certain specified financial ratios. For example, some of Rosneft's loan agreements require Rosneft to maintain a specified ratio of consolidated net debt to consolidated adjusted EBITDA and of consolidated net interest to consolidated adjusted EBITDA. As of 30 September 2012, Rosneft was in compliance with all restrictive financial and other covenants contained within the relevant loan agreements. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt Obligations*".

The need to observe financial ratios could hinder Rosneft's ability to implement its business strategy. In addition, a breach of covenants by Rosneft could cause a cross-default under its other financings, causing some or all of its indebtedness to become due and payable. Such action could adversely affect Rosneft's operating results and financial condition. It is uncertain whether Rosneft's assets will be sufficient to repay its indebtedness in the event of its acceleration.

Finally, Rosneft is exposed to interest rate risk. For a discussion of this exposure, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Qualitative Disclosures about Market Risk—Interest Rate Risk*".

Rosneft may incur material costs to comply with, or as a result of, health, safety and environmental laws and regulations

Rosneft incurs, and expects to continue to incur, substantial capital and operating costs in order to comply with increasingly advanced health, safety and environmental laws and regulations. Under its exploration and development licences, Rosneft must also generally commit to limit the level of pollutants that it releases and to undertake remediation of environmental contamination and is subject to regular ecological audits by Russian state authorities. Rosneft uses all endeavours to comply with applicable environmental laws and regulations but cannot guarantee their comprehensiveness. Rosneft does not foresee any material impact from the current level of pollution and potential clean-up costs.

New laws and regulations, the imposition of tougher requirements in licences, increasingly strict enforcement of, or new interpretations of, existing laws, regulations and licences, or the discovery of previously unknown contamination may require further expenditures to:

- improve and reequip operations;
- install pollution control equipment;
- perform site clean-ups;
- curtail or cease certain operations; or
- pay fees or fines or make other payments for pollution, discharges or other breaches of environmental requirements.

In addition, Rosneft participates in several joint ventures, where a separate entity acts as operator of the relevant project. In such joint ventures, Rosneft relies on the operator to comply with applicable environmental regulations. According to audits conducted by Rosprirodnadzor, the operators of such joint ventures have not committed any material violations of the applicable environmental regulations as of the date of this Base Prospectus. In general, the operators conduct activities in compliance with the applicable environmental regulations. However, were an operator commits violations of such regulations in the future, including, *inter alia*, oil spills, it could have a negative effect on Rosneft and its business reputation.

Rosneft insures against environmental risks, which is a required under Russian law. Although the costs of the measures taken to comply with environmental regulations have not had a material adverse effect on Rosneft's operating results or financial condition to date, in the future, the costs of such measures and liabilities related to environmental damage caused by Rosneft or the operator of projects in which Rosneft participates may increase, adversely affecting Rosneft's operating results and financial condition.

Russian regulatory authorities exercise considerable discretionary rights in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of permits and in monitoring compliance with the terms thereof. Compliance with new requirements may require incurrence of expenditures and be time consuming and may result in delays in the commencement or continuation of Rosneft's activities. Moreover, any failure by Rosneft to comply with such requirements may result in the imposition of sanctions, including civil and administrative penalties, upon Rosneft or its subsidiaries and criminal and administrative penalties applicable to officers of Rosneft's subsidiaries. There can be no

assurance that Rosneft will be able to comply with existing or new requirements and, as a result, Rosneft may be required to cease certain of its business activities and/or to remedy past infringements. Any such decisions, requirements or sanctions could have a material adverse effect on Rosneft's operating results and financial condition.

Rosneft faces numerous operational risks in its crude oil exploration, production, transportation and other core activities, which may result in losses and additional expenditures

Exploration for, the production of, and the transportation of oil and natural gas is hazardous, and natural disasters, operator error or other occurrences can result in oil spills, gas leaks, loss of containment of hazardous materials, cratering, fires, equipment failure and loss of well control. Failure to manage these risks could result in injury or loss of life; damage or destruction of wells, production facilities pipelines and other property; and damage to the environment.

All modes of transportation of hydrocarbons contain inherent risks. A loss of containment of hydrocarbons and other hazardous materials could occur during transportation by pipeline, rail, road or ship. Given the high volumes of hydrocarbon transported by Rosneft in the normal course of business, such potential loss represents a significant liability risk due to the serious impact a release would have on the environment and surrounding population.

Rosneft does not carry insurance against all potential risks and losses and its insurance might be inadequate to cover all of its losses or liabilities; insurance may not continue to be available on commercially reasonable terms

Rosneft maintains a level of insurance coverage, which may be insufficient to cover all expenses and losses that may arise in connection with property damage, work-related accidents and occupational disease, natural disasters and environmental contamination. Rosneft has insurance for hazardous operations that is mandatory under Russian law. Rosneft's upstream and downstream companies are insured against all risks of physical loss and/or damage to the insured property. Rosneft carries director and officer liability and public securities offerings insurance policies, which cover directors' personal liability for 'wrongful acts' and provide reimbursement to Rosneft and/or the directors for any payments they have made in connection with such claims. From 2012, Rosneft started to insure the business interruption risks as well.

Rosneft is exposed to risks regarding the safety and security of its operations

Rosneft's core operations may be adversely affected by many factors, including the breakdown or failure of equipment or processes, labour disputes, natural disasters, political disputes and terrorist attacks or industrial sabotage. Inability to provide safe environments for Rosneft's workforce and the public could lead to injuries or loss of life and could result in regulatory action, legal liability and damage to its reputation. Security threats require continuous oversight and control. A breach of security, such as an act of terrorism or industrial sabotage against Rosneft's plants and offices, pipelines, transportation or computer systems could severely disrupt businesses and operations and could cause harm to people. In addition, accidents, explosions or malfunctions at Rosneft's refineries could halt or significantly slow down refining activities. Any of these safety and security risks could have a material adverse effect on Rosneft's operating results and financial condition.

The success of the Group depends in part upon the efforts and abilities of key personnel and may be affected by shortages of skilled labour

The success of the Group depends in part upon the efforts and abilities of key personnel, in particular skilled technical personnel in both upstream and downstream activities, as well as upon the Group's ability to continue to attract and retain such personnel. The competition in Russia for such personnel can be intense due to the limited number of qualified individuals. The demand and related costs for skilled employees is expected to continue to increase, reflecting significant demand from other industries and public projects. The Group has identified this risk and considers it manageable since 2006. The Group offers competitive salaries for the industry and has in place echeloned staff training and development programmes, as well as on-going employee development schemes. However, continued high demand for skilled labour in light of an unfavourable demographic situation and continued increases in labour costs could remotely have a certain effect on Rosneft's operating results and financial condition.

Rosneft has international operations which expose it to risks which could have an adverse effect on its operating results and financial condition

Rosneft currently has exploration and other operations in a number of regions outside of Russia, including Algeria, Abkhazia, Germany, United Arab Emirates and Venezuela. Political and social conflicts or instability in any of these regions could create an uncertain operating environment and have an adverse effect on Rosneft's operating results and financial condition.

Additionally, international sanctions (as implemented by relevant domestic laws) apply to companies engaging in specified volumes or types of business with specified countries, including but not limited to Cuba, Iran, North Korea, Sudan and Syria. If Rosneft violates sanctions regimes to which it is subject, penalties could include a prohibition or limitation on its ability to obtain goods and services on the international market or to access U.S. or other capital markets or financing. Rosneft is not currently involved in any operations or transactions in countries that could result in sanctions against Rosneft. However, any violations of sanctions by Rosneft could have a material adverse effect on Rosneft's operating results and financial condition.

The Group may fail to integrate its acquisitions successfully

Rosneft has expanded its operations through acquisitions in recent years, both in Russia and internationally, and Rosneft expects to continue to do so in the future. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments*". The integration of these recently acquired businesses, and of businesses Rosneft may acquire in the future, requires significant time and effort of its senior management, who are also responsible for managing Rosneft's existing operations. Integration of new businesses can be difficult, as Rosneft's culture may differ from the cultures of the businesses it acquires, unpopular cost-cutting measures may be required and control over cash flows and expenditures may be difficult to establish. In addition, difficulties can arise in retaining key employees crucial to the success of newly acquired businesses. Thus, there can be no assurance that past, ongoing or future integrations of acquired businesses will be successful or achieve desired or expected results. Difficulties with the integration of acquired businesses could have a material adverse effect on Rosneft's business, financial condition and result of operations.

Rosneft's acquisition of TNK-BP Limited is subject to significant uncertainties and risks

On 22 October 2012, Rosneft announced two separate agreements in principle to acquire an aggregate 100% equity interest in TNK-BP Limited, the ultimate holding company of TNK-BP, and its subsidiary TNK Industrial Holdings Limited. TNK-BP is Russia's third largest hydrocarbon producer. The two proposed transactions involve (i) an acquisition of a 50% equity interest in TNK-BP from BP, in respect of which definitive documentation was signed on 22 November 2012 (the ***BP Acquisition***) and (ii) an acquisition of a 50% equity interest in TNK-BP from the AAR consortium, as to which definitive documentation is being negotiated (the ***AAR Acquisition***, together with the BP Acquisition, the ***TNK-BP Acquisition***). The BP Acquisition and the AAR Acquisition are entirely independent, and either could be consummated without the other, leaving Rosneft with only a 50% equity interest in TNK-BP. For a more detailed description of the TNK-BP Acquisition, see "*Business—Recent Developments—TNK-BP Acquisition*".

The completion of both the BP Acquisition and the AAR Acquisition remains subject to certain uncertainties and conditions, which may take a lengthy period to satisfy and which may delay or prevent the consummation of one or both acquisitions. For example, the completion of the AAR Acquisition remains subject to the negotiation of definitive agreements and corporate approvals, and the completions of both the BP Acquisition and the AAR Acquisition are subject to regulatory approvals, and certain other customary conditions. There can be no assurance that either or both of the BP Acquisition and the AAR Acquisition will be consummated.

If either the BP Acquisition or the AAR Acquisition is completed by itself and without the other, Rosneft would hold only 50% of TNK-BP and either BP or AAR would continue to hold the other 50%. This would involve a number of risks, disadvantages and issues compared with ownership of 100%:

- Rosneft would be required to adhere to, and TNK-BP would continue to operate under, the existing shareholders agreement for TNK-BP, which *inter alia* provides for joint decisions on significant matters, including the designation of management, gives each shareholder extensive veto rights, and limits related party transactions. Accordingly, Rosneft's ability to freely realize synergies, incorporate

TNK-BP into the Rosneft Group, enter into transactions with TNK-BP, cause TNK-BP to pay dividends (above a certain minimum percentage of net income prescribed in the shareholders' agreement) and otherwise manage TNK-BP would be significantly limited and subject to agreement with the other shareholder, BP or AAR, as the case may be, which might have different interests, objectives and strategies from Rosneft.

- With only a 50% interest, Rosneft could not fully consolidate TNK-BP in its IFRS financial statements, but would have to account for TNK-BP via the equity method, reflecting its 50% interest in the net income and net equity of TNK-BP in single line items in its income statement and balance sheet.

The total consideration payable by Rosneft under the agreed commercial terms would amount to (i) for the BP Acquisition, U.S.$17.1 billion in cash (plus interest in the amount of U.S.$ 1.6 million per day from and including 18 October 2012 to but excluding the closing date) and a 12.84% equity interest in Rosneft, and (ii) for the AAR Acquisition, U.S.$28 billion in cash (plus interest at 3.75% per annum from and including 16 October 2012 to but excluding the closing date). Rosneft intends to fund the cash component of the consideration with its existing cash resources (Cash, cash equivalents and short-term investments and Financial assets on the consolidated balance sheets of Rosneft and TNK-BP amounted to over U.S.$15 billion as at 30 September 2012, in accordance with the financial statements of Rosneft and TNK-BP for the relevant period prepared in accordance with the IFRS) and a combination of new borrowings from Russian and international banks, proceeds of issues of debt securities in Russia (including domestic RUB bonds issuance programme for the maximum amount of up to the equivalent of approximately U.S.$3 billion, less the amount issued under that programme in October 2012 for the equivalent of approximately U.S.$600 million) and internationally (including the Notes), as well as internal cash flows, prepayments from offtakers under long-term export contracts and the proceeds from asset disposals as part of Rosneft's ongoing asset optimization programme. As at the date of this Base Prospectus, Rosneft has received a commitment from a syndicate of international banks to lend to Rosneft approximately U.S.$30 billion, including up to U.S.$7.5 billion of long-term financing, to fund the combined TNK-BP Acquisition.

The substantial additional indebtedness incurred or the use of existing cash resources to finance the TNK-BP Acquisition will reduce the amount of Rosneft's cash flow available to make payments on the Notes, which may have a negative impact on Noteholders. Moreover, if Rosneft acquires only 50% of TNK-BP, its access to cash flow from TNK-BP may be significantly limited as described above. Rosneft is also currently subject to covenant ratios and any additional indebtedness entered into to finance the TNK-BP Acquisition may result in a ratings downgrade or a breach of the terms of Rosneft's indebtedness. See "*—Rosneft is relatively highly leveraged and must observe certain financial and other restrictive covenants under the terms of its indebtedness and any failure to comply with such covenants could put Rosneft into default.*"

Even assuming the acquisition of 100% of TNK-BP, the integration of Rosneft and TNK-BP Limited poses significant management, administrative, legal and financial challenges, which include:

- the integration of the acquired businesses in a cost-effective manner, including infrastructure, transport, management of information and financial control systems, marketing and product offerings;
- the rights of minority shareholders in several TNK-BP group companies;
- legal, regulatory, contractual, labour or other issues arising from the TNK-BP Acquisition;
- additional capital expenditure requirements;
- integration of different company and management cultures; and
- retention, hiring and training of key personnel.

If Rosneft ultimately acquires only 50% of TNK-BP, the above problems would be compounded. If Rosneft experiences any difficulties in integrating the acquired operations or assets of TNK-BP Limited into Rosneft, it may incur higher than expected costs and not realise all the benefits of the acquisition. Any of these factors may adversely affect Rosneft's operating results and financial condition.

Rosneft has included only limited financial and other information about TNK-BP Limited in the Base Prospectus and its financial performance may differ significantly from Rosneft's financial performance

Historical financial information for TNK-BP International Limited

The publically available audited financial statements for TNK-BP International Limited (***TNK-BP IL***) for the years ending 31 December 2011, 2010 and 2009 have been included in this Base Prospectus. TNK-BP IL is a subsidiary of TNK Industrial Holdings Limited, which in its turn is a subsidiary of TNK-BP Limited. The latter is the acquiree in the TNK-BP Acquisition. This financial information contained in this Base Prospectus is extracted from the publicly available historical consolidated financial statements of TNK-BP IL and therefore it does not include any financial information of TNK-BP Limited, TNK Industrial Holdings Limited and their subsidiaries and associates.

There may be significant differences among the accounting policies of Rosneft and TNK-BP Limited or TNK-BP IL. Although adjustments have been made for some of these differences in the unaudited *pro forma* presentation included in the section "*Unaudited Adjusted Pro Forma Financial Information*", this may not show the full effect of all such differences on a financial and operational level. In addition, TNK-BP IL's audited financial statements for the years ended 2011, 2010 and 2009 do not necessarily reflect what TNK-BP Limited's financial results and condition may be in the future given the potential acquisition and integration into the Group.

Unaudited pro forma financial information for the acquisition of TNK-BP Limited

The *pro forma* financial information for the year ended 31 December 2011 included in this Base Prospectus has been prepared for illustrative purposes only, in order to show the effect of the probable acquisition by Rosneft of TNK-BP Limited as if it had occurred on 1 January 2011, based on the consolidated financial statements of Rosneft and TNK-BP IL prepared in accordance with US GAAP. The *pro forma* interim financial information for the nine months ended 30 September 2012 included in this Base Prospectus has been prepared for illustrative purposes only to show the effect of the probable acquisition by Rosneft of TNK-BP as if it had occurred on 1 January 2012, for the purposes of the pro forma income statement, and 30 September 2012 for the purposes of the pro forma balance sheet, based on the consolidated financial statements of Rosneft and TNK-BP IL prepared in accordance with IFRS.

The *pro forma* financial information, because of its nature, addresses a hypothetical situation and, therefore, does not reflect the Group's actual financial results had the combination been completed at the dates assumed or any other date and should not be regarded as an indication of the operating results generated by the Group or its future financial results.

Information on TNK-BP Limited

The information on TNK-BP Limited contained in this Base Prospectus has been derived from public sources and material provided by Rosneft in the course of the acquisition process and the publically-available financial statements of TNK-BP IL. As Rosneft has no control over TNK-BP Limited unless and until the completion of the TNK-BP Acquisition, Rosneft has not been able to verify this material independently.

Risks Relating to the Russian Federation

Rosneft's business, and a significant portion of its assets, is located in Russia. There are certain risks associated with an investment in Russia and other emerging markets.

General

Emerging markets, such as the Russian Federation and other countries of the former Soviet Union, are subject to greater risks than more developed markets, including economic, political and social, and legal and legislative risks, and the global financial and economic crisis could have an adverse effect on emerging markets such as Russia and other countries of the former Soviet Union, as well as cause the price of the Notes to suffer

Investors in emerging markets, such as the Russian Federation and other countries of the former Soviet Union (***FSU***), should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant economic, political and social, and legal and legislative risks. Investors should also note that emerging economies are subject to rapid change and that the information set forth herein may become outdated relatively quickly. Moreover, during times of financial crisis companies

operating in emerging markets can face particularly severe liquidity constraints as external funding sources are withdrawn. The risk factors below focus on risks in Russia but many of them are also applicable to other countries of the FSU.

The European sovereign debt crisis of 2011 and 2012 has, so far, had relatively limited impact on the Russian economy since it has not led to significant declines in the prices of Russia's key exports (which are mainly natural resource commodities, including oil and gas) as well as due to Russia's relatively reliable system of public finances including a low debt to GDP ratio, relatively small budget deficit, and a high level of foreign currency reserves. Should the ongoing crisis lead to a significant worsening of the global macroeconomic situation and/or impact commodity prices and global trade flows, Russia's overall economic and financial position in the short and medium term could also be negatively affected.

Incomplete, unreliable or inaccurate official data and statistics could create uncertainty.

The official data published by the Russian federal, regional and local government agencies are less complete or reliable than those of some of the more economically developed countries of North America and Europe. Official statistics may also be produced on different standards than those used in more economically developed countries. Additionally, Rosneft relies on and refers to information from various third party sources and its own internal estimates. Any discussion of matters relating to Russia in this Base Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Political risks

Political and governmental instability could adversely affect the value of investments in Russia, including the Notes

Since 1991, Russia has changed from a one-party state with a centrally planned economy to a federal republic with democratic institutions and a market-oriented economy. However, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian Government, including the prime minister and the other head of federal ministries, has at times been unstable. For example, there were six different prime ministers in the period between March 1998 and May 2008. In addition, the country recently experienced public protests in certain areas of Moscow.

Vladimir Putin was elected president of Russia in March 2000. Since that time, Russia has generally experienced a higher degree of governmental stability. In March 2008, Dmitry Medvedev was elected president of Russia, and Mr. Putin served as his prime minister for his entire administration. In March 2012, Vladimir Putin was re-elected as president and inaugurated 7 May 2012, for a term of six years; Dmitry Medvedev now serves as prime minister.

Future changes in the Russian Government, the State Duma or the presidency, major policy shifts or eventual lack of consensus between the president, the Russian Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally and the Notes in particular, and our prospects could be harmed if there is further governmental instability or if the course of reform policies does not continue.

Emerging markets such as Russia are also subject to heightened volatility based on economic, military and political conflicts. For example, a military conflict in August 2008 between Russian and Georgia involving South Ossetia and Abkhazia resulted in a significant overall price decline for listed Russian securities. The emergence or escalation of any tensions in Russia or with neighbouring countries could negatively affect the economy of Russia. Such tensions or conflicts may lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian securities, with a resulting negative effect on the liquidity, stability and trading price of the Notes and Rosneft's ability to raise debt or equity capital in the international capital markets.

Political, social or military conflicts or instability could create an uncertain operating environment

Political conflicts, social tensions, terrorist attacks, protests or natural disasters could have a material adverse effect on economic confidence and the investment environment in Russia generally, which in turn, could have a material adverse effect on Rosneft's operating results and financial condition.

Economic risks

Economic instability in Russia and other markets in which Rosneft operates could harm Rosneft's business and investment plans

The Russian economy has been subject to other downturns in the past. For example, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its securities, the CBR stopped its support of the rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the difficulties in the Russian banking sector, which impaired the ability of the banking sector to provide sufficient liquidity to Russian companies and resulted in widespread loss of bank deposits. In addition, as Russia's federal budget is, to a great extent, dependent on proceeds from exports of crude oil and other commodities, the Russian economy is poorly protected from fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in the first half of 2008 and have since experienced high levels of volatility. See "*—A substantial or extended decline in crude oil, refined products or petrochemical products prices would have a material adverse effect on Rosneft's operating results and financial condition*".

In late 2008, at the outset of the global economic downturn, the Russian government announced plans to institute more than U.S.$200 billion in emergency financial assistance in order to ease taxes, refinance foreign debt and encourage lending. However, these measures had a limited effect, although there has been some improvement, and the Russian economy has not yet fully recovered from the economic downturn. In the 2008-2009 period, the impact of the global financial and economic crisis on the Russian economy led to, among other things, several suspensions of trading on MICEX and RTS by market regulators, a reduction in Russian GDP and the disposable income of the general population, a severe impact on bank liquidity, a devaluation of the rouble against the U.S. dollar and Euro, a decrease in industrial production and a rise of unemployment. In December 2008, the international credit rating agency Standard & Poor's Financial Services downgraded Russia's foreign currency sovereign credit rating, which reflects an assessment by such agency that there is an increased credit risk that the Russian government may default on its obligations, from BBB+/A-2 to BBB/A-3, in large part due to the impact of the financial and economic crisis that began in the second half of 2008. Moody's Investors Services Limited, another international credit rating agency, changed its outlook to stable from positive on Russia's key ratings in December 2008. In February 2009, Fitch Ratings Ltd downgraded its long-term sovereign rating for the Russian Federation from BBB+/A-2 to BBB/A-3, stating that the lowering of the ratings on Russia reflects risks associated with the reversal in external portfolio and other investment flows, which has increased the cost of external financing. In January 2010 Fitch, however, changed the outlook from negative to stable. In October 2011, Moody's adjusted its ratings outlook for the Russian banking system from "stable" to "negative". The change reflected concerns that market volatility was weakening Russia's operating environment. In January 2012, Fitch revised its outlook for the Russian Federation from positive to stable based on global economic outlook. In March 2012, Fitch announced it may lower the Russian sovereign credit rating if the Russian government does not restrict its budget policy and fails to limit expenditure.

There can be no assurance that a future economic crisis will not have a negative effect on investors' confidence in the Russian markets or economy or the ability of Russian-based groups to raise capital in the international markets, any of which, in turn, could have a material adverse effect on the Russian economy. Any deterioration in the general economic conditions in Russia could adversely influence the level of demand for Rosneft's services, and therefore could have a material adverse effect on Rosneft's operating results and financial condition.

Instability of global financial markets could affect the Russian economy and Rosneft

The financial markets, both globally and in Russia, have faced significant volatility, dislocation and liquidity constraints since the summer of 2008. As a result of these developments, there is an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced, and in some cases, ceased to provide, funding to borrowers, including other financial institutions, which has significantly reduced the liquidity in the global financial system.

Since March 2009, international credit markets have started to improve. However, significant government borrowing to finance recapitalisation of financial and other institutions, as well as substantial fiscal stimulus packages, have led to a deterioration of sovereign credit. As a result, global credit and capital markets continue to be fragile and suffer from occasional crises of confidence, and there can be no assurance that the disruptions in the global capital and credit markets such as, in particular, the Dubai real estate crisis that commenced in November 2009 or the Greek fiscal crisis that started in April 2010 and then flared again in the summer of 2011 and questions regarding the financial stability of other EU nations (particularly Italy, Spain, Ireland and Portugal), could not be amplified or replicated elsewhere on a more significant scale in the near future.

Russia's economy was adversely affected by the global financial and economic crisis in 2008-2009 and could be adversely affected by market downturns and economic crises or slowdowns elsewhere in the world in the future. In particular, the disruptions in the global financial markets have had a severe impact on the liquidity of Russian entities, the availability of credit and the terms and cost of domestic and external funding for Russian entities. This could adversely influence the level of customer demand for various services, including those provided by Rosneft.

These developments, as well as adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment, or a decline in oil, gas or other commodities prices (such as, for example, steel or precious metals) could slow or disrupt the Russian economy and adversely affect Rosneft's business, operating results and financial condition

Fluctuations in the global economy may adversely affect Russia's economy and thus Rosneft's business

Russia produces and exports large quantities of crude oil, natural gas and other mineral resources, which makes the Russian economy particularly vulnerable to fluctuations in the world markets in the prices of commodities (see "*—A substantial or extended decline in crude oil, refined products or petrochemical products prices would have a material adverse effect on Rosneft's business, financial condition and results of operations*."). Russian freight rail volumes are vulnerable to fluctuations in demand for such resources, particularly those related to the metallurgical industry. A sustained decline in the price of, or demand for, certain Russian commodities, or the imposition of restrictions on Russian products by principal export markets, could slow or disrupt the Russian economy and cause freight rail volumes to decline. In addition, instability in other markets (whether developed or emerging), including the instability resulting from a global economic and financial crisis similar to that experienced in 2008-2009, may affect investor sentiment towards Russia. Such developments could affect economic conditions in Russia and could have a material adverse effect on Rosneft's operating results and financial condition.

Inflation could increase Rosneft's cost base

The Russian economy has recently been characterised by high rates of inflation. The rouble inflation rate for the first nine months of 2012 was 5.2 per cent., and the annual rouble inflation rate was 6.1 per cent. in 2011, 8.8 per cent. in 2010 and 8.8 per cent. in 2009, according to Rosstat. Certain of Rosneft's costs, such as maintenance costs, operating lease costs and, in particular, wages, are sensitive to rises in general price levels in Russia. Accordingly if high rates of inflation continue, there can be no assurance that Rosneft will be able to maintain or increase its margins to cover such cost increases, which could have a material adverse effect on Rosneft's operating results and financial condition.

The physical infrastructure in Russia is in poor condition

The physical infrastructure in Russia largely dates back to Soviet times and has not been sufficiently funded and maintained since then. Russia's poor infrastructure disrupts the transportation of goods and supplies as well as communications and adds costs to doing business in Russia. Particularly affected are the rail and road networks, power generation and transmission, communication systems, and building stock. Electricity and heating shortages in some of Russia's regions have seriously disrupted local economies. For example, in May 2005, an electricity blackout affected much of Moscow and some other regions in the central part of Russia for a full day, disrupting normal business activity. Other parts of the country face similar problems. Road conditions throughout Russia are also poor, with many roads not meeting modern quality requirements.

The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt access to communications and add costs to doing business in Russia and interrupt business operations. This could have a material adverse effect on Rosneft's operating results and financial condition.

The Russian banking system remains under developed

Russia's banking system and other financial mechanisms are not well developed, and Russian legislation relating to banks and bank accounts may be subject to varying interpretations and inconsistent application. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April to July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately owned Russian banks experienced liquidity problems and were unable to attract funds on the inter-bank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several privately owned Russian banks collapsed or ceased or severely limited their operations, but Russian banks owned or controlled by the Russian government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil.

Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still lags behind internationally accepted norms in certain respects. Banking supervision is also often inadequate, and, as a result, many Russian banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to determinations of inadequate capital and the insolvency of some banks.

Prior to the global financial and economic crisis in 2008-2009, there had been a rapid increase in lending by Russian banks, which many believe was accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market was leading to Russian banks increasingly holding large amounts of Russian corporate rouble denominated bonds in their portfolios, which further deteriorated the risk profile of Russian bank assets.

The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. There are currently only a limited number of creditworthy Russian banks. Another banking crisis, or the bankruptcy or insolvency of the banks which hold Rosneft's funds, could result in the loss of its income for several days or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on Rosneft's operating results and financial condition. Furthermore, any shortages of funds experienced by Rosneft's banks from time to time could also have a material adverse effect on Rosneft's ability to complete its planned developments or obtain finance required for its planned growth and thus have a material adverse effect on Rosneft's operating results and financial condition.

Legislative and legal risks

The Russian legal system and Russian legislation are at a developmental stage and this may create an uncertain environment for investment and for business activity

The Russian legal framework applicable to a market economy is still under development. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime established by the 1993 Constitution, the Civil Code, other federal laws and decrees, orders and regulations issued by the Russian President, the Russian Government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal standards at times overlap with or contradict one another. Several fundamental Russian laws have only become effective within the past 10 years. The recent nature of much Russian legislation and the rapid evolution of the Russian legal system cast doubt on the enforceability of certain laws and result in ambiguities, inconsistencies in legal interpretations and other anomalies.

In addition, the powers of the various Russian government agencies are not always clearly delineated, which may lead to administrative and/or legal conflicts and challenges to transactions authorised and/or entered into by the relevant agencies with third parties, including in connection with the Notes.

Among the risks of the current Russian legal system are: the limited availability of judicial and administrative guidance on interpreting Russian legislation; gaps in the regulatory structure due to delay or absence of implementing legislation; uncertainties in interpretation of Russian legislation and business and corporate law generally by Russian courts; the difficulty in enforcing court judgments in practice. Any of

these weaknesses, as well as others, could hinder, delay or prevent the ability of investors to have their rights upheld in a Russian court.

All of these weaknesses could affect Rosneft's ability to enforce its legal rights in Russia, including rights under contracts, or to defend against claims by others in Russia, which could have a material adverse effect on Rosneft's operating results and financial condition.

The difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent Rosneft from obtaining redress in court proceedings

The independence of the judicial system and its immunity from economic and political influences in Russia is also developing. The court system is understaffed. Russia is a civil law jurisdiction, and, as such, judicial precedents generally have no binding effect on subsequent decisions and are not recognised as a source of law. However, Plenary Resolutions of the Supreme Arbitrazh Court of the Russian Federation on court practice are mandatory for the arbitrazh courts of the Russian Federation to follow and courts in practice usually consider judicial precedents in their decisions. Enforcement of court judgments can in practice be complicated in Russia.

All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain, which could have a material adverse effect on Rosneft's operating results and financial condition.

The law relating to Russian corporate governance and control is subject to inconsistent application and may be difficult to enforce

Corporate governance standards in Russia and certain other jurisdictions where Rosneft has subsidiaries are not as developed as corporate governance standards in Western European countries or the United States and generally provide less protection for investors. In particular, corporate governance practices in Russia have suffered from a lack of transparency and informational disclosure (both to the public and to shareholders), a lack of independence of directors and insufficient regulatory oversight and protection of shareholders' rights.

In addition, the Russian courts' interpretation of corporate law concepts are at times subject to inconsistent interpretation and application by the courts (see "*—The Russian legal system and Russian legislation are at a developmental stage and this may create an uncertain environment for investment and for business activity*" and "*—The difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent Rosneft from obtaining redress in court proceedings*"). In addition, judgments rendered by a court in any jurisdiction outside Russia will be recognised by courts in Russia only if (i) an international treaty exists between Russia and the country where the judgment was rendered providing for the recognition of judgments in civil cases or (ii) a federal law of Russia providing for the recognition and enforcement of foreign court judgments is adopted. No such federal law has been passed, and no such treaty exists between Russia and the United States or the United Kingdom. As such, Rosneft may not be able to enforce foreign judgments against its Russian subsidiaries. These uncertainties could have a material adverse effect on Rosneft's operating results and financial condition.

Shareholder liability under Russian corporate law could cause Rosneft to become liable for the obligations of its subsidiaries

The Civil Code, Federal Law No. 208-FZ "On Joint Stock Companies" dated 26 December 1995, as amended (the ***Joint Stock Companies Law***), and Federal Law No. 14-FZ "On Limited Liability Companies" dated 8 February 1998, as amended (the ***LLC Law***), provide that shareholders in a Russian joint stock company or participants in a Russian limited liability company generally are not liable for that company's obligations and bear only the risk of loss of their investment. Additional shareholder liability may arise, however, if one person (the ***Effective Parent***) can give binding instructions to another person (the ***Effective Subsidiary***). The Effective Parent bears joint and several liability for transactions concluded by the Effective Subsidiary in carrying out business decisions if:

- The Effective Parent's decision-making capability is provided for in the charter of the Effective Subsidiary or in a contract between the Effective Parent and the Effective Subsidiary; and
- The Effective Parent gives binding directions to the Effective Subsidiary.

Moreover, an Effective Parent is secondarily liable for an Effective Subsidiary's debts if the Effective Subsidiary becomes insolvent or bankrupt as a result of the action or inaction of the Effective Parent. The Effective Parent's liability will be triggered if it has exercised a possibility to give binding instructions to the

Effective Subsidiary knowing that this could result in Effective Subsidiary's insolvency. Similarly, other shareholders of the Effective Subsidiary may claim compensation for the Effective Subsidiary's losses from the Effective Parent that causes the Effective Subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses.

Rosneft could be found to be the Effective Parent of its subsidiaries, in which case it could become liable for their debts, which could have a material adverse effect on Rosneft's operating results and financial condition.

Russian currency regulation has been liberalised but may remain subject to change

In the 1990s, during a time of adverse economic conditions, the Russian currency control regime was severely restricted. At times, a temporary moratorium was imposed on certain hard currency payments and operations. However, there has been a liberalisation of the currency control regime, with the abolishment of certain currency restrictions from 1 January 2007. Notwithstanding this liberalisation, there can be no assurance that future changes to the Russian exchange control regime will not have a negative impact on the development of the Russian capital markets, which could have a material adverse effect on Rosneft's operating results and financial condition.

If the Russian Federal Antimonopoly Service (FAS) were to conclude that Rosneft has conducted its business in contravention of antimonopoly legislation, it could impose administrative sanctions on Rosneft

The oil industry in Russia is subject to strict pricing control by state authorities who, *inter alia*, monitor oil product prices. As a result, unjustified increases in oil product prices can result in complaints to regulatory and control bodies and the commencement by FAS of charges of violating Russian antimonopoly legislation. In the past, FAS has fined Rosneft in connection with charges of abusing dominant market positions. See "*Business—Litigation and Arbitration—Antimonopoly Proceedings*".

Pursuant to Article 5 of the Russian law "On the Protection of Competition", if a business (or several businesses) in a market of certain goods are able to exert a highly significant influence on the general conditions for such goods' circulation and/or remove competitors from the market or impede their access thereto, such business (or several businesses) may be deemed to hold a dominant position. While a business' dominant position in a commodity market does not itself constitute a violation of current Russian legislation, such business' activity is controlled by the antimonopoly authorities. According to FAS decisions, supported by the Presidium of the Supreme Arbitrazh Court of the Russian Federation, Rosneft, jointly with other vertically integrated Russian oil companies, has been recognised to have a collective dominant position on the motor fuel, diesel, aviation fuel and fuel oil (mazut) markets in Russia. Regional branches of FAS have also included certain members of the Group on a list of business entities whose share in the market of certain goods exceeds 35% in certain constituent entities of Russia, a status that imposes restrictions on the Company.

As a result, Rosneft's ability to set prices for its oil products is constrained. Sale prices for oil products must be economically justifiable, consistent with market prices and oil products shall be distributed for all counterparties on an equal basis. Also, Rosneft may not refuse to enter into a supply contract if it is able to produce and supply relevant goods or include in the contract any terms under which a particular counterparty may be placed in an unequal position compared to other businesses (including subsidiaries and dependent companies of Rosneft). The Company must also sell certain quantities of oil products at open commodity exchange auctions; it may not reduce or discontinue production of oil products if there are no technological reasons to do so or remove goods from circulation by discontinuing sales. In addition, the Company may not cooperate with other oil companies in a way that could affect the price of goods and competition levels. Court practice related to challenging FAS decisions, in particular abuses of dominant position in the market by setting high prices and performing concerted actions with other market participants, is varied, but often Russian courts support the position of the antimonopoly authorities.

On 6 January 2012, amendments to the Russian antimonopoly legislation entered into force. These amendments relate, *inter alia*, to the methodology of calculating administrative fines for the violation of antimonopoly legislation. More specifically, the amendments provide that a business abusing its dominant market position, which results in the possible restriction of competition on a particular market is subject to an administrative fine of up to 15% of its revenue derived from the sale of goods on the relevant market. The amendments also provide for certain aggravating and mitigating circumstances which should be taken into account by the antimonopoly authorities in determining the amount of fines, with the base amount of

fine set at 8%. As a result of these amendments, the potential consequences of violating antimonopoly legislation have considerably increased.

In addition, FAS has prepared draft laws "On Market Pricing of Oil and Oil Products" and "On Turnover of Oil and Oil Products in the Russian Federation" that hold other potential risks for Rosneft, including:

- the possible prohibition for businesses having a dominant position on combining wholesale and retail sales of motor fuel;
- the possible prohibition for businesses with more than a 35% market share in motor fuel retail sales market on acquiring or leasing additional filling stations or land plots for the construction of filling stations intended for the retail sale of motor fuel (a market share that Rosneft has in a number of Russian markets);
- the possible requirement on businesses having more than 35% share of the total motor fuel-storage capacity in a regional market to make available to third parties motor fuel storage services on a non-discriminatory basis; and
- the introduction of a methodology for calculating competitive domestic market prices, a deviation from which may be treated by FAS as setting high monopolistic prices. According to the draft law, the new methodology would use comparative foreign market price indices (on an export parity principle), domestic over-the-counter market price indices (based on commodity exchange-registered over-the-counter-transactions, as well as indices regularly published by various research and analytical agencies), and domestic commodity exchange price indices.

Although the draft laws have not yet been submitted to the State Duma for consideration, there is a risk that they ultimately will be adopted. Such draft laws, if implemented, could materially affect the sales of Rosneft's oil products in Russia.

If FAS were to conclude that Rosneft's business had been conducted in a prohibited manner, it could impose administrative sanctions on Rosneft, which could materially adversely affect Rosneft's business. See "*Business—Litigation and Arbitration—Antimonopoly Proceedings"* for information about recent proceedings by the FAS against Rosneft.

Russian tax law and practice are not fully developed and are subject to frequent changes

The Company and the Russian subsidiaries of the Group are subject to a broad range of taxes imposed at the federal, regional and local levels, including but not limited to, corporate income tax, value added tax (***VAT***), MET, property tax, compulsory insurance payments and other taxes.

Laws related to these taxes, such as the Tax Code of the Russian Federation (the ***Tax Code***), have been in force for a short period of time relative to tax laws in more developed market economies. Historically, the system of tax collection in the Russian Federation has been relatively ineffective, resulting in continual changes in the interpretation of the existing laws by various authorities.

Although the Russian Federation's tax climate and the quality of tax legislation have generally improved with the introduction of the Tax Code, the possibility exists that the Government may impose arbitrary or onerous taxes and penalties in the future, which could adversely affect the business of the Company and the Russian subsidiaries of the Group.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax regulations exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and leading to inconsistent enforcement of these regulations in practice. Furthermore, taxpayers, the Ministry of Finance of the Russian Federation and the Russian tax authorities often interpret tax laws differently. Private clarifications to specific taxpayers' queries with respect to particular situations issued by the Ministry of Finance of the Russian Federation are not binding on the Russian tax authorities and there can be no assurance that the Russian tax authorities will not take positions contrary to those set out in the private responses issued by the Ministry of Finance of the Russian Federation. During the past several years the tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax audits of companies operating in various industries, including the financial industry.

In practice, taxpayers often have to resort to court proceedings to defend their position against the tax authorities. Court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

The Russian tax system is, therefore, impeded by the fact that, at times, it still relies heavily on the inconsistent judgments of local tax officials and fails to address many of the existing problems. It is, therefore, possible that transactions and activities of the Company and the Russian subsidiaries of the Group that have not been challenged in the past may be challenged in the future.

In its decision of 25 July 2001, the Russian Constitutional Court introduced the concept of "a taxpayer acting in a bad faith" without clearly stipulating the criteria for its application. Similarly, this concept is not defined in the Russian tax law or other Russian laws. Based on the available practice the tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53, formulating a concept of "unjustified tax benefit", which is defined in the Ruling by reference to specific examples of such tax benefits (e.g., tax benefits obtained as a result of a transaction that has no reasonable business purpose), which may lead to the disallowance of their application. To date, there is little practice on the interpretation and application of this concept by the tax authorities or the courts, but it is apparent that the tax authorities actively seek to apply it when challenging tax positions taken by taxpayers. Although the intention of this Ruling was to combat the abuse of the tax law, based on court cases relating to Ruling No. 53 that have been brought to date, it can be concluded that the tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been initially intended by the Supreme Arbitration Court. Importantly, the Company is aware of cases where this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. To date, however, in many cases where this concept has been applied, the courts have ruled in favour of taxpayers, but there is no assurance that the courts will follow these precedents in the future.

Furthermore, in addition to the usual tax burden imposed on Russian companies, oil companies operating in Russia face an uncertain tax environment which complicates tax planning and related business decisions, as well as certain tax burdens (such as Russian export duties on crude oil and oil products and the MET) which are particular to the industry in which these companies operate and which track fluctuations of the Urals crude oil prices (and therefore increased over the past few years in response to a rise in world prices for crude oil).

Since 1 December 2008, the export duty rate on crude oil is established by the Russian Government every month and based on the average world market price of Urals crude oil over the preceding month. In practice, this procedure of export duty rate determination results in a one-month gap between actual fluctuation of the average crude oil prices and the export duty rate based on those prices. Russian legislation provides only for the maximum export duty rates on crude oil that may be established by the Russian Government, however, principles (formula etc.) of calculation particular rates are not established in normative acts.

As to MET, starting from 2007 the tax rate for particular month is adjusted by coefficient Kc, which is calculated on Urals crude oil prices and average RUB/U.S.$ exchange rate.

Tax declarations together with related documentation are subject to review and investigation by a number of authorities, which are empowered under Russian law to impose fines and penalties on taxpayers. Generally, tax declarations remain subject to inspection by the tax authorities for a period of three years immediately preceding the year in which the decision to conduct a tax audit is taken.

The fact that the tax authorities have reviewed a year does not prevent tax declarations relating to that year from being further reviewed by the tax authorities during the three-year limitation period. In particular, a tax authority higher than the authority that carried out the initial tax audit may re-audit the same period or if a taxpayer submits a revised tax declaration under which the amount of tax to be paid is reduced, a re-audit may be performed.

In addition, on 14 July 2005, the Russian Constitutional Court issued a decision that allows the statute of limitation for tax liabilities to be extended beyond the three year term set forth in the tax laws if a court determines that the taxpayer has obstructed or hindered a tax inspection. The Tax Code provides for the extension of the three-year statute of limitations if the taxpayer actively obstructed the conduct of a tax audit, which created insurmountable obstacles for the tax audit. Because the terms "obstructed", "hindered" and "insurmountable obstacles" are not specifically defined in Russian law, the tax authorities

may attempt to interpret these terms broadly, effectively linking any difficulty experienced in the course of their tax audit with obstruction by the taxpayer, and use that as a basis to seek tax adjustments and penalties beyond the three-year period.

The Group operates in various jurisdictions and includes companies incorporated outside of the Russian Federation. Russian tax laws currently in effect do not provide detailed rules on taxation of foreign companies in the Russian Federation. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities and/or the courts to their interpretation and application, the Group could become subject to additional taxation in the Russian Federation.

These facts create tax risks in the Russian Federation that may be substantially more significant than typically found in countries with more developed tax systems.

Historically, the main Russian entities of the Group have been paying significant amounts of tax due to the scale of their operations. Consequently, the introduction of new taxes or introduction of amendments to the currently effective taxation rules may have a substantial impact on the overall amount of tax liabilities of the respective entities. Although each of the entities concerned undertakes internal procedures aimed at minimising the potential tax risks, while the approach to the management of tax liabilities and tax risks within the Group has been conservative, there is no assurance that the Russian entities of the Group will not be required to make substantially larger tax payments in the future, which may affect the financial results of the Group. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant additional taxes, fines and penalties and enforcement measures, and could adversely affect the Group's business, financial condition and results of operations.

New Russian transfer pricing rules may subject the Group's transfer prices to challenge by the Russian tax authorities

Transfer pricing legislation became effective in Russia on 1 January 1999. This legislation allowed the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of certain types of transactions (***controlled transactions***). There were also special transfer pricing rules for transactions with securities and derivatives. However, Russian transfer pricing rules were not well-developed and there was little guidance and court practice, which left wide room for interpretation by the Russian tax authorities and courts.

Following adoption of Federal Law No 227-FZ dated 18 July 2011, the new Russian transfer pricing rules became effective from 1 January 2012. The new rules are more technically elaborate, detailed and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. According to the new rules, transactions of the companies of the Group may fall into the scope of ''controlled transactions'' if they are performed with Russian related companies (under certain thresholds and conditions), non-Russian related companies (with no thresholds) or non-Russian companies that are resident in certain offshore zones (under certain thresholds).

The amendments have toughened the previous transfer pricing rules considerably, by, among other things, effectively shifting the burden of proving market prices from the tax authorities to the taxpayer and obliging the taxpayer to keep specific documentation.

The introduction of the new transfer pricing rules may increase the risk of transfer pricing adjustments being made by the tax authorities and, therefore, may have a material impact on the Company's business and the results of operations. It will also require the Company to ensure compliance with the new transfer pricing documentation requirements proposed in such rules.

If the consolidated taxation regime is applied in the Russian Federation, tax control over transactions among members of a consolidated group is not exercised. In accordance with supplements to Part One of the Tax Code of the Russian Federation enacted by Federal Law of the Russian Federation No. 321-FZ of 16 November 2011, the Company has established a consolidated group of taxpayers that includes 22 entities of the Group, including the Company. The Company has been appointed the responsible member of the group.

Risks Related to the Issuer, the Notes and the Trading Market

The right of the Issuer to receive payments under the Loans (and therefore its ability to make payments under the corresponding series of the Notes as they fall due) are effectively subordinated to any liabilities of Rosneft's subsidiaries and Rosneft and many of its subsidiaries, as Russian companies, are subject to Russian bankruptcy laws and procedures

Many of the Group's operations are conducted through subsidiaries of Rosneft and to a certain extent, Rosneft depends on the earnings and cash flows of these subsidiaries to meet Rosneft's debt obligations, including Rosneft's obligations under each Loan. In addition, Rosneft's subsidiaries' assets constitute a material part of its operating assets. Finally, Rosneft's subsidiaries have material liabilities, including accounts payable and accrued charges, taxes payable, restructured tax liabilities, other long-term liabilities and provisions for liabilities and charges. Because Rosneft's subsidiaries do not guarantee the payment obligations of Rosneft under each Loan or the Issuer's payment obligations under the Notes, neither the Issuer nor holders of Notes will have any direct claims on Rosneft's subsidiaries' cash flows or assets. In the event of a bankruptcy, liquidation or reorganisation of any of Rosneft's subsidiaries, their creditors will generally be entitled to payment of their claims from the cash flows and assets for those subsidiaries before any cash flows or assets are made available for distribution to Rosneft as a shareholder. This may adversely affect Rosneft's ability to service its payment obligations under the Loan.

The Issuer is a special purpose vehicle and payments under any Series of Notes are limited to amounts of certain payments received under the relevant Loan Agreement

The Issuer is a special purpose vehicle with no business other than issuing notes and advancing loans under a Loan Agreement and has no assets other than such loans. The Issuer is only obliged to make payments under a Series of Notes to the Noteholders in an amount equal to, and in the same currency as, the sum of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer from the Rosneft pursuant to the relevant Loan Agreement. Consequently, if Rosneft fails to meet its payment obligations under the relevant Loan Agreement in full, this will result in the Noteholders of a Series of Notes receiving less than the scheduled amount of principal, interest and additional amounts (if any) on the relevant due date.

Noteholders will not have direct recourse to the Rosneft

Except as otherwise expressly provided in the "Terms and Conditions of the Notes" and in the Trust Deed, the Noteholders will not have any proprietary or other direct interest in the Issuer's rights under or in respect of the relevant Loan Agreement. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the relevant Loan Agreement or have direct recourse to Rosneft except through action by the Trustee under the Charge or Assignment (each as defined in the "Terms and Conditions of the Notes"). In addition, Noteholders should be aware that neither the Issuer nor the Trustee accepts any responsibility for the performance by the Rosneft of its obligations under the relevant Loan Agreement. See "*Terms and Conditions of the Notes — 1. Status*".

The protection afforded by the negative pledge contained in the Terms and Conditions of the Notes is limited, which may adversely affect the value of investments in the Notes

Rosneft has agreed in clause 9.1 of the Facility Agreement (a) not to, and to procure that no Principal Subsidiary (as defined therein) will, create or permit to subsist any Security Interest (as defined therein) other than a Permitted Security Interest (as defined therein) upon or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness (as defined therein) (i) payment of any sum due in respect of any such Relevant Indebtedness; (ii) any payment under any guarantee of any such Relevant Indebtedness; or (iii) any payment under any indemnity or other like obligation relating to any such Relevant Indebtedness and (b) procure that no person gives any guarantee of, or indemnity in respect of, any of the Rosneft's Relevant Indebtedness to the holder thereof (other than a Permitted Security Interest); without in any such case at the same time or prior thereto procuring that the Rosneft's obligations under each Loan Agreement (x) are secured equally and rateably with such Relevant Indebtedness for so long as such Relevant Indebtedness is so secured or (y) have the benefit of such other guarantee, indemnity or other like obligations or such other security (in each case) as the Issuer as lender in its reasonable opinion shall deem to be not materially less beneficial or (z) as shall be approved by an Extraordinary Resolution (as defined in the Principal Trust Deed) of the Noteholders. The application of this negative pledge and the protection that it affords to holders of the Notes is limited. For example, the definition of Relevant Indebtedness is limited to the Group's present or future Indebtedness in the form of, or represented by, notes, debentures,

bonds or other securities (but for the avoidance of doubt, excluding term loans, credit facilities, credit agreements and other similar facilities and evidence of indebtedness under such loans, facilities or agreements) which either are by their terms payable, or confer a right to payment, in any currency, and are for the time being, or ordinarily are quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market. In addition, pursuant to an exemption from the negative pledge, the Group will be permitted to secure an aggregate amount of Relevant Indebtedness not exceeding 20% of Consolidated Assets (as defined in Facility Agreement), without any obligation to afford any equal and rateable security to holders of the Notes. As a result, the Group will be permitted to secure a range of other forms of indebtedness and may also create security in respect of a significant amount of Relevant Indebtedness without, at the same time, being obliged to grant equal and rateable security in respect of the Loans, as the case may be, which may adversely affect the value of the Notes and/or effectively cause holders of Notes to rank in terms of priority behind such secured creditors.

Holders of the Notes may not be adequately protected against corporate restructurings or highly leveraged transactions

The terms of the Notes do not contain provisions that would afford Noteholders protection in the event of a decline in the Group's credit quality resulting from highly leveraged or other similar transactions in which the Group may engage. The Group is also not limited in the amount of other indebtedness or other liabilities that it may incur or securities that it may issue. Holders of the Notes do not have the right to require the Group to repurchase or redeem the Notes in the event of many types of highly leveraged transactions.

The lack of a public market for the Notes could reduce the value of an investment in the Notes

There may not be an existing market for the Notes at the time they are issued and one may never develop. If a market does develop, it may not be liquid, which may have a severely adverse effect on the market value of the Notes. In addition, liquidity may be limited if the Issuer makes large allocations to a limited number of investors. Each Series of Notes is expected to be listed and admitted to trading on the Main Securities Market of the Irish Stock Exchange (or another stock exchange). However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value or that the Notes will remain listed.

An investment in the Notes is subject to ERISA restrictions

A Series of Notes issued under the Programme may be regarded for purposes of the United States Employee Retirement Income Security Act of 1974, as amended (***ERISA***), as equity interests in a separate entity whose sole asset is the Loan corresponding with that Series. Accordingly, the Notes should not be acquired by any "Benefit Plan Investor" within the meaning of Section 3(42) of ERISA (***Benefit Plan Investor***). Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made representations that it is not a Benefit Plan Investor. Potential purchasers should read the sections entitled "*Certain U.S. Employee Benefit Plan Considerations*" *and "Transfer Restrictions*".

Ratings of the Notes may be limited

In general, European-regulated investors are restricted under Regulation (EC) No. 1060/2009 (the "CRA Regulation") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Where a Series of Notes is rated, the rating assigned to the Notes and details of the relevant rating agency will be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to the relevant Series of Notes will be issued by a credit rating agency established in the EU and registered under the CRA Regulation will be disclosed in the Final Terms.

The Company's payments under the Loan and the Issuer's payments under the Notes may be subject to withholding tax

In general, interest payments on borrowed funds made by a Russian legal entity or organisation to a non-resident legal entity or organisation having no permanent establishment in the Russian Federation are subject to Russian withholding tax at a rate of 20 per cent., unless such withholding is reduced or eliminated pursuant to the terms of an applicable double tax treaty.

A Russian legal entity should be released from withholding tax obligation on interest payments made to foreign organisations on debt obligations arising in connection with issuance by foreign organisations of traded bonds under certain conditions established in the Tax Code. The Company believes that it should be released from obligations to withhold Russian withholding tax from interest payments made to the Issuer under the Loan Agreement, provided that the Issuer duly confirms its tax residency, since the Notes meet the conditions established in the Russian Tax Code. Release from the tax agent duty effectively means that, in practice, withholding tax on interest payments should not arise in Russia, because currently there is no mechanism or requirement for non-residents to self-assess and pay the tax. However, there can be no assurance that such rules will not be introduced in the future which may result in the obligation of non-residents to self-assess and pay the tax. For more detail please see "*Taxation*".

If the Notes are simultaneously (i) delisted from the Irish Stock Exchange and (ii) exchanged for duly executed and authenticated registered Notes in definitive form in the limited circumstances specified in the Global Notes, the Company could be required to withhold Russian withholding income tax from interest payments made by the Borrower to the Issuer. In circumstances where payments under the Loan Agreement become payable to the Trustee pursuant to the security arrangements described herein, there is uncertainty if the Borrower will be released from the obligation to withhold the Russian withholding tax from interest payments made to the Trustee. In such a case payments of interest under the Loan Agreement to the Trustee may become subject to the Russian withholding tax at a rate of 20 per cent. or Russian personal income tax at a rate of 30 per cent. (or such other rate as may be effective at the time of payment). It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty under such circumstances. In addition, whilst some Noteholders may be eligible for an exemption from, or a reduction in, the Russian withholding tax under applicable double tax treaties, there is no assurance that in this case the respective treaty relief will be available to them in practice. If interest payments under the Loan are subject to Russian withholding tax (as a result of which the Issuer would reduce payments made under the corresponding Notes by the amount of the tax withheld), the Company will be obliged under the terms of the Loan Agreement to pay such additional amounts as may be necessary to ensure that the net payments received by the Issuer and/or the Noteholders will not be less than the amounts they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging the Company to gross up interest payments under the Loan will be enforceable under Russian law. There is a risk that gross up for withholding tax will not take place and that the interest payments made by the Company under the Loan Agreement will be reduced by the amount of the Russian income tax withheld by the Company at the rate of 20 per cent. (or such other rate as may be in force at the time of payment).

If the Company is obliged to pay additional amounts under the Loan Agreement, it may (without premium or penalty), subject to certain conditions, prepay the relevant Loan in full. In such case, all outstanding Notes would each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of the redemption. See "*Terms and Conditions of the Notes—6. Redemption*".

Payments in respect of the Notes will be made, except in certain limited circumstances, without deduction or withholding for or on account of Irish taxes. However, pursuant to the European tax law, interest on the Notes paid to individuals resident in EU Member States or in certain EU dependent or associated territories and certain non-EU countries (***non-EU countries***) or to certain residual entities as described in the EU Savings Directive on the Taxation of Savings Income in the Form of Interest Payments (Council Directive 2003/48/EC passed on 3 June 2003 and published on 26 June 2003, the ***Savings Directive***) and relating agreements with certain EU dependant and associated territories and certain non-EU countries, may be subject to withholding tax. For further information on this legislation and the applicability of withholding tax to interest payments, see "*Taxation—Ireland*".

Tax might be withheld on dispositions of the Notes in the Russian Federation reducing their value

Where proceeds from disposition of the Notes are received from a source within the Russian Federation by an individual Noteholder that is a non-Russian resident for tax purposes, a personal income tax at a rate of

30 per cent. would apply to the gross proceeds from the disposition of the Notes decreased by any available documented cost deductions (including the acquisition cost of the Notes). Although such tax may be reduced or eliminated under an applicable tax treaty subject to compliance with the treaty clearance formalities, in practice individuals would not be able to obtain advance treaty relief in relation to proceeds from a source within the Russian Federation whilst obtaining a refund of taxes withheld can be extremely difficult, if not impossible. Furthermore, even though the Tax Code is typically interpreted such as only a licensed broker or an asset manager or other party that is a Russian legal entity or an organisation, or any other person, including a foreign company with a separate subdivision in the Russian Federation or an individual entrepreneur registered in the Russian Federation who carry out operations under an asset management agreement, brokerage service agreement, agency agreement, a commission agreement or commercial mandate agreement to withhold the tax from payments associated with disposition of securities made to a non-Russian individual, there is no guarantee that other Russian companies or separate subdivisions of foreign companies in the Russian Federation or an individual entrepreneur located in the Russian Federation would not seek to withhold the tax under these circumstances.

The imposition or possibility of imposition of the withholding tax could adversely affect the value of the Notes. See "*Taxation*".

Further notes of a Series of Notes issued in additional offerings by the Issuer may not be fungible for US federal income tax purposes with the Notes issued in the original offering of that Series of Notes

If the further notes of a Series of Notes are not fungible with the Notes issued in the original offering of that Series of Notes for U.S. tax purposes, U.S. holders of those further notes may be required to accrue original issue discount on the further notes into income whether or not they receive cash payments. Because the further notes may not be distinguishable from the previously outstanding Notes, the market value of all of the Notes may be adversely affected. See "*Taxation—Certain US Federal Income Tax Considerations—Further Issues*".

Payments to certain Noteholders could be subject to withholding tax under the provisions of FATCA if the Issuer becomes subject to FATCA

The "Foreign Account Tax Compliance Act" provisions of the U.S. "Hiring Incentives to Restore Employment Act" (commonly referred to as FATCA) generally will impose new information reporting, withholding and other requirements on certain non-U.S. financial institutions. Non-U.S. financial institutions that do not comply with these requirements generally will be subject to a 30 per cent. withholding tax on certain payments of U.S.-source income, gross proceeds from the sale of certain U.S. assets and certain other payments attributable to U.S. source income or assets.

The Issuer believes that it is not a financial institution for purposes of FATCA. However, the application of FATCA to entities like the Issuer is uncertain, and applicable regulations on FATCA are still in proposed form. If the Issuer were to be treated as a financial institution for purposes of FATCA (or were to become subject to provisions of local law intended to implement an intergovernmental agreement entered into pursuant to FATCA) and were to comply with the information reporting and withholding requirements, after 2016 it could be required to withhold tax from certain payments on Notes to the extent such payments were attributable to U.S. source income or assets. Only holders of Notes that (i) do not provide information required by the Issuer to comply with its obligations under FATCA, (ii) are non-U.S. financial institutions that fail to comply with FATCA or (iii) receive payments on the Notes through financial institutions that do not comply with FATCA, would become subject to this withholding.

If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on the Notes, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax. Further developments on FATCA are anticipated in the future, and prospective investors should consult their advisors about the application of FATCA in their particular circumstance.

Examiners, preferred creditors under Irish law and floating charges may impose additional risks on the Notes

Centre of Main Interest

As the Issuer has its registered office in Ireland, there is a rebuttable presumption that its centre of main interest (***COMI***) is in Ireland and consequently that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice (***ECJ***) in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of 29 May

2000 on Insolvency Proceedings, that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if "factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect". As the Issuer has its registered office in Ireland, has Irish directors, is registered for tax in Ireland and has an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it was asked to make that decision. If the Issuer's COMI is not in Ireland, and is held to be in a different jurisdiction within the European Union, main insolvency proceedings may not be opened in Ireland.

Examinership

Examinership is a court procedure available under the Irish Companies (Amendment) Act 1990, as amended (the ***1990 Act***) to facilitate the survival of Irish companies in financial difficulties.

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances, negative pledges given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the Irish High Court when (i) a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favour of the proposals and (ii) the Irish High Court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and (iii) the proposals are not unfairly prejudicial to any interested party.

The fact that the Issuer is a special purpose entity and that all its liabilities are of a limited recourse nature means that it is unlikely that an examiner would be appointed to the Issuer.

If, however, for any reason, an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

(i) the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and

(ii) a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

Preferred Creditors

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular:

(i) under the terms of the Trust Deed, the Notes will be secured in favour of the Trustee for the benefit of itself and the Noteholders by security over the relevant Loan Agreement and sums held in the related account with the Principal Paying Agent. Under Irish law, the claims of creditors holding fixed charges may rank behind other creditors (namely fees, costs and expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners for PAYE and VAT;

(ii) under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. There is a risk therefore that

even a charge which purports to be taken as a fixed charge, such as the Charge, may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and

(iii) in an insolvency of the Issuer, the claims of certain other creditors (including the Irish Revenue Commissioners for certain unpaid taxes), as well as those of creditors mentioned above, will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges.

FORWARD-LOOKING STATEMENTS

Certain statements in this Base Prospectus are not historical facts and are "forward-looking" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. This Base Prospectus contains certain forward-looking statements in various locations, including, without limitation, under the headings "*Overview of the Group*", "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Business*" (including, but not limited, to the "*Strategy*" section therein). Rosneft may from time to time make written or oral forward-looking statements in reports to its shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to, statements of plans, objectives or goals, including those related to products or services; statements of future economic performance; and statements of assumptions underlying such statements.

Forward-looking statements that may be made from time to time may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

Words such as "*believes*", "*anticipates*", "*expects*", "*estimates*", "*intends*" and "*plans*" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. A number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the prevailing global and domestic economic environment;
- inflation, interest rate and exchange rate fluctuations;
- the prices of crude oil and petroleum products;
- Rosneft's ability to finance its anticipated capital expenditures through the global capital markets, revenue from operations or otherwise;
- the effects of, and changes in, the policies of the Russian Government;
- the inherent uncertainties in estimating Rosneft's reserves of crude oil;
- the effects of competition in the geographic and business areas in which Rosneft conducts operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- Rosneft's ability to increase market share for its products and control expenses;
- acquisitions or divestitures;
- technological changes;
- the effects of international political events on Rosneft's businesses;
- Rosneft's ability to manage operational risks in its crude oil exploration, production and transportation activities and other business operations; and
- Rosneft's success at managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. Prospective investors in the Notes should not place undue reliance on forward-looking statements and investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which Rosneft operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, Rosneft does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise except as otherwise required by applicable law or under the Prospectus Directive and the relevant implementing measures in Ireland. Rosneft does not make any representation, warranty or prediction that the results or events anticipated by such forward-looking statements will be achieved or occur, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

ENFORCEABILITY OF JUDGMENTS

The Company is a joint stock company incorporated under the laws of the Russian Federation, and all, or a substantial portion, of its assets are located outside the United States and the United Kingdom. In addition, all of its directors and executive officers are residents of countries other than the United States and the United Kingdom. The Issuer is a company incorporated in Ireland with limited liability. As a result, it may not be possible for investors, or the Trustee acting on behalf of the Noteholders, to:

- effect service of process within the United Kingdom or the United States upon Rosneft or any such person; and/or
- enforce, in the English or U.S. courts, judgments obtained outside the English or U.S. courts against Rosneft or any such person in any action.

In addition, it may be difficult for the Noteholders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom and the United States, liabilities predicated upon English laws or the U.S. federal securities laws.

Courts in the Russian Federation will generally recognise judgments rendered by a court in any jurisdiction outside the Russian Federation if:

- an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered; or
- a federal law is adopted in the Russian Federation providing for the recognition and enforcement of foreign court judgments.

No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and the United States or the United Kingdom and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognised by a Russian court on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. While Russian courts have recently recognised and enforced English court judgments on these grounds, the existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Russian law. For example, a Russian court may refuse to recognise or enforce a foreign judgment if its recognition or enforcement would contradict Russian public policy.

Each Loan Agreement will be governed by English law and will provide for disputes, controversies and causes of action arising out of or in connection with such Loan Agreement to be referred to and finally resolved by arbitration in accordance with the rules of the LCIA. The Russian Federation is a party to New York Convention. However, it may be difficult to enforce arbitral awards in the Russian Federation due to, *inter alia*:

- the inexperience of the Russian courts in enforcing international commercial arbitral awards;
- official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors; and
- the Russian courts' inability or unwillingness to enforce such orders.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the rules of the LCIA and the application of English law to the Loan Agreements may be limited by the mandatory provisions of Russian law relating to the exclusive jurisdiction of Russian courts and the application of Russian law with respect to bankruptcy, winding up or liquidation of Russian companies. Provisions of Russian substantive and procedural law could change from time to time. Therefore, among other things, other grounds for Russian courts to refuse the recognition and enforcement of foreign court judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign court judgment or arbitral award in the Russian Federation.

SUPPLEMENTAL BASE PROSPECTUS

In connection with any issue of the Notes to be admitted to listing on the Official List and to trading on the Main Securities Market, the Company will, in the event of any significant new factor, material mistake or inaccuracy relating to the information contained in this Base Prospectus, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with such issue of Notes.

If at any time the Issuer shall be required to prepare a supplementary prospectus pursuant to Article 16 of the Prospectus Directive, the Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further Base Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplementary prospectus as required by Article 16 of the Prospectus Directive.

The Company and the Issuer may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the terms and conditions described herein, in which event a Series Prospectus or a supplemental prospectus, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The Company's audited consolidated financial statements as of 31 December 2009, 2010 and 2011 (the ***Annual Financial Statements***) and unaudited interim condensed consolidated financial statements for the nine-month period ended 30 September 2011 and 2012 included in this Base Prospectus (the ***Interim Financial Statements*** and together with the Annual Financial Statements, the ***Financial Statements***) have been prepared in accordance with International Financial Reporting Standards (***IFRS***), except as noted in the audit report of the Company's independent auditors included herein. Starting in 2012, the Company does not publish audited or unaudited interim or year-end consolidated or non-consolidated financial statements prepared in accordance with Generally Accepted Accounting Principles in the United States (***U.S. GAAP***). The 2011 financial statements of TNK-BP, presented in U.S. GAAP, are included in this Base Prospectus for the purpose of the pro forma. The Company's financial statements as of 31 December 2009, 2010 and 2011 have therefore been presented in U.S. GAAP in addition to IFRS to enable comparison with these. TNK-BP's unaudited interim condensed consolidated financial statements for the nine-month period ending 30 September 2012 have been prepared in accordance with IFRS.

Independent Auditors

The Annual Financial Statements and related notes have been audited by Ernst & Young LLC (***Ernst & Young***), independent auditors, of Sadovnicheskaya Nab., 77, Bldg. 1, Moscow 115035, Russia. The Interim Financial Statements and related notes for the nine-month periods ended 30 September 2011 and 2012 are unaudited. Ernst & Young is a member of the Audit Chamber of Russia (***ACR***). ACR is a full member of the International Federation of Accountants.

For information about the independent auditors of the Issuer, see "*The Issuer—Financial Statements*".

Presentation of Reserves

This Base Prospectus contains information concerning Rosneft's crude oil and gas reserves derived from the reserves reports of DeGolyer and MacNaughton (***D&M***), independent reservoir engineers based in Dallas, Texas, dated 31 December 2011. An extract from these reserves reports (such extract, the ***Reserves Reports***) is attached as Annex A to this Base Prospectus. This Base Prospectus and the Reserves Reports present information concerning reserves on the basis of the standards set forth by the Petroleum Resources Management System (***PRMS***) approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers. This Base Prospectus and the Reserves Reports also present information concerning reserves on the basis of the definitions set forth in Securities Exchange Commission (***SEC***) Regulation S-X, Rule 4-10(a). PRMS standards differ in certain material respects from SEC standards. The Reserves Reports cover PRMS standard proved, probable and possible reserves, SEC standard proved reserves (economic lives of fields) and SEC standard proved reserves (duration of licences). This Base Prospectus also contains information concerning Rosneft's hydrocarbon resources derived from D&M's appraisal report, which contains the estimates of onshore prospective resources at 12 out of 31 offshore areas as at 31 December 2011 in accordance with PRMS classification (the ***Resources Reports***). See "*Business—Overview—Strategy*". This Base Prospectus also includes estimates of reserves under the Russian reserves system; this methodology differs materially from both PRMS and SEC standards, in particular with respect to which and the extent to which commercial factors are taken into account in calculating reserves. Reserves that are calculated using different methods cannot be accurately reconciled. For a discussion of these matters, see "*Appendix I: Classification of Reserves and Resources".* Except where otherwise indicated, all reserves information in this Base Prospectus is presented on the basis of PRMS standards. Unaudited supplementary oil and gas disclosure in the Annual Financial Statements is presented on the basis of SEC standards (economic lives of fields).

The SEC permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. This Base Prospectus contains data, such as reserves and resources presented in accordance with PRMS standards and reserves presented in accordance with Russian standards, that the SEC's guidelines would prohibit the Company from including in filings with the SEC. The information on reserves and resources in this Base Prospectus and the Reserves and the Resources Reports is based on economic assumptions that may prove to be incorrect.

Petroleum engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. These estimates necessarily depend upon a number of variable factors and assumptions, many of which are beyond Rosneft's control. Due to the inherent uncertainties and the necessarily limited nature of reservoir data and the inherently imprecise nature of reserves estimates, the reserves amounts disclosed in this Base Prospectus may change as additional information becomes available. Prospective investors should not place undue reliance on the ability of the Reserves Reports to predict actual reserves or on comparisons of similar reports concerning companies established in other economic systems. See "*Appendix I: Classification of Reserves and Resources"* and *"Risk Factors—Crude oil and gas reserves data are only estimates and are inherently uncertain and the actual size of accumulations may differ materially from these estimates".*

This Base Prospectus and, except as noted below, the Reserves Reports present reserves data for both volumes and values:

- for the Company's fully consolidated subsidiaries on a 100%, or gross, basis; and
- for each of the Company's joint ventures accounted for using the equity method or the proportionate consolidation method on a pro-rata, or net, basis in proportion to the Company's economic interest in such joint venture.

However, for the purposes of reporting, certain tables in the Reserves Reports also present information for the Company's joint ventures on a gross basis where Rosneft owns a majority share, through direct ownership or through voting rights.

Unless expressly noted otherwise, this Base Prospectus and the Resources Reports present resource volumes for projects in which Rosneft has an interest on a 100%, or gross, basis, regardless of their actual interest in the project or whether the entity is fully consolidated or accounted for using the equity or proportionate consolidation method.

Reserves and resources data generally do not take into account financing arrangements, including carry arrangements. However, for purposes of determining the present worth of the resources attributable to the Company, these carry arrangements were taken into account.

Reservoir Engineers

The Reserves Reports have been prepared by DeGolyer & MacNaughton, reservoir engineers, of 5001 Spring Valley Road, Suite 800 East, Dallas, Texas 75244, United States of America. D&M has given and not withdrawn its written consent to the inclusion of the Reserves Reports in this Base Prospectus, in the form and context in which they appear.

Presentation of Other Operating and Financial Data

Unless expressly noted otherwise and as discussed below, production data presented in this Base Prospectus includes production data for the Company and its fully consolidated subsidiaries on a 100% basis and the pro-rata share of proportionately consolidated joint ventures.

Production data presented in this Base Prospectus, except in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" includes an 8.00% royalty and a 2.07% Russian government share of the Company's pro-rata share of the production of the proportionately consolidated Sakhalin-1 joint venture. The Company calculates its reserves life and reserves replacement ratios, and determines its production targets, by taking into account not only its consolidated production but also the production of its joint ventures accounted for using the equity method or the proportionate consolidation method on a pro-rata basis in proportion to the Company's economic interest in such joint venture.

Unless expressly noted otherwise, this Base Prospectus presents other operating data, such as data on drilling and wells, on a 100% basis regardless of whether the entity is fully consolidated or accounted for using the equity or proportionate consolidation method. Certain tables in the Reserves Reports also present capital and operating expenditures on a 100% basis regardless of whether the entity is fully consolidated or accounted for using the equity or proportionate consolidation method. The Company calculates its reserves replacement ratio for crude oil by comparing net new proved reserves additions in tonnes to yearly production in tonnes as well as by comparing net new proved reserves additions in barrels to yearly production in barrels. The reserves replacement ratio for crude oil can vary when calculated in tonnes or in barrels, depending, among other things, on the specific density of the crude oil reserves in

place or added compared to that of the crude oil produced. See "*Business—Upstream Operations—Reserves"* and *"Appendix II: Glossary—Certain Terminology*".

Presentation of Certain Other Information

Legal Entities

In this Base Prospectus, all references to:

- the ***Company*** and the ***Borrower*** are to Open Joint Stock Company "Rosneft Oil Company";
- ***Rosneft*** and the ***Group*** are to the Company and its fully consolidated subsidiaries, taken as a whole, and, where the context so requires, its affiliates and joint ventures accounted for using the equity method or the proportionate consolidation method;
- ***AAR*** are to Alfa Group, Access Industries and Rénova Group, collectively;
- ***Achinsk refinery*** are to Open Joint-Stock Company "Achinsk Refinery of Eastern Petroleum Compani";
- ***Angarsk Petrochemical Company*** are to Open Joint Stock Company "Angarsk Petrochemical Company";
- ***Angarsk Polymer Plant*** are to Open Joint Stock Company "Angarsk Polymer Plant";
- ***Arctic Research and Design Center for Offshore Development*** are to Limited Liability Company "Arctic Research and Design Center for Continental Shelf Development";
- ***BP*** are to BP p.l.c.;
- ***Baikalfinancegroup*** are to Limited Liability Company "Baikalfinancegroup";
- ***Caspian Oil Company*** are to Limited Liability Company "Caspian Oil Company";
- ***CNPC*** are to China National Petroleum Company;
- ***Dagneft*** are to Public Joint Stock Company "NC "Rosneft"—Dagneft";
- ***Dagneftegaz*** are to Public Joint Stock Company "Dagneftegaz";
- ***Eni*** are to Eni S.p.A.;
- ***E.ON*** are to E.ON SE (formerly E.ON AG);
- ***ExxonMobil*** are to ExxonMobil Corporation;
- ***Fortum*** are to Fortum Corporation;
- ***Gazprom*** are to Open Joint Stock Company "Gazprom";
- ***Gazprom Neft*** are to Joint Stock Company Gazprom neft;
- ***Grozneftegaz*** are to Public Joint Stock Company "Grozneftegaz";
- ***Itera*** are to Limited Liability Company "Oil and Gas Company ITERA";
- ***Komsomolsk refinery*** are to Open Joint Stock Company "Rosneft-Komsomolsk refinery" prior to 1 October 2006 and to Limited Liability Company "RN-Komsomolskiy NPZ" after 1 October 2006;
- ***Krasnodarneftegaz*** are to Open Joint Stock Company "Rosneft-Krasnodarneftegaz" prior to 1 October 2006 and to Limited Liability Company "RN-Krasnodarneftegaz" after 1 October 2006;
- ***Kuibyshev refinery*** are to Open Joint Stock Company "Kuibyshev Refinery";
- ***Lukoil*** are to Open Joint Stock Company "Oil Company LUKOIL";
- ***National Oil Consortium*** or ***NPC*** are to Limited Liability Company "National Petroleum Consortium";
- ***Nakhodkanefteprodukt*** are to Open Joint Stock Company Rosneft-Nakhodkanefteproduct prior to 1 October 2006 and to Limited Liability Company "RN-Nakhodkanefteproduct" after 1 October 2006;
- ***Neft-Aktiv*** are to Limited Liability Company Oil-Active;
- ***Novokuibyshevsk refinery*** are to Open Joint Stock Company "Novokuibyshevsk Refinery";

- ***Novokuibyshevsk Oils and Additives Plant*** are Limited Liability Company "Novokuibyshevsk Lubes and Additives Plant";
- ***PDVSA*** are to Petróleos de Venezuela, S.A.;
- ***Polar Lights*** are to POLAR LIGHTS COMPANY, OOO;
- ***Purneftegaz*** are to Open Joint Stock Company Rosneft-Purneftegaz prior to 1 October 2006 and to Limited Liability Company "RN-Purneftegaz" after 1 October 2006;
- ***RZD*** are to Joint Stock Company "Russian Railways";
- ***RN-Razvitie*** are to Limited Liability Company "RN-Development";
- ***Rosnefteflot*** are to Joint Stock Company "Rosnefteflot";
- ***ROSNEFTEGAZ*** are to Open Joint Stock Company "ROSNEFTEGAZ";
- ***Sakhalinmorneftegaz*** are to Open Joint Stock Company Sakhalinmorneftegaz prior to 1 October 2006 and to Limited Liability Company "RN-Sakhalinmorneftegaz" after 1 October 2006;
- ***Samaraneftegaz*** are to Open Joint Stock Company "Samaraneftegaz";
- ***Severnaya Neft*** are to Open Joint Stock Company "Severnaya Neft" prior to 1 October 2006 and to Limited Liability Company "RN-Severnaya Neft" after 1 October 2006;
- ***SINOPEC*** are to China Petrochemical Corporation;
- ***Sonatrach*** are to Algerian State Oil Company Sonatrach;
- ***Statoil*** are to Statoil ASA;
- ***Stavropolneftegaz*** are to Open Joint Stock Company "Rosneft-Stavropolneftegaz" prior to 1 October 2006 and to Limited Liability Company "RN-Stavropolneftegaz" after 1 October 2006;
- ***Syzran refinery*** are to Open Joint Stock Company "Syzran Refinery";
- ***Surgutneftegaz*** are to Open Joint Stock Company "Surgutneftegaz";
- ***TNK-BP*** are to TNK-BP International, together with its consolidated subsidiaries;
- ***Tomskneft*** are to Open Joint Stock Company "Tomskneft" VNC;
- ***Transneft*** are to Oil Transporting Joint Stock Company "Transneft";
- ***Tuapse refinery*** are to Open Joint Stock Company "Rosneft-Tuapse refinery" prior to 1 October 2006 and to the Limited Liability Company "RN-Tuapse Oil Refinery" after 1 October 2006;
- ***Tuapsenefteproduct*** are to Open Joint Stock Company "Rosneft-Tuapsenefteproduct" prior to 1 October 2006 and to Limited Liability Company "RN-Tuapsenefteproduct" after 1 October 2006;
- ***Vankorneft*** are to Joint Stock Company "Vankorneft";
- ***Verkhnechonskneftegaz*** are to Joint Stock Company "Vercknechonskneftegas";
- ***VSNK*** are to Joint Stock Company "East-Siberian Oil and Gas Company";
- ***Udmurtneft*** are to Open Joint Stock Company "Udmurtneft";
- ***Yuganskneftegaz*** are to Open Joint Stock Company "Yuganskneftegaz" prior to 1 October 2006 and to Limited Liability Company "RN-Yuganskneftegaz" after 1 October 2006;
- ***Yukos*** are to Yukos Oil Company, which was dissolved on 1 August 2006.

Hydrocarbons

In this Base Prospectus, all references to:

- ***Crude oil*** are to oil and gas condensate; and
- ***Gas*** are to non-associated gas (i.e., natural gas) and associated gas.

Like many other Russian and European oil and gas companies, Rosneft uses the metric tonne as the standard unit of measurement for quantities of crude oil and the cubic metre (as measured under one

atmosphere of pressure at 20° Celsius) as the standard unit of measurement for quantities of gas. For convenience, certain amounts of crude oil volumes have been converted from tonnes to barrels at a rate of 7.315 barrels per tonne of crude oil, reflecting the weighted average density of Rosneft's crude oil as of 31 December 2011. The actual density of field deposits may deviate from this weighted average and actual barrel amounts may vary from this conversion rate. In addition, D&M converts tonnes to barrels at a specific rate for each field, which may differ from 7.315. Where this Base Prospectus quotes amounts of crude oil reserves reported by D&M, Rosneft applies D&M's conversion rates for such amounts.

Gas volumes have been converted from cubic metres to cubic feet at a rate of 35.3 cubic feet per cubic metre, except where D&M has originally reported volumes in cubic feet. Certain amounts of gas volumes have been converted from cubic feet to barrels of oil equivalent at a rate of 6,000 cubic feet per barrel of oil equivalent.

Certain technical terms used in this Base Prospectus are defined under "*Appendix II: Glossary—Certain Terminology.*"

Certain Abbreviations and Related Terms

Bbl	Barrel.
Boe	Barrels of oil equivalent.
Bcm	Billion cubic metres.
Km	Kilometre.
Mln	Million
Bln	Billion
sq. km	Square kilometre
Mmbbl	Millions of barrels.
Mmboe	Millions of barrels of oil equivalent.
Mmtonnes	Million tonnes
One billion	One thousand million.

Conversion Rates for Oil

Barrels (bbl)	Barrels of oil equivalent (boe)	Tonnes of oil
7.315	7.315	1.000

(1) This conversion can range from 6.5 to 7.9 depending on the type of crude oil. This factor is intended to provide an approximation that can be used when the exact factor is unknown.

Conversion Rates for Natural Gas

m3	Barrels of oil equivalent
1,000.000	5.883

Certain Currencies

In this Base Prospectus, all references to:

- ***EUR*** and ***euro*** are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European community, as amended;
- ***RUB*** and ***rouble*** are to the currency of the Russian Federation; and
- ***U.S.$***, ***U.S. dollar***, ***dollar*** and ***$*** are to the currency of the United States of America.

Certain Jurisdictions

In this Base Prospectus, all references to:

- ***Algeria*** are to the Republic of Algeria;
- ***China*** are to the People's Republic of China;

- ***CIS*** are to the Commonwealth of Independent States and its member states as of the date of this Base Prospectus;
- ***Customs Union*** refers to the customs union established by Belarus, Kazakhstan and Russia;
- ***E.U.*** and ***European Union*** are to the European Union and its member states as of the date of this Base Prospectus;
- ***Ireland*** are to the Republic of Ireland;
- ***Kazakhstan*** are to the Republic of Kazakhstan;
- ***Russia*** are to the Russian Federation;
- ***Singapore*** are to the Republic of Singapore;
- ***U.A.E.*** and ***UAE*** are to United Arab Emirates;
- ***U.K.*** and ***United Kingdom*** are to the United Kingdom of Great Britain and Northern Ireland;
- ***U.S.S.R.*** are to the former Union of Soviet Socialist Republics, which was formally dissolved in December 1991;
- ***United States***, ***U.S.A.*** and ***U.S.*** are to the United States of America; and
- ***Venezuela*** are to the Bolivarian Republic of Venezuela.

Rounding

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

OVERVIEW OF THE PROGRAMME

The following overview contains basic information about the Notes and Loans and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "Facility Agreement" and "Terms and Conditions of the Notes" appearing elsewhere in this Base Prospectus. The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this document and, in relation to the terms and conditions of any particular Series of Notes, the applicable Final Terms. Words and expressions defined in "Terms and Conditions of the Notes" below shall have the same meanings in the following overview.

Summary of Loans under the Programme

Each transaction will be structured as a Loan to the Company by the Issuer of a sum equivalent to the gross proceeds of an issue of the relevant Series. The Issuer will issue Notes to Noteholders for the sole purpose of funding such Loan (and such Loan will in effect provide 100% collateralisation on the relevant Issue Date) for such Notes. Each Series will be constituted by a supplemental trust deed which is supplemental to a principal trust deed dated 28 November 2012 as amended, supplemented and replaced from time to time (together, the ***Trust Deed***), each entered into between the Issuer and Deutsche Trustee Company Limited (the ***Trustee***). Pursuant to the Trust Deed, the Issuer will: (i) charge as security certain of its rights and interests under such Loan to the Trustee for the benefit of the Noteholders of the corresponding Series of Notes; and (ii) assign its rights under the relevant Loan Agreement to the Trustee as security (other than certain Reserved Rights, as defined in the Trust Deed) (together, the ***Security Interests***) for its payment obligations in respect of such Series of Notes. As a consequence of the assignment of the rights under the relevant Loan Agreement, the Trustee shall assume the rights of the Issuer (other than certain Reserved Rights, as defined in the Trust Deed) as set out in the relevant provisions of the Trust Deed. If and when the charge of certain of the Issuer's rights and interests under any Loan is enforced, the Trustee will assume the rights of the Issuer under such Loan as set out in the relevant provisions of the Trust Deed, and the Trustee will assume certain rights and obligations towards the Noteholders, as more fully set out in the Trust Deed.

Each Series of Notes will be issued on a limited recourse basis and the Issuer will not have any obligations to the Noteholders of such Series of Notes save for to account to the Noteholders of the relevant Series for amounts equivalent to the amounts of payments of principal and interest received by the Issuer under the corresponding Loan (after deduction or withholding of such taxes or duties as may be required to be made by the Issuer by law in respect of or in relation to such sum or in respect of the Notes and for which the Issuer has not received a corresponding additional payment from the Company (also after deduction or withholding of such taxes or duties as may be required to be made by the Issuer in respect thereof) pursuant to the corresponding Loan) if and to the extent received by it from the Company. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered pursuant to the corresponding Loan, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts. The Issuer will have no other financial obligations under the relevant Series of Notes and no assets of the Issuer (including the Issuer's rights with respect to any Loan relating to any other Series of Notes) will be available to such Noteholders.

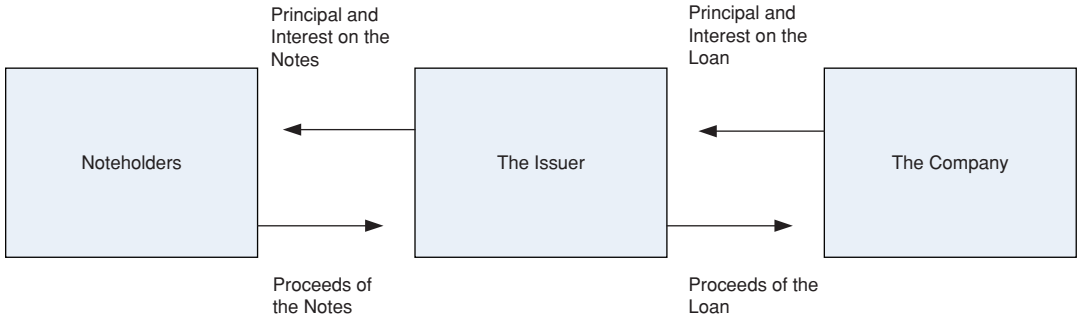
The Issuer will agree in the Trust Deed not to agree to any amendments to or modification or waiver of, and not to authorise any breach of, the relevant Loan Agreement unless the Trustee has given its prior written consent. The Issuer will agree to act at all times in accordance with any instructions of the Trustee with respect to the relevant Loan Agreement, except as provided in the Trust Deed and except in respect of Reserved Rights (as defined in the Trust Deed). The Issuer will notify the relevant Noteholders of any amendments, modifications, waivers or authorisations made with the Trustee's consent in accordance with the Terms and Conditions of the relevant Notes, which amendments, modifications, waivers or authorisations will be binding on the Noteholders. The Issuer does not intend to provide post-issuance transaction information regarding the Notes or the performance of each Loan.

Payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes, except as required by law. If any deduction or withholding is required by law, the Issuer must, except in certain limited circumstances, pay additional amounts to the extent it receives corresponding amounts from the Company pursuant to the relevant Loan Agreement. In addition, payments under each Loan Agreement will be made without deduction or withholding for or on account of taxes, except as required by law. If any deduction or withholding is required by law with respect to payments under the Notes or the

corresponding Loan Agreement, the Company must, except in certain limited circumstances, increase the amounts payable under such Loan Agreement by an amount equivalent to the required tax payment.

The Company may prepay each Loan at its principal amount, together with accrued and unpaid interest and additional amounts, if any, if (i) the Company is required to increase the amount payable or to pay additional amounts on account of the taxes in respect of which it is required to pay additional amounts under the relevant Loan Agreement or (ii) if it is required to pay additional amounts on account of certain costs incurred by the Issuer or (iii) if it becomes unlawful for the Issuer to allow the relevant Loan or the corresponding Notes to remain outstanding. Each Loan has characteristics that demonstrate a capacity to produce funds to service any payments due and payable on the corresponding Notes.

Set forth below is a diagram of the structure for the Notes and the Loans:



Notes to be issued under the Programme and the corresponding Loans

Issuer:	Rosneft International Finance Limited, a company incorporated in Ireland with limited liability with its registered office at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland.
Company:	"Rosneft Oil Company" established under the laws of the Russian Federation with its registered office at 26/1 Sofiyskaya Embankment, Moscow, 115035 Moscow, Russian Federation.
Description:	Programme for the Issuance of Loan Participation Notes with limited recourse pursuant to which the Issuer may issue loan participation notes (the ***Notes***).
Programme Size:	Up to U.S.$10,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. The Company may increase the amount of the Programme in accordance with the Dealer Agreement (as defined herein). For the purpose of calculating the aggregate principal amount of Notes outstanding, the premium of Notes issued at a premium shall be added to their principal amount.
Arrangers:	Barclays Bank PLC, Citigroup Global Markets Limited, J.P. Morgan Securities plc and VTB Capital plc.
Permanent Dealers	Barclays Bank PLC, Citigroup Global Markets Limited, Deutsche Bank AG, J.P. Morgan Securities plc, Merrill Lynch International, Morgan Stanley & Co and VTB Capital plc.
Dealers:	The Permanent Dealers and any dealer appointed by the Company and the Issuer pursuant to the Dealer Agreement as a dealer under the Programme in respect of a Series of Notes. The Dealers in respect of a Series of Notes will be specified in the Final Terms, or Series Prospectus, as the case may be, relating to such Series of Notes.
Trustee:	Deutsche Trustee Company Limited.
Principal Paying Agent:	Deutsche Bank AG, London Branch, unless an alternative principal paying agent is appointed in respect of a Series of Notes. References in this Base Prospectus to "Principal Paying Agent" are to Deutsche Bank

	AG, London Branch or such other alternative principal paying agent, as the case may be.
Registrars:	Deutsche Bank Luxembourg S.A. in respect of the Regulation S Notes and Deutsche Bank Trust Company Americas in relation to Notes sold pursuant to Rule 144A, unless an alternative registrar is appointed in respect of a Series of Notes. References in this Base Prospectus to ***Registrar*** are to Deutsche Bank Luxembourg S.A. and Deutsche Bank Trust Company Americas, or such other alternative registrar, as the case may be.
Paying Agents:	Deutsche Bank AG, London Branch, and, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless another paying agent is appointed in respect of a Series of Notes. References in this Base Prospectus to ***Paying Agents*** are to Deutsche Bank AG, London Branch and Deutsche Bank Trust Company Americas in relation to Notes sold pursuant to Rule 144A, or such alternative paying agent, as the case may be.
Transfer Agents:	Deutsche Bank Luxembourg S.A. in respect of the Regulation S Notes and, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless another transfer agent is appointed in respect of a Series of Notes. References in this Base Prospectus to ***Transfer Agents*** are to Deutsche Bank Luxembourg S.A. and Deutsche Bank Trust Company Americas in relation to Notes sold pursuant to Rule 144A or such alternative transfer agent, as the case may be.
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a ***Series***) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be completed in Final Terms which shall complete the Terms and Conditions of the Notes or a Series Prospectus, which shall either complete or restate the Terms and Conditions of the Notes, as the case may be.
Issue Price of Notes:	Notes may be issued at their principal amount or at a discount or premium to their principal amount.
Status of the Notes:	Each Series of Notes will constitute limited recourse secured obligations of the Issuer to apply the proceeds from the issue of the Notes solely for financing the corresponding Loan and to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to such Loan, less any amounts in respect of the Reserved Rights, all as more fully described in "*Terms and Conditions of the Notes—1. Status*".
Ranking of the Loans:	None of the Loans will be secured by any collateral. Each Loan will rank equal in right of payment with other outstanding and unsecured indebtedness of the Company but will effectively rank below all of the Company's secured debt and the debt and other liabilities of the Company's subsidiaries.
Security:	The Issuer's payment obligations in respect of each Series of Notes will be secured by a first fixed charge on: • all principal, interest and other amounts payable by the Company to the Issuer as lender under the relevant Loan Agreement and the right to receive all sums payable by the Company under any claim, award or judgment relating to such Loan Agreement, in each case

other than the Reserved Rights and any amounts in respect of the Reserved Rights; and

- all of the Issuer's rights, title and interest in and to all sums of money held from time to time in an account specified in respect of a particular Series of Notes, as the case may be, together with the debts represented thereby (including interest from time to time earned thereon) pursuant to the Trust Deed, in each case, other than the Reserved Rights and any amounts in respect of the Reserved Rights.

Assignment of Rights: The Issuer with full title guarantee will assign absolutely its rights under the relevant Loan Agreement (save for those rights charged or excluded from the security described above) to the Trustee upon the closing of the offering of the corresponding Series of Notes.

Form of the Notes: The Notes will be issued in registered form. Each Series of Notes will be represented by a global unrestricted Note (each, a ***Regulation S Global Note***) and, in the case of Rule 144A Notes, one or more global restricted Notes (each, a ***Rule 144A Global Note*** and, together with any Regulation S Global Notes, the ***Global Notes***). Global Notes will be exchangeable for Notes in definitive form in the limited circumstances specified in the Global Notes.

Clearing Systems: DTC (in the case of Rule 144A Notes), Clearstream, Luxembourg and Euroclear and, in relation to any Series, such other clearing system as may be agreed between the Issuer, the Company, the Principal Paying Agent, the Registrar, the Trustee and the relevant Dealer(s).

Initial Delivery of Notes: On or before the Issue Date for each Series, the Regulation S Global Notes shall be deposited with Deutsche Bank AG, London Branch as a common depositary for Euroclear and Clearstream, Luxembourg and the Rule 144A Global Notes, if any, will be deposited with Deutsche Bank Trust Company Americas as custodian for DTC. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Company, the Paying Agent, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Currencies: Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Company and the relevant Dealers.

Maturities: Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Company and the relevant Dealers.

Where the Issuer wishes to issue Notes with a maturity of less than one year, it shall ensure that the Notes are issued in full compliance with the conditions set out in Notice BSD C 01/02 dated 12 November 2002 (as amended from time to time) issued by the Central Bank pursuant to section 8(2) of the Central Bank Act, 1971 (as amended) of Ireland, including that the Notes comply with, *inter alia*, the following criteria:

(i) at the time of issue, the Notes must be backed by assets to at least 100 per cent. of the value of the Notes issued;

(ii) at the time of issue, the Notes must be rated at least investment grade by one or more recognised rating agencies;

(iii) the Notes must be issued and transferable in minimum denominations of €300,000 or the foreign currency equivalent;

(iv) the Notes carry the title "Commercial Paper" (unless constituted under the laws of a country other than Ireland and, under those laws, the commercial paper carries a different title in which case it must carry such title) and must identify the issuer by name;

(v) it must be stated explicitly on the face of the Notes and, where applicable, in the contract between the Issuer and the initial investor in the Notes that they are issued in accordance with an exemption granted by the Central Bank under Section 8(2) of the Central Bank Act, 1971, inserted by Section 31 of the Central Bank Act, 1989, as amended by Section 70(d) of the Central Bank Act, 1997 each amended by the Central Bank and Financial Services Authority of Ireland Act, 2004; and

(vi) it must be stated explicitly on the face of the Notes and, where applicable, in the contract between the Issuer and the initial investor in the Notes that the investment does not have the status of a bank deposit, is not within the scope of the Deposit Protection Scheme operated by the Central Bank and that the Issuer is not regulated by the Central Bank arising from the issue of the Notes.

Specified Denomination: Notes will be in such denominations as may be specified in the relevant Final Terms, or the Series Prospectus, as the case may be, save that unless otherwise permitted by the then current laws and regulations (i) Notes which have a maturity of less than one year will have a minimum denomination of €300,000 (or its equivalent in other currencies); (ii) Notes resold pursuant to Rule 144A Notes will be issued in denominations of U.S.$200,000 or its equivalent in other currencies rounded upwards as agreed between the Issuer, Company and the relevant Dealer(s) and integral multiples of U.S.$1,000 in excess thereof; and (iii) the minimum denomination of any Notes shall in any event be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

Rate of Interest: The Notes may be issued on a fixed rate or floating rate basis.

Fixed Rate Notes: Fixed interest will be payable in arrears on the date or dates in each year specified in the relevant Final Terms, or the Series Prospectus, as the case may be.

Floating Rate Notes: Floating Rate Notes will bear interest determined separately for each Series and corresponding Loan as follows:

(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or

(ii) by reference to LIBOR or EURIBOR as adjusted for any applicable margin.

Interest Periods and Interest Rates: The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms, or Series Prospectus, as the case may be.

Redemption:	The relevant Final Terms, or Series Prospectus, as the case may be, will specify the basis for calculating the redemption amounts payable and whether there will be any put or call options in respect of the Notes. Unless permitted by then current laws and regulations, and in any event subject to the restrictions set out in "Specified Denominations" and "Maturities" above, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Issuer's Restrictions and Covenants:	So long as any Note remains outstanding, the Issuer will not, without the consent of the Trustee, among other things, incur any other indebtedness for borrowed moneys (other than issuing loan participation notes for the purposes of making loans to the Company and entering into derivative transactions relating thereto), or enter into other transactions or engage in any business (other than entering into limited recourse debt securities programmes and other limited recourse debt securities issues for the benefit of the Company and other than transactions contemplated by this Base Prospectus and the Trust Deed), declare any dividends or have any subsidiaries. See "*Terms and Conditions of the Notes—4. Restrictive Covenants*".
Optional Redemption by the Noteholders upon a Change of Control:	Upon the occurrence of a Change of Control (as defined in the Loan Agreement) the Notes may be redeemed at the option of a Noteholder at their principal amount together with accrued and unpaid interest, if any, as more fully described in the "*Facility Agreement*" and "*Terms and Conditions of the Notes*".
Withholding Tax and Increased Costs:	If any payments to be made by the Issuer under any Notes become subject to any withholding tax imposed by Ireland or any taxing authority thereof, the Issuer will be required (subject to certain customary exemptions and subject to receiving funds from the Company in respect thereof) to pay an additional amount to compensate Noteholders for any amounts so withheld. If any payments to be made by the Company under a Loan Agreement become subject to any withholding tax imposed by the Russian Federation or Ireland (or following the enforcement of the security created in the Trust Deed, the then jurisdiction of the Trustee) or any taxing authority thereof, or certain other circumstances result in the Issuer incurring any increased costs associated with the corresponding Loan, the Company will be required to pay an additional amount necessary to compensate the Issuer for the tax withheld or the increased cost to the Issuer.
Early Redemption for Taxation Reasons:	If the Company is required to pay additional amounts under a Loan Agreement as described above, it will have the right to prepay the corresponding Loan, upon not less than 10 days' notice to the Issuer, in whole (but not in part) at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of repayment at any time. In such circumstances, the Issuer will be required to redeem the Notes corresponding to such Loan, at their principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of such redemption.
Mandatory Redemption:	If it becomes unlawful for the Issuer to fund a Loan or allow such Loan to remain outstanding under the relevant Loan Agreement or allow the corresponding Notes to remain outstanding, as more fully described in the Loan Agreement, the Loan is to be repaid in full, at the principal amount thereof, together with accrued and unpaid interest and

	additional amounts, if any, to the date of repayment. In such circumstances, the Issuer will be required to redeem the Notes corresponding to such Loan, at their principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of such redemption.
Relevant Events:	In the case of certain events (as defined in the Trust Deed) in relation to the Issuer, the Trustee may, subject as provided in the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.
Certain Restrictions and Covenants:	The Issuer will have the benefit of certain covenants made by the Company, including a negative pledge and restrictions on mergers and disposals, all as fully described in the relevant Loan Agreement. See "*Facility Agreement*".
Events of Default:	In the case of an Event of Default (as defined in the relevant Loan Agreement), the Trustee may, subject as provided in the Trust Deed, require the Issuer to declare all amounts payable under the relevant Loan Agreement by the Company to be due and payable.
Use of Proceeds of the Notes and the Loans:	The Issuer will lend the gross proceeds of the offering of each Series of Notes to the Company. Except as otherwise specified in the relevant Final Terms, or the Series Prospectus, as the case may be, the Company intends to use the proceeds, less any commission or expenses payable by it in connection with the relevant Series and the corresponding Loan, from such offering for general corporate purposes.
Further Issues:	The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes and such further Notes shall further be consolidated and form a single Series with such existing Notes of the same Series.
Listing and Admission to Trading:	Application will be made, where specified in the relevant Final Terms, or the Series Prospectus, as the case may be, for a Series of Notes to be listed on the Official List of the Irish Stock Exchange and to admit them to trading on the Main Securities Market or such other stock exchange as shall be specified in the relevant Final Terms, or the Series Prospectus, as the case may be, or the Series of Notes will remain unlisted.
Rating:	As of the date of this Base Prospectus, the Company had a long-term corporate rating of Baa1 from Moody's, a long-term corporate rating of BBB- from Standard & Poor's and long-term rating of BBB from Fitch. Moody's, Standard & Poor's and Fitch are established in the EU and registered under the CRA Regulation. As such, Moody's Standard & Poor's and Fitch are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A Series of Notes issued under the Programme may be rated or unrated. If a Series of Notes is rated, such rating will be specified in the relevant Final Terms, or the Series Prospectus, as the case may be. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the

	marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Company could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Governing Law:	The Notes and the Loans, and any non-contractual obligations arising out of or in connection with them, will be governed by English law.
Selling Restrictions:	Ireland, United Kingdom, United States, Russian Federation and any other jurisdiction relevant to any Series. See "*Subscription and Sale*".
ERISA Considerations:	Notes may not be acquired by any "Benefit Plan Investor" within the meaning of Section 3(42) of ERISA. Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made certain representations as to its status under ERISA. Potential purchasers should read the sections entitled "*Certain ERISA Considerations*" and "*Transfer Restrictions*".

USE OF PROCEEDS

The gross proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to the Company. Except as otherwise specified in the relevant Final Terms, or the Series Prospectus, as the case may be, the proceeds of such Loan, less any commissions or expenses payable by the Company in connection with such Series and the corresponding Loan, will be used for general corporate purposes.

EXCHANGE RATE INFORMATION

The official currency of Russia, where most of Rosneft's assets and operations are located, is the rouble. However, because much of Rosneft's revenues and indebtedness, as well as certain capital and operating expenditures, are either dollar-denominated or otherwise priced or measured in U.S. dollars, fluctuations in the value of the rouble against the U.S. dollar may affect the results set forth in the Financial Statements. See "*Risk Factors—Risks Relating to Russia—Rosneft faces foreign exchange and inflation risks that could materially adversely affect its operating results and financial condition*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—U.S.$/RUB Exchange Rate and Inflation*".

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR. Fluctuations in the exchange rate between the rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Financial Statements and other information presented in this Base Prospectus.

	RUB per U.S.$1.00			
	High	Low	Period average[1]	Period end
Year ended 31 December				
2011	32.6799	27.2625	29.3874	32.1961
2010	31.7798	28.9310	30.3692	30.4769
2009	36.4267	28.6701	31.7231	30.2442
2008	29.3804	23.1255	24.8450	29.3804
2007	26.5770	24.2649	25.5770	24.5462
2006	28.7825	26.1840	27.1852	26.3311
Month ended				
31 October 2012	31.5252	30.7195	31.1157	31.5252
30 September 2012	32.5669	30.5867	31.5307	30.9169
31 August 2012	32.5361	31.4807	31.9738	32.2934
31 July 2012	32.9907	31.9509	32.5018	32.1881
30 June 2012	34.0395	32.1315	32.9169	32.8169
31 May 2012	32.4509	29.3627	30.6620	32.4509
30 April 2012	29.8033	29.2770	29.4745	29.3627
28 November 2012	31.7184	30.9410	31.4304	30.9410

(1) The average of the exchange rates on the last business day of each month for the relevant year and on each business day for which the CBR quotes the rouble to U.S. dollar exchange rate for the relevant month.

Solely for the convenience of the reader, and except as otherwise stated, this Base Prospectus contains translations of some rouble amounts into U.S. dollars at a conversion rate of RUB 31.4373 to U.S.$1.00, which was the rate published by the CBR on 30 October 2012. A market exists within Russia for the conversion of roubles into other currencies, but the limited availability of other currencies may inflate their value relative to the rouble. No representation is made that the rouble or dollar amounts referred to herein could have been or could be converted into roubles or dollars, as the case may be, at these rates, at any particular rate or at all. See "*Risk Factors—Risks Relating to Russia—Rosneft faces foreign exchange and inflation risks that could materially adversely affect its operating results and financial condition*" for a description of Russian currency exchange controls. **The exchange rate between the rouble and the U.S. dollar has fluctuated during the periods covered by the Financial Statements. The CBR rate on 28 November 2012 was RUB 30.9410 = USD 1.00**.

CAPITALISATION

The following table shows on a consolidated basis Rosneft's cash, cash equivalents and short-term investments and capitalisation[1] as of 30 September 2012. Prospective investors should read this table in conjunction with "*Selected Consolidated Financial Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Financial Statements and their accompanying notes, which are included in this Base Prospectus beginning on page F-1.

The table above does not reflect any events that have taken place after 30 September 2012. Other than as noted below, there have been no material changes in the capitalisation of Rosneft since 30 September 2012.

	As of 30 September 2012
	RUB million
Cash, cash equivalents and short-term investments	240
Short-term debt	
Bank loans and Other Borrowings	72
Financial lease liabilities	3
Current portion of long-term debt	43
Total short-term debt, financial lease and current portion of long-term debt	118
Long-term debt	
Bank loans and Other borrowings	812
Financial lease liabilities	9
Less current portion of debt	(43)
Total long-term debt and financial lease, net of current portion	778
Non-controlling interest	36
Shareholders' equity	
Share capital	1
Treasury Shares	(292)
Additional paid-in capital	385
Retained earnings	2,129
Other reserves	(3)
Total shareholders' equity	2,220
Total capitalisation[1]	3,034

(1) Total capitalisation is the sum of long-term debt and financial lease, net of current portion, minority interest and total shareholders' equity.

There have been no material changes in the capitalisation of the Group since 30 September 2012.

(1) Total capitalisation is the sum of long-term debt, net of current portion, minority interest and total shareholders' equity.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The financial data set out below as of and for the years ended 31 December 2011, 2010 and 2009 have been derived from the Annual Financial Statements. The financial data set out below as of and for the nine months ending 30 September 2012 and 2011 have been derived from the Interim Financial Statements. The Annual Financial Statements are prepared in accordance with IFRS, except as noted in the audit report of the Company's independent auditors included herein. Rosneft's functional and reporting currency is the Russian rouble for IFRS purposes. The Interim Financial Statements reflect all normal and recurring adjustments that are necessary for a fair presentation of the financial position and results of operations for the interim periods presented. Results of operations for the nine-month period ended 30 September 2012 are not necessarily indicative of results for the full year ending 31 December 2012 or for any other interim period or for any future fiscal year.

The financial data set out below should be read in conjunction with, and are qualified in their entirety by reference to, the Financial Statements included in this Base Prospectus and their accompanying notes, *"Management's Discussion and Analysis of Financial Condition and Results of Operations"*, *"Business"* and *"Use of Proceeds"*.

Consolidated Balance Sheet Data

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
	RUB billion				
ASSETS					
Current assets:					
Cash, cash equivalents and short-term investments	240	127	166	127	60
Restricted cash	4	4	4	1	1
Financial assets	102	176	150	211	76
Accounts receivable, net of allowance of RUB 5, RUB 4, RUB 5, RUB 4 and RUB 3, respectively	251	248	217	155	120
Inventories	140	117	126	65	56
Prepayments and other current assets	164	108	152	137	137
Total current assets	901	780	815	696	450
Non-current assets:					
Property, plant and equipment	2,399	2,164	2,231	2,051	1,983
Intangible assets	21	20	22	23	24
Financial assets	29	31	34	28	47
Investments in associates and joint ventures	261	115	114	63	68
Bank loans granted, net of allowance of RUB 1.0, RUB 1.1, RUB 1.0, RUB 0.4 and RUB 0.5, respectively	14	12	13	9	10
Deferred tax assets	16	14	13	9	10
Goodwill	134	132	132	132	132
Other non-current non-financial assets	4	4	3	2	1
Total non-current assets	2,878	2,492	2,562	2,317	2,275
Assets held for sale	4	—	—	2	—
TOTAL ASSETS	3,783	3,272	3,377	3,015	2,725

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
	RUB billion				
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities:					
Accounts payable and accrued liabilities	228	174	181	113	104
Loans and borrowings	115	158	152	167	237
Finance lease liabilities	3	1	1	1	1
Liabilities related to derivative instruments	2	6	4	6	5
Income tax liabilities	14	7	3	6	4
Other tax liabilities	81	81	66	53	45
Provisions	4	5	6	5	8
Other current liabilities	1	1	1	1	1
Total current liabilities	448	433	414	352	405
Non-current liabilities:					
Loans and borrowings	769	524	596	549	472
Finance lease liabilities	9	5	5	3	3
Deferred tax liabilities	248	231	234	240	268
Provisions	52	60	57	47	21
Other non-current liabilities	1	10	2	32	41
Total non-current liabilities	1,079	830	894	871	805
Liabilities related to assets held for sale	—	—	—	1	—
Equity:					
Share capital	1	1	1	1	1
Treasury shares	(292)	(224)	(224)	(221)	(221)
Additional shares	385	397	386	396	396
Other reserves	(3)	(3)	(5)	(5)	(2)
Retained earnings	2,129	1,806	1,877	1,588	1,317
Total shareholders' equity	2,220	1,977	2,035	1,759	1,491
Non-controlling interests	36	32	34	32	24
Total equity	2,256	2,009	2,069	1,791	1,515
Total liabilities and equity	3,783	3,272	3,377	3,015	2,725

Consolidated Statements of Income Data

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
	(RUB billion, except earnings per share)				
Revenues:					
Oil and gas sales	1,141	1,020	1,392	1,056	779
Petroleum products and petrochemicals sales	1,096	899	1,265	810	653
Support services and other revenues	31	35	45	49	40
Total revenues	2,268	1,954	2,702	1,915	1,472
Costs and expenses:					
Production and operating expenses	158	140	189	144	128
Cost of purchased oil, gas and petroleum products and refining costs	275	189	298	72	59
General and administrative expenses	48	37	52	51	45
Pipeline tariffs and transportation costs	179	161	216	212	171
Exploration expenses	15	6	13	14	11
Depreciation, depletion and amortisation	166	160	213	202	168
Taxes and other income tax	484	356	498	331	254
Export customs duty	664	567	790	509	379
Total costs and expenses	1,989	1,616	2,269	1,535	1,215
Operating income:	279	338	433	380	257
Finance income	15	15	20	20	16
Finance expenses	(12)	(17)	(19)	(21)	(24)
Equity share in profits of associates and joint ventures	20	11	16	4	6
Other income/(expenses)	61	(35)	(45)	(24)	(43)
Income before income tax	363	312	405	359	212
Income tax expenses	(78)	(65)	(86)	(58)	(57)
Net income	285	247	319	301	155
Other comprehensive income:					
Foreign exchange differences on translation of foreign operations	4	2	(1)	(3)	(1)
Gain/(Loss) from changes in fair value of financial assets available for-sale, net of tax	(2)	—	1	—	—
Total other comprehensive income, net of tax	2	2	—	(3)	(1)
Total comprehensive income, net of tax	287	249	319	298	154
Net income					
attributable to shareholders Rosneft	285	244	316	293	155
attributable to non-controlling interest	—	3	3	8	—
Total comprehensive income, net of tax					
attributable to shareholders Rosneft	287	246	316	290	154
attributable to non-controlling interest	—	3	3	8	—
Net income attributable to Rosneft per common share (in RUB)—basic and diluted	30.10	25.44	32.95	30.53	16.15

Consolidated Statements of Cash Flows Data

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
	(RUB billion)				
Operating activities:					
Net income	285	247	319	301	155
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation, depletion and amortization	166	160	213	202	168
Loss on disposal of non-current assets	4	9	19	15	17
Gain from disposal of subsidiary	(82)	—	—	—	—
Dry hole costs	1	1	4	4	6
Foreign exchange loss	(17)	23	31	—	10
Gain on extinguishment of promissory notes	—	—	—	(5)	(7)
Equity share in profits of associates and joint ventures	(20)	(11)	(16)	(4)	(6)
Finance expenses	12	17	19	21	24
Finance income	(15)	(15)	(20)	(20)	(16)
Income tax expenses	78	65	86	58	57
Gain from assets and liabilities write-off, net	9	—	(10)	—	—
Loss/(gain) on bad debt allowance	—	2	2	1	(1)
Changes in operating assets and liabilities:					
Increase in accounts receivable, gross	(26)	(88)	(88)	(22)	(25)
Increase in restricted cash	—	(3)	(3)	—	(1)
Increase in inventory	(14)	(52)	(61)	(9)	(12)
(Increase)/decrease in prepayments and other current assets	(12)	29	(15)	—	13
Increase in accounts payable and accrued liabilities	48	52	82	13	15
Increase in other tax liabilities	17	13	20	11	13
Increase in current provisions	(2)	—	1	—	7
(Decrease)/increase in other current liabilities	(4)	—	(4)	1	(1)
Decrease in other non-current liabilities	—	(8)	(10)	(9)	(4)
Long-term bank loans granted	(26)	(43)	(53)	(105)	(40)
Repayment of long-term bank loans granted	25	39	48	106	40
Acquisition of trading securities	(40)	(28)	(64)	(34)	(32)
Proceeds from sale of trading securities	43	28	68	27	18
Net cash provided by operating activities before income tax and interest	430	437	568	552	398
Income tax payments	(59)	(77)	(102)	(86)	(51)
Interest received	8	9	13	5	3
Dividends received	—	—	8	7	5
Net cash provided by operating activities	379	369	487	478	355

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
	(RUB billion)				
Investing activities:					
Capital expenditures	(344)	(258)	(391)	(264)	(235)
Acquisition of licences	(2)	(6)	(7)	(4)	(3)
Acquisition of rights to use trademarks "Sochi 2014"	—	—	(1)	(1)	(3)
Acquisition of short-term financial assets	(45)	(41)	(99)	(152)	(100)
Proceeds from sale of short-term financial assets	72	111	187	64	79
Acquisition of short-term notes receivable	(48)	(24)	(35)	(8)	—
Proceeds from sale of short-term notes receivable	51	7	10	—	—
Acquisition of long-term financial assets	(2)	(2)	(5)	(9)	(81)
Proceeds from sale of long-term financial assets	5	—	—	5	23
Acquisition of associates and joint ventures	(36)	(47)	(47)	—	—
Acquisition of subsidiary, net of cash acquired	(4)	—	—	—	—
Sale of property, plant and equipment	3	1	2	1	1
Margin call deposit placed	—	—	—	—	(9)
Margin call deposit returned	—	—	—	—	38
Placements under reverse REPO agreements	(14)	(25)	(31)	(12)	(1)
Receipts under reverse REPO agreements	33	12	23	1	—
Net cash used in investing activities	(331)	(272)	(394)	(379)	(291)
Financing activities:					
Proceeds from short-term loans and borrowings	22	17	25	5	30
Repayment of short-term loans and borrowings	(31)	(8)	(17)	(20)	(223)
Proceeds from long-term loans and borrowings	229	31	124	187	371
Repayment of long-term loans and borrowings	(65)	(92)	(123)	(163)	(183)
Acquisition of non-controlling interests in subsidiaries	(2)	—	(11)	—	—
Dividends paid to shareholders	(33)	(26)	(27)	(22)	(19)
Dividends paid to non-controlling shareholders in subsidiaries	—	—	—	—	(1)
Cash paid for acquisition of treasury shares	(68)	(3)	(3)	—	—
Interest paid	(21)	(18)	(24)	(19)	(20)
Net cash used in financing activities	31	(99)	(56)	(32)	(45)
Net increase in cash, cash equivalents and short-term investments	79	(2)	37	67	19
Cash, cash equivalents and short-term investments at beginning of period	166	127	127	60	40
Effect of foreign exchange on cash, cash equivalents and short-term investments	(5)	2	2	—	1
Cash, cash equivalents and short-term investments at end of period	240	127	166	127	60

Key Operating Data and Financial Ratios

The following table sets forth key operating data and financial ratios that the Company's management uses in assessing Rosneft's performance. The operating data and financial ratios set out below reflect the operations of the Company, its fully consolidated subsidiaries and its pro-rata shares of joint ventures, which are accounted for under the proportionate consolidation method:

KEY OPERATING DATA

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
	(RUB billion)				
Oil and gas sales					
Export sales of crude oil—Europe and other	772	694	955	694	573
Export sales of crude oil—Asia	290	273	366	299	149
Export sales of crude oil—CIS, other than Russia	58	40	54	42	42
Domestic sales of crude oil	5	2	3	8	4
Domestic sales of gas	16	11	14	13	11
Total oil and gas sales	1,141	1,020	1,392	1,056	779
Petroleum products and petrochemical sales					
Export sales of petroleum products—Europe	467	347	500	254	215
Export sales of petroleum products—Asia	174	162	224	182	154
Export sales of petroleum products—CIS, other than Russia	7	6	8	5	5
Domestic sales of petroleum products	386	345	473	356	272
Domestic sales of petrochemical products	8	7	10	9	5
International sales of petrochemical products	54	32	50	4	2
Total petroleum products and petrochemicals sales	1,096	899	1,265	810	653

KEY FINANCIAL RATIOS

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
	(RUB billion, except where stated otherwise)				
Financial results					
Revenues	2,268	1,954	2,702	1,915	1,472
EBITDA	445	498	646	582	425
Net income	285	247	319	301	155
Capital expenditures	344	258	391	264	235
Free cash flow	32	112	99	203	135
Net Debt	542	379	432	378	573
Operational results					
Crude oil production (th. barrels per day)	2,425	2,374	2,380	2,322	2,182
Gas production (bcm)	11.02	9.26	12.79	12.34	12.68
Hydrocarbon production (th. boe per day)	2,662	2,574	2,586	2,521	2,386
Domestic production of petroleum products (million tonnes)	35.92	35.61	48.08	47.89	47.06
Production of petroleum products in Germany (million tonnes)	8.02	4.56	7.30	—	—

For a further discussion of these figures, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
EBITDA margin	19.6%	25.5%	23.9%	30.4%	28.9%
Net income margin	12.6%	12.6%	11.8%	15.7%	10.5%
Net debt to capital employed ratio	0.19	0.16	0.17	0.17	0.27
Net debt to annualised EBITDA	0.91	0.57	0.67	0.65	1.35
Current ratio	2.01	1.80	1.97	1.98	1.11
			(RUB)		
EBITDA/bbl	732	838	812	747	584
Upstream capital expenditure/bbl	319	274	302	241	261
Upstream operating expenses/bbl	88.2	87.0	88.8	85.1	81.0
Free cash flow/bbl	53	188	124	261	185
			(RUB)		
EBITDA/boe	671	771	746	687	533
Upstream capital expenditure/boe	293	252	277	222	238
Upstream operating expenses/boe	80.9	80.1	81.6	78.2	74.0
Free cash flow /boe	48	174	114	240	169

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

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

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

Upstream Measures

	For nine months ended 30 September		For year ended 31 December		
	2012	2011	2011	2010	2009
Upstream capital expenditures (RUB billion)	194	163	240	188	190
Upstream operating expenses (RUB billion)	53.6	51.7	70.7	66.3	59.0
Barrels of crude oil produced (million)	607.6	594.3	795.8	779.1	728.1
Barrels of oil equivalent produced (million)	662.7	645.6	866.4	847.5	797.8

Calculation of Free Cash Flow

	For nine months ended 30 September		For year ended 31 December		
	2012	2011	2011	2010	2009
			(RUB billions)		
Net cash provided by operating activities	379	369	487	478	355
Capital expenditures	(344)	(258)	(391)	(264)	(235)
Trading securities operations	(3)	1	3	(11)	15
Free cash flow	32	112	99	203	135

Current ratio

	For nine months ended 30 September		For year ended 31 December		
	2012	2011	2011	2010	2009
	(RUB billions, except ratio)				
Current assets	901	780	815	696	450
Current liabilities	448	433	414	352	405
Current ratio	2.01	1.80	1.97	1.98	1.11

Calculation of Capital Employed and Related Indicators

	For year ended 31 December		
	2011	2010	2009
	(RUB billions)		
Short-term loans and current portion of long-term debt	152	167	237
Long-term debt	596	549	472
Cash, cash equivalents and short-term investments	(166)	(127)	(60)
Short-term financial assets	(150)	(211)	(76)
Net debt(1)	432	378	573
Shareholders' equity	2,035	1,759	1,491
Non-controlling interest in subsidiaries' earnings	34	32	24
Equity	2,069	1,791	1,515
Capital employed	2,501	2,169	2,088
Average equity, including non-controlling interest(2)	1,930	1,653	1,448
Average capital employed(3)	2,335	2,129	2,045

(1) The net debt estimation is set presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Debt obligations". The method of net debt calculation was changed in 2012 according to Company's best estimates. This change was retrospectively applied to 2011, 2010 and 2009 net debt amounts. This causes the difference in value of net debt for 2011, 2010 and 2009 between published financial statements and the figures stated above.

(2) Average equity including non-controlling interest is calculated as a simple average of the equity including non-controlling interest at the start and end of the given period.

(3) Average capital employed is calculated as a simple average of the capital employed at the start and the end of the given period.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Introduction and description of the probable acquisition

On 22 October 2012, Rosneft announced two separate agreements in principle to acquire an aggregate 100% equity interest in TNK-BP Limited, the ultimate holding company of TNK-BP, Russia's third largest hydrocarbon producer (together, the ***TNK-BP Acquisition***). The two proposed transactions involve (i) an acquisition of a 50% equity interest in TNK-BP from BP (in respect of which definitive documentation was signed on 22 November 2012) for U.S.$17.1 billion in cash (plus interest thereon in the amount of U.S.$1.6 million per day from and including 18 October 2012 to and excluding the closing date) and 1,360,449,797 Rosneft shares, representing a 12.84% stake in Rosneft, currently held in treasury, and (ii) an acquisition of a 50% equity interest in TNK-BP from the AAR consortium (which remains subject to negotiation of definitive agreements) for U.S.$28.0 billion in cash (plus interest thereon at a rate of 3.75% per annum from and including 16 October 2012 to but excluding the closing date). The two acquisitions are entirely independent, and either could be consummated without the other, leaving Rosneft with only a 50% equity interest in TNK-BP. For a more detailed description of the TNK-BP Acquisition and the risks related thereto, see "*Risk Factors—Rosneft's acquisition of TNK-BP Limited is subject to significant uncertainties and risks*" and "*Business—Recent Developments—TNK-BP Acquisition*".

Basis of preparation

The pro forma financial information for the year ended 31 December 2011 has been prepared for illustrative purposes only to show the effect of the probable acquisition by Rosneft of TNK-BP Limited, as described in "Overview" above, as if it had occurred on 1 January 2011, based on the Rosneft's and TNK-BP International Limited's (*TNK-BP IL*) consolidated financial statements prepared in accordance with US GAAP. The pro forma statement of income was prepared on a basis that combines results of Rosneft and TNK-BP IL by applying the principles underlying the consolidation procedures of ASC 810 'Consolidation' (*ASC 810*).

Until 31 December 2011, the accounting standard used by both Rosneft and TNK-BP IL was US GAAP. Since 1 January 2012, IFRS is the accounting standard used by both Rosneft and TNK-BP IL.

The pro forma interim financial information for the nine months ended 30 September 2012 has been prepared for illustrative purposes only to show the effect of the probable acquisition by Rosneft of TNK-BP Limited as if it had occurred on 1 January 2012 for the pro forma income statement, and as if occurred on 30 September 2012 for the pro forma balance sheet, based on the Rosneft's and TNK-BP IL's consolidated financial statements prepared in accordance with IFRS. The pro forma interim balance sheet and statement of income was prepared on a basis that combines results of the Rosneft and TNK-BP IL by applying the principles underlying the consolidation procedures of IAS 27 'Consolidated and Separate Financial Statements' (*IAS 27*).

The pro forma financial information, because of its nature, addresses a hypothetical situation and, therefore, does not reflect the Group's actual financial position had the combination been completed at the dates assumed or any other date and should not be regarded as an indication of the operating results generated by the Group or its future financial position.

The pro forma financial information has been prepared specifically for the purpose of this Base Prospectus and should be read in conjunction with (a) Consolidated financial statements of Rosneft and TNK-BP IL as of and for the year ended 31 December 2011 prepared in accordance with US GAAP, which reflect the historical financial information of Rosneft and TNK-BP IL, respectively, for that period and, (b) Consolidated financial statements of Rosneft and TNK-BP IL as of 30 September 2012 and for the nine months ended 30 September 2012 prepared in accordance with IFRS, which reflect the historical financial information of Rosneft and TNK-BP IL for that period. The pro forma financial information has been compiled on the basis set out below and in accordance with the requirements of items 1 to 6 of Annex II to the Commission Regulation (EC) 809/2004. Neither Rosneft nor TNK-BP IL currently prepare their financial statements in accordance with US GAAP.

TNK-BP IL is a subsidiary of TNK Industrial Holdings Limited, which in its turn is a subsidiary of TNK-BP Limited. The latter is the acquiree in the purchase transaction. This pro forma financial information is based on the publicly available historical consolidated financial statements of TNK-BP IL and therefore it does not include any financial information of TNK-BP Limited, TNK Industrial Holdings Limited and their subsidiaries and associates. Management believes that the consolidation adjustment to include

abovementioned companies does not have any material effect on this pro forma financial information and does not make it misleading.

Amounts derived from the historical financial information of Rosneft and TNK-BP IL expressed in US dollars were translated into Russian roubles using the following exchange rates:

- for the balance sheet amounts—RUB 30.92 per US dollar, which was the official exchange rate as of 30 September 2012.
- for the income statement amounts—RUB 31.10 per US dollar for the nine months ended 30 September 2012, which was the average official exchange rate for the respective periods.

No account has been taken of any fair value adjustments to TNK-BP IL's assets and liabilities (except as described below) as any such fair value adjustments cannot be accurately and reliably calculated at this point in time. The difference between market capitalization of TNK-BP TL and the net book value of TNK-BP IL's net assets has been attributed to Property, plant and equipment with the corresponding depreciation charge adjustment reflected in Pro forma income statements. The excess of purchase price over the market capitalization of TNK-BP IL has been attributed to Goodwill. On completion of a fair value exercise, a certain amount will be required to be allocated to other assets and liabilities.

All of the adjustments presented will have continuing impact on the financial statements of the Group.

The pro forma financial information is based on the most recent publicly available historical financial information of TNK-BP IL and does not include, among others, any adjustments (and their tax effects) resulting from:

- differences in the accounting policies of Rosneft and TNK-BP IL including those disclosed in the historical consolidate financial statements of Rosneft and TNK-BP IL; or
- any other possible adjustments which are not identifiable based on the publicly available historical financial information of TNK-BP IL.

ROSNEFT OIL COMPANY

Unaudited Pro Forma Statement of Income
Nine months ended 30 September 2012 prepared in accordance with IFRS
(In billions of Russian Roubles)

		Adjustments			
	Rosneft statement of income	TNK-BP statement of income	Eliminations	Acquisition adjustment	Pro forma statement of income
Oil and gas sales	1,141	1,433	(15)	—	2,559
Petroleum products and petrochemicals sales	1,096	—	—	—	1,096
Support services and other revenues	31	—	—	—	31
Total revenues	**2,268**	**1,433**	**(15)**	**—**	**3,686**
Production and operating expenses	158	128	—	—	286
Cost of purchsed oil, gas, petroleum products and refining costs	275	141	(15)	—	401
General and administrative expenses	48	39	—	—	87
Pipeline tariffs and transportation costs	179	97	—	—	276
Exploration expenses	15	7	—	—	22
Depreciation, depletion and amortization	166	53	—	34	253
Taxes other than income tax	484	291	—	—	775
Export customs duty	664	412	—	—	1,076
Total costs and expenses	**1,989**	**1,168**	**(15)**	**34**	**3,176**
Operating income	**279**	**265**	**—**	**(34)**	**510**
Finance income	15	—	—	—	15
Finance expenses	(12)	(6)	—	(52)	(70)
Equity share in profits of associates and joint ventures	20	10	—	—	30
Other income	85	4	—	—	89
Other expenses	(27)	(12)	—	—	(39)
Results of operations with foreign currency, foreign exchange differences	3	(2)	—	—	1
Total other income, net	**84**	**(6)**	**—**	**(52)**	**26**
Income before income tax	**363**	**259**	**—**	**(86)**	**536**
Income tax	(78)	(59)	—	17	(120)
Net income	**285**	**200**	**—**	**(69)**	**416**

ROSNEFT OIL COMPANY

Unaudited Pro Forma Balance Sheet
As of 30 September 2012 prepared in accordance with IFRS
(In billions of Russian Roubles)

	Rosneft balance sheet	Adjustments			Pro forma balance sheet
		TNK-BP balance sheet	Eliminations	Acquisition adjustment	
Cash, cash equivalents and short-term investments	240	107	—	(240)	107
Restricted cash	4	—	—	—	4
Financial assets	102	15	—	(69)	48
Accounts receivable	251	152	—	—	403
Inventories	140	43	—	—	183
Prepayments and other current assets	164	7	—	—	171
Current assets	**901**	**324**	**—**	**(309)**	**916**
Property, plant and equipment	2,399	775	—	564	3,738
Intangible assets	21	34	—	—	55
Financial assets	29	17	—	—	46
Investments in associates and joint ventures	261	107	(26)	—	342
Bank loans granted	14	—	—	—	14
Deferred tax assets	16	10	—	—	26
Goodwill	134	—	—	489	623
Other non-current non-financial assets	4	5	—	—	9
Non-current assets	**2,878**	**948**	**(26)**	**1,053**	**4,853**
Assets held for sale	4	—	—	—	4
Total assets	**3,783**	**1,272**	**(26)**	**744**	**5,773**
Accounts payable and accrued liabilities	228	113	—	—	341
Loans and borrowings	115	38	—	—	153
Finance lease liabilities	3	—	—	—	3
Liabilities related to derivative financial instruments	2	—	—	—	2
Income tax liabilities	14	—	—	—	14
Other tax liabilities	81	53	—	—	134
Provisions	4	—	—	—	4
Other current liabilities	1	—	—	—	1
Current liabilities, net	**448**	**204**	**—**	**—**	**652**
Loans and borrowings	769	200	—	1,082	2,051
Finance lease liabilities	9	—	—	—	9
Deferred tax liabilities	248	93	—	113	454
Provisions	52	27	—	—	79
Other non-current liabilities	1	6	—	—	7
Non-current liabilities	**1,079**	**326**	**—**	**1,195**	**2,600**
Share capital	1	—	—	—	1
Treasury shares	(292)		—	292	—
Additional paid-in capital	385	88	—	48	521
Other funds and reserves	(3)	(2)	—	—	(5)
Retained earnings	2,129	592	—	(791)	1,930
Shareholders' equity	**2,220**	**678**	**—**	**(451)**	**2,447**
Non-controlling interests	36	64	(26)	—	74
Total liabilities and equity	**3,783**	**1,272**	**(26)**	**744**	**5,773**

TNK-BP

Amounts presented in the TNK-BP column represent the historical financial information *of* TNK-BP IL therefore it does not include any financial information of TNK-BP Limited, TNK Industrial Holdings Limited and their subsidiaries and associates, as discussed above. The amounts have been extracted from the financial statements of TNK-BP International Limited as they are published at the company's website without any modifications.

Adjustments

(a) The Company and TNK-BP have a joint venture, Verkhnechonskneftegaz, which was equity accounted for by both the Company and TNK-BP. As a consequence of the TNK-BP Acquisition, Verkhnechonskneftegaz will become a subsidiary and will be fully consolidated. The adjustment reflects this revised accounting treatment including the elimination of intercompany trading and balances on consolidation.

(b) Acquisition adjustment in the pro forma balance sheet reflects the following:

- allocation of anticipated TNK-BP's purchase price, where the excess of market capitalization over the net book value of TNK-BP's net assets in the amount of 564 billion RUB has been attributed to Property, plant and equipment and the excess of purchase price over market capitalization in the amount of 489 billion RUB has been attributed to goodwill. The allocation includes related income tax effects. On the final apportionment of the purchase price, fair values ascribed to various current assets and liabilities may result in material changes to the amount indicated above;
- anticipated financing of the transaction through the issuance of additional debt in the amount of 1,082 billion RUB, own funds in the amount of 309 billion RUB and transfer of treasury stock in the amount of 340 billion RUB. The total cost of acquisition therefore will approximate 1,731 billion RUB. The gross cost as stated above is not adjusted for the cash, cash equivalents and short-term investments acquired with TNK-BP;

(c) Acquisition adjustment in the pro forma statement of income reflects the following:

- finance expense in the amount of 52 billion RUB related to the debt to be raised to finance the transaction;
- additional depreciation arising from the impact of the purchase accounting adjustments in relation to the TNK-BP historical financial information and related income tax effects.

ROSNEFT OIL COMPANY

Unaudited Pro Forma Statement of Income
Year Ended 31 December 2011 prepared under US GAAP
(In millions of US dollars)

		Adjustments			
	Rosneft statement of income	**TNK-BP statement of income**	**Eliminations**	**Acquisition adjustment**	**Pro forma statement of income**
Oil and gas sales	47,417	29,860	(377)	—	76,900
Petroleum products and petrochemicals sales	43,020	28,259	—	—	71,279
Support services and other revenues	1,538	2,080	—	—	3,618
Total revenues	**91,975**	**60,199**	**(377)**	**—**	**151,797**
Production and operating expenses	6,540	5,710	—	—	12,250
Cost of purchased oil, gas and petroleum products and refining costs	10,058	5,674	(377)	—	15,355
General and administrative expenses	1,785	1,625	—	—	3,410
Pipeline tariffs and transportation costs	7,329	4,090	—	—	11,419
Exploration expense	448	145	—	—	593
Depreciation, depletion and amortization	5,996	2,085		1,586	9,667
Accretion expense	146	—	—	—	146
Taxes other than income tax	16,911	11,849	—	—	28,760
Export customs duty	26,882	16,951	—	—	43,833
Loss on disposal and impairment of assets	—	69	—	—	69
Total costs and expenses	**76,095**	**48,198**	**(377)**	**1,586**	**125,502**
Operating income	**15,880**	**12,001**	**—**	**(1,586)**	**26,295**
Interest income	658	65	—	—	723
Interest expense	(320)	(242)	—	(2,240)	(2,802)
Loss on disposal of non-current assets	(230)	—	—	—	(230)
Gain on disposal of investments	39	—	—	—	39
Equity share in affiliates' profits	577	175	—	—	752
Dividends and income/(loss) from joint ventures	11	—	—	—	11
Other expenses, net	(260)	—	—	—	(260)
Foreign exchange (loss)/gain	(649)	63	—	—	(586)
Gain on disposal of subsidiaries	—	341	—	—	341
Total other expenses, net	**(174)**	**402**	**—**	**(2,240)**	**(2,012)**
Income before income tax	**15,706**	**12,403**	**—**	**(3,826)**	**24,283**
Income tax	(3,117)	(2,675)	—	765	(5,027)
Net income	**12,589**	**9,728**	**—**	**(3,061)**	**19,256**

TNK-BP

Amounts presented in the TNK-BP column represent the historical financial information of TNK-BP IL therefore it does not include any financial information of TNK-BP Limited, TNK Industrial Holdings Limited and their subsidiaries and associates, as discussed above. The amounts have been extracted from the financial statements of TNK-BP International Limited as they are published at the company's website without any modifications.

Adjustments

(a) The Company and TNK-BP have a joint venture, Verkhnechonskneftegaz , which was equity accounted for by both the Company and TNK-BP. As a consequence of the TNK-BP. Acquisition Verkhnechonskneftegaz will become a subsidiary and will be fully consolidated. The adjustment reflects this revised accounting treatment including the elimination of intercompany trading and balances on consolidation.

(b) Acquisition adjustment reflects additional depreciation in the amount of 1,586 million USD arising from the impact of the purchase accounting adjustments in relation to the TNK-BP as well as anticipated finance expense in the amount of 2,240 million USD on additional debt to be raised to finance the transaction and related income tax benefits in the amounts of 765 million USD (refer to adjustment (b) above).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with "Summary Consolidated Financial Information" and the Financial Statements included in this Base Prospectus. This review includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed in "Risk Factors" appearing elsewhere in this Base Prospectus.

The following discussion of Rosneft's financial condition and results of operations are based on, and should be read in conjunction with, the Company's Financial Statements, the notes thereto and the other information included elsewhere in this Base Prospectus. This section presents Rosneft's financial condition and results of operations on a consolidated basis. This section contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may materially differ from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements."

Except as otherwise indicated, oil and gas reserves and production are presented pro-rata for companies accounted for on an equity basis or under the proportionate consolidation method and 100% for fully consolidated companies.

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

To convert tonnes to barrels a 7.315 ratio is used. To convert thousands of cubic metres of gas to barrels of oil equivalent a 5.883 ratio is used.

OVERVIEW

Rosneft is a vertically integrated oil and gas company with core activities and assets located principally in Russia. The Company is primarily engaged in exploration and production of hydrocarbons, oil refining and product marketing.

OJSC Rosneft was established in accordance with the Russian Government Decree N°971, issued on 29 September 1995. From its foundation, the Company has expanded significantly through organic growth, consolidation of interests, acquisition of new companies and development of new businesses. Rosneft is now the leader of Russia's petroleum industry in terms of crude oil reserves and production operating in all key regions of the country.

Rosneft is one of the world's largest publicly traded companies in terms of proved hydrocarbon reserves which as of 31 December 2011 amounted to 23.35 billion barrels of oil equivalent, including 18.35 billion barrels of oil and 850 billion cubic metres of gas, on the basis of the standards set forth by the Society of Petroleum Engineers, Petroleum Reserves Management System (***PRMS***).

Rosneft's crude oil production amounts to 2.4 million barrels per day (average for the nine months ended 30 September 2012) and output of natural and associated gas is 11.02 billion cubic metres per nine months (for the nine months ended 30 September 2012).

Rosneft processes part of the crude oil produced at its seven domestic refineries with total primary refining capacity of 1.1 million barrels per day, including mini-refineries. Rosneft's domestic refinery throughput is 1.1 million barrels per day (average for the nine months ended 30 September 2012) which equals approximately 45% of the Company's crude oil output. Current utilisation of the refining capacities is close to maximum. The remaining volumes of crude oil are mostly exported to Europe, Asia and CIS countries. Rosneft also holds a 50% stake in Ruhr Oel GmbH which owns stakes in four German refineries, where Rosneft processes its own and procured crude oil.

Part of the petroleum products produced by the Company at their domestic refineries is sold in Russia, both wholesale and through Rosneft's own retail network which comprises approximately 1,700 service stations in 44 regions of Russia. The remaining volumes (mainly fuel oil, diesel and naphtha) are exported to Europe, Asia and CIS. Products produced at the German refineries are sold in Western Europe.

FINANCIAL AND OPERATING HIGHLIGHTS

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
Financial results (RUB billion)								
Revenues	2,268	1,954	16.1	2,702	1,915	1,472	41.1	30.1
EBITDA	445	498	(10.6)	646	582	425	11.0	36.9
Net income	285	247	15.4	319	301	155	6.0	94.2
Capital expenditures	344	258	33.3	391	264	235	48.1	12.3
Free cash flow	32	112	(71.4)	99	203	135	(51.2)	(50.4)
Net Debt	542	379	43.0	432	378	573	14.3	(34.0)
Operational results								
Hydrocarbon production (th. boe per day)	2,662	2,574	3.4	2,586	2,521	2,386	2.6	5.6
Crude oil production (th. barrels per day)	2,425	2,374	2.1	2,380	2,322	2,182	2.5	6.4
Gas production (th. boe per day)	237	200	18.5	206	199	204	3.5	(2.5)
Production of petroleum products in Russia (mln tonnes)	35.92	35.61	0.9	48.08	47.89	47.06	0.4	1.8
Production of petroleum products in Germany (mln tonnes)	8.02	4.56	75.9	7.30	—	—	—	—

	For nine months ended 30 September		For years ended 31 December		
	2012	2011	2011	2010	2009
Operating income margin	12.3%	17.3%	16.0%	19.8%	17.5%
Share of pipeline and transportation costs in revenue	7.9%	8.2%	8.0%	11.1%	11.6%
Net income margin	12.6%	12.6%	11.8%	15.7%	10.5%

BUSINESS SEGMENTS AND INTERSEGMENT SALES

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

Business Segments

The activities of Rosneft are divided into two main business segments, based on the nature of their operations:

- *Exploration and production (**upstream**).* Geological exploration and development of fields and crude oil and gas production; and
- *Refining and distribution (**downstream**).* Refining of crude oil, as well as the purchase, transportation, sale and transshipment of crude oil and petroleum products.

Rosneft does not separate its distribution and transportation divisions into a "midstream" segment. These activities are reflected in the downstream segment. Other types of activities are incorporated in the "Corporate and other unallocated activities" segment and include field development, maintenance of infrastructure and functioning of the first two segments, as well as banking and finance services, and other activities. See "*Business—Operations*".

Intersegment Sales and Segment Presentation

Rosneft's two main business segments are interconnected: the majority of the revenues of one main segment is included in the expenses of the other main segment. In particular, the Company, as the holding company, buys crude oil from its producing subsidiaries, part of which it sells to third parties in and outside Russia and the remainder of which it delivers to its proprietary or third party refineries in Russia for processing. Refined petroleum products are then either sold by the Company through wholesale sales in

international or domestic markets or sold to the Company's marketing and transshipment Business Units and subsidiaries for subsequent wholesale and retail sale in Russia.

It is difficult to determine market prices for crude oil in the Russian domestic market, mainly due to the significant intragroup turnover within the vertically integrated oil companies that dominate the market. Moreover, to the extent they exist, crude oil market prices in Russia can be significantly lower than they might otherwise be due to seasonal oversupply and regional imbalances. Accordingly, an analysis of individual segments in isolation from the analysis of other activities may present a distorted view of Rosneft's financial and operating performance. For this reason, the Company's management does not analyse each main business segment in isolation. The Company does, however, provide financial data by segment in Note 5 to the Interim Financial Statements and in Note 22 to the Annual Financial Statements.

RECENT DEVELOPMENTS

TNK-BP Acquisition

On 22 October 2012, Rosneft announced two separate agreements in principle to acquire an aggregate 100% equity interest in TNK-BP Limited, the ultimate holding company of TNK-BP, Russia's third largest hydrocarbon producer (together, the ***TNK-BP Acquisition***). The two proposed transactions involve (i) an acquisition of a 50% equity interest in TNK-BP from BP (in respect of which definitive documentation was signed on 22 November 2012) for U.S.$17.1 billion in cash (plus interest thereon in the amount of U.S.$1.6 million per day from and including 18 October 2012 to and excluding the closing date) and 1,360,449,797 Rosneft shares, representing a 12.84% stake in Rosneft, currently held in treasury, and (ii) an acquisition of a 50% equity interest in TNK-BP from the AAR consortium (which remains subject to negotiation of definitive agreements) for U.S.$28.0 billion in cash (plus interest thereon at a rate of 3.75% per annum from and including 16 October 2012 to but excluding the closing date). The two acquisitions are entirely independent, and either could be consummated without the other, leaving Rosneft with only a 50% equity interest in TNK-BP. For a more detailed description of the TNK-BP Acquisition and the risks related thereto, see "*Risk Factors—Rosneft's acquisition of TNK-BP Limited is subject to significant uncertainties and risks*" and "*Business—Recent Developments—TNK-BP Acquisition*". For a more detailed description of the TNK-BP Acquisition and the risks related thereto, see "*Risk Factors—Rosneft's acquisition of TNK-BP Limited is subject to significant uncertainties and risks*", "*Risk Factors—Rosneft has included only limited financial and other information about TNK-BP Limited in the Base Prospectus and its financial performance may differ significantly from Rosneft's financial performance"* and "*Business—Recent Developments—TNK-BP Acquisition*".

Acquisitions in 2012

Oil and Gas Company ITERA

Rosneft and ITERA Group signed a strategic cooperation agreement on 28 February 2012 to create a joint venture as ITERA Oil and Gas Company. Rosneft holds a 51% stake in the joint venture in exchange for a 100% stake in the charter capital of Kynsko-Chaselskoye Neftegaz (which owns the licence for the Kynsko-Chaselsk licence block) and a cash consideration of U.S.$173.4 million. Final settlement may be adjusted following an analysis of the financial results of ITERA Oil and Gas Company, its subsidiaries and affiliates and Kynsko-Chaselskoye Neftegaz as of the deal completion date.

In 2011, Itera's gas production was 12.6 billion cubic metres of gas and its proved reserves amounted to 228.30 billion cubic metres of gas and 12.64 million barrels of condensate, under PRMS classification.

RN Cardium

In August 2012, the Company acquired 30 percent of ExxonMobil's stake in the Harmattan acreage of the Cardium Project for RUB 2 billion. The Cardium formation is located in the Western Canada Oil Basin in Alberta, Canada.

Polar Terminal LLC

In June 2012, the Company acquired for RUB 1 billion a 100% interest in Polar Terminal LLC. Polar Terminal LLC is engaged in an investment project for construction of a crude oil and petroleum products transshipment terminal.

Fueling Service Complex of International Airport Vnukovo

In April 2012, the Company acquired a 50% interest in Fueling Service Complex of International Airport Vnukovo through the acquisition of share in Lanard Holdings Ltd (Cyprus) for RUB 16 billion. International Airport Vnukovo is located in the Moscow Region and is one of the largest air transportation hubs in Russia. The investment is accounted for using the equity method.

Taas-Yuryakh Neftegazodobycha LLC

In March 2012, the Company acquired a 35.3% interest in Taas-Yuryakh Neftegazodobycha LLC from Sberbank Capital LLC for RUB 13 billion. Taas-Yuryakh Neftegazodobycha LLC holds licences for oil production at the Srednebotuobinskoye oil, gas and condensate field located 160km north of the Eastern Siberia - Pacific Ocean (***ESPO***) oil pipeline. This investment is accounted for using the equity method.

CJSC "Arctikshelfneftegaz"

In February 2012, the Company acquired a 50% interest in CJSC "Arctikshelfneftegaz" (***ASNG***) through the acquisition of the 100% interest in ArcticProminvest LLC for RUB 3 billion. ASNG was established for the purpose of raising private investments for the exploration and development of oil and gas resources of the Arctic shelf in the Barents Sea area. ASNG holds a licence for the exploration and production of hydrocarbons at the Medyn-Varandei licence area. The licence is valid until 2025. Two oil fields (Varandei-sea and Medyn-sea) have been discovered within the licence area. This investment is accounted for using the equity method.

Research and Development Center LLC

In February 2012, the Company acquired for RUB 4 billion a 100% interest in Research and Development Center LLC, which is engaged in developing advanced technologies for oil and gas production and refining and for the petrochemical industry.

Developments in prior periods

Ruhr Oel GmbH

In May 2011, Rosneft acquired 50% of Ruhr Oel GmbH from the National Oil Company of Venezuela (PDVSA). Ruhr Oel GmbH owns stakes in four German refineries, which have a total refining capacity of 23.2 million tonnes per annum, representing approximately 20% of the total refining capacity in Germany. Rosneft's net holding in Ruhr Oel GmbH's refining capacities is 11.6 million tonnes per annum. Ruhr Oel GmbH's Gelsenkirchen refinery has a petrochemical facility producing approximately 250 different products.

OJSC TGK-11

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

OJSC INTER RAO UES

In December 2010, the Company entered into a letter of intent to exchange its interest in a number of equity investees and one subsidiary for a non-controlling interest in INTER RAO UES. In May 2011, the exchange in respect of the Company's interest in equity investees was completed, and the Company acquired a 0.4% share in INTER RAO UES. In July 2011, the Company exchanged its 100% interest in OJSC TGK-11 for additional shares in INTER RAO UES. Immediately after the transaction, Rosneft's share in INTER RAO UES's equity increased to 1.36%. The Company's investment in INTER RAO UES is accounted for as a long-term financial asset available for sale.

MAIN FACTORS AFFECTING RESULTS OF OPERATIONS

The main factors that have affected Rosneft's results of operations during the periods being analysed, and that can be expected to affect its results of operations in the future, are:

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

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

Changes in Crude Oil, Petroleum Products and Gas Prices

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

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

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
	(U.S.$ per barrel)		%				%	
World market								
Brent (dated)	112.1	111.9	0.2	111.3	79.5	61.5	40.0	29.3
Urals (average CIF Med and NWE)	110.8	109.2	1.5	109.1	78.2	61.0	39.5	28.2
Urals (FOB Primorsk)	109.4	108.3	1.0	108.2	76.7	59.5	41.1	28.9
Urals (FOB Novorossysk)	109.9	108.6	1.2	108.3	76.8	59.6	41.0	28.9
Dubai-Oman	109.8	106.3	3.3	106.4	78.2	61.8	36.1	26.5
	(U.S.$ per tonne)							
Naphtha (av. FOB/CIF Med)	917	934	(1.7)	915	698	521	31.0	34.2
Naphtha (av. FOB Rotterdam/CIF NWE)	932	948	(1.7)	929	711	531	30.7	33.8
Naphtha (CFR Japan)	943	955	(1.3)	938	724	553	29.6	30.8
Fuel oil 3.5% (av. FOB/CIF Med)	645	604	6.8	609	442	349	37.7	26.9
Fuel oil 3.5% (av. FOB Rotterdam/CIF NWE)	642	602	6.7	607	441	344	37.7	28.1
High sulphur fuel oil 180 cst(FOB Singapore)	687	640	7.3	649	470	371	37.9	26.9
Gasoil 0.1% (av. FOB/CIF Med)	956	928	2.9	932	672	521	38.6	29.1
Gasoil 0.1% (av. FOB Rotterdam/CIF NWE)	955	930	2.7	934	672	519	39.0	29.5
Gasoil 0.5% (FOB Singapore)	941	925	1.7	925	665	513	39.1	29.7
	(th. RUB per barrel)							
Brent (dated)	3.49	3.22	8.4	3.27	2.41	1.95	35.7	23.6
Urals (average CIF Med and NWE)	3.44	3.14	9.6	3.21	2.38	1.94	34.9	22.7
Urals (FOB Primorsk)	3.40	3.12	9.0	3.18	2.33	1.89	36.5	23.3
Urals (FOB Novorossysk)	3.42	3.12	9.6	3.18	2.33	1.89	36.5	23.3
Dubai-Oman	3.41	3.06	11.4	3.13	2.37	1.96	32.1	20.9
	(th. RUB per tonne)							
Naphtha (av. FOB/CIF Med)	28.5	26.9	5.9	26.9	21.2	16.5	26.9	28.5
Naphtha (av. FOB Rotterdam/CIF NWE)	29.0	27.3	6.2	27.3	21.6	16.9	26.4	28.1
Naphtha (CFR Japan)	29.3	27.5	6.5	27.6	22.0	17.6	25.5	25.2
Fuel oil 3.5% (av. FOB/CIF Med)	20.1	17.4	15.5	17.9	13.4	11.1	33.6	21.4
Fuel oil 3.5% (av. FOB Rotterdam/CIF NWE)	20.0	17.3	15.6	17.8	13.4	10.9	32.8	22.7
High sulphur fuel oil 180 cst (FOB Singapore)	21.4	18.4	16.3	19.1	14.3	11.8	33.6	21.4
Gasoil 0.1% (av. FOB/CIF Med)	29.7	26.7	11.2	27.4	20.4	16.5	34.3	23.6
Gasoil 0.1% (av. FOB Rotterdam/CIF NWE)	29.7	26.7	11.2	27.4	20.4	16.5	34.3	23.9
Gasoil 0.5% (FOB Singapore)	29.3	26.6	10.2	27.2	20.2	16.3	34.7	24.2
	(th. RUB per tonne)							
Russian market (net of VAT, including excise tax)								
Crude oil	10.2	8.8	15.9	8.9	6.7	5.7	32.8	18.0
Fuel oil	9.2	8.7	5.7	8.8	7.7	6.5	14.3	17.8
Summer diesel	22.8	19.0	20.0	19.7	14.3	12.6	37.8	13.3
Winter diesel	24.4	20.7	17.9	21.9	16.5	14.3	32.7	15.5
Jet fuel	22.9	19.5	17.4	20.7	14.9	13.5	38.9	10.3
High octane gasoline	24.8	23.9	3.8	24.1	20.8	18.3	15.9	13.9
Low octane gasoline	22.8	21.8	4.6	22.1	17.3	15.7	27.7	10.1

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

The difference between movement of prices denominated in U.S.$ and those denominated in RUB is explained by nominal RUB depreciation against U.S.$ by 8.1% in the nine months ended 30 September 2012 compared to the nine months ended 30 September 2011, nominal RUB appreciation against U.S.$ by 3.2% in the year ended 31 December 2011 compared to the year ended 31 December 2010 and nominal RUB appreciation against U.S.$ by 4.3% in the year ended 31 December 2010 compared to the year ended 31 December 2009.

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

The regulated price has affected, and is likely to continue to affect, the pricing of Rosneft gas sales. Rosneft's average gas sale price was RUB 1,947 per thousand cubic metres and RUB 1,433 per thousand cubic metres in the nine months ended 30 September 2012 and 2011, respectively. In the year ended 31 December 2011, 2010 and 2009, Rosneft's average gas sale price was RUB 1,470 per thousand cubic metres, RUB 1,289 per thousand cubic metres and RUB 1,058 per thousand cubic metres, respectively.

U.S.$/RUB Exchange Rate and Inflation

The U.S.$/RUB and EUR/RUB exchange rate and inflation in the Russian Federation affect Rosneft's results as (i) the Company's reporting currency is roubles, (ii) most of the Company's revenues from sales of crude oil and petroleum products are denominated in U.S. dollars and Euro and (iii) most of the Company's expenses are denominated in roubles. Thus, the depreciation of the rouble positively affects Rosneft's operating income, while rouble appreciation has a negative effect.

The table below provides information on exchange rate movements and inflation during the periods analysed:

	For nine months ended 30 September		For year ended 31 December		
	2012	2011	2011	2010	2009
Rouble inflation (CPI) for the period (%)	5.2	4.7	6.1	8.8	8.8
Average RUB/U.S.$ exchange rate for the period	31.10	28.77	29.39	30.37	31.72
RUB/U.S.$ exchange rate at the end of the period	30.92	31.88	32.20	30.48	30.24
Average RUB/EUR exchange rate for the period	39.83	40.47	40.88	40.30	44.13
RUB/EUR exchange rate at the end of the period	39.98	43.40	41.67	40.33	43.39

Source: CBR.

Taxation Including Changes in Mineral Extraction Tax, Export Customs Duty and Excises

Rosneft is subject to numerous taxes which have had a significant impact on its results of operations. Export duties apply to the sale of crude oil and refined petroleum products to markets outside of Russia. Excise tax is levied on petroleum products produced by refineries in Russia for supply to the domestic market. Mineral extraction tax, social contributions, property and other taxes also affect costs. See *"Risk Factors—Risks Relating to the Russian Federation—Russian tax law and practice are not fully developed and are subject to frequent changes."*

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
Mineral extraction tax								
Crude oil (RUB per tonne)	5,086	4,368	16.4	4,455	3,074	2,299	44.9	33.7
Natural gas (RUB per th. cubic metres)	251	237	5.9	237	147	147	61.2	—
Associated gas (RUB per th. cubic metres)	0	0	—	0	0	—	—	—
Export customs duty for crude oil								
Crude oil (U.S.$ per tonne)	403.5	410.7	(1.8)	408.9	273.6	179.3	49.5	52.6
Crude oil (RUB per tonne)	12,547	11,813	6.2	12,017	8,309	5,689	44.6	46.1
Crude oil (RUB per barrel)	1,715	1,615	6.2	1,643	1,136	778	44.6	46.1
East Siberian Crude oil* (RUB per tonne)	12,547	9,076	38.2	9,920	1,764	—	462.4	—
East Siberian Crude oil* (RUB per barrel)	1,715	1,241	38.2	1,356	241	—	462.7	—
Export customs duty for petroleum products								
Gasoline** (RUB per tonne)	11,292	9,607	17.5	10,030	5,972	4,223	68.0	41.4
Naphtha*** (RUB per tonne)	11,292	9,607	17.5	10,030	5,972	4,223	68.0	41.4
Light and middle distillates (RUB per tonne)	8,280	7,958	4.0	8,054	5,972	4,043	34.9	47.7
Liquid fuels (fuel oil) (RUB per tonne)	8,280	5,432	52.4	6,119	3,217	2,275	90.2	41.4

* A special export customs duty for crude oil produced at Verkhnechonsk and Vankor fields was in effect till May 2011.

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

*** Starting from 1 June 2011, the Russian Government introduced a special export duty on naphtha.

In 2010, the excise tax rates on petroleum products were as follows:

Excise on petroleum products	
High octane gasoline (RUB per tonne)	3,992
Low octane gasoline (RUB per tonne)	2,923
Naphtha (RUB per tonne)	4,290
Diesel (RUB per tonne)	1,188
Lubricants (RUB per tonne)	3,246

Excise on petroleum products	2011	Until 30 June 2012	Until 31 December 2012	2013	2014
High octane gasoline (RUB per tonne)					
High octane gasoline non-compliant with euro-3,4,5 (RUB per tonne)	5,995	7,725	8,225	10,100	11,110
High octane gasoline euro-3 (RUB per tonne)	5,672	7,382	7,882	9,750	10,725
High octane gasoline euro-4 (RUB per tonne)	5,143	6,822	6,822	8,560	9,416
High octane gasoline euro-5 (RUB per tonne)	5,143	6,822	5,143	5,143	5,657
Naphtha (RUB per tonne)	6,089	7,824	7,824	9,617	10,579
Diesel (RUB per tonne)					
Diesel below euro-3,4,5 (RUB per tonne)	2,753	4,098	4,300	5,860	6,446
Diesel euro-3 (RUB per tonne)	2,485	3,814	4,300	5,860	6,446
Diesel euro-4 (RUB per tonne)	2,247	3,562	3,562	4,934	5,427
Diesel euro-5 (RUB per tonne)	2,247	3,562	2,962	4,334	4,767
Lubricants (RUB per tonne)	4,681	6,072	6,072	7,509	8,260

Excise tax rates on the petroleum products are legislatively-linked to the environmental characteristics of the products.

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

	For nine months ended 30 September		For year ended 31 December		
	2012	2011	2011	2010	2009
			(RUB billion)		
Total revenues	2,268	1,954	2,702	1,915	1,472
Total taxes*	1,226	988	1 374	898	690
Effective tax burden, %	54.1	50.6	50.9	46.9	46.9

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

The mineral extraction tax and the export customs duty accounted for approximately 46.7% and 44.0% of Rosneft's total revenues in the nine months ended 30 September 2012 and 2011, respectively. In the years ended 2011, 2010 and 2009 the mineral extraction tax and the export customs duty accounted for approximately 44.6%, 40.9% and 39.6%, respectively, of Rosneft's total revenues.

Mineral Extraction Tax

The rate of mineral extraction tax for crude oil is linked to the international price for Urals blend and is revised every month. It is calculated in U.S.$ per tonne of crude oil produced and enacted in RUB per tonne using the average CBR exchange rate for the respective month.

The mineral extraction tax rate is calculated by multiplying the base rate of RUB 446 (from 1 January 2012, the base rate was increased from RUB 419 to RUB 446) by the adjustment ratio of ((Price − 15) / 261) * Exchange rate, where "Price" is the average Urals price per barrel and "Exchange rate" is the average RUB/U.S.$ exchange rate established by the Central Bank of Russia in the respective month.

According to changes in tax legislation introduced in the end of 2010, the base rate will be increased to RUB 470 starting from 1 January 2013.

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

- the reduced rate is applicable to crude oil produced at the fields with reserve depletion rate of over 80%; for calculation of the reduced rate a special adjustment ratio (3.8 − 3.5 * reserve depletion rate) is applied; the reduced rate varies therefore from 0.3 to 1.0 of the standard rate;
- the zero tax rate is applicable to high-viscosity crude oil;
- the zero tax rate is applicable during specific time period or for specific volumes of production (depending on what is achieved earlier) at fields in Yakutia, Irkutsk Region, Krasnoyarsk Territory, Nenets Autonomous District, Yamal Peninsula, Azov, Caspian and Black seas, sea of Okhotsk, offshore fields located to the north of the Arctic Circle (the exact time period and volume vary by regions where the field is located); and
- the reduced tax rate is applicable to crude oil produced at the fields with the value of initial recoverable reserves being less than 5 mln tonne and the depletion level of reserves less or equal 0.05. For the calculation of reduced tax rate a special coefficient should be used characterising the value of reserves for a specific field (0.125 * value of initial oil recoverable reserves + 0.375).

Rosneft benefits from the reduced mineral extraction tax rate as it has several fields with reserve depletion rate of over 80%.

Moreover, its fields in Irkutsk Region and Krasnoyarsk Territory are subject to the zero mineral extraction tax rate, which is applicable for the first 25 million tonnes of production and not more than 10 years period for a production licence and not more than 15 years period for an exploration and production licence. On 6 August 2011, accumulated production at the Vankorskoye oil field exceeded 25 million tons and the zero tax rate was replaced by the standard one. In May 2012, the development of the Severo-Vankorsky area of Vankorskoye oil field began. This area is subject to the zero tax rate (applicable for the first 25 million tonnes of production).

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

On 12 April 2012, the Government of the Russian Federation issued an order specifying the tax proposals for special tax regimes for certain offshore projects. The order categorises offshore projects into one of four groups depending on complexity of the project and specifies special MET rates for each project group ranging from 5% to 30% of international oil prices.

Export Customs Duty

Export Customs Duty on Crude Oil

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

The table below sets forth the calculation of the ordinary export customs duty for crude oil:

Urals price (U.S.$ per tonne)	Export customs duty (U.S.$ per tonne)
Below and including 109.5 (15 U.S.$ per barrel)	Export customs duty is not levied
Above 109.5 to and including 146 (15 to 20 U.S.$ per barrel)	35% of the difference between the average Urals price in U.S.$ per tonne and U.S.$109.5
Above 146 to and including 182.5 (20 to 25 U.S.$ per barrel)	U.S.$12.78 plus 45% of the difference between the average Urals price in U.S.$ per tonne and U.S.$146
Above 182.5 (25 U.S.$ per barrel)	U.S.$29.2 plus 60%(1) of the difference between the average Urals price in U.S.$ per tonne and U.S. $182.5

(1) Starting from October 2011, the marginal export duty rate was reduced from 65% to 60%.

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

In 12 April 2012, the Russian Government implemented a special tax regime for exploration projects at the continental shelf of the Russian Federation which exempted companies working at the Russian continental shelf from export customs duty.

Export customs duty on Eastern Siberian crude oil (Vankorskoye and Verkhnechonsk)

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

Starting from 1 July 2010, the zero rate was replaced by a special rate calculated as (Price − 50) * 0.45, where "Price" is average Urals price in U.S.$ per barrel used for the calculation of ordinary export duty.

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

Export customs duty on crude oil export to CIS

Export duties are not payable on crude oil exports to CIS countries that are members of the Customs Union. In accordance with the agreement signed by the Government of Russian Federation and the Government of Belarus on 27 January 2010, crude oil exports to Belarus within specific limits established by the Russian Ministry of Energy are exempted from export duty. Starting from 1 January 2012, a zero export duty rate is applicable to the crude oil exports to Belarus.

Export Customs Duty on Petroleum Products

The export customs duty on petroleum products is set every month by the Government simultaneously with the export customs duty on crude oil and is denominated in U.S.$ per tonne. The rate of the export customs duty on petroleum products is linked to the export customs duty on crude oil.

For the periods under review, until December 2010, export customs duty on light petroleum products was calculated using the following formula: 0.438* (Price * 7.3 − 109.5), where Price is the average Urals price in U.S.$ per barrel. Export customs duty on dark petroleum products was calculated using the following formula: 0.236 * (Price * 7.3 − 109.5).

From February 2011, the export duties for petroleum products were directly linked to export duty for crude oil and were set at 67% of the export duty for crude oil for light products and at 46.7% for dark products.

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

From October 2011, the export duty for light petroleum products was lowered from 67% to 66% of export duty for crude oil, the export duty for dark petroleum products was raised from 46.7% to 66% of export duty for crude oil. Export duty for naphtha and gasoline remained at 90% of crude oil export duty. These rates are effective as at the date of this Base Prospectus.

Changes in Tariffs of Natural Monopolies (for Pipeline and Railway Transport)

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

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

The FTS sets tariffs for each separate route of the pipeline networks depending on the length of the relevant routes, transportation direction and other factors, alternatively tariffs may be set for the entire route of the pipeline network. Tariffs for railroad transportation, where these costs are not already incorporated in pipeline tariffs, often depend on the type of cargo and the transportation route.

Transneft Transportation Tariffs

From 1 December 2010, Transneft increased tariffs by 9.5% on average for export transportation of petroleum products and from 1 January 2011 increased tariffs by 5.9% on average for domestic transportation of petroleum products. As a result, annual average tariffs in 2011 compared with 2010 increased by 10.4% for export transportation and by 6.1% for domestic transportation.

Starting from September 2011, Transneft increased tariffs for crude oil transportation by 2.85% on average. Starting from November 2011, Transneft increased tariffs for crude oil transportation by a further 5% on average. As part of these increases, tariff for Rosneft's major transportation route "Yugansk—Primorsk" was raised by 7.2% and 11.8%, respectively. On a year-on-year average basis, tariffs for pipeline transportation of crude oil for export and domestic supplies increased by 13.1% in 2011 compared with 2010.

In January 2012, Transneft increased tariffs by 6% on average for export and domestic transportation of petroleum products. Starting from 1 August 2012, tariffs for pipeline transportation of petroleum products for Rosneft increased by 5.4% for domestic transportation and by 3% for export transportation. For the nine months ended 30 September 2012 compared to 31 December 2011, the tariffs for export transportation of petroleum products increased by 9.2% and tariffs for domestic transportation of petroleum products increased by 11.7%.

Railroad Transportation Tariffs

Starting from January 2010, tariffs for railroad transportation were increased by 9.4%. In January 2011 and January 2012, tariffs for railroad transportation were increased by 8.0% and 6.0% on average, respectively.

Rosneft's average transportation tariffs applied to major transportation routes denominated in RUB for the respective periods:

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
	(RUB/tonne)							
CRUDE OIL								
Domestic								
Pipeline								
Yugansk—Samara refineries . .	747.91	720.02	3.9	726.32	648.55	531.57	12.0	22.0
Samara—Samara refineries . .	46.21	45.57	1.4	45.72	41.29	34.95	10.7	18.1
Yugansk—Angarsk refinery . .	1,245.87	1,196.29	4.1	1,205.91	1,084.52	897.87	11.2	20.8
Purpe—Tuapse refinery	1,556.77	1,486.23	4.7	1,500.53	1,340.59	1,110.14	11.9	20.8
Tomsk—Achinsk refinery	337.27	327.69	2.9	329.88	297.42	245.66	10.9	21.1
Pipeline and railroad								
Yugansk—Komsomolsk refinery	4,135.23	3,919.56	5.5	3,926.04	3,606.61	3,036.42	8.9	18.8
Exports								
Pipeline								
Yugansk—Primorsk	1,544.78	1,299.91	18.8	1,348.21	1,163.86	968.19	15.8	20.2
Yugansk—Novorossysk	1,487.52	1,447.46	2.8	1,456.55	1,307.20	1,099.32	11.4	18.9
Vankor (Purpe)—Kozmino . . .	1,888.00	1,821.04	3.7	1,836.39	1,634.15	—	12.4	—
Railroad and mixed								
Stavropolneftegaz—CPC (railroad)	681.00	659.73	3.2	659.73	610.93	543.37	8.0	12.4
PETROLEUM PRODUCT EXPORTS								
Diesel								
Samara refineries—Ventspils .	1,884.53	1,713.62	10.0	1,729.10	1,596.28	1,473.09	8.3	8.4
Angarsk refinery—Nakhodka .	4,155.23	3,890.15	6.8	3,890.15	3,615.65	3,206.08	7.6	12.8
Komsomolsk refinery—Nakhodka	1,632.22	1,525.31	7.0	1,525.31	1,419.03	1,256.94	7.5	12.9
Achinsk refinery—Tuapse . . .	4,689.77	4,379.27	7.1	4,379.27	4,069.43	3,608.78	7.6	12.8
Fuel oil								
Samara refineries—Odessa . .	2,900.60	2,695.94	7.6	2,712.92	2,579.51	2,338.62	5.2	10.3
Angarsk refinery—Nakhodka .	4,144.23	3,963.98	4.5	3,963.98	3,670.78	3,257.66	8.0	12.7
Komsomolsk refinery—Nakhodka	1,558.30	1,484.69	5.0	1,484.69	1,374.87	1,220.14	8.0	12.7
Achinsk refinery—Nakhodka .	5,304.48	4,889.87	8.5	4,889.87	4,528.16	4,018.57	8.0	12.7
Naphtha								
Samara refineries—Tuapse . . .	1,934.64	1,868.86	3.5	1,868.86	1,740.94	1,541.66	7.3	12.9
Achinsk refinery—Tuapse . . .	4,575.31	4,297.44	6.5	4,297.44	3,995.98	3,543.16	7.5	12.8
Angarsk refinery—Nakhodka .	3,923.34	3,776.55	3.9	3,776.55	3,512.37	3,113.97	7.5	12.8
Komsomolsk refinery—Nakhodka	1,599.32	1,496.64	6.9	1,496.64	1,393.50	1,233.91	7.4	12.9

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

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

Changes in the Production Volumes of Crude Oil, Gas and Petroleum Products

Rosneft's revenues and costs are directly affected by the volume of crude oil, petroleum products and gas produced by Rosneft.

Production of Crude Oil

Rosneft has twelve fully consolidated production and development enterprises, which produce crude oil in Western Siberia, Eastern Siberia, Timan Pechora, Central Russia, the southern part of European Russia

and the Russian Far East. The Company also has a 20% stake in the Sakhalin-1 project accounted for using the proportionate consolidation method. In addition, Rosneft participates in four production joint ventures accounted for using the equity method: Tomskneft—50.0%, Udmurtneft—49.5%, Polar Lights—50.0% and Verkhnechonskneftegaz—25.94%.

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
	(millions of barrels, except %)							
Yuganskneftegaz (Western Siberia)	365.9	365.2	0.2	488.1	483.2	485.4	1.0	(0.4)
Samaraneftegaz (Central Russia)	58.9	58.1	1.4	77.6	75.8	73.80	2.4	2.7
Purneftegaz (Western Siberia)	38.2	38.3	(0.3)	51.3	52.7	57.2	(2.6)	(7.8)
Vankorneft (Eastern Siberia)	96.2	80.7	19.2	109.7	92.9	26.6	18.1	248.9
Severnaya Neft (Timan Pechora)	19.5	19.9	(2.0)	26.6	29.9	34.8	(11.0)	(14.2)
Sakhalin-1 (Far East) (net of royalty and government share)	6.5	7.7	(15.6)	10.0	9.2	10.1	9.0	(8.9)
Other	22.4	24.4	(8.2)	32.5	35.4	40.2	(8.2)	(11.9)
Crude oil production by fully and proportionately consolidated enterprises	**607.6**	**594.3**	**2.2**	**795.8**	**779.1**	**728.1**	**2.1**	**7.0**
Tomskneft (Western Siberia)	28.1	28.3	(0.7)	37.9	37.7	39.8	0.5	(5.2)
Udmurtneft (Central Russia)	17.5	17.3	1.2	23.2	23.2	23.0	0.1	0.7
Polar Lights (Timan Pechora)	1.4	1.7	(17.6)	2.2	2.6	3.3	(12.9)	(23.4)
Verkhnechonskneftegaz (Eastern Siberia)	9.9	6.6	50.0	9.5	4.8	2.2	97.9	118.2
Total share in production of joint ventures	**56.9**	**53.9**	**5.6**	**72.8**	**68.3**	**68.3**	**6.6**	**—**
Total crude oil production	**664.5**	**648.2**	**2.5**	**868.6**	**847.4**	**796.4**	**2.5**	**6.4**
Daily crude oil production (th. barrels per day)	**2,425**	2,374	**2.1**	2,380	2,322	2,182	2.5	6.4

In the nine months ended 30 September 2012, Rosneft's average daily crude oil production was 2.1% higher than the nine months ended 30 September 2011. The growth was driven primarily by production increases at Vankorskoye, Verkhnechonsk, Samaraneftegaz, Udmurtneft and Yuganskneftegaz fields, and was partially offset by a production decrease at Sakhalin-1 and Timano Pechora.

For the year ended 31 December 2011, Rosneft's average daily crude oil production was 2,380 th. barrels per day, which was 2.5% higher than in 2010. The growth was driven primarily by commercial production growth at the Vankorskoye oil field after the launch of new wells and due to the launch of production at Odoptu field in September 2010 at Salhalin-1. Overall production growth was partially offset by the natural decline in production at the fields of Severnaya Neft.

For the year ended 31 December 2010, Rosneft's average daily crude oil production was 2,322 th. barrels per day, which was 6.4% higher than in 2009. The growth was driven primarily by commercial production launch at the Vankorskoye field in July 2009 and production growth at the Verkhnechonsk field and Samaraneftegaz fields.

Production of Gas

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011–2010	2010–2009
				(bcm, except %)				
Purneftegaz (Western Siberia)	3.00	2.67	12.4	3.71	3.60	3.76	3.1	(4.3)
Yuganskneftegaz (Western Siberia)	2.27	2.07	9.7	2.86	2.65	2.62	7.9	1.1
Krasnodarneftegaz (Southern Russia)	2.08	2.00	4.0	2.73	2.71	2.93	0.7	(7.5)
Samaraneftegaz (Central Russia)	0.40	0.38	5.3	0.50	0.47	0.39	6.4	20.5
Severnaya Neft (Timan Pechora)	0.22	0.20	10.0	0.26	0.28	0.29	(7.1)	(3.4)
Vankorneft (Eastern Siberia)	0.33	0.26	26.9	0.37	0.28	—	32.1	—
Sakhalin-1 (Far East) (net of royalty and government share)	0.23	0.21	9.5	0.31	0.29	0.26	6.9	11.5
Other	0.84	0.93	(9.7)	1.25	1.35	1.61	(7.4)	(16.1)
Gas production by fully and proportionately consolidated enterprises	**9.37**	**8.72**	**7.5**	**11.99**	**11.63**	**11.86**	**3.1**	**(1.9)**
Tomskneft (Western Siberia)	0.59	0.50	18.0	0.73	0.65	0.77	12.3	(15.6)
ITERA LLC	1.02	—	—	—	—	—	—	—
Other	0.04	0.04	0.0	0.07	0.06	0.05	16.7	20.0
Total share in production of joint ventures	**1.65**	**0.54**	**>100.0**	**0.80**	**0.71**	**0.82**	**12.7**	**(13.4)**
Total gas production	**11.02**	**9.26**	**19.0**	**12.79**	**12.34**	**12.68**	**3.6**	**(2.7)**
Natural gas	4.39	3.47	26.5	4.68	4.66	4.90	0.4	(4.9)
Associated gas	6.63	5.79	14.5	8.11	7.68	7.78	5.5	1.3

* Production volume equals extracted volume minus flared volume.

In the nine months ended 30 September 2012, Rosneft's natural and associated gas production was significantly higher than in the nine months ended 30 September 2011, due mainly to the ITERA acquisition. Excluding the effect of the ITERA acquisition, gas production growth by 0.74 bcm year-on-year was due to the following factors: stable operation at the Luguinetskaya compressor station of Tomskneft, higher crude oil production at the Vankorskoye field and at the Priobskoye field of Yuganskneftegaz and the launch of compressor stations in Purneftegaz at the Komsomolskoe field of Purneftegaz in September 2011.

For the year ended 31 December 2011, Rosneft's natural and associated gas production was 3.6% higher than in 2010, primarily as a result of increased production of associated gas at Samaraneftegaz, Vankorskoye and Yuganskneftegaz. Launch of new booster compression stations and gas preparations facilities increased gas utilisation rates. This increase was partially offset by the natural decline in production of crude oil and associated gas at Severnaya Neft.

For the year ended 31 December 2010, Rosneft's natural and associated gas production was 2.7% lower than in 2009, primarily as a result of required maintenance at Luguinetskaya compression station, as well as a decrease in demand for gas produced by Krasnodarneftegaz and a decrease in crude oil production at Purneftegaz. This decrease was partially offset by production growth at Yuganskneftegaz and Samaraneftegaz and progress with the gas utilisation programme, discussed below.

Rosneft is implementing a programme aimed at increasing associated gas utilisation rate. The programme envisages construction of gas gathering facilities, booster compression stations and underground storage facilities, as well as gas power stations. In the nine months ended 30 September 2012, the following assets were put into exploitation within the gas utilisation programme: compression stations in Priobskoye and Kharampurskoe fields and a gas pipeline at Ombinskoe field.

Petroleum Product Output

Rosneft processes produced and procured crude oil at its refineries, including the Tuapse refinery on the Black Sea in the South of Russia, the Komsomolsk refinery in the Russian Far East, the Achinsk and Angarsk refineries in Eastern Siberia and the Kuibyshev, Novokuibyshevsk and Syzran refineries in the Samara region (European part of Russia). The output capacity of these refineries as of 30 September 2012 stands at 51.8 million tonnes per year.

Rosneft also owns six mini-refineries (in Western Siberia, Eastern Siberia, Timan-Pechora and the southern part of European Russia), as well as OJSC Angarsk polymer plant (petrochemical block of the Angarsk refinery), LLC Novokuibyshevsk lubricants and additives Plant (lubricants block of the Novokuibyshevsk refinery) and OJSC Rosneft-MZ Nefteprodukt (lubricants plant in Moscow).

In May 2011, Rosneft acquired a 50% stake in Ruhr Oel GmbH which owns stakes in four refineries in Germany. Rosneft's share in primary output capacity of these refineries amounts to 11.6 million tonnes per year. The Gelsenkirchen refinery, which is fully owned by Ruhr Oel GmbH, has a petrochemical block with annual capacity of 1 million tonnes of ethylene.

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
	(millions of tonnes, except %)							
Crude oil processing at Rosneft's own refineries	37.75	37.50	0.7	50.65	50.49	49.83	0.3	1.3
Rosneft's share in crude oil processing at Ruhr Oel GmbH	7.81	4.45	75.5	7.21	—	—	100.0	—
Total group crude oil processing	**45.56**	**41.95**	**8.6**	**57.86**	**50.49**	**49.83**	**14.6**	**1.3**
Product output:								
High octane gasoline	3.96	3.95	0.3	5.33	4.92	4.82	8.3	2.1
Low octane gasoline	0.28	0.26	7.7	0.35	1.53	1.37	(77.1)	11.7
Naphtha	2.73	2.79	(2.2)	3.83	3.13	3.40	22.4	(7.9)
Diesel	12.72	12.79	(0.5)	17.25	16.84	17.01	2.4	(1.0)
Fuel oil	12.06	12.52	(3.7)	16.91	17.39	16.47	(2.8)	5.6
Jet	1.16	0.89	30.3	1.20	1.10	1.10	9.1	—
Petrochemicals	0.37	0.38	(2.6)	0.54	0.52	0.48	3.8	8.3
Other	2.64	2.03	30.0	2.68	2.46	2.41	8.9	2.1
Product output at Rosneft's own refineries	**35.92**	**35.61**	**0.9**	**48.08**	**47.89**	**47.06**	**0.4**	**1.8**
Rosneft's share in product output at Ruhr Oel GmbH	8.02	4.56	75.9	7.30	—	—	100.0	—
Total group product output	**43.94**	**40.17**	**9.4**	**55.38**	**47.89**	**47.06**	**15.6**	**1.8**

In the nine months ended 30 September 2012, Rosneft's refinery throughput was 8.6% higher than in the nine months ended 30 September 2011, mainly due to the acquisition of a 50% stake in Ruhr Oel GmbH in May 2011. Throughput at Russian refineries increased by 0.7%. The increase in jet fuel production resulted from a change in the output structure of the Syzran refinery following the demand growth.

For the year ended 31 December 2011, Rosneft's refinery throughput was 14.6% higher in comparison to 2010 due to the acquisition of a stake in Ruhr Oel GmbH in May 2011 and crude oil processing growth at Rosneft's own refineries by 0.3%. The decrease in low octane gasoline output and increase in naphtha output occurred after the introduction of new requirements for technical regulations for the quality of motor fuel introduced in January 2011.

For the year ended 31 December 2010, Rosneft's refinery throughput was 1.8% higher than in 2009. The increase in production of fuel oil was due to a decrease of potential light fractions content in the oil processed at Samara, Novokuibyshevsk, Tuapse and Komsomolsk refineries, as well as decrease in demand for products produced from fuel oil.

RESULTS OF OPERATIONS

The following table sets forth the statement of income information for the nine months ended 30 September 2011 and 2012 and for the years ended 31 December 2011, 2010 and 2009*:

	For nine months ended September 30			For year ended December 31				
	2012	2011	% change 2012 - 2011	2011	2010	2009	% change 2011 - 2010	% change 2010 - 2009
	(RUB billion, except %)							
Revenues								
Oil and gas sales	1,141	1,020	11.9	1,392	1,056	779	31.8	35.6
Petroleum products and petrochemicals sales	1,096	899	21.9	1,265	810	653	56.2	24.0
Support services and other revenues	31	35	(11.4)	45	49	40	(8.2)	22.5
Total revenues	**2,268**	**1,954**	**16.1**	**2,702**	**1,915**	**1,472**	**41.1**	**30.1**
Costs and expenses								
Production and operating expenses	158	140	12.9	189	144	128	31.3	12.5
Cost of purchased oil, gas and petroleum products and refining costs	275	189	45.5	298	72	59	313.9	22.0
General and administrative expenses	48	37	29.7	52	51	45	2.0	13.3
Pipeline tariffs and transportation costs	179	161	11.2	216	212	171	1.9	24.0
Exploration expenses	15	6	150.0	13	14	11	(7.1)	27.3
Depreciation, depletion and amortisation	166	160	3.8	213	202	168	5.4	20.2
Taxes other than income tax	484	356	36.0	498	331	254	50.5	30.3
Export customs duty	664	567	17.1	790	509	379	55.2	34.3
Total cost and expenses	**1,989**	**1,616**	**23.1**	**2,269**	**1,535**	**1,215**	**47.8**	**26.3**
Operating income	279	**338**	(17.5)	**433**	**380**	**257**	**13.9**	**47.9**
Finance income	15	15	0.0	20	20	16	—	25.0
Finance expenses	(12)	(17)	(29.4)	(19)	(21)	(24)	(9.5)	(12.5)
Equity share in profits of associates and joint ventures	20	11	81.8	16	4	6	300	(33.3)
Other income/(expense)	61	(35)	—	(45)	(24)	(43)	87.5	(44.2)
Income/(loss) before income tax	**363**	**312**	**16.3**	**405**	**359**	**212**	**12.8**	**69.3**
Income tax expense	(78)	(65)	20.0	(86)	(58)	(57)	48.3	1.8
Net income/(loss)	**285**	**247**	**15.4**	**319**	**301**	**155**	**6.0**	**94.2**
Other comprehensive income/(loss)								
Foreign exchange differences on translation of foreign operations	4	2	100.0	(1)	(3)	(1)	(66.7)	200.0
Income/(loss) from changes in fair value of financial assets available for-sale	(2)	—	—	1	—	—	—	—
Total other comprehensive income/(loss), net of tax	**2**	**2**	**—**	**—**	**(3)**	**(1)**	**(100.0)**	**200.0**
Total comprehensive income(loss), net of tax	287	**249**	**15.3**	**319**	**298**	**154**	**7.0**	**93.5**

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

Revenues

In the nine months ended 30 September 2012, revenues were RUB 2,268 billion, an increase of 16.1% compared to the nine months ended 30 September 2011. This was mainly driven by increases in sales volumes and prices. Urals price increased by 9.6% and the world market prices for diesel and fuel oil denominated in RUB rose by 11.2% and 15.5%, respectively.

In the year ended 31 December 2011, revenues were RUB 2,702 billion, an increase of 41.1% compared revenues of RUB 1,915 billion in 2010. This was mainly driven by substantial increases in prices and growth of production volumes. For example, the price of Urals blend increased by 34.9% and the world market prices for diesel and fuel oil denominated in RUB rose by 34.3% and 33.6%, respectively. Sales volumes grew by 9.3%, attributable mainly to increased oil production and refinery throughput.

In the year ended 31 December 2010, revenues amounted to RUB 1,915 billion, an increase of 30.1% compared with 2009. This was driven mainly by substantial increases in international oil prices and growth of production volumes due to production increases at Vankorskoye field.

The table below presents revenues from sales of crude oil, gas, petroleum and petrochemical products and other revenues (not including sales to other members of the Group)*:

	For nine months ended 30 September				% change for nine months ended 30 September	For year ended 31 December						% change for year ended 31 December	
	2012		2011		2012	2011		2010		2009		2011 - 2010	2010 - 2009
		% of total revenue		% of total revenue	%		% of total revenue		% of total revenue		% of total revenue	%	
	(RUB billion, except %)												
Crude oil													
International Sales to non-CIS	1,062	46.8	967	49.5	9.8	1,321	48.9	993	51.8	722	49.0	33.0	37.5
Europe and other directions	772	34.0	694	35.5	11.2	955	35.3	694	36.2	573	38.9	37.6	21.1
Asia	290	12.8	273	14.0	6.2	366	13.6	299	15.6	149	10.1	22.4	100.7
International sales to CIS	58	2.6	40	2.0	45.0	54	2.0	42	2.2	42	2.9	28.6	0.0
Domestic	5	0.2	2	0.1	150.0	3	0.1	8	0.4	4	0.3	(62.5)	100.0
Total crude oil	**1,125**	**49.6**	**1,009**	**51.6**	**11.5**	**1,378**	**51.0**	**1,043**	**54.4**	**768**	**52.2**	**32.1**	**35.8**
Gas	**16**	**0.7**	**11**	**0.6**	**37.7**	**14**	**0.5**	**13**	**0.7**	**11**	**0.7**	**7.7**	**18.2**
Petroleum products													
International Sales to non-CIS	623	27.5	499	25.5	24.8	712	26.4	429	22.4	366	24.9	66.0	17.2
Europe and other directions	449	19.8	337	17.2	33.2	488	18.1	247	12.9	212	14.4	97.6	16.5
Asia	174	7.7	162	8.3	7.4	224	8.3	182	9.5	154	10.5	23.1	18.2
International Sales to CIS	7	0.3	6	0.3	16.7	8	0.3	5	0.2	5	0.3	60.0	0.0
Domestic	367	16.2	327	16.7	12.2	448	16.5	340	17.8	262	17.8	31.8	29.8
Wholesale	222	9.8	200	10.2	11.0	270	10.0	220	11.5	164	11.1	22.7	34.1
Retail	145	6.4	127	6.5	14.2	178	6.5	120	6.3	98	6.7	48.3	22.4
Sales of bunker fuel to end-users	37	1.6	28	1.5	32.1	37	1.4	23	1.2	13	0.9	60.9	76.9
Total petroleum products	**1,034**	**45.6**	**860**	**44.0**	**20.2**	**1,205**	**44.6**	**797**	**41.6**	**646**	**43.9**	**51.2**	**23.4**
Petrochemical products	62	2.7	39	2.0	59.0	60	2.2	13	0.7	7	0.5	361.5	85.7
International	54	2.4	32	1.6	68.8	50	1.8	4	0.2	2	0.1	1,150	100.0
Domestic	8	0.3	7	0.4	14.3	10	0.4	9	0.5	5	0.4	11.1	80.0
Support services and other revenues	31	1.4	35	1.8	(12.5)	45	1.7	49	2.6	40	2.7	(8.2)	22.5
Total sales	**2,268**	**100.0**	**1,954**	**100.0**	**16.1**	**2,702**	**100**	**1,915**	**100.0**	**1,472**	**100**	**41.1**	**30.1**

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

Sales Volumes

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

	For nine months ended 30 September				% change for nine months ended 30 September 2012	For year ended 31 December						% change for year ended 31 December	
	2012		2011			2011		2010		2009		2011 - 2010	2010 - 2009
	mln bbls	% of total volume	mln bbls	% of total volume	%	mln bbls	% of total volume	mln bbls	% of total volume	mln bbls	% of total volume	%	
Crude oil													
International Sales to non-CIS	327.0	47.3	323.3	49.3	1.1	433.8	48.9	420.6	51.8	381.1	50.0	3.1	10.4
Europe and other directions	229.0	33.1	223.1	34.0	2.6	301.4	34.0	297.0	36.6	304.3	40.0	1.5	(2.4)
Asia	98.0	14.2	100.2	15.3	(2.2)	132.4	14.9	123.6	15.2	76.8	10.0	7.1	60.9
CIS	34.4	5.0	25.6	3.9	34.4	33.6	3.8	24.9	3.1	30.7	4.0	34.9	(18.9)
Domestic	3.6	0.5	1.5	0.2	140.0	2.2	0.2	8.8	1.1	5.1	0.7	(75.0)	72.5
Total crude oil	**365.0**	**52.8**	**350.4**	**53.4**	**4.2**	**469.6**	**52.9**	**454.3**	**56.0**	**416.9**	**54.7**	**3.4**	**9.0**
	mln tonnes		**mln tonnes**			**mln tonnes**		**mln tonnes**		**mln tonnes**			
Crude oil													
International Sales to non-CIS	44.7	47.3	44.2	49.3	1.1	59.3	48.9	57.5	51.8	52.1	50.0	3.1	10.4
Europe and other directions	31.3	33.1	30.5	34.0	2.6	41.2	34.0	40.6	36.6	41.6	40.0	1.5	(2.4)
Asia	13.4	14.2	13.7	15.3	(2.2)	18.1	14.9	16.9	15.2	10.5	10.0	7.1	60.9
CIS	4.7	5.0	3.5	3.9	34.4	4.6	3.8	3.4	3.1	4.2	4.0	34.9	(18.9)
Domestic	0.5	0.5	0.2	0.2	140.0	0.3	0.2	1.2	1.1	0.7	0.7	(75.0)	72.5
Total crude oil	**49.9**	**52.8**	**47.9**	**53.4**	**4.2**	**64.2**	**52.9**	**62.1**	**56.0**	**57.0**	**54.7**	**3.4**	**9.0**
Petroleum products													
International Sales to non-CIS	24.1	25.5	22.1	24.6	9.0	30.5	25.2	25.5	23.0	27.2	26.2	19.6	(6.3)
Europe and other directions	17.6	18.6	15.1	16.8	16.6	21.1	17.4	15.4	13.9	16.4	15.8	37.0	(6.1)
Asia	6.5	6.9	7.0	7.8	(7.1)	9.4	7.8	10.1	9.1	10.8	10.4	(6.9)	(6.5)
International Sales to CIS	0.3	0.3	0.3	0.4	0.0	0.4	0.3	0.3	0.3	0.4	0.4	33.3	(25.0)
Domestic	16.2	17.1	16.1	17.9	0.6	21.4	17.7	20.5	18.5	17.6	16.9	4.4	16.5
Wholesale	11.2	11.8	11.3	12.6	(0.9)	14.9	12.3	15.2	13.7	12.8	12.3	(2.0)	18.8
Retail	5.0	5.3	4.8	5.3	4.2	6.5	5.4	5.3	4.8	4.8	4.6	22.6	10.4
Sales of bunker fuel to end-users	2.0	2.1	1.8	2.0	11.1	2.5	2.1	1.8	1.6	1.2	1.1	38.9	50.0
Total petroleum products	**42.6**	**45.0**	**40.3**	**44.9**	**5.7**	**54.8**	**45.3**	**48.1**	**43.4**	**46.4**	**44.6**	**13.9**	**3.7**
Petrochemical products	2.1	2.2	1.5	1.7	40.0	2.2	1.8	0.7	0.6	0.7	0.7	214.3	0.0
International sales	1.6	1.7	1.0	1.1	60.0	1.5	1.2	0.1	0.1	0.1	0.1	1,400.0	0.0
Domestic	0.5	0.5	0.5	0.6	0.0	0.7	0.6	0.6	0.5	0.6	0.6	16.7	0.0
Total crude oil and products	**94.6**	**100.0**	**89.7**	**100**	**5.5**	**121.2**	**100**	**110.9**	**100**	**104.1**	**100**	**9.3**	**6.5**
	bln m^3		**bln m^3**			**bln m^3**		**bln m^3**		**bln m^3**			
Gas													
Sales Volumes	8.18		7.28		12.4	9.74		9.80		10.61		(0.6)	(7.6)

Average Crude Oil and Petroleum Product Sales Prices

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

	nine months ended 30 September				% change for nine months ended 30 September	For year ended 31 December						% change for year ended 31 December	
	2012		2011		2012	2011		2010		2009		2011 - 2010	2010 - 2009
	(th. RUB/ barrel)	(th. RUB/ tonne)	(th. RUB/ barrel)	(th. RUB/ tonne)		(th. RUB/ barrel)	(th. RUB/ tonne)	(th. RUB/ barrel	(th. RUB/ tonne)	(th. RUB/ barrel)	(th. RUB/ tonne)		
Average export prices													
Crude oil, excluding CIS	3.25	23.8	2.99	21.9	8.7	3.04	22.3	2.40	17.3	1.90	13.9	28.9	24.5
Europe and other directions	3.38	24.7	3.11	22.7	8.8	3.17	23.2	2.30	17.1	1.90	13.8	35.7	23.9
Asia	2.97	21.7	2.72	19.9	9.0	2.76	20.2	2.40	17.7	1.90	14.2	14.1	24.6
Crude oil, CIS	1.68	12.3	1.59	11.7	5.1	1.61	11.8	1.70	12.4	1.40	9.9	(4.8)	25.3
Petroleum products, non- CIS		25.9		22.5	15.1		23.4		16.8		13.5	39.3	24.4
Europe and other directions		25.6		22.3	14.8		23.2		16.1		12.9	44.1	24.8
Asia		26.9		23.1	16.5		23.9		18.0		14.3	32.8	25.9
					14.2								
Petroleum products, CIS		24.2		21.2	14.2		21.8		17.3		12.7	26.0	36.2
Average domestic prices													
Crude oil	1.38	10.1	1.37	10.0	1.0	1.39	10.2	0.90	6.8	0.80	5.9	50.0	15.3
Petroleum products		22.8		20.4	11.8		20.9		16.6		14.9	25.9	11.4
Wholesale		19.9		17.8	11.8		18.2		14.5		12.7	25.5	14.2
Retail		29.2		26.4	10.6		27.1		22.8		20.6	18.9	10.7
Gas (th. RUB/th. cubic metre)		1.95		1.43	36.4		1.47		1.29		1.06	14.0	21.7
Sales of bunker fuel to end-users		17.9		15.0	19.3		15.4		12.3		11.0	25.2	11.8
Petrochemical products		29.5		26.6	10.9		27.0		17.1		11.4	57.9	50.0
International sales		33.5		33.7	(0.6)		33.0		31.5		24.0	4.8	31.3
Domestic		16.0		13.7	16.8		14.0		14.5		9.3	(3.4)	55.9

International Crude Oil Sales to non-CIS

In the nine months ended 30 September 2012, revenues from international crude oil sales to non-CIS countries were RUB 1,062 billion, an increase of 9.8% in comparison with the nine months ended 30 September 2011. An average price upturn of 8.7% was accompanied by a slight increase in sales volumes by 1.1%.

For the year ended 31 December 2011, revenues from crude oil exports to non-CIS countries increased by 33.0% compared to 2010, which was driven by a 28.9% increase in average export prices in line with the increase in average global prices, and a 3.1% increase in sales volumes. Export sales volumes growth was due to increased production at Vankorskoye.

The deviation between average sales prices on the Asian markets and world market prices in 2012 and 2011 is due to deliveries to Transneft of 6 million tonnes (43.89 million barrels) of crude oil per year under the contract signed in 2009. These volumes are sold to Transneft at export alternative price basis (international crude oil price excluding export duty) and are recognized as international sales in Company's sales structure. Excluding revenues from crude oil sales to Transneft (RUB 61 billion) in the nine months ended 30 September 2012 the average sales price on the Asian markets amounted to RUB 3.6 thousand per barrel.

For the year ended 31 December 2010, revenues from crude oil exports to non-CIS countries were RUB 993 billion or 37.5% higher compared with 2009, which was driven by a 24.5% increase in average export prices and a 10.4% increase in sales volumes.

International Crude Oil Sales to CIS

In the nine months ended 30 September 2012, revenues from international crude oil sales to CIS countries were RUB 18 billion higher in comparison with the nine months ended 30 September 2011, which was attributable to sales volumes growth of 34.4% and an average price upturn of 5.1%. The increase in sales volumes resulted from higher quotas for crude oil deliveries to Belarus.

For the year ended 31 December 2011, revenues from crude oil exports to CIS countries increased by RUB 12 billion in comparison with 2010, which was attributable to a sales volumes increase of 34.9%, partly offset by a decline in the average price of crude oil by 4.8%. The increase in sales volumes was due to the cancellation of custom duties on crude oil export to Belarus.

For the year ended 31 December 2010, revenues from sales of crude oil to the CIS were RUB 42 billion, a decrease of 2.4%. An 18.9% sales volumes decrease was offset by an average price increase of 25.3%.

Domestic Crude Oil Sales

In the nine months ended 30 September 2012, domestic crude oil sales were RUB 5 billion, 150.0% higher than in the nine months ended 30 September 2011. A 140.0% increase in sales volumes and 1% upturn in average prices primarily led to this revenue growth.

In the year ended 31 December 2011, revenues from crude oil sales on domestic market were 62.5% lower compared to 2010. The reduction was driven by a 75.0% decrease in sales volumes resulting from the start of deliveries to Transneft, and was partially compensated by an average price upturn of 50.0%.

In the year ended 31 December 2010, domestic crude oil sales were RUB 8 billion, an increase of 100.0% compared with 2009. The growth was driven by a 72.5% increase in sales volumes as well as by a 15.3% increase in average prices.

International Petroleum Product Sales to Non-CIS

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold to non-CIS countries for the nine months ended 30 September 2011 and 2012:

	For nine months ended 30 September								
	2012			2011			% change		
	RUB billion	millions of tonnes	Average price th. RUB/ tonne	RUB billion	millions of tonnes	Average price th. RUB/ tonne	RUB billion	millions of tonnes	Average price th. RUB/ tonne
High octane gasoline	5	0.0	37.7	12	0.5	24.9	(58.3)	(100.0)	51.4
Low octane gasoline	3	0.1	33.9	5	0.2	26.6	(40.0)	(50.0)	27.4
Naphtha	76	2.6	28.8	70	2.6	26.7	8.6	0.0	7.9
Diesel (Gasoil)	142	4.8	29.3	127	4.8	26.1	11.8	0.0	12.3
Fuel oil	194	9.5	20.7	179	10.1	17.8	8.4	(5.9)	16.3
Jet fuel	0	0.0	37.2	1	—	30.3	(100.0)	—	22.8
Other	3	0.3	26.9	6	0.2	25.0	(50.0)	50.0	7.6
Total petroleum products exported to non-CIS	**423**	**17.3**	**24.6**	**400**	**18.4**	**21.6**	**5.8**	**(6.0)**	**13.9**
Petroleum products sold from ROG refineries	200	6.8	29.2	99	3.7	26.9	102.0	83.8	8.6
Total	**623**	**24.1**	**25.9**	**499**	**22.1**	**22.5**	**24.8**	**9.0**	**15.1**

Average prices of petroleum product sales may vary significantly depending on the market mainly due to different product mix.

Revenue from the international sales of petroleum products to non-CIS countries was RUB 623 billion in the nine months ended 30 September 2012, an increase of 24.8% compared to the nine months ended 30 September 2011. A 15.1% upturn in average rouble prices as well as a sales volume increase of 9.0% were the primary contributors to this increase in revenue. The increase in sales volumes was due to the acquisition of a 50% share in Ruhr Oel GmbH.

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold to non-CIS countries for the years ended 31 December 2009, 2010 and 2011:

	For year ended 31 December									% change between year ended 31 December 2011 and 2010			% change between year ended 31 December 2010 and 2009		
	2011			2010			2009								
	RUB billion	mlns of tonnes	Avg RUB/ tonne	RUB billion	mlns of tonnes	Avg RUB/ tonne	RUB billion	mlns of tonnes	Avg RUB/ tonne	RUB billion	mlns of tonnes	Avg RUB/ tonne	RUB billion	mlns of tonnes	Avg RUB / tonne
High octane gasoline	14	0.6	25.4	4	0.2	25.5	4	0.2	18.9	250.0	200.0	(0.4)	0.0	0.0	34.9
Low octane gasoline	6	0.3	27.7	4	0.2	21.8	3	0.2	19.6	50.0	50.0	27.1	33.3	0.0	11.2
Naphtha	94	3.5	26.7	66	3.1	21.3	54	3.3	16.2	42.4	12.9	25.4	22.2	(6.1)	31.5
Diesel (gasoil)	183	6.8	27.0	164	8.2	19.8	144	9.4	15.4	11.6	(17.1)	36.4	13.9	(12.8)	28.6
Fuel oil	241	13.1	18.4	185	13.5	13.7	156	13.7	11.3	30.3	(3.0)	34.3	18.6	(1.5)	21.2
Jet fuel	1	—	31.7	—	—	21.9	1	0.1	17.0	100.0	—	44.7	(100.0)	(100.0)	28.8
Other	8	0.3	25.5	6	0.3	21.1	4	0.3	15.6	33.3	0.0	20.9	50.0	0.0	35.3
Total petroleum products exported to non-CIS	547	24.6	22.3	429	25.5	16.8	366	27.2	13.5	27.5	(3.5)	32.7	17.2	(6.3)	24.4
Petroleum products sold from ROG refineries	165	5.9	27.9	—	—		—	—		100.0	100.0	100.0	—	—	—
Total	712	30.5	23.4	429	25.5	16.8	366	27.2	13.5	66.0	19.6	39.3	17.2	(6.3)	24.4

In the year ended 31 December 2011, revenues from the export of petroleum products to non-CIS countries were 66.0% higher compared to 2010. This was mainly driven by a 39.3% upturn in average prices and a sales volumes growth of 19.6%. Petroleum products sales volumes to non-CIS countries net of Ruhr Oel GmbH sales volumes decreased by 3.5%. This was attributed mainly to an increase in demand on the domestic market due to international oil prices and followed redirection of respective sales volumes due to the Ruhr Oel GmbH acquisition.

In the year ended 31 December 2010, revenues from petroleum product exports to non-CIS countries were RUB 429 billion, an increase of 17.2% compared with 2009, which was driven mainly by a 24.4% increase in average prices.

Petroleum Product Sales to CIS

In the nine months ended 30 September 2012, revenues from sales of petroleum products to CIS countries were RUB 1 billion higher in comparison with the nine months ended 30 September 2011, which was attributable to an average price upturn of 14.2%.

In the year ended 31 December 2011, revenues from sales of petroleum products to the CIS increased by RUB 3 billion compared with the year ended 31 December 2010, primarily as a result of the 26.0% upturn in average prices and a 33.3% increase in sales volumes.

In the year ended 31 December 2010 and 31 December 2009, revenues from sales of petroleum products to the CIS were RUB 5 billion and RUB 5 billion, respectively, primarily as a result of a 36.2% upturn in average prices and offset by a 25.0% decrease in sales.

Domestic Sales of Petroleum Products

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold in Russia for the nine months ended 30 September 2011 and 2012:

	For nine months ended								
	2012			2011			% change		
	RUB billion	millions of tonnes	Average price RUB/tonne	RUB billion	millions of tonnes	Average price RUB/tonne	RUB billion	millions of tonnes	Average price RUB/tonne
High octane gasoline	133	4.6	28.8	126	4.7	27.0	5.6	(2.1)	6.7
Low octane gasoline	5	0.3	24.4	5	0.2	21.7	0.0	50.0	12.4
Naphtha	—	—	—	—	—	—	—	—	—
Diesel	162	6.8	23.9	147	7.4	19.9	10.2	(8.1)	20.1
Fuel oil	11	1.1	10.3	12	1.4	8.7	(8.3)	(21.4)	18.4
Jet fuel	30	1.3	25.0	18	0.9	21.0	66.7	44.4	19.0
Other	26	2.1	11.5	19	1.5	12.3	36.8	40.0	(6.5)
Total	**367**	**16.2**	**22.8**	**327**	**16.1**	**20.4**	**12.2**	**0.6**	**11.8**

Revenues from sales of petroleum products on the domestic market were RUB 367 billion in the nine months ended 30 September 2012, an increase of 12.2% compared to the nine months ended 30 September 2011. Revenue growth was caused by a 11.8% upturn in average prices and a slight 0.6% increase in sales volumes.

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold in Russia for the years ended 31 December 2009, 2010 and 2011:

	For year ended 31 December									% % change between year ended 31 December 2011 and 2010			% % change between year ended 31 December 2010 and 2009		
	2011			2010			2009								
	RUB billion	mlns of tonnes	Average price RUB/ tonne	RUB billion	mlns of tonnes	Average price RUB/ tonne	RUB billion	mlns of tonnes	Average price RUB/ tonne	RUB billion	mlns of tonnes	Average price RUB/ tonne	RUB billion	mlns of tonnes	Average price RUB/ tonne
High octane gasoline	174	6.3	27.4	126	5.4	23.4	101	4.8	21.1	38.1	16.7	17.1	24.8	12.5	10.9
Low octane gasoline	7	0.3	22.5	24	1.3	18.4	20	1.2	16.9	(70.8)	(76.9)	22.3	20.0	8.3	8.9
Naphtha	—	—		—	—		—	—		—	—		—	—	
Diesel	196	9.5	20.7	132	8.3	16	100	7.1	14.1	48.5	14.5	29.4	32.0	16.9	13.5
Fuel oil	19	2.1	9.2	20	2.6	7.6	11	1.6	6.8	(5.0)	(19.2)	21.1	81.8	62.5	11.8
Jet fuel	25	1.1	22.1	16	1.0	16.7	7	0.5	15	56.3	10.0	32.3	128.6	100.0	11.3
Other	27	2.1	12.7	22	1.9	10.9	23	2.4	9.3	22.7	10.5	16.5	(4.3)	(20.8)	17.2
Total	448	21.4	20.9	340	20.5	16.6	262	17.6	14.9	31.8	4.4	25.9	29.8	16.5	11.4

In the year ended 31 December 2011, revenues from sales of petroleum products on the domestic market increased by 31.8% compared to 2010. This resulted from a 25.9% upturn in average prices and from a 4.4% increase in sales volumes. Volumes growth was due to the increased demand for petroleum products.

In the year ended 31 December 2010, revenues from sales of petroleum products on the domestic market were RUB 340 billion, an increase of 29.8% compared with 2009. This resulted from a 11.4% upturn in average prices and from a 16.5% increase in sales volumes.

Sales of bunker fuel to end-users

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

Revenues from sales of bunker fuel in the nine months ended 30 September 2012 were RUB 37 billion, an increase of 32.1% in comparison with the nine months ended 30 September 2011. Volumes growth was due to expansion of the Company's bunkering business.

In the year ended 31 December 2011, revenues from sales of bunker fuel were RUB 37 billion, an increase of 60.9% compared to 2010. In the years ended 31 December 2010 and 2009, revenues were RUB 23 billion and RUB 13 billion, respectively. This increase was driven by increases in global prices and expansion of the Company's bunkering business.

Petrochemical Product Sales

Petrochemicals include ethylene, propylene and polyethylene which are produced at the Angarsk Polymer Plant in Russia (annual ethylene production capacity of 0.3 million tonnes per year) and at the Gelsenkirchen refinery (which included a petrochemical facility with 1.0 million tonnes of ethylene capacity).

Revenues from sales of petrochemical products in the nine months ended 30 September 2012 were RUB 62 billion, an increase of 59% compared to the nine months ended 30 September 2011. An average price upturn of 10.9% was accompanied by a sales volumes increase of 40.0%. This was mainly due to Rosneft's acquisition of a portion of Ruhr Oel GmbH.

In the year ended 31 December 2011, revenues from sales of petrochemical products increased significantly to RUB 60 billion, compared to RUB 13 billion in 2010. This was mainly due to Rosneft's acquisition of a portion of Ruhr Oel GmbH in May 2011.

In the year ended 31 December 2010, revenues from sales of petrochemical products were RUB 13 billion, an increase of 85.7% compared to 2009. This was due to a price increase for petrochemical products of 50.0%.

Gas Sales

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

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
	(RUB billion, except %)							
Revenue								
Western Siberia	4.0	4.0	0.0	4.1	3.4	3.6	20.6	(5.6)
South Russia	5.6	5.0	12.0	6.8	6.0	4.9	13.3	22.4
Far East	1.0	0.8	25.0	1.2	1.0	1.0	20.0	0.0
European part of Russia	5.1	1.6	218.8	2.1	2.1	1.5	0.0	40
Total	**15.7**	**11.4**	**37.7**	**14.2**	**12.5**	**11.0**	**13.6**	**13.6**
	(bcm. except %)							
Sales volumes								
Western Siberia	3.25	3.84	(15.4)	5.09	5.15	5.98	(1.2)	(13.9)
South Russia	2.17	2.14	1.4	2.91	3.04	3.24	(4.3)	(6.2)
Far East	0.51	0.51	0.0	0.71	0.66	0.62	7.6	6.5
European part of Russia	2.25	0.79	184.8	1.03	0.95	0.77	8.4	23.4
Total	**8.18**	**7.28**	**12.4**	**9.74**	**9.80**	**10.61**	**(0.6)**	**(7.6)**
	(th. RUB/thousands of cubic metres. except %)							
Average price								
Western Siberia	1.22	0.77	58.4	0.80	0.66	0.61	21.2	8.2
South Russia	2.56	2.36	8.5	2.35	1.98	1.53	18.7	29.4
Far East	1.84	1.57	17.2	1.62	1.54	1.64	5.2	(6.1)
European part of Russia	2.44	2.06	18.4	2.09	2.19	1.92	(4.6)	14.1
Total	**1.95**	**1.43**	**36.4**	**1.47**	**1.29**	**1.06**	**14.0**	**21.7**

Revenue from gas sales increased 37.7% in the nine months ended 30 September 2012 compared with the nine months ended 30 September 2011, driven mainly by an increase in average prices of 36.4% and, to a lesser extent, an increase in sales volumes.

In the year ended 31 December 2011, revenue from gas sales amounted to RUB 14.2 billion, an increase of 13.6% in comparison with 2010, primarily as a result of an increase in average prices of 14.0% and was partially offset by a sales volumes decrease of 0.6%.

In the year ended 31 December 2010, revenues from gas sales amounted to RUB 12.5 billion, an increase of 13.6% in comparison to 2009. This was driven mainly by increase in average prices of 21.7%. Sales volumes decreased by 7.6%.

Support Services and Other Revenues

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

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

	For nine months ended 30 September				% change for nine months ended 30 September 2012	For year ended 31 December						% change for year ended 31 December	
	2012		2011			2011		2010		2009		2011 - 2010	2010 - 2009
		% of total revenue		% of total revenue	%		% of total revenue		% of total revenue		% of total revenue	%	
	(RUB billion, except %)												
Drilling services	1.6	5.2	0.8	2.3	100.0	1.2	2.7	1.8	3.6	0.8	2.0	(33.3)	125.0
Sales of materials	7.6	24.8	7.7	21.9	(1.3)	10.1	22.6	10.6	21.5	7.7	19.1	(4.7)	37.7
Repairs and maintenance services	2.4	7.8	2.3	6.6	4.3	3.2	7.2	3.3	6.7	3.3	8.2	(3.0)	0.0
Rent services	2.1	6.8	1.8	5.1	16.7	2.5	5.6	2.1	4.3	1.6	4.0	19.0	31.3
Construction services	1.7	5.5	1.8	5.1	(5.6)	2.8	6.3	2.5	5.1	2.0	5.0	12.0	25.0
Transport services	5.5	17.9	6.3	17.9	(12.7)	8.1	18.1	10	20.2	8.3	20.6	(19.0)	20.5
Electric power sales and transmission	3.3	10.7	7.6	21.7	(56.6)	8.9	19.9	12.1	24.5	8.1	20.1	(26.4)	49.4
Other revenues	6.5	21.3	6.8	19.4	(4.4)	7.9	17.6	7	14.1	8.5	21.0	12.9	(17.6)
Total	**30.7**	**100.0**	**35.1**	**100.0**	**(12.5)**	**44.7**	**100**	**49.4**	**100**	**40.3**	**100.0**	**(9.5)**	**22.6**

Costs and Expenses

Production and Operating Expenses

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

	For nine months ended 30 September		% change for nine months ended 30 September 2011	For year ended 31 December			% change for year ended 31 December	
	2012	2011		2011	2010	2009	2011 - 2010	2010 - 2009
				(RUB billion, except %)				
Upstream	53.6	51.7	3.7	70.7	66.3	59.0	6.6	12.4
Land restoration program	0.7	—	—	—	3.4	—	(100.0)	—
Downstream	81.5	66.5	22.6	89.8	47.6	48.0	88.7	(0.8)
Portion due to procurement of additives and materials for Ruhr Oel GmbH	25.3	16.0	58.1	24.1	—	—	—	—
Other	22.3	21.7	2.8	28.7	26.7	21.0	7.5	27.1
Total	**158.1**	**139.9**	**13.0**	**189.2**	**144.0**	**128.0**	**31.4**	**12.5**

Upstream segment

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

In 2010, the Company adopted a special five-year land restoration programme aimed at restoration of lands located in the territory of upstream activities of several subsidiaries of Rosneft and damaged before the acquisition of these subsidiaries by Rosneft. In accordance with this programme Rosneft made a one-off accrual of land restoration expenses in the amount of RUB 3.4 billion. In March 2012, the programme was amended, which resulted in additional accrual of RUB 0.7 billion. This amount does not include expenses on land restoration made by the Company in the course of regular production activity.

In the nine months ended 30 September 2012, upstream production and operating expenses increased by 3.7% to RUB 53.6 billion compared with the same period of 2011, when these expenses were RUB 51.7 billion. The growth of expenses was kept below the inflation level due to cost saving efforts.

In the year ended 31 December 2011, upstream production and operating expenses increased to RUB 70.7 billion, or by 6.6% compared with RUB 66.3 billion in 2010. The growth was due to an oil production increase of 2.1%. The growth of expenses was kept below the inflation level due to cost saving efforts.

In the year ended 31 December 2010, upstream production and operating expenses increased to RUB 66.3 billion, or by 12.4%, compared with 2009. The growth was due to oil production increase by 7.0%. The growth of expenses was kept below the inflation level due to cost saving efforts.

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
	(RUB per bbl and RUB per boe, except %)							
Expenses per bbl of crude oil produced	88.2	87.0	1.4	88.8	85.1	81.0	4.3	5.1
Expenses per boe of hydrocarbon produced	80.9	80.1	1.0	81.6	78.2	74.0	4.3	5.7

Downstream segment

Downstream operating expenses increased by 22.6% in the nine months ended 30 September 2012 compared with the nine months ended 30 September 2011, primarily due to increased expenses for procurement of additives and other materials for refining process at Ruhr Oel GmbH. Excluding the effect of procurement of additives and other materials for the refining process at Ruhr Oel GmbH from May 2011, downstream operating expenses increased by 11.3%, mainly due to an increase in electricity tariffs, cost of materials and additives for Rosneft's own refineries..

In the year ended 31 December 2011, downstream production and operating expenses increased by 88.7% compared with 2010. The increase resulted primarily from procurements of additives and other materials for refining at Ruhr Oel GmbH (in which Rosneft purchased a stake in May 2011) in the amount of RUB 24.1 billion. Excluding this amount, downstream operating expenses increased by 38.0% due to increased volumes of retail revenue, increased expenses for additives for refining on Rosneft's own refineries and other factors.

In the year ended 31 December 2010, downstream operating expenses were RUB 47.6 billion, a decrease of 0.8% compared with 2009, primarily due to changes in intragroup inventories.

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
Operating expenses (RUB billion)	**25.75**	**19.51**	**32.0**	**27.71**	**21.46**	**19.25**	**29.1**	**11.5**
Operating expenses per tonne of product output (RUB/tonne)	717	548	30.8	576	448	409	28.6	9.5
Operating expenses per tonne of crude oil throughput (RUB/tonne)	682	520	31.2	547	425	386	28.7	10.1

In the nine months ended 30 September 2012, operating expenses related to refining increased by 32.0% compared with the nine months ended 30 September 2011. The growth resulted mainly from an increase in volumes of additives used to produce euro-standard products in accordance with requirements of technical regulations for motor fuel quality. The growth was also due to higher prices for additives and other materials involved in production as well as growth in electricity tariffs.

In the year ended 31 December 2011, operating expenses related to refining increased by 29.1% to RUB 27.71 billion compared to RUB 21.46 billion in 2010. The increase resulted from the increase in cost and volumes of materials and additives for production of euro-class gasoline and higher average electricity tariffs.

In the year ended 31 December 2010, operating expenses related to refining were RUB 21.46 billion, an increase of 11.5% compared with 2009. The increase resulted from a higher volume of refinery throughput as well as increases in the cost and volumes of materials and additives for production and higher average electricity tariffs.

Other activities

Operating expenses related to other activities increased by 2.8% in the nine months ended 30 September 2012 compared with the same period of 2011.

In the year ended 31 December 2011, operating expenses related to other activities increased to RUB 28.7 billion, compared with RUB 26.7 billion in 2010.

In the year ended 31 December 2010, operating expenses related to other activities increased to RUB 26.7 billion, or by 27.1% compared to 2009, primarily due to higher volumes of other activities accompanied by the increase in other revenues by 22.6% (particularly, from transportation services and electric power sales and transmission), and other factors.

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

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
Crude oil								
Cost of crude oil procured (RUB billion)	232	134	73.1	225	43	47	423.3	(8.5)
including Domestic market	66	52	26.9	72	43	47	67.4	(8.5)
International market	166	82	102.4	153	—	—	—	—
Volume of crude oil procured (millions of barrels)	93.4	68.8	35.8	104.1	51.8	57.6	101.0	(10.1)
including Domestic market	46.6	44.1	5.7	59.1	51.8	57.6	14.1	(10.1)
International market	46.8	24.7	89.5	45.0	—	—	—	—
Gas								
Cost of gas procured (RUB billion)	1	1	—	1	1	1	—	—
Volume of gas procured (bcm)	0.50	0.36	38.9	0.55	0.51	0.59	7.8	(13.6)
Petroleum products								
Cost of petroleum product procured (RUB billion)[(1)]	28	48	(41.7)	61	28	11	117.9	154.5
Volume of petroleum product procured (millions of tonnes)	1.1	2.0	(43.4)	2.4	1.5	0.7	60.0	114.3
Crude oil refining services								
Cost of refining of crude oil under processing agreements (RUB billion)	14	7	100.0	11	—	—	—	—
Volumes of crude oil refined under processing agreements (millions of tonnes)	7.8	4.5	73.3	7.2	—	—	—	—
Total cost of procured oil, gas and petroleum products and refining costs (RUB billion)	**275**	**189**	**45.5**	**298**	**72**	**59**	**313.9**	**22.0**

(1) The average procurement price of petroleum products from third parties may be higher than the average selling price of petroleum products due to differences in the mix of procured and sold petroleum products.

Crude oil

Rosneft purchases crude oil primarily from its affiliates to process at Rosneft's own refineries. Rosneft also procures crude oil on the international market to supply it to Ruhr Oel GmbH refineries. In the nine

months ended 30 September 2012, Rosneft acquired 6.4 million tonnes (46.8 million barrels) of crude oil on the international market for a cost of RUB 166 billion in order to supply to Ruhr Oel GmbH refineries. These expenses are reflected in the cost of purchased oil, gas and petroleum products and refining costs in the consolidated statements of income and comprehensive income.

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
	(million bbl, except %)							
International market	46.8	24.7	89.5	45.0	—	—	—	—
Tomskneft	26.3	31.1	(15.4)	39.7	37.2	33.5	6.7	11.0
Udmurtneft	8.4	6.3	33.3	9.1	10.1	12.9	(9.9)	(21.7)
Surgutneftegaz	—	—	—	—	—	5.9	—	(100.0)
Others	11.9	6.7	77.6	10.3	4.5	5.3	128.9	(15.1)
Total	**93.4**	**68.8**	**35.8**	**104.1**	**51.8**	**57.6**	**101.0**	**(10.1)**

Rosneft performs oil swap operations in order to optimise transportation costs of deliveries to refineries. Revenues and costs related to these operations are shown on a net basis in the "Pipeline tariffs and Transportation costs" line of the consolidated statements of income and comprehensive income. In the nine months ended 30 September 2012, these transactions were exercised with Gazprom Neft, Bashneft, TNK-BP and others. In the nine months ended 30 September 2012, the volume of crude oil swaps amounted to 58.1 million barrels, which resulted in a benefit of RUB 1.5 billion for Rosneft.

Petroleum products

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

The table below sets forth Rosneft's costs, volumes and average prices per tonne of petroleum products procured from third parties in the nine months ended 30 September 2012 and 2011:

	For nine months ended 30 September								
	2012			2011			% change		
	RUB billion	millions of tonnes	average price th. RUB/ tonne	RUB billion	millions of tonnes	average price th. RUB/ tonne	RUB billion	millions of tonnes	average price th. RUB/ tonne
High octane gasoline	17	0.66	26.1	39	1.47	26.1	(56.4)	(55.1)	0.0
Low octane gasoline	0	0.00	25.4	1	0.06	18.3	(100.0)	(100.0)	38.8
Diesel	7	0.30	25.4	7	0.37	20.1	0.0	(18.9)	26.4
Fuel oil	–	–	–	–	–	–	–	–	–
Jet fuel	2	0.06	24.2	–	–	–	–	–	–
Other	2	0.09	20.5	**1**	**0.06**	**18.3**	100.0	50.0	12.0
Total	**28**	**1.11**	**25.3**	**48**	**1.96**	**24.4**	**(41.7)**	**(43.4)**	**3.7**

The decrease in volumes of petroleum product purchases in the nine months ended 30 September 2012 in comparison to the nine months ended 30 September 2011 was due to increased supplies for retail sales from Rosneft's own refineries, as well as a decrease in number of Rosneft's own filling stations.

The table below sets forth Rosneft's costs, volumes and average prices per tonne of petroleum products procured from third parties for the years ended 31 December 2009, 2010 and 2011:

	For year ended 31 December									% change for year ended 31 December 2011 and 2010			% change for 12 months ended 31 December, 2010 and 2009		
	2011			2010			2009								
	RUB billion	mlns of tonnes	avg price th. RUB/ tonne	RUB billion	mlns of tonnes	avg price th. RUB/ tonne	RUB billion	mlns of tonnes	avg price th. RUB/ tonne	RUB billion	mlns of tonnes	avg price th. RUB/ tonne	RUB billion	mlns of tonnes	avg price th. RUB/ tonne
High octane gasoline	50	1.85	26.6	15	0.69	21.3	5	0.25	18.9	233.3	168.1	24.9	200.0	176.0	12.7
Low octane gasoline	1	0.06	18.4	1	0.07	17.7	1	0.04	16.1	0.0	(14.3)	4.0	0.0	75.0	9.9
Diesel	8	0.42	20.5	10	0.66	15.1	4	0.29	14.0	(20)	(36.4)	35.8	150.0	127.6	7.9
Fuel oil	–	–	–	0	0.01	9.6	1	0.05	10.8	(100.0)	(100.0)	(100.0)	(100.0)	(80.0)	(11.1)
Jet fuel	0	0.00	18.3	–	–	–	–	–	–	—	—	—	—	—	—
Other	2	0.11	19.0	2	0.12	13.6	1	0.08	12.2	0.0	(8.3)	39.7	100.0	50.0	11.5
Total	**61**	**2.44**	**24.9**	**28**	**1.55**	**17.8**	**11**	**0.71**	**15.3**	**117.9**	**57.4**	**39.9**	**154.5**	**118.3**	**16.3**

Average petroleum product procurement prices may deviate from average sales prices depending on particular regions and product quality.

General and Administrative Expenses

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

General and administrative expenses in the nine months ended 30 September 2012 and 2011 were RUB 48 billion and RUB 37 billion, respectively.

General and administrative expenses in 2011, 2010 and 2009 were RUB 52 billion, RUB 51 billion and RUB 45 billion, respectively.

Pipeline Tariffs and Transportation Costs

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

In the nine months ended 30 September 2012, Rosneft's transportation costs increased by 11.2% compared with the nine months ended 30 September 2011. The increase resulted from transportation tariffs increases, which were partially offset by the optimisation of transportation routes.

During the year ended 31 December 2011, Rosneft's transportation costs increased by RUB 4 billion, or by 1.9% compared with 2010. The increase resulted from indexation of transportation tariffs, increased volumes of crude oil transportation from Vankor to China and the start of crude oil supplies to Ruhr Oel GmbH previously provided by BP under contract. This increase was partially offset by the replacement of railroad deliveries of crude oil to China for pipeline transportation.

In the year ended 31 December 2010, Rosneft's transportation costs increased by RUB 41 billion, or by 24.0% compared with 2009. The increase resulted from higher transportation volumes due to an increase in crude oil production at the Vankorskoye field and increase in tariffs of natural monopolies by 8.4% - 22.0%.

The table below sets forth costs per tonne of crude oil and petroleum products transported by pipeline, railway and a combination of pipeline and railway for the nine months ended 30 September 2011 and 2012:

	For nine months ended 30 September										
	2012				2011				% change		
	Volume, mln. tonnes	Share in export volumes	Cost, bln. RUB	Cost per tonne sold, th.RUB/t	Volume, mln. tonnes	% share in export volumes	Cost, bln. RUB	Cost per tonne sold, th.RUB/t	Volume	Cost	Cost per tonne sold
CRUDE OIL											
International sales											
Pipeline	48.1	97.4	78.2	1.63	45.8	96.0	68.0	1.48	5.0	15.0	10.1
Railroad and mixed	1.3	2.6	1.1	0.84	1.9	4.0	2.2	1.14	(31.6)	(50.0)	(26.3)
Transportation to refineries											
Pipeline[(1)]	32.0		18.9	0.59	30.9		18.2	0.59	3.6	3.8	0.0
Railroad and mixed	4.5		17.9	4.01	4.5		17.8	3.96	0.0	0.6	1.3
PETROLEUM PRODUCTS											
International sales											
Pipeline[(2)]	0.8	3.0	2.0	2.38	0.6	2.5	1.2	2.17	33.3	66.7	9.7
Railroad and mixed	20.6	76.0	36.5	1.77	17.8	74.2	36.4	2.04	15.7	0.3	(13.2)
Other transportation expenses[(3)]			24				17			41.2	
Total	**107.3**		**179**	**1.67**	**101.5**		**161**	**1.59**	**5.7**	**11.2**	**5.0**

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

(2) Rosneft exported 5.7 million tonnes (21.0% of total export volumes) and 5.6 million tonnes (23.3% of total export volumes) of petroleum products in the nine months ended 30 September 2012 and 2011, respectively, through its own pipeline in the town of Tuapse, and on FCA terms from Samara refineries, where Rosneft does not bear transportation expenses directly.

(3) Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to service stations as well as transportation expenses related to sales of bunker fuel. Other transportation expenses also include Rosneft expenses on crude oil swap deals excluding economy in price.

In the nine months ended 30 September 2012 compared to 2011, the increase in crude oil pipeline transportation cost per tonne of international sales was 10.1%, which was due to an increase in tariffs by 2.8% - 18.8%.

The decrease in crude oil railroad and mixed transportation cost per tonne of international sales was 26.3%, which was due to the cessation of supplies of Purneftegaz crude oil to CPC.

Crude oil pipeline transportation cost per tonne of supplies to refineries remained unchanged as a result of increased supplies to Ruhr Oel Gmbh of crude oil procured on the international market, offset by an increase in tariffs.

The increase in crude oil railroad and mixed transportation cost per tonne of supplies to refineries was 1.3%, which was due to an increase in tariffs. The increase in pipeline cost per tonne of petroleum product international sales was 9.7%, which was due to increase in tariffs.

The decrease in railroad and mixed cost per tonne of petroleum product international sales was 13.2% due to petroleum products sales volumes growth in the local market of Germany, where transportation costs are low due to short transportation distances.

The table below sets forth costs per tonne of crude oil and petroleum products transported by pipeline, railway and a combination of pipeline and railway for the years ended 31 December 2009, 2010 and 2011:

	For year ended 31 December												% change between the year ended 31 December 2011 and 2010			% change between the year ended 31 December 2010 and 2009		
	2011				2010				2009									
	Volume, mln. tonnes	% share in export volumes	Cost, bln. RUB	Cost per tonne sold, th. RUB/t	Volume, mln. tonnes	% share in export volumes	Cost, bln. RUB	Cost per tonne sold, th.RUB/t	Volume, mln. tonnes	% share in export volumes	Cost, bln. RUB	Cost per tonne sold, th.RUB/t	Volume, mln. tonnes	Cost, bln. RUB	Cost per tonne sold, th.RUB/t	Volume, mln. tonnes	Cost, bln. RUB	Cost per tonne sold, th.RUB/t
CRUDE OIL																		
International sales																		
Pipeline	61.5	96.3	92.5	1.50	47.4	78	61.2	1.29	41.5	73.8	43	1.03	29.7	51.1	16.3	14.2	42.3	25.2
Railroad and mixed	2.4	3.7	2.6	1.09	13.4	22	31.7	2.37	14.8	26.2	30.5	2.06	(82.1)	(91.8)	(54.0)	(9.5)	3.9	15.0
Transportation to refineries																		
Pipeline[1]	42		24.2	0.58	37.8		22.4	0.59	36.9		17.2	0.46	11.1	8.0	(1.7)	2.4	30.2	28.3
Railroad and mixed	6.2		23.7	3.84	6.6		23.6	3.60	7		20.3	2.92	(6.1)	0.4	6.7	(5.7)	16.3	23.3
PETROLEUM PRODUCTS																		
International sales																		
Pipeline[2]	0.6	1.9	1.4	2.22	1.1	4.2	2.3	2.07	0.9	3.1	1.5	1.81	(45.5)	(39.1)	7.2	22.2	53.3	14.4
Railroad and mixed	25.5	77.2	49.7	1.95	18	68.1	46.2	2.56	19	68.3	43.5	2.29	41.7	7.6	(23.8)	(5.3)	6.2	11.8
Other transportation expenses[3]			22				25				15			(12.0)			66.7	
Total	**138.2**		**216**	**1.57**	**124.3**		**212**	**1.71**	**120.1**		**171**	**1.42**	**11.2**	**1.9**	**(8.2)**	**3.5**	**24.0**	**20.4**

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

(2) Rosneft exported 6.9 million tonnes (20.9% of total export volumes), 7.3 million tonnes (27.7% of total export volumes) and 8.0 million tonnes (28.6% of total export volumes) of petroleum products in 2011, 2010 and 2009, respectively, through its own pipeline in the town of Tuapse, where Rosneft does not bear transportation expenses directly, except for transshipment costs.

(3) Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to service stations as well as transportation expenses related to sales of bunker fuel. Other transportation expenses also include Rosneft expenses on crude oil swap deals.

Construction of Skovorodino—Daquing pipeline (branch of ESPO pipeline) was completed in the end of 2010. Rosneft replaced railroad deliveries of crude oil to China by pipeline supplies, which changed the structure of the transportation routes and allowed the Company to benefit from economies on transportation expenses.

Crude oil pipeline transportation cost per tonne of international sales increased by 16.3% in the year ended 31 December 2011, which was due to an increase in tariffs of between 11.4% - 15.8%, and the change in transportation routes used (particularly, the start of deliveries of Vankor and Yugansk crude oil to China via ESPO). The increase in crude oil pipeline transportation cost per tonne of export sales was 25.2% in the year ended 31 December 2010, which was due to an increase in tariffs of between 18.9% - 20.2% and the change in transportation routes used (particularly, the start of deliveries of Vankor crude oil to exports through ESPO).

Crude oil railroad and mixed transportation cost per tonne of international sales decreased by 54.0% in the year ended 31 December 2011, primarily due to ceasing the supply of crude oil to China by mixed transport. The increase in crude oil railroad and mixed transportation cost per tonne of export railroad sales was 15.0% in the year ended 31 December 2010, which was due to tariff increases.

Crude oil pipeline transportation cost per tonne of supplies to refineries decreased by 1.7% in the year ended 31 December 2011, primarily due to the start of crude oil supplies to Ruhr Oel GmbH, where transportation costs are low due to relatively short transportation distances in Europe.

Crude oil pipeline transportation cost per tonne of domestic supplies increased by 28.3% in the year ended 31 December 2010 compared with 2009, primarily due to tariffs growth by 18.1% - 22.0% and change in crude oil supplies structure.

Crude oil railroad and mixed transportation cost per tonne of domestic supplies increased by 6.7% in the year ended 31 December 2011, primarily due to an increase in transportation tariffs by 8.9%, which was partially offset by the change in structure of transportation routes.

Crude oil railroad and mixed transportation cost per tonne of domestic supplies increased 23.3% in the year ended 31 December 2010, primarily due to an increase in transportation tariffs.

In the year ended 31 December 2011, pipeline cost per tonne of petroleum product international sales increased by 7.2%, primarily due to increase in tariffs by 5.2% - 8.3%.

In the year ended 31 December 2011, cost per tonne of petroleum product international sales via railroad and mixed transportation decreased by 23.8%, primarily due to the emergence of petroleum products sales in the local market of Germany, where transportation costs are low due to shorter transportation routes than in Russia.

In the year ended 31 December 2010, pipeline cost per tonne of petroleum product sales and railroad and mixed transportation cost per tonne of petroleum product export sales increased by 14.4% and 11.8%, respectively, which in each case was due in each case to increases in tariffs by 8.4% - 12.9%.

For further discussion of the costs related to pipeline tariffs and other transportation, see "*—Main Factors Affecting Results of Operations—Changes in Tariffs of Natural Monopolies (for Pipeline and Railway Transport)*".

Exploration Expenses

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

In the nine months ended 30 September 2012, exploration expenses were RUB 15 billion, an increase of 150.0% compared with the same period of 2011, due to an increase in volumes of seismic works and other works not related to exploration drilling.

In the year ended 31 December 2011, exploration expenses decreased by 7.1% compared with 2010.

In the year ended 31 December 2010, exploration expenses increased by 27.3% compared with 2009. The change in exploration expenses was due to an increase in the volumes of exploratory works at Samaraneftegaz fields, Kurmangazy project, geophysical surveys at Krasnodarneftegaz, Yuganskneftegaz and Vankor regions.

Depreciation, Depletion and Amortisation

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

In the nine months ended 30 September 2012, depreciation, depletion and amortisation were RUB 166 billion, an increase of 3.8% compared with RUB 160 billion in the nine months ended 30 September 2011 due to higher volumes of production and the increased book value of fixed assets.

In the year ended 31 December 2011 depreciation, depletion and amortisation amounted to RUB 213 billion compared with RUB 202 billion in 2010, an increase of 5.4%. In the year ended 31 December 2010, depreciation, depletion and amortisation amounted to RUB 202 billion compared with RUB 168 billion in 2009, an increase of 20.2%. This increase was due to higher production volumes.

Taxes Other than Income Tax

Taxes other than income tax include the mineral extraction tax, the excise tax, the property tax and other taxes. The basis for calculation of mineral extraction tax is described under *"—Main Factors Affecting Results of Operations—Taxation including changes in mineral extraction tax and export customs duty*" above.

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
	(RUB billion, except %)							
Mineral extraction tax	395	292	35.3	414	274	204	51.1	34.3
Excise tax	59	41	43.9	55	34	28	61.8	21.4
Social security tax	17	13	30.8	15	12	12	25.0	—
Property tax	9	9	—	11	9	7	22.2	28.6
Interest and penalties and other payments to budget	4	1	>100	3	2	3	50	(33.3)
Total taxes other than income tax	**484**	**356**	**36.0**	**498**	**331**	**254**	**50.5**	**30.3**

In the nine months ended 30 September 2012, taxes other than income tax increased by 36.0% compared with the nine months ended 30 September 2011, mainly due to the beginning of the mineral extraction tax accruals for crude oil produced at the Vankorskoye field and the increase in base rate of the mineral extraction tax, as well as the excise tax increase from 1 January 2012 and 1 July 2012.

Taxes other than income tax increased by 50.5% to RUB 498 billion in the year ended 31 December 2011 compared to 2010. The increase in taxes resulted mainly from an increase in mineral extraction tax rate by 44.9% due to increase in crude oil price.

Taxes other than income tax increased by 30.3% to RUB 331 billion in the year ended 31 December 2010 in comparison with RUB 254 billion in 2009. The increase in taxes resulted mainly from an increase in mineral extraction tax rate by 33.7% and from appreciation of the rouble.

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
	(thousand RUB, except %)							
Average enacted mineral extraction tax paid	5.09	4.37	16.4	4.46	3.07	2.30	44.9	33.7
Actual mineral extraction tax expense per tonne of crude oil produced	4.76	3.59	32.6	3.81	2.52	1.88	51.2	34.0
Actual mineral extraction tax expense per tonne of oil equivalent produced	4.36	3.31	31.7	3.50	2.31	1.72	51.5	34.3

The actual mineral extraction tax rate is lower than enacted tax rate for the analysed period primarily due to the reduced rates for crude oil produced at fields with reserve depletion of over 80%. The difference between enacted rate and actual rate is also affected by the normal delay in the inventory turnover. In the nine months ended 30 September 2011, the actual average mineral extraction tax rate and expense duty on application of the zero rate for crude oil produced at the Vankorskoye fields was applicable until August 2011. Since May 2012, the reduced mineral extraction tax is applicable to the Severo-Vankorsky oil producing field.

Export Customs Duty

Export customs duties include crude oil and petroleum product export customs duties. The export customs duties are also discussed above under *"—Main Factors Affecting Results of Operations—Taxation including changes in mineral extraction tax and export customs duty"*.

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
	(RUB billion, except %)							
Export customs duty for crude oil	509	444	14.6	612	396	295	54.5	34.2
Export customs duty on petroleum products and petrochemicals sales	155	123	26.0	178	113	84	57.5	34.5
Total export customs duties	**664**	**567**	**17.1**	**790**	**509**	**379**	**55.2**	**34.3**

Export Customs Duty on Rosneft's Crude Oil Supplies to Ruhr Oel GmbH

In January 2012, Rosneft resumed supplying its own crude oil to Ruhr Oel GmbH refineries. In the nine months ended 30 September 2012, these supplies, net of resale operations, amounted to 1.6 million tonnes (11.8 million barrels). Rosneft paid RUB 20 billion of export duties on this crude oil. 1.5 million tonnes (10.7 million barrels) of this crude oil was fully processed and sold. The balance remained in inventory. Export duty (disclosed in the consolidated statement of income) amounted to RUB 18 billion, which corresponded to the amount of crude oil that was refined and sold. The balance of export duties paid was reflected on the balance sheet as part of inventories).

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
Average Urals price (th. RUB/ tonne)	25.20	22.98	9.7	23.45	17.38	14.16	34.9	22.7
Average enacted export customs duty (th. RUB /tonne)	12.55	11.81	6.3	12.02	8.31	5.69	44.6	46.0
Hypothetical export customs duty* (th. RUB/tonne)	12.62	12.36	2.1	12.61	8.58	6.36	47.0	34.9
Average customs duty on crude oil exports to non-CIS countries subject to regular rate (th. RUB/ tonne)	12.56	11.82	6.3	12.04	8.33	5.45	44.5	52.8

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

The actual average customs duty on exports subject to regular duty deviates from the enacted export customs duty due to different monthly export volumes. Furthermore, crude oil produced at the Vankorskoye field was subject to reduced export duty until May 2011.

Operating Income

Operating income decreased by 17.5% in the nine months ended 30 September 2012 to RUB 279 billion compared to RUB 338 billion in the nine months ended 30 September 2011. As a percentage of total revenues, operating income before taxes other than income tax and export customs duty was 62.9% and 64.5% in the nine months ended 30 September 2012 and 2011, respectively. Reduction in operating income margin is primarily driven by termination of zero MET rate and a special export customs duty rate for crude oil produced at the Vankorskoye field.

In the year ended 31 December 2011, operating income increased by 13.9% to RUB 433 billion compared with RUB 380 billion in 2010. This increase was driven primarily by the global price of oil and increases in production volumes. As a percentage of total revenues, operating income was 16.0% in 2011 and 19.8% in 2010. As a percentage of total revenues, operating income before taxes other than income tax and export customs duty was 63.7% and 63.7% in 2011 and 2010, respectively.

Finance Income and Expenses

Finance income includes interest received on deposits and deposit certificates, as well as on loans issued, interest paid on loans and borrowings received, results from changes in fair value of financial assets, increases in provision due to the unwinding of discount, results from disposal of financial assets and other finance income and expenses.

In the nine months ended 30 September 2012, net finance income amounted to RUB 3 billion compared to a net finance expense of RUB 2 billion in the nine months ended 30 September 2011. This change is attributable to the change of fair value of embedded call options on structured deposit agreements.

Net finance expense decreased from RUB 1 billion in the year ended 31 December 2010 to finance income of RUB 1 billion the year ended 31 December 2011, due to partial disposal of financial assets. Net finance loss amounted to RUB 8 billion in the year ended 31 December 2009.

Equity share in profits of associates and joint ventures

The equity share in profits of associates and joint ventures amounted to RUB 20 billion in the nine months ended 30 September 2012 compared with RUB 11 billion in the same period of 2011.

In the year ended 31 December 2011, 2010 and 2009 the equity share in profits of associates and joint ventures amounted to RUB 16 billion, RUB 4 billion and RUB 6 billion, respectively.

Other income and other expenses

Other income and expenses includes loss on disposal of property, plant and equipment and intangible assets, foreign currency income/loss and other expenses.

In the nine months ended 30 September 2012 and 2011, other income, except for foreign currency results, amounted to RUB 85 billion and RUB 6 billion, respectively. The increase in other income is attributable to the non-cash income from the acquisition of 51% of ITERA Oil and Gas Company in the amount of RUB 82 billion, see "*—Recent Developments*". In the years ended 31 December 2011, 2010 and 2009, other income amounted to RUB 27 billion, RUB 28 billion and RUB 27 billion, respectively.

In the nine months ended 30 September 2012, other expenses, except for foreign currency results, amounted to RUB 27 billion, compared to RUB 29 billion in the nine months ended 30 September 2011. The increase in other expenses in the nine months occurred due to the expenses on reduction of book value of unproved reserves by RUB 5.7 billion. In the year ended 31 December 2011, 2010 and 2009 other expenses amounted to RUB 48 billion, RUB 49 billion and RUB 53 billion, respectively.

Foreign exchange income totalled RUB 3 billion in the nine months ended 30 September 2012 compared with a foreign exchange loss of RUB 12 billion in the nine months ended 30 September 2011. The gain from the foreign exchange in the nine months ended 30 September 2012 compared to a loss for the nine months ended 30 September 2011 is attributed to fluctuation of the exchange rate of the rouble against the US dollar in the nine months ended 30 September 2012.

Foreign exchange loss was RUB 24 billion in the year ended 31 December 2011, compared with foreign exchange loss RUB 3 billion in the year ended 31 December 2010. Foreign exchange loss was RUB 17 billion in the year ended 31 December 2009.

Income Tax

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

	For nine months ended 30 September		For year ended 31 December		
	2012	2011	2011	2010	2009
Effective income tax rate for Rosneft under IFRS	21.5%	20.8%	21.2%	16.2%	26.9%

The Company applies the provision of IAS 12 "Income taxes" to determine effective tax rate. The effective tax rate is calculated as the ratio of income tax expense to income before tax.

Income tax expense amounted to RUB 78 billion in the nine months ended 30 September 2012 compared to RUB 65 billion in the nine months ended 30 September 2011 due to the increase in taxable income.

Income tax expense amounted to RUB 86 billion in the year ended 31 December 2011 compared to the expenses of RUB 58 billion in the year ended 31 December 2010. Income tax expense amounted to RUB 57 billion the year ended 31 December 2009.

Net Income/(Loss)

Net income amounted to RUB 285 billion in the nine months ended 30 September 2012 compared to RUB 247 billion in nine months ended 30 September 2011. The increase in the net income for the nine months ended 30 September 2012 is mainly attributable to non-cash income from the ITERA acquisition and income from foreign exchange gain which was partially offset by operating income decrease.

Net income increased by 6.0% to RUB 319 billion in the year ended 31 December 2011 from RUB 301 billion in the year ended 31 December 2010 and RUB 155 billion in the year ended 31 December 2009. As a percentage of revenues, net income was 11.8%, 15.7% and 10.5% in 2011, 2010 and 2009, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
	(RUB billion)		times	(RUB billion)			times	
Net cash provided by operating activities	379	369	1.03	487	478	355	1.02	1.35
Net cash used in investing activities	(331)	(272)	1.22	(394)	(379)	(291)	1.04	1.30
Net cash from (used in) financing activities	31	(99)	—	(56)	(32)	(45)	1.75	0.71

Operating Cash Flow

Net cash provided by operating activities amounted to RUB 379 billion in the nine months ended 30 September 2012 compared to RUB 369 billion in the nine months ended 30 September 2011. Operating cash flow includes operations with trading securities as part of the Company's efforts to manage cash resources (net inflow of RUB 3 billion in the nine months ended 30 September 2012 and net outflow of RUB 1 billion in the nine months ended 30 September 2011). The adjusted net cash provided by operating activity amounted to RUB 376 billion in the nine months ended 30 September 2012 and RUB 370 billion in the nine months ended 30 September 2011.

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

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
	(RUB billion)			(RUB billion)				
Net cash provided by operating activity	379	369	1.03	487	478	355	1.02	1.35
Effect from operation with trading securities	(3)	1	—	3	(11)	15	–	–
Adjusted net cash provided by operating activity	**376**	**370**	**1.02**	**490**	**467**	**370**	**1.05**	**1.26**
Change in working capital before FX	(8)	(51)	0.16	(76)	(17)	(2)	4.47	8.50
Adjusted net cash provided by operating activity before Change in working capital	**384**	**421**	**0.91**	**414**	**450**	**368**	**0.92**	**1.22**

The increase in adjusted net cash provided by operating activity in the nine months 30 September 2012 compared to the nine months 30 September 2011 resulted from an increase in the net income margin and changes in working capital.

In the year ended 31 December 2011, net cash provided by the operating activity (adjusted for the result of the operations with trading securities of RUB 3 billion) amounted to RUB 490 billion. In the year ended 31 December 2010, net cash provided by the operating activity (adjusted for the result of the operations with trading securities of RUB 11 billion) amounted to RUB 467 billion. The increase in the operating cash flow compared with 2010 resulted from an increase in net income by 6.0%.

Capital Expenditures

The table below sets forth Rosneft's capital expenditures and licence acquisition costs for the periods analysed:

	For nine months ended 30 September		% change for nine months ended 30 September	For year ended 31 December			% change for year ended 31 December	
	2012	2011	2012	2011	2010	2009	2011 - 2010	2010 - 2009
	(RUB billion, except %)							
Yuganskneftegaz	79	64	23.4	96	74	73	29.7	1.4
Vankorneft	74	62	19.4	86	63	82	36.5	(23.2)
Purneftegaz	11	9	22.2	15	15	9	100.0	66.7
Severnaya Neft	4	3	33.3	6	3	2	100.0	50.0
Samaraneftegaz	7	6	16.7	9	6	5	50.0	20.0
Other[1]	19	19	—	28	27	19	3.7	42.1
Total upstream segment	**194**	**163**	**19.0**	**240**	**188**	**190**	**27.7**	**(1.1)**
The Company	1	1	—	1	2	2	(50.0)	—
Tuapse refinery	59	40	47.5	59	22	7	168.2	214.3
Komsomolsk refinery	7	4	75.0	5	3	3	66.7	—
Angarsk refinery	5	2	150.0	6	3	3	100.0	—
Achinsk refinery	10	3	233.3	5	4	2	25.0	100.0
Syzran refinery	6	2	200.0	5	3	2	66.7	50.0
Novokuibyshevsk refinery	8	3	166.7	7	3	2	133.3	50.0
Kuibyshev refinery	9	4	125.0	6	4	2	50.0	100.0
Marketing Business Units and others[2]	19	14	35.7	24	18	12	33.3	50.0
Total downstream	**124**	**73**	**69.9**	**118**	**62**	**35**	**90.3**	**77.1**
Other activities[3]	**12**	**9**	**33.3**	**17**	**14**	**11**	**21.4**	**27.3**
Subtotal capital expenditures	**330**	**245**	**34.7**	**375**	**264**	**236**	**42.0**	**11.9**
Change in materials in capital expenditures	14	13	7.7	16	—	(1)	—	(100.0)
Total capital expenditures	**344**	**258**	**33.3**	**391**	**264**	**235**	**48.1**	**12.3**
Licence acquisition costs	2	6	(66.7)	7	4	3	75.0	33.3

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

(2) Relating to companies providing processing and storage services.

(3) Relating to other services companies.

In the nine months ended 30 September 2012, total capital expenditures (including construction material purchases) increased by 33.3% to RUB 344 billion compared with RUB 258 billion in the nine months ended 30 September 2011. In the years ended 31 December 2011, 2010 and 2009, total capital expenditures (including construction material purchases) amounted to RUB 391 billion, RUB 264 billion and RUB 235 billion, respectively.

Upstream capital expenditures increased by 19.0% to RUB 194 billion in the nine months ended 30 September 2012, compared with RUB 163 billion in the nine months ended 30 September 2011. In the years ended 31 December 2011, 2010 and 2009, upstream capital expenditures amounted to RUB 240 billion, RUB 188 billion and RUB 190 billion, respectively. The increase was driven by intensified construction works and equipment purchases at Yuganskneftegaz, Vankorneft, Purneftegaz, Severnaya Neft, and Samaraneftegaz. The construction works mainly include development of oil field infrastructure and construction of associated gas utilization facilities.

Downstream capital expenditures increased by 69.9% to RUB 124 billion in the nine months ended 30 September 2012, compared with RUB 73 billion in the nine months ended 30 September 2011. In the years ended 31 December 2011, 2010 and 2009, downstream capital expenditures amounted to RUB 118 billion, RUB 62 billion and RUB 35 billion, respectively. The increase in capital expenditures was driven by continued programme for capacity upgrade and expansion at Rosneft's refineries, including modernisation of the Tuapse, Komsomolsk, Angarsk, Achinsk, Syzran, Novokuibyshevsk and Kuibyshev refineries.

Capital expenditures for other activities increased by 33.3% to RUB 12 billion in the nine months ended 30 September 2012, compared with RUB 9 billion in the nine months ended 30 September 2011. In 2011, 2010 and 2009, capital expenditures for other activities amounted to RUB 17 billion, RUB 14 billion and

RUB 11 billion, respectively. The increase resulted from the planned acquisition of transportation and other equipment.

Since the fourth quarter of 2006, the Company's subsidiaries have been purchasing construction materials and selling the materials to contractors that provide construction and drilling services at subsidiaries' fields. The net increase in unused construction materials included in capital expenditures was RUB 14 billion in the nine months ended 30 September 2012 and RUB 13 billion in the nine months ended 30 September 2011. In the years ended 31 December 2011, 2010 and 2009 the net changes in unused construction materials were RUB 16 billion, RUB 0 billion and a loss of RUB 1 billion, respectively.

The licence acquisition costs refer to the acquisition licences for research, exploration and production:

- In the Barents sea, at Sernovodsky block in the Ingooshetia, Samara and Udmurt regions in the nine months ended 30 September 2012;
- At Naulskiy block in the Nenets Autonomous District, at Baykalovsky block in Krasnoyarsk region and at Padovsky, Zagranichny, Santalovsky and Fateevsky blocks in Samara region and in the Okhotskoe sea in 2011;
- At Zimarny, Shikhansky, Mojarovsky, Gnesdensky and Shirokinsky blocks in Samara region and in the Okhotskoe sea, the Kara sea and the Barents sea in 2010; and
- At Labaganskiy block in Nenets Autonomous District and at Rudnikovsky, Baykalsky and Mnogopolsky blocks in Samara region in 2009.

Financing activities

On 20 June 2012, the annual general shareholders' meeting approved dividends for 2011 in the amount of RUB 37 billion or RUB 3.45 per share. RUB 33 billion of the above are related to outstanding shares, including dividend withholding tax on treasury shares. In August 2012, the approved dividends were fully paid.

Debt Obligations

Rosneft net debt increased to RUB 542 billion as of 30 September 2012 compared to RUB 379 billion as of 30 September 2011. A portion of Rosneft's long-term loans are secured by oil export contracts. As of 30 September 2012, 30 September 2011 and 31 December 2011, 56.1%, 84.9% and 75.6%, respectively, of Rosneft's borrowings were secured by crude oil export contracts (excluding exports to the CIS).

As of 30 September 2012, 30 September 2011 and 31 December 2011, pledged oil exports constituted 13.7%, 20.2% and 20.1%, respectively, of the total crude oil export sales for the analysed period (excluding export to the CIS).

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

As of the date	30 September 2012	30 September 2011	31 December 2011
		(RUB billions)	
Short term debt	115	158	152
Long term debt	769	524	596
Total debt	**884**	**682**	**748**
Cash, cash equivalents and short-term investments	240	127	166
Short-term bank financial assets	102	176	150
Adjusted net debt[(1)]	**542**	**379**	**432**

(1) The method of net debt calculation was changed in 2012 to the Company's best estimates. This change was retrospectively applied to 2011, 2010 and 2009 net debt amounts. This may cause the difference in value of net debt for 2011, 2010 and 2009 between published financial statements and the figures stated above.

Commitments and Contingencies

For a discussion of Rosneft's commitments and contingencies, see Note 23 to the IFRS Interim Financial Statements and Note 39 to the IFRS Annual Financial Statements.

POLICIES AND ESTIMATES

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

For a full description of Rosneft's significant accounting policies, please refer to Note 3 to the Annual Financial Statements 2011.

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

- estimation of oil and gas reserves;
- estimation of rights to, recoverability and useful lives of non-current assets;
- impairment of goodwill;
- allowances for doubtful accounts receivable and obsolete and slow-moving inventories;
- assessment of asset retirement (decommissioning) obligations;
- assessment of legal and tax contingencies;
- assessment of deferred income tax assets and liabilities;
- assessment of environmental remediation obligations;
- recognition and disclosure of contingent liabilities;
- fair value measurements;
- assessment of ability to renew operating leases and to enter into new lease agreements; and
- classification of certain debt amounts.

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

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

Such estimates and assumptions may change over time when new information becomes available, for example, in relation to:

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

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

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

Exploration and evaluation costs

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

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

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

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

Development and production

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

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

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

Business combinations

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

Determining the fair value of assets acquired and liabilities assumed requires judgement by management 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. Management of the Company uses all available information to make these fair value determinations and, for major business acquisitions, typically engages an outside appraisal firm to assist in the fair value determination of the acquired long-lived assets.

Income tax

According to additions to part one of the Tax code of the Russian Federation, brought by the Federal law of the Russian Federation from 16 November 2011 No. 321-FZ, the Company created the Consolidated group of taxpayers which included 22 of the major subsidiaries of the Company, including Rosneft. Rosneft became a responsible taxpayer of the group.

Income taxes were provided on taxable profit as determined under the Russian Federation Tax Code. Deferred income tax assets and liabilities are recognised in the consolidated financial statements in the amount determined by the Company in accordance with IAS 12, *Income Taxes*.

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

income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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

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

Asset retirement (decommissioning) obligations

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

The Company's exploration, development and production activities involve the use of wells, related equipment and operating sites, oil gathering and treatment facilities, tank farms and in-field pipelines. Generally, 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. These liabilities are measured by the Company using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability.

Environmental liabilities

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

Accounting for contingencies

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

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

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

Recognition of revenues

Revenues are recognised when risks and rewards pass to the customer, which usually occurs when the title passes to the customer, providing that the contract price is fixed or determinable and collectability of the receivable is reasonably assured. Specifically, domestic sales of crude oil and gas, as well as petroleum products and materials are usually recognised 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. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, volume rebates and reimbursable taxes.

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

Impairment of non-current assets

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

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

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

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

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

QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Foreign Currency Risk

A substantial portion of Rosneft's revenues are generated in foreign currency. In addition, substantial financing and investing activities, debt obligations and commitments are also undertaken in U.S. dollars and Euros. However, significant operating and investing expenditures, other obligations and commitments as well as tax liabilities are denominated in roubles. As a result of any decline of the U.S. dollar and Euro against rouble, Rosneft is exposed to the corresponding currency risk.

Rosneft enters into foreign currency forward contracts to hedge its foreign currency risk for forecasted operating expense.

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

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

Rosneft did not enter any foreign currency forward contracts during 2011 or the six months ended 30 June 2012. In August 2012 the Company entered into a series of foreign currency forward contracts with a fair value of USD 8.5 million as of 30 September 2012.

Rosneft enters into fixed-interest structured deposit contracts.

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

Interest rate risk

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

Rosneft enters into contracts to economically hedge risks associated with an increasing interest expense.

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

Commodity Risk

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

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

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

Credit risk

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

In addition, as part of its cash management and credit risk function, Rosneft 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.

Rosneft's exposure to credit risk is limited to the carrying amount of financial assets recognised in the consolidated balance sheet.

In the event of default by the parties on their respective obligations under the financial guarantee contracts, Rosneft's exposure to credit risk will be limited to the corresponding contract amounts. As of 30 September 2012 management assessed such risk as remote.

Liquidity risk

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

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

Capital and Financial Risk Management

Rosneft's capital management objectives include:

- secure the ability to continue as a going concern; and
- optimize the cost of capital in order to enhance value to shareholders.

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

The information set forth in this section is based on publicly available information, primarily the BP Statistical Review of World Energy dated June 2012 and the BP Energy Outlook 2030 dated January 2012. The Issuer and the Company accept responsibility for accurately reproducing such information and, as far as the Issuer and the Company are aware, no facts have been omitted which would render such information misleading, but neither the Issuer nor the Company accept further responsibility in respect of such information. Such information may be approximations or use rounded numbers.

OIL AND GAS INDUSTRY

Recent Developments

According to the BP Statistical Review of World Energy (June 2012), worldwide primary energy consumption grew by 2.5% in 2011, which exceeds the average for the last 20 years of approximately 2%. Consumption in Organisation for Economic Co-operation and Development (***OECD***) countries fell by 0.8%, led by a sharp decline in Japan, while non-OECD consumption grew by 5.3%. All of the net growth took place in emerging economies, with China alone accounting for 71% of global energy consumption growth.

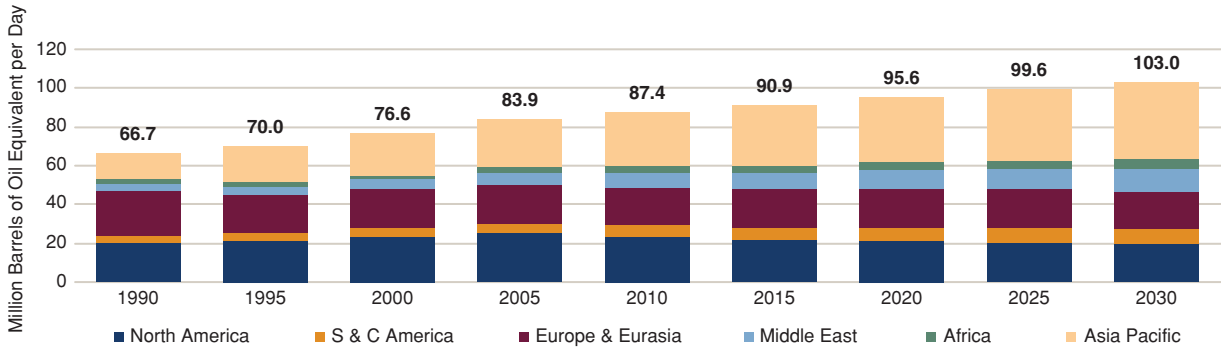
Oil

Oil remains the world's leading fuel, and accounted for 33.1% of global energy consumption of primary fuel resources in 2011. During 2011, global oil consumption grew by 0.6%, below the last 10 year average, reaching 88 mmbbl/d. OECD consumption declined by 1.2% (−600 kbbl/d), while non-OECD consumption grew by 1.2 mmbbl/d, or 2.8%. Despite strong oil prices—Brent averaged U.S.$111.26/bbl in 2011, an increase of 40% from the 2010 level—oil consumption growth was below average in producing regions of the Middle East and Africa due to regional unrest. China again recorded the largest increment to global consumption growth (+505 kbbl/d, or +5.5%).

Annual global oil production in 2011 increased by approximately 1.1 mmbbl/d, or 1.3%, to 83.6 mmbbl/d. Virtually all of the net growth was in the Organisation of the Petroleum Exporting Countries (***OPEC***), with large increases in Saudi Arabia (+1.2 mmbbl/d), the UAE (+456 kbbl/d), Kuwait (+348 kbbl/d) and Iraq (+318 kbbl/d) more than offsetting a loss of Libyan supply (−1.2 mmbbl/d). Output reached record levels in Saudi Arabia, the UAE and Qatar. Non-OPEC output was broadly flat, with increases in the US, Canada, Russia and Colombia offsetting continued declines in mature provinces such as the UK and Norway, as well as unexpected outages in a number of other countries. The US (+285 kbbl/d) had the largest increase among non-OPEC producers, driven by continued strong growth in onshore production of shale liquids.

According to the BP Energy Outlook, global liquids (oil, biofuels, and other liquids) demand, from 2010 to 2030, is expected to increase by 16 mmbbl/d, reaching 103 mmbbl/d by 2030, with rapidly-growing non-OECD economies forecasted to be the main contributors—China (+8 mmbbl/d), India (+3.5 mmbbl/d) and the Middle East (+4 mmbbl/d) are together expected to account for nearly all of the net global increase. OECD consumption is expected to decline by 6 mmbbl/d. The following chart provides historical and projected global liquids consumption, by region, out to 2030.

Historical and Projected Global Liquids Consumption



Sources: BP Energy Outlook 2030, January 2012; BP Statistical Review of World Energy, June 2012.

Note: Liquids include oil, biofuels, gas-to-liquids and coal-to-liquids. Historical data until 2010 based on BP's Statistical Review of World Energy. Projections based on BP's Energy Outlook. Outlook Projections converted from tonnes to barrels per day using BP's conversion factor for liquids consumption in 2030. Differences between world consumption figures and world production statistics are accounted for by stock changes, consumption of non-petroleum and substitute fuels, and unavoidable disparities in the definition, measurement or conversion of oil supply and demand data.

The increase in supply of liquids to meet demand growth is expected to be primarily from OPEC, where output is projected to rise by nearly 12 mmbbl/d by 2030, accounting for majority of incremental supply. Non-OPEC supply is expected to grow by 5 mmbbl/d. The following chart provides historical and projected global oil production, by region, out to 2030.

Historical and Projected Global Oil Production

Sources: BP Energy Outlook 2030, January 2012; BP Statistical Review of World Energy, June 2012.

Note: Oil production includes crude oil, shale oil, NGLs and oil sands. Historical data until 2010 based on BP's Statistical Review of World Energy. Projections based on BP's Energy Outlook. Differences between world consumption figures and world production statistics are accounted for by stock changes, consumption of non-petroleum and substitute fuels, and unavoidable disparities in the definition, measurement or conversion of oil supply and demand data.

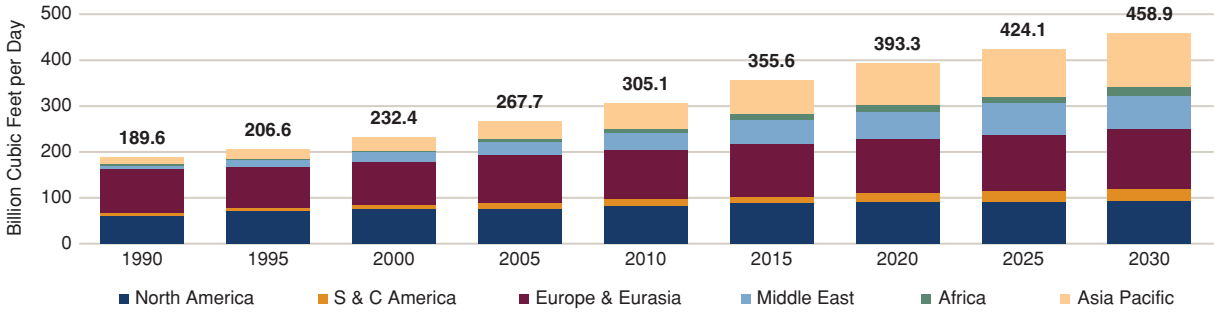
Natural Gas

During 2011, global natural gas consumption grew by 2.2%, which was below the 10 year average in all regions except North America, where low prices drove robust growth. Outside North America, the largest volumetric gains in consumption were in China (+21.5%), Saudi Arabia (+13.2%) and Japan (+11.6%). European Union gas consumption declined by 9.9%, driven by a weak economy, high gas prices, warm winter and continued growth in renewable power generation.

Global natural gas production in 2011 grew by 3.1% to 317.0 bcf/d. The US recorded the largest volumetric increase (4.6 bcf/d, (+7.7%)) despite lower gas prices, and remained the world's largest producer. Output also grew rapidly in the Middle East countries, in particular Qatar (+25.8%) and Turkmenistan (+40.6%), more than offsetting declines in Libya (−75.6%) and the UK (−20.8%). As was the case for consumption, the EU recorded the largest decline in gas production on record (−11.4%), due to a combination of mature fields, maintenance, and weak regional consumption.

According to the BP Energy Outlook, the global demand for natural gas is projected to grow faster than the demand for any other fossil fuel (2.1% p.a. in 2030) with global demand growth expected to be concentrated in non-OECD countries (80% of global gas demand growth) and with LNG playing a growing role in supply. Of this, demand is expected to grow fastest in non-OECD Asia (4.6% p.a.) and the Middle East (3.7% p.a.). According to the Outlook, the gas demand growth in China is expected to increase by 7.6% p.a. ensuring 23% to the global gas demand. The following chart provides historical and projected global natural gas consumption, by region, out to 2030.

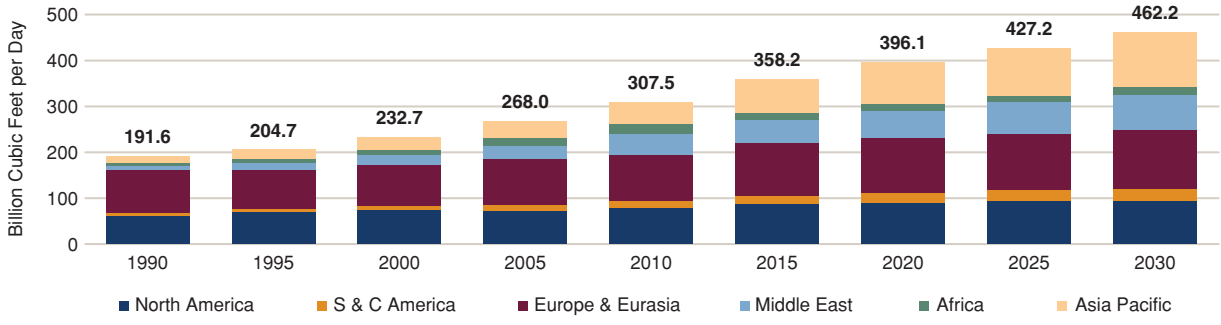
Historical and Projected Global Gas Consumption



Source: BP Energy Outlook 2030, January 2012; BP Statistical Review of World Energy, June 2012. Historical data until 2010 based on BP's Statistical Review of World Energy. Projections based on BP's Energy Outlook.

The main regional contributors to natural gas supply growth are expected to be the Middle East (26% of global growth) and Former Soviet Union (19%). Significant incremental supply is also expected from Australia, China, and the US (11-12% of global growth from each country). The following chart provides historical and projected global natural gas production, by region, out to 2030.

Historical and Projected Global Gas Production



Source: BP Energy Outlook 2030, January 2012; BP Statistical Review of World Energy, June 2012. Historical data until 2010 based on BP's Statistical Review of World Energy. Projections based on BP's Energy Outlook.

The Russian Oil and Gas Industry

The Russian oil and gas industry is one of the key sources of growth for the Russian economy, providing approximately 50% of the Russian federal budget revenues in 2011, according to the Russian Treasury and the Russian Tax Service. Russia is a leading producer of oil and gas globally. In 2011, Russian oil and gas production represented 12.8% and 18.5% of total global production, respectively. At the end of 2011, Russia had the largest proved gas reserves in the world at 44.6 tcm, accounting for approximately 21.4% of the total. According to BP's Statistical Review of World Energy (June 2012), Russia was also the fifth largest oil (3.4% of total share) and the second largest gas (13.2% of total share) consuming country in 2011.

Russia has constantly been among the leaders with respect to the proved hydrocarbon reserves. The following table sets forth estimates of total proved oil reserves in each of the 10 countries with the largest volumes of such reserves at the end of 2009, 2010 and 2011.

Proved Oil Reserves as of 31 December

Country	2009		2010		2011	
	(barrels)	(tonnes)	(barrels)	(tonnes)	(barrels)	(tonnes)
			(billions)			
Venezuela	211.2	28.8	296.5	40.5	296.5	40.5
Saudi Arabia	264.6	36.1	264.5	36.1	265.4	36.2
Canada	175.9	24.0	175.2	23.9	175.2	23.9
Iran	137.0	18.7	151.2	20.6	151.2	20.6
Iraq	115.0	15.7	115.0	15.7	143.1	19.5
Kuwait	101.5	13.8	101.5	13.8	101.5	13.8
United Arab Emirates	97.8	13.3	97.8	13.3	97.8	13.3
Russian Federation	**83.9**	**11.4**	**86.6**	**11.8**	**88.2**	**12.0**
Libya	46.4	6.3	47.1	6.4	47.1	6.4
Nigeria	37.2	5.1	37.2	5.1	37.2	5.1
Total World	**1,518.2**	**207.1**	**1,622.1**	**221.3**	**1,652.6**	**225.5**

Source: BP Statistical Review of World Energy June 2012. Note: The data series, compiled by BP, uses a combination of primary official sources and third party data. Reserves include gas condensate and natural gas liquids (NGLs) as well as crude oil.

During 2009 and 2010, Russia was the largest producer of oil in the world. The following table sets forth estimates of oil production in each of the 10 countries with the highest levels of such production in 2009, 2010 and 2011.

Oil Production as of 31 December

Country	2009		2010		2011	
	(kbbl/d)	(million tonnes)	(kbbl/d)	(million tonnes)	(kbbl/d)	(million tonnes)
Saudi Arabia	9,808.9	462.7	9,955.1	466.6	11,160.6	525.8
Russian Federation	**9,927.4**	**494.2**	**10,150.2**	**505.1**	**10,280.3**	**511.4**
US	7,270.5	328.6	7,554.9	339.9	7,841.3	352.3
Iran	4,248.5	204.0	4,338.5	207.1	4,321.1	205.8
China	3,805.4	189.5	4,077.0	203.0	4,089.7	203.6
Canada	3,222.1	156.1	3,367.2	164.4	3,521.6	172.6
United Arab Emirates	2,749.9	126.3	2,866.5	131.4	3,322.1	150.1
Mexico	2,978.5	147.4	2,958.2	146.3	2,937.8	145.1
Kuwait	2,477.1	121.0	2,517.6	122.7	2,865.4	140.0
Venezuela	2,914.1	149.9	2,774.7	142.5	2,720.3	139.6
Total World	**80,731.7**	**3,869.3**	**82,480.3**	**3,945.4**	**83,575.7**	**3,995.6**

Source: BP Statistical Review of World Energy June 2012. Note: The data series, compiled by BP, uses a combination of primary official sources and third party data. Production includes crude oil, shale oil, oil sands and NGLs (the liquid content of natural gas where this is recovered separately).

According to BP's Statistical Review of World Energy (June 2012), for the last 15 years, Russia has had the largest proved gas reserves in the world. The following table sets forth estimates of total proved gas reserves in each of the 10 countries with the largest volumes of such reserves at the end of 2009, 2010 and 2011.

Proved Gas Reserves as of 31 December

Country	2009	2010	2011
		(tcm)	
Russian Federation	**44.4**	**44.4**	**44.6**
Iran	29.6	33.1	33.1
Qatar	25.3	25.0	25.0
Turkmenistan	8.0	13.4	24.3
US	7.7	8.2	8.5
Saudi Arabia	7.9	8.0	8.2
United Arab Emirates	6.1	6.1	6.1
Venezuela	5.1	5.5	5.5
Nigeria	5.3	5.1	5.1
Algeria	4.5	4.5	4.5
Total World	**187.3**	**196.1**	**208.4**

Source: BP Statistical Review of World Energy June 2012.

Note: The data series, compiled by BP, uses a combination of primary official sources and third party data.

From 2009 through 2011, Russia was the second largest producer of gas in the world. The following table sets forth estimates of gas production in each of the 10 countries with the highest levels of gas production in 2009, 2010 and 2011.

Gas Production as of 31 December

Country	2009		2010		2011	
	(bcf/d)	(bcm)	(bcf/d)	(bcm)	(bcf/d)	(bcm)
US	56.5	584.0	58.4	604.1	63.0	651.3
Russian Federation	**51.1**	**527.7**	**57.0**	**588.9**	**58.7**	**607.0**
Canada	15.9	164.0	15.5	159.9	15.5	160.5
Iran	12.7	131.2	14.1	146.2	14.7	151.8
Qatar	8.6	89.3	11.3	116.7	14.2	146.8
China	8.2	85.3	9.2	94.8	9.9	102.5
Norway	10.0	103.7	10.3	106.4	9.8	101.4
Saudi Arabia	7.6	78.5	8.5	87.7	9.6	99.2
Algeria	7.7	79.6	7.8	80.4	7.5	78.0
Indonesia	7.0	71.9	7.9	82.0	7.3	75.6
Total World	**286.0**	**2,955.9**	**307.5**	**3,178.2**	**317.0**	**3,276.2**

Source: BP Statistical Review of World Energy June 2012.

Note: The data series, compiled by BP, uses a combination of primary official sources and third party data.

With a total processing capacity of approximately 5.7 mmbbl/d (282.0 million tonnes), Russia is one of leading refiners in the world. The following table sets forth estimates of refinery capacity in each of the 10 countries with the highest levels of such capacity in 2009, 2010 and 2011.

Refinery Capacity as of 31 December

Country	2009		2010		2011	
	(kbbl/d)	(million tonnes)	(kbbl/d)	(million tonnes)	(kbbl/d)	(million tonnes)
Total Europe & Eurasia	24,623.6	1,226.1	24,623.6	1,216.8	24,569.6	1,223.5
of which Russia	***5,382.0***	***268.0***	***5,382.0***	***273.4***	***5,663.0***	***282.0***
US	17,688.0	880.8	17,688.0	876.1	17,730.0	882.9
China	9,478.8	472.0	9,478.8	513.0	10,834.3	539.5
Japan	4,629.8	230.5	4,629.8	213.7	4,274.3	212.8
India	3,574.4	178.0	3,574.4	184.4	3,804.0	189.4
Total Africa	3,012.0	150.0	3,012.0	158.9	3,317.0	165.2
South Korea	2,712.3	135.1	2,712.3	135.1	2,782.5	138.6
Other S. & Cent. America	2,327.0	115.9	2,327.0	114.4	2,202.0	109.6
Brazil	2,092.6	104.2	2,092.6	104.2	2,115.9	105.4
Saudi Arabia	2,100.0	104.6	2,100.0	104.6	2,110.0	105.1
Total World	**90,945.6**	**4,528.7**	**91,616.4**	**4,562.1**	**93,003.9**	**4,631.2**

Source: BP Statistical Review of World Energy June 2012.

Note: The data series, compiled by BP, uses a combination of primary official sources and third party data.

From 2009 to 2011, Russian refining throughput grew at a CAGR of 4.6%. According to the Federal State Statistics Committee of Russia (Rosstat) and Russian Ministry of Energy, Russian refineries processed approximately 5,158.0 kbbl/d (256.8 million tonnes) of crude in 2011, up by 3.2% from 4,999.0 kbbl/d (248.9 million tonnes) in 2010, accounting for approximately 50% of Russian crude oil production in 2011. The following table sets forth estimates of world refinery throughput, including contribution from Russia.

Refinery Throughput as of 31 December

Country	2009		2010		2011	
	(kbbl/d)	(million tonnes)	(kbbl/d)	(million tonnes)	(kbbl/d)	(million tonnes)
Total Europe & Eurasia	19,471.9	969.6	19,624.3	977.2	19,543.9	973.2
of which Russia	***4,715.0***	***234.8***	***4,999.0***	***248.9***	***5,158.0***	***256.8***
US	14,336.0	713.9	14,724.0	733.2	14,833.0	738.6
China	7,487.9	372.9	8,571.2	426.8	8,991.5	447.7
Other Asia Pacific	7,217.9	359.4	7,422.1	369.6	7,480.1	372.5
Middle East	6,334.0	315.4	6,484.0	322.9	6,505.0	323.9
S. & Cent. America	4,752.0	236.6	4,615.0	229.8	4,812.0	239.6
India	3,640.9	181.3	3,898.9	194.1	4,084.9	203.4
Japan	3,626.9	180.6	3,618.8	180.2	3,405.7	169.6
Africa	2,313.0	115.2	2,457.0	122.3	2,219.0	110.5
Canada	1,773.3	88.3	1,831.8	91.2	1,733.1	86.3
Mexico	1,392.3	69.3	1,184.1	59.0	1,166.5	58.1
Australasia	761.8	37.9	756.2	37.7	788.6	39.3
Total World	**73,108.0**	**3,640.4**	**75,187.5**	**3,744.0**	**75,563.3**	**3,762.7**

Source: BP Statistical Review of World Energy June 2012. Russian refining throughput data as per Federal State Statistics Committee of Russia (Rosstat), Russian Ministry of Energy.

Note: The data series, compiled by BP, uses a combination of primary official sources and third party data.

REGULATION OF THE RUSSIAN OIL INDUSTRY

Applicable Laws, Rules and Regulations

The Russian oil industry regulation is evolving, with federal, regional and local authorities each developing applicable rules and regulations.

The foundations of legal and economic relations in the Russian oil industry are based on the based on the following laws:

- Constitution of the Russian Federation;
- Parts One, Two, Three and Four of the Civil Code of the Russian Federation (effective 1 January 1995, 1 March 1996, 1 March 2002 and 1 January 2008, respectively), as amended (the ***Civil Code***);
- Law No. 2395-1 on Subsoil dated 21 February 1992, as amended (the ***Subsoil Law***);
- Federal Law No. 135-FZ of 26 July 2006 "On Protection of Competition", as amended (the ***Competition Law***);
- the Tax Code of the Russian Federation, as amended (the ***Tax Code***);
- Customs Code of the Customs Union, as amended (the ***Customs Code***);
- Land Code of the Russian Federation, as amended (the ***Land Code***);
- the Federal Law No. 147-FZ of 17 August 1995 "On Natural Monopolies" (as amended);
- the Federal Law No. 187-FZ of 30 November 1995 "On the Continental Shelf of the Russian Federation" (as amended) (the ***Continental Shelf Law***);
- the Federal Law No. 191-FZ of 17 December 1998 "On the Exclusive Economic Zone of the Russian Federation" (as amended) (the ***EEZ Law***);
- Federal Law No. 208-FZ of 26 December 1995 "On Joint Stock Companies", as amended (the ***Joint Stock Companies Law***);
- Federal Law No. 14-FZ of 8 February 1998 "On Limited Liability Companies", as amended (the ***Limited Liability Companies Law***);
- Federal Law No. 7-FZ of 10 January 2002 "On Environmental Protection", as amended (the ***Environmental Protection Law***);
- Federal Law No. 39-FZ of 22 April 1996 "On Securities Market", as amended (the ***Securities Market Law***);
- Federal Law No. 225-FZ on Production Sharing Agreements dated 30 December 1995, as amended (the ***PSA Law***); and
- the Federal Law No. 57-FZ of 29 April 2008 "On the Procedure for Making Foreign Investments in Business Entities of Strategic Importance for the National Defence and Security of the Russian Federation" (as amended) that regulates the access of foreign investors to certain sectors of the Russian economy, including the development of major oil and gas fields and other mineral deposits that fall under the category of "strategic reserves" (the ***Strategic Investments Law***).

There are also numerous regulations issued by the Russian Government through its ministries and agencies as well as by regional and local authorities that regulate certain aspects of oil industry in Russia.

Regulatory Authorities

At the federal level, regulatory supervision over the oil industry is divided primarily between the Russian Government, the Ministry of Finance, the Ministry of Economic Development, the Ministry of Industry and Trade, the Ministry of Energy and the Ministry of Natural Resources. The Russian Government and these federal ministries are generally responsible for the development of governmental policy in the oil industry (including tax and tariff policy) and regulation in the area of exploration, use and protection of natural resources and environment.

The federal ministries in Russia are not, however, responsible for the compliance control or management of the state property and provision of state services, which are generally directed by the federal services and the federal agencies, respectively. The federal services and agencies that regulate the oil industry

include, *inter alia*: Rosnedra, Rosprirodnadzor, the Federal Service for Environmental, Technological and Nuclear Supervision (***Rostechnadzor***), the Federal Anti-monopoly Service (the ***FAS***) and the Federal Tariff Service.

Rosnedra is responsible for subsoil licensing, including the issuance, suspension and termination of licences, disposing of state geological information and taking part in the approval of design documentation for subsoil use. Rosprirodnadzor oversees compliance with the terms and conditions of subsoil licences and certain aspects of environmental legislation, controls geological exploration and the rational use and protection of the subsoil and reviews certain environmental documentation.

Rostechnadzor oversees compliance with certain mandatory industrial safety rules and environmental legislation, including safety procedures in connection with the installation, deployment and operation of technical devices and machinery which the Company uses in its activities and the procedure for maintaining production and technological processes (including by means of issuing licences for certain industrial activities and activities relating to safety and environmental protection).

The FAS is authorised to pursue state policy aimed at promoting the development of the commodity markets and competition, exercising state control over the observance of anti-monopoly legislation and preventing and terminating monopolistic activity, unfair competition and other actions restricting competition. The FAS, *inter alia*, oversees the acquisition of controlling stakes in companies with dominant market positions and activities of natural monopolies.

The FTS is a regulatory body in the sphere of state regulation of prices (tariffs) on goods (services). The FTS, *inter alia*, addresses issues related to the tariffs for crude oil and petroleum products transportation by pipelines.

Regional and local authorities exercise certain taxation powers, administer land-use regulations and oversee compliance with environmental and worker safety rules. Local and regional authorities also exercise some control over the use of the national and local pipeline grid through their jurisdictions to regulate land use and environmental matters.

Strategic Investments

Strategic Companies

The Strategic Investments Law establishes certain restrictions and special procedures for foreign investments in sectors of strategic importance to Russian national defence and security by imposing restrictions on the acquisition of control over Russian registered commercial entities that operate in such sectors (***Strategic Companies***) and by establishing an approval procedure for the acquisition of such control. In particular, it sets forth a general prohibition on transactions resulting in the acquisition of control over Strategic Companies by foreign states and international organisations or an organisation controlled by any of these (***Foreign Sovereign Acquirers***) and requires other foreign investors to obtain consent of the Governmental Commission for Control over Foreign Investments in the Russian Federation (the ***Commission***) for the acquisition of control over Strategic Companies.

Recent amendments to the Strategic Investments Law introduced a number of exemptions from the clearance requirements. In particular, they provide that the Strategic Investments Law shall not apply to transactions concerning Strategic Companies made between entities under control of the Russian Federation or citizens of the Russian Federation who are its tax residents, except for individuals with dual citizenship, i.e., if both the seller and the buyer are ultimately controlled by the Russian Federation or such Russian citizens. Furthermore, these amendments exempt from the clearance requirement transactions undertaken by international financial organisations established in accordance with international treaties to which the Russian Federation is a party and international financial organisations with which the Russian Federation has entered into a treaty. The Russian Government publishes the list of such organisations, which currently includes, *inter alia*, the International Bank for Reconstruction and Development (***IBRD***), the European Bank for Reconstruction and Development (***EBRD***) and the International Finance Corporation (***IFC***). The exemption does not affect, however, the aforementioned general prohibition under the Strategic Investments Law for Foreign Sovereign Acquirers to acquire control over the Strategic Companies.

Strategic Deposits

The Strategic Investments Law defines a number of activities that are considered to be strategically important for Russia, including geological survey and/or exploration and production of mineral resources within subsoil plots of "federal significance" (or ***Strategic Deposits***). The criteria for determining whether a subsoil mineral deposit is a Strategic Deposit are set in the Subsoil Law. These include, *inter alia*, subsoil deposits (i) that contain 70 million tons or more of recoverable oil reserves and/or 50 billion cubic metres or more of gas reserves; and/or (ii) that are located in internal waters, territorial waters or on the continental shelf of the Russian Federation; and/or (iii) whose use requires the use of land plots designated for defence or security purposes.

The list of Strategic Deposits has been published in an official publication of the Russian Federation. Once a subsoil deposit has been included in such list, it will retain its status as a deposit of federal significance, notwithstanding any changes resulting from amendments of the Subsoil Law.

Strategic Deposits may be developed only by legal entities established in the Russian Federation. Strategic Deposits located on or extending into the continental shelf of the Russian Federation may be developed only by Russian legal entities (i) which have no less than five years' experience developing continental shelf deposits in Russia; and (ii) in which the Russian Federation holds more than 50% of the total votes represented by the share capital of such entity, or otherwise controls (directly or indirectly) more than 50% of the total number of votes.

Approval Requirements

The Strategic Investments Law generally requires a prior approval of the Commission for the acquisition of direct or indirect control over Strategic Companies by a company that is under foreign control. The Strategic Investments Law imposes a much stricter definition of control (and therefore threshold for approval) in relation to Strategic Companies conducting geological study and/or exploration and production of hydrocarbons/minerals in Strategic Deposits (***Strategic Subsoil Users***) than is required for other types of Strategic Companies. A person is deemed to control a Strategic Subsoil User if such person: (i) has (direct or indirect) control over 25% or more of the votes represented by the shares in the capital of the Strategic Subsoil User; (ii) has the right (pursuant to an agreement or otherwise) to determine decisions of the Strategic Subsoil User, including the terms of its business operations; (iii) has the right to appoint the Strategic Subsoil User's general director or 25% or more of the members of its management board; (iv) has an unconditional ability to procure the election of 25% or more of the members of the Strategic Subsoil User's board of directors or other management body; or (v) acts as a management company for the Strategic Subsoil User.

Moreover, the Strategic Investments Law requires prior approval of acquisitions by a Foreign Sovereign Acquirer of direct or indirect control over more than 5% of the votes represented by the shares/participatory interests of the Strategic Subsoil User or the ability to block decisions of the management bodies of such entity. At the same time, the Strategic Investments Law exempts from the regime foreign investments in the Strategic Subsoil Users, 50% or more votes in which are directly or indirectly controlled by the Russian Federation. The exemption does not cover rules regarding foreign investment in the Strategic Subsoil Users by Foreign Sovereign Acquirers.

For restrictions regarding licensing of the Strategic Deposits, see *"—Licensing—Restrictions Related to Strategic Deposits"*.

Licensing

Federal Law No. 99-FZ of 4 May 2011 "On Licensing of Certain Types of Activities" (as amended) and the Subsoil Law, as well as other laws and regulations, list activities which can only be performed subject to licences issued by the relevant Russian authorities and establish procedures for issuing such licences. In particular, to conduct its operations, a company may be required to hold licences and permits for, *inter alia*:

- use of the subsoil, see "Subsoil Licensing";
- discharge of pollutants into the environment;
- collection, use, detoxification, transportation and placement of hazardous waste;
- storage, use, realisation and utilisation of explosive materials of industrial use;
- use (operation) of explosive/inflammable or chemically hazardous facilities; and
- fire extinguishing.

Licensing regulations and the terms of its licences and permits require the Company to comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, maintain insurance coverage, monitor operations, make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect its activities.

Subsoil Licensing

In Russia, geological survey, exploration and production of subsoil resources requires a subsoil licence, as well as the right (through ownership, lease or other right) to use the land plot to which such licensed field relates.

A subsoil licence holder has the right to develop and sell crude oil and natural gas extracted from the licence area. The Russian Federation, however, retains ownership of all subsoil resources; the licence holder only has rights with respect to the crude oil and natural gas once it is extracted.

The primary law regulating subsoil licensing is the Subsoil Law, and the regulations adopted thereunder, which set out the regime for granting licences for geological survey, exploration and production of subsoil resources and subsoil use.

There are several types of licences applicable to the geological survey, exploration and production of subsoil resources, including:

- licences for geological survey, including prospecting and evaluation of deposits within a licence area (which is defined in terms of latitude, longitude and depth);
- licences for exploration and production of subsoil resources within a licence area; and
- combined licences for geological survey, exploration and production of subsoil resources within a licence area.

Important amendments to the Subsoil Law, passed in August 2004, significantly changed the procedure for awarding geological survey and production licences, in particular abolishing the joint grant of licences by federal and regional authorities. Production licences and combined geological survey, exploration and production licences are currently awarded by tender or auction conducted by special commissions of Rosnedra. While such auction or tender commission may include a representative of the relevant region, the separate consent of regional authorities is no longer required in order to issue subsoil licences. The winning bidder in the tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets the published tender terms and conditions. At an auction, the success of a bid is determined by the attractiveness of the financial proposal. In limited circumstances, production licences may also be issued without holding an auction or tender, for instance, to holders of exploration licences that discover subsoil deposits through exploration works conducted at their own expense.

Currently, geological survey licences are generally awarded without a tender or auction by the special commission formed by Rosnedra (or its regional department), which includes the participation of representatives of the relevant regional authority, unless there is more than one application with respect to the same deposit, in which case Rosnedra sets up an auction for a combined licence (geological survey, exploration and production) for the deposit. The Ministry of Natural Resources and Ecology of the Russian Federation (the ***MNR***) maintains an official list of deposits in respect of which exploration licences can be issued. If the deposit is listed, an application can be made to Rosnedra for an exploration licence with respect to such deposit. If only one application is received with respect to an exploration licence, the special commission considers the application and takes a decision as to whether to award the licence.

Restrictions Related to Strategic Deposits

The Russian Government may restrict participation in any auction or tender for the right of subsoil use in a Strategic Deposit with respect to Russian entities in which foreign investors directly or indirectly hold shares. Such restrictions are not limited to the criteria for control established by the Strategic Investment Law, i.e., any amount of equity interest owned by foreign investors in such entities may be the ground for such restrictions.

In respect of a Strategic Deposit, exploration and production or combined (geological survey, exploration and production) licences may only be issued. Such licences are issued pursuant to a decision of the Russian Government based either on the results of a tender or auction, or upon the discovery of a deposit that

becomes a Strategic Deposit. Under a combined licence, exploration and production operations in a Strategic Deposit may only commence after the geological survey operations are fully completed, and commencement of exploration and production in the Strategic Deposit is authorised by a Russian Government decision. This is different from the general rule (applicable to other deposits) that exploration and production under a combined licence may be conducted simultaneously with geological survey.

Geological survey licences may be issued for subsoil deposits that do not qualify as Strategic Deposits. If in the course of such geological survey a discovery is made which results in the relevant deposit meeting the Strategic Deposit criteria, issuance of the advanced exploration and production licence to the subsoil user that has made the discovery may be denied by decision of the Russian Government if the subsoil user is an entity in which a foreign investor directly or indirectly has an interest, and a threat to the national defence and security of Russia is deemed to have arisen. If the relevant discovery is made under a combined licence by an entity in which a foreign investor has an interest, the Russian Government has the right to terminate the licence.

If issuance of the exploration and production licence is denied, or a combined licence is terminated, the affected subsoil user is entitled to reimbursement of certain costs it incurred in the prospecting and appraisal of the discovered deposit and (in case of termination of a combined licence) of the one-time payment made under the terms of such licence. This reimbursement and certain other compensation will be payable from the federal budget pursuant to a procedure established by the Russian Government.

The provisions relating to discoveries of Strategic Deposits under a combined licence only apply to subsoil deposits discovered after 7 May 2008; they do not apply to subsoil deposits if the geological survey was completed and advanced exploration and extraction of minerals from such deposits began before 7 May 2008. Further, the rules regarding the categories of persons that may be eligible to operate in the Strategic Deposits do not apply to the licences for deposits that were issued prior to 7 May 2008.

Term of Licence

The term of a licence is set forth in the licence. Prior to January 2000, geological survey licences had a maximum term of five years, exploration and production licences a maximum term of 20 years and combined geological survey, exploration and production licences a maximum term of 25 years. Currently the maximum geological survey term is five years or ten years (if geological survey works are carried out on subsoil plots located within internal sea waters, territorial sea and the continental shelf of the Russian Federation), while the exploration and production term may be as long as is required (as shown in the feasibility study) for rational full exploitation of the deposit. In practice, exploration and production licences are still generally issued for 20 years. In addition, the Subsoil Law no longer expressly provides for a combined geological survey/exploration and production term; however, in practice, the subsoil use licensing authorities still issue combined licences for 25 years. These amendments did not affect the terms of licences issued prior to January 2000, but permitted licence holders to apply for extensions of such licences for the term of the expected operational life of the field in accordance with the amended Subsoil Law, provided the licence holder complies with the licence terms.

The Subsoil Law permits a subsoil licence holder to request an extension of an exploration and production licence in order to complete the production in the field covered by the licence or to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the licence and the relevant regulations. In order to change any condition of a subsoil licence, including extension of its term, a company must file an application with the federal authorities to amend the licence.

Licence Agreement

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement executed by the federal authorities and the licence holder. The licensing agreement sets out the terms and conditions for the use of the subsoil licence and certain environmental, safety and production commitments, which may, *inter alia*, include:

- bringing the field into production by a certain date;
- extracting annually an agreed target amount of reserves;
- conducting agreed drilling and other exploratory and development activities;
- protecting the environment in the licence area from damage;

- providing geological information and data to the relevant authorities; and
- submitting formal progress reports to regional authorities on a regular basis.

Transfer

Licences may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including the reorganisation or merger of the licence holder or, in the event that an initial licence holder transfers its licence to a legal entity in which it has at least a 50% ownership interest, provided that the transferee possesses the equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred licence. Under the amendments of the Subsoil Law of October 2006, the circumstances under which licences may be transferred were extended to cover (i) transfer from a parent company to its subsidiary, (ii) transfer from a subsidiary to its parent company and (iii) transfer between two subsidiaries of a common parent company where such transfer is effected at the direction of such parent company. The new transferee must be a company incorporated under the laws of the Russian Federation, must comply with the statutory requirements of a subsoil user and other requirements imposed by the conditions of the tender, auction or licence under which the right of usage was granted and must have received all assets necessary for conducting activities, specified in the licence, including the objects of infrastructure.

Penalties and Termination

If the subsoil licence holder fails to fulfil the licence conditions (i.e., terms of the licence agreement), the licence holder may be fined or the licence may be terminated upon notice by governmental authorities. However, if a subsoil licence holder cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a licence due to material changes in circumstances, it may apply to amend the relevant licence conditions, though such amendments may be denied. Governmental authorities, such as Rosprirodnadzor and Rostechnadzor, or their regional divisions, oversee compliance of subsoil licence users with the licence terms and applicable legislation. The Subsoil Law and other Russian legislation contain extensive provisions for licence limitation, suspension or termination. A licence holder can be fined for failing to comply with a subsoil licence and a subsoil licence can be revoked, suspended or limited in certain circumstances, including, but not limited, to the following:

- the emergence of a direct threat to the life or health of people working or residing in the area affected by the operations under the licence;
- breach or violation by the licence holder of material terms and conditions of the licence;
- repeated violation by the licence holder of the subsoil regulations;
- failure by the licence holder to commence operations within a required period of time or to produce required volumes, both as specified in the licence;
- the occurrence of an emergency situation;
- liquidation of the licence holder; and
- non-submission of reporting data in accordance with the legislation.

Rostechnadzor and Rosprirodnadzor undertake periodic reviews for ensuring compliance by subsoil licence holders for ensuring compliance with the terms of their licences and applicable legislation. Although the Subsoil Law, as well as administrative law regulations, does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for limitation, suspension or termination of the rights of a subsoil user. Consistent overproduction, underproduction or failure to meet obligations to finance a project (as compared to the levels established in the licence agreement) would also be likely to constitute violations of material licence terms.

In addition, under the Subsoil Law, a licence automatically terminates upon such events as may be stipulated in the licence or in the event of a transfer of the licence in breach of the procedure set out in the Subsoil Law.

If events or circumstances that have caused suspension or limitation of the right to use subsoil are eliminated, this right may be fully restored and the term of suspension shall not be included in the general term of the licence, provided there is no fault on the part of the licence holder.

In the case of expiration of the term of a licence or early termination of subsoil use, all crude oil facilities in the relevant licensing area, including underground facilities, must be removed or properly abandoned. In accordance with removal and abandonment regulations, all exploration, production and storage facilities must be maintained at a level that is safe for the population, the environment, buildings and other facilities. Abandonment procedures must also secure the conservation of the relevant oil field, extraction, production and storage facilities.

Payments for Subsoil Use

The Subsoil Law provides for certain payments related to the use of subsoil. The amounts for such payments are generally set forth in the relevant licence by the federal and regional authorities within a range of minimum and maximum amounts established by the Subsoil Law.

In addition to the payments provided for by the Subsoil Law, oil production companies pay MET and other obligatory payments set forth by Russian legislation, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Operating Results—Taxation*".

Continental shelf and the exclusive economic zone

Offshore hydrocarbon operations in areas on the continental shelf and within the exclusive economic zone (generally within a 200 nautical mile limit from the baseline from which the width of territorial sea is measured) are primarily governed by the Subsoil Law, the Continental Shelf Law and the EEZ Law. Activities that take place on the continental shelf and within the exclusive economic zone including the drilling and laying of pipelines and the operation of oil extraction facilities, fall under the jurisdiction of not only Rosnedra, Rostechnadzor and Rosprirodnadzor, but also several other governing entities, including the Federal Security Service and the Federal Fishery Agency.

The Subsoil Law and the Continental Shelf Law provide for a set of specific rules relating to the governance of operations on the continental shelf. The most important is the restriction on the continental shelf operations participants, according to which only companies incorporated in Russia, having no less than five years of experience of work on the continental shelf and in which the Russian Federation directly or indirectly controls more than 50% of shares, may be admitted to subsoil activities on the continental shelf. Private or foreign companies may be engaged in operations on the continental shelf only through a partnership with an admitted legal entity. The continental shelf subsoil licences are issued without a tender or auction and may not be further transferred to other legal entities.

The EEZ Law focuses on protecting and monitoring the natural resources of the exclusive economic zone, including fish, sea mammals, molluscs, and crustaceans, as well as minerals and tides. The EEZ Law establishes a framework of protective measures with respect to dumping, accidents at sea, protection and conservation of ice-bound and other specifically designated areas. Users of the exclusive economic zone make certain payments in accordance with Russian legislation.

Land Use Permits and Ground Allotments

Russian legislation prohibits any commercial activity, including mineral extraction activities, on a land plot without appropriate land use rights. Subsoil licences do not grant any surface rights; therefore, such rights must be obtained separately. Land use rights are generally obtained for land plots on which real property is located and for those parts of the licence area that are actually in use.

Under the Land Code of the Russian Federation dated 25 October 2011, as amended (the ***Land Code***), companies generally have one of the following rights with regard to land in the Russian Federation: (i) ownership; (ii) lease; (iii) right of free use for a fixed term; or (iv) right of perpetual use.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities that can sell, lease or grant other use rights to the land to third parties through public auctions or tenders or through private negotiations. Under the Land Code, the land that is in state and municipal ownership and required for the subsoil use is leased to subsoil users without holding an auction or a tender.

Land rights are typically granted for specified areas, upon the submission of standardised reports, technical studies, pre-feasibility studies, budgets and impact statements. Documents which grant land rights generally require that the holder make lease payments and return the land plot to a condition sufficient for future use, at the licence holder's expense, upon the expiry of the permit.

Companies having a right of perpetual use of land, which was obtained prior to the enactment of the Land Code, are required, by 1 July 2012, either to purchase the land from, or to enter into a land lease agreement with, the relevant federal, regional or municipal authority owning the land.

Oil and Petroleum Products Pipeline Transportation Regime

Transneft and its subsidiary Transnefteprodukt control, respectively, the trunk pipelines for the transportation of crude oil and petroleum products in Russia. Both companies are state controlled monopolies.

Transportation of crude oil is based on contracts with Transneft, which set forth the basic obligations of the contracting parties, including the right of Transneft to blend or substitute a company's crude oil with the crude oil of other producers. Transneft establishes and collects on prepayment terms a rouble tariff on domestic shipments and an additional tariff on exports that is payable in roubles but is linked to hard currency exchange rates. The FTS is authorised to periodically review and set the tariff rates applicable for each segment of the pipeline and for the entire pipeline. The Druzhba crude oil pipeline, which is operated by Transneft in Russia and extends from central Russia to markets in the Czech Republic, Germany, Hungary, Poland and Slovakia, has a throughput capacity of approximately 1.2 to 1.4 million barrels of crude oil per day and currently accommodates approximately one-fourth of total Russian exports.

Currently, the allocation of pipeline and terminal access rights is overseen by the Ministry of Energy, which approves quarterly schedules that, *inter alia*, detail the precise volumes of crude oil that each crude oil producer can pump through the Transneft system. These quarterly schedules provide certain stability in the export regime for Russian oil companies. Once the access rights are allocated, crude oil producers generally cannot increase their allotted capacity in the export pipeline system, although they do have limited flexibility in altering delivery routes. Crude oil producers are generally allowed to assign their access rights to third parties.

In 2001, the Russian Government began reforming the system of pipeline allocation and terminal access rights. Since September 2001, pipeline and terminal access rights have been distributed among crude oil producers and their parent companies in proportion to the volumes of crude oil produced and delivered to the Transneft pipeline system in prior periods (not only in proportion to the crude oil production volumes).

Generally, Transneft is not able to transport individual batches of crude oil, which results in the blending of crude oil of differing qualities. Transneft does not currently operate a system whereby companies, shipping heavy and sour (high sulphur content) crude oil compensate the shippers of higher quality crude oil for the deterioration in crude quality due to blending. Although the introduction of a blending compensation system, often referred to as a "quality bank", has been discussed between Transneft and the Russian Government, these proposals have been generally met with resistance by producers with reserves of a lower quality and regional authorities where such reserves are located.

Petroleum products are transported by similar means as crude oil, including railways, sea transportation and specially designed pipelines for petroleum products (other than fuel oil (mazut), which is not transported through pipelines). The majority of petroleum products are transported by railways. The regime for the transportation of petroleum products via pipelines is generally similar to the regime for the transportation of crude oil in that the relevant rules provide for equal access to petroleum products pipelines. Deliveries through Transnefteprodukt are based on the applications of oil companies in proportion to Transnefteprodukt pipeline capacity. The FTS sets the upper limits of the tariffs for the use of Transnefteprodukt pipelines as well. Transnefteprodukt establishes tariffs for the transportation of petroleum products within the limits established by the FTS.

Export of Petroleum Products

In the past, the Russian Government imposed seasonal limitations on the export of certain petroleum products (such as diesel fuel, fuel oil, petrol and jet fuel). No such restrictions are in effect at present. To protect national economic interests, the Russian Government currently implements export duties on petroleum products. The amounts of export duties vary depending on existing crude oil prices, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Operating Results—Taxation—Export Customs duty on Crude Oil" and Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Operating Results—Taxation—Export Customs duty on Petroleum Products*".

Environmental Protection

Petroleum operations are subject to extensive federal and regional environmental laws and regulations. These laws and regulations set various standards for health and environmental quality, provide for penalties and other liabilities for the violation of such standards, and establish, in certain circumstances, obligations to compensate for environmental damage and restore environmental conditions. Issues of environmental protection in Russia are regulated primarily by the Federal Law No. 7-FZ of 10 January 2002 "On Environmental Protection" (as amended) (the ***Environmental Protection Law***), as well as by a number of other federal laws and regulations.

Pay-to-pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. The MNR has established standards relating to the permissible impact on the environment and resource extraction, while Rostechnadzor has set limits for the emission and disposal of substances as well as for waste disposal. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition of such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees, as set forth in Decree of the Russian Government No. 344 of 12 June 2003 "On Rates of Payments for Pollutant Emissions into the Air by Stationary and Mobile Sources, Pollutant Disposals into Surface and Underground Waters, Disposal of Production and Consumption Waste" (as amended) and certain other regulations, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits, whereby the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Natural resources development issues are subject to periodic environmental evaluation. While these evaluations have in the past generally not resulted in substantial limitations on natural resources exploration and development activities, they are expected to become increasingly strict in the future. Currently, conducting operations that may cause damage to the environment without state ecological expertise may result in negative consequences. Thus, if the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the environmental authorities may suspend these operations or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employee that fails to comply with environmental regulations may be subject to administrative and/or civil liability and individuals (including managers of legal entities) may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines. The limitation period for compensation claims regarding damages caused by pollution is 20 years.

Oil Spills and Soil Contamination

Any contamination of soil and ground water resulting from oil spills may create a number of obligations on the responsible company.

On 21 August 2000, the Russian Government approved the Basic Requirements for the Plans of Prevention and Clean-up of Oil Spills, which obliges companies to develop plans for the prevention and clean-up of oil spills. Such plans are approved by a number of Russian authorities. A further resolution of the Russian Government (No. 240 of 15 April 2002 "On approval of the Rules for Organisation of the Prevention and Liquidation of the Spills of Oil and Petroleum Products") requires crude oil producing, transportation, refinery and storage companies to have their own dedicated human, technical and financial resources to clean-up oil spills as and when they occur.

In addition, the Environmental Protection Law and the Land Code contain provisions relating to the payment of compensation for damage resulting from the contamination of the land. According to Article 14 of the Land Code, if a company's activities cause chemical contamination of the land, making it impossible to use such land for a "designated purpose", or reduce its quality generally, the relevant company must pay compensation to the owner of the land in respect of such damage, any agricultural losses and costs of cleaning up the land so that it can again be used for its "designated purpose".

Companies that damage the fertile soil layer of land during construction or other activities are required to restore the land at the end of their activities at their own expense and in accordance with restoration programmes approved by environmental experts, pursuant to the Resolution of the Government of the Russian Federation No. 140 of 23 February 1994 "On Restoration of Land and Removal, Storage and Use of the Fertile Soil Layer".

According to the Water Code of the Russian Federation, water users are required to take measures to prevent and clean-up accidents that may affect the condition of rivers, lakes or other bodies of water. Facilities for the transportation and storage of crude oil cannot operate without devices for the prevention of contamination of rivers, lakes or other bodies of water and for the control and detection of oil spills.

Gas Flaring

Russian oil producers flare a portion of the associated gas produced in their fields. Consequently, such oil producers are subject to state-imposed charges for the gas flared in accordance with the payment regime for emissions within the statutory and individually approved limits. Under Resolution of the Russian Government No. 7 of 8 January 2009 "On Measures Related to Stimulation of Reduction of the Atmosphere Contamination by Products of Flaring of the Associated Gas at Flare Devices", starting from 1 January 2012, the overall limit for flaring is 5% of the associated gas produced in the relevant field. Any associated gas flared in excess of this limit will result in significantly increased emission charges.

Health and Safety

The principal law regulating industrial safety is the Federal Law No. 116-FZ of 21 July 1997 "On Industrial Safety of Hazardous Industrial Facilities" (as amended) (the ***Safety Law***). The Safety Law applies, in particular, to industrial facilities and sites where certain activities related to exploration and production of crude oil are carried out. The Safety Law also contains a comprehensive list of hazardous substances and their permitted concentrations, and extends to facilities and sites where these substances are used. Regulations adopted pursuant to the Safety Law further address safety rules for certain operations that the Company conducts.

The Company's activities also include operation of certain hazardous industrial sites regulated by Rostechnadzor. Any construction, reconstruction, liquidation or other activities in relation to such regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of regulated industrial sites is prohibited unless reviewed by a licensed expert and approved by Rostechnadzor. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of the Russian Federation. In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third party liability for injuries caused in the course of operating regulated industrial sites. The Safety Law also requires these companies to enter into contracts with emergence services and organisations or create their own emergency services in certain cases, conduct personnel training programmes, create systems to cope with and inform Rostechnadzor of accidents and maintain these systems in good working order. In certain cases, companies operating regulated industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular regulated industrial site and the measures the company has taken and will take to mitigate such risks and use such site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, is required for the issuance of a licence permitting the operation of a dangerous industrial facility.

In the case of an accident, a special commission led by a representative of Rostechnadzor conducts a technical investigation of the cause. The company operating the industrial facility where the accident took place bears all costs of an investigation. The officials of Rostechnadzor have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. Rostechnadzor may suspend or terminate a company's operations or impose administrative liability on a company or its officials.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability and individuals may also incur criminal liability. A company that violates safety rules in a way that harms the health of an individual may also be liable to compensate the individual for lost earnings, as well as health-related damages and, in certain cases, its activity may be suspended.

Anti-monopoly Regulation

The anti-monopoly legislation of the Russian Federation is based on the Federal Law No. 135-FZ of 26 July 2006 "On Protection of Competition" (the ***Competition Law***) (as amended) and other federal laws and regulations governing anti-monopoly issues.

The anti-monopoly legislation of the Russian Federation governs relations which are aimed at the protection of competition, including where certain transactions (activities) are executed (performed) outside Russia but may influence competition on the Russian market and which involve, *inter alia*, Russian legal entities, foreign legal entities, state agencies of the Russian Federation and local government authorities.

The compliance with anti-monopoly legislation in Russia is monitored by the FAS. Russian legislation grants the FAS ample powers necessary for the performance of its functions and dealing with violations of anti-monopoly legislation. The FAS is, *inter alia*, authorised (i) to initiate or examine cases regarding violation of antimonopoly legislation; (ii) to issue binding orders to business entities in cases specified in the Competition Law; (iii) to hold commercial and non-commercial organisations and their officers to account for violating antimonopoly laws in the instances and by the procedure that is established by Russian legislation; and (iv) to file with a court or an arbitration court applications in respect of violations of anti-monopoly laws, including, *inter alia*, invalidating in full or in part any agreements that do not correspond to the anti-monopoly legislation.

In general, anti-monopoly regulation comprises certain measures aimed at prevention and termination of monopolistic activity and control over the economic concentration. A number of legislative acts have been amended recently to tighten liability for monopolistic activities. In particular, the amendments increased the fines which may be imposed on companies performing monopolistic activities and officers of such companies.

Anti-monopoly restrictions in the sphere of regulation of monopolistic activity include prohibitions of conclusion of anticompetitive agreements, exercise of anticompetitive coordinated actions, unfair competition, and abuse of dominant position.

An entity or a group of entities is deemed to have a dominant position in a particular commodity market if: (a) the entity (or the group of entities) has a market share on a particular commodity market in excess of 50%, unless it is specifically established by the FAS that the entity (or the group of entities) does not have a dominant position; or (b) the entity has a market share on a particular commodity market which is less than 50% but more than 35% and the dominant position of the entity (or the group of entities) is specifically established by FAS based on (i) the stability or near stability of such entity's (group of entities') share on the particular commodity market; and (ii) certain characteristics of the relevant commodity market (such as the accessibility of the commodity market to new competitors); or (c) the entity has a market share on a particular market which is less than 35% but exceeds the market shares of other entities operating on the market, if the market meets the criteria specifically listed in the Competition Law and the dominant position of such entity was established by FAS based on the analysis of the competitive environment on a particular market.

The Competition Law also provides the possibility of several unrelated entities being considered to collectively have a dominant position. In particular, each of three business entities collectively having a market share exceeding 50%, or each of five business entities collectively having a market share exceeding 70%, provided that the market share of each entity in any case exceeds 8% or more of other market participants' market shares, may be considered as having dominant position provided that (i) market shares of relevant entities have been stable or nearly stable during a significant period of time; (ii) the access of new competitors into the particular commodity market is hindered; (iii) the relevant commodity cannot be easily substituted; and (iv) the demand for the commodity is price-inelastic. Furthermore, pursuant to the Competition Law, any entity being a natural monopoly is deemed to enjoy a dominant position on the relevant commodity market which represents the natural monopoly ("natural monopolies" are created by specific legislation and, *inter alia*, include the gas and electricity markets).

The Competition Law establishes a regulatory framework for companies enjoying dominant positions in certain markets, aimed at protection of competition in the relevant markets. In particular, an entity enjoying a dominant position is prohibited from abusing such a position through; *inter alia*, the following activities: (i) fixing and/or maintaining a monopolistic high or low price of goods; (ii) withdrawing goods from circulation which results in price increases; (iii) dictating to a counterparty terms of agreement unfavourable to it or not relevant to the subject-matter of the agreement; (iv) economically or

technologically unjustified reducing or terminating the production of certain goods; (v) economically or technologically unjustified refusing to enter into an agreement with certain buyers (customers) or avoiding such agreement; (vi) economically or technologically unjustified fixing various prices (tariffs) for the same goods if the federal laws do not provide otherwise; (vii) creating discriminatory conditions; (viii) creating impediments for other entities to either access or exit a particular commodity market; and (ix) violation of established pricing rules.

If a company enjoying a dominant position systematically carries out any monopolistic activities, then a court, upon a suit being brought by the FAS, may decide that such company is a subject to forcible division or spin-off.

Anti-monopoly control over economic concentration involves control (a) over mergers, accessions, and incorporation of companies, and (b) over acquisitions (i) of more than 25%, 50% or 75% of the shares of Russian joint-stock companies (or more than ⅓, ½ or ⅔ of the participatory shares of Russian limited liability companies); (ii) of more than 20% of the assets of Russian companies (except for non-industrial buildings, land plots and unfinished construction objects); (iii) of rights to determine the commercial activity of Russian companies; and (iv) of more than 50% of the shares of foreign legal entities or rights to determine their commercial activity, provided in each case where the transaction involves shares (participation interests) in, or rights with respect to, a foreign person; antimonopoly control only applies if such person in the year preceding the transaction had supplied goods of value exceeding RUB 1 billion to the territory of the Russian Federation. All abovementioned transactions require either prior approval or subsequent notification of the FAS in accordance with in the Competition Law.

Production Sharing Agreements

The PSA Law sets forth general principles for investment in the exploration and production of minerals on a "production sharing" basis.

A production sharing agreement is a contract between the Russian Government and an investor in which the investor agrees to bear the costs and risks of exploration and production of a mineral resource and the parties agree predetermined shares of the output.

The PSA Law governs petroleum operations carried out pursuant to PSAs. It established the principal legal framework for state regulation of PSAs relating to oil and gas field development and production. Under the PSA Law, the Russian Federation as a state is represented (in its relations with investors under PSAs) by the Russian Government or the state bodies authorised by it. The PSA Law contains stabilisation rules purporting to protect investors against adverse changes in federal and regional laws and regulations, including certain uncertainties in tax laws and regulations. The PSA Law provides that operations conducted under a PSA pursuant to the PSA Law will be governed by the PSA itself and will not be affected by contrary provisions of any other laws, including the Subsoil Law.

Since the PSA Law was enacted, the legislature has approved a number of oil fields as eligible for production sharing agreements. Currently, few of these fields are subject to effective production sharing agreements. As at the date of this Base Prospectus, the Group does not participate in any PSA in Russia.

Current System of Oil and Gas-Related Taxes and Duties

Crude oil extraction tax rate

The MET is calculated using the following formula:

MET on crude oil = METbase × Kc × Kv, where:

METbase – base MET rate on crude oil, which was set at RUB 419 per tonne in 2009-2011, RUB 446 per tonne starting from 1 January 2012 and RUB 470 per tonne – from 1 January 2013.

Kc – oil price and currency adjustment factor. Starting in January 2009, the Kc factor is determined pursuant the following formula:

Kc = (Urals price (U.S.$/bbl) – 15) × (Average rate RUB/U.S.$) / 261

The Kv – depletion adjustment factor is calculated for each particular oil field with an accumulated depletion rate above 80% as follows:

Kv = 3.8 – 3.5* (cumulative production for the year preceding tax period / initial oil reserves of A, B, C1 and C2 as of 1 January 2006), where A, B, C1 and C2 stand for the Russian national definition of reserves categories, which are different from SEC or PRMS definitions.

Effective from 1 January 2012, a further allowance for small Greenfields came into effect. The allowance has resulted in the additional reduction of the multiplier ("Kz") being applied to the above formula as follows:

- MET on crude oil = METbase × Kc × Kv × Kz
- Kz is applicable to oil extracted from fields with initial reserves below 5 million tonnes and an accumulated depletion rate of less than 5%;
- The Kz value will range between 0.375 and 1 depending on the initial reserves of the field.

Assuming the average monthly RUB/U.S.$ exchange rate is constant and the depletion factor equals 1.0, each increase in average world market price of Urals blend oil by U.S.$1.00 per barrel above the cut-off price (currently set at U.S.$15.00 per barrel) will result in an increase of the tax rate by approximately U.S.$1.61 per tonne of oil extracted (or U.S.$0.22 per barrel of oil extracted using a conversation factor of 7.33 barrels/tonne).

From 2007 MET exemptions (also called "tax holidays") are granted to encourage oil production from long-distance and hard-to-reach deposits. These exemptions apply for a fixed amount of extracted oil and may be used only in a limited period of time. Existing "tax holidays" apply for oil fields in Eastern Siberia, Northern part of Western Siberia, Arctic continental shelf, Black, Azov, Caspian, Okhotsk seas.

In addition, super-high viscosity oil (oil with a viscosity of over 200 mPa × s in stratal conditions) is a subject to zero MET tax rate.

Natural gas and gas condensate extraction tax rate

For 2009 and 2010, the natural gas MET rate was set at RUB 147 per thousand cubic metres of natural gas extracted. On 1 January 2011, the MET rate for natural gas was increased to RUB 237 per thousand cubic metres of natural gas extracted with further approved increases to RUB 251, RUB 265 and RUB 278 per thousand cubic metres effective in 2012, 2013 and 2014, respectively.

Taxation shall be carried out at the above rate multiplied by the coefficient of 0.493 (for 2012), 0.455 (for 2013) and 0.447 (starting from January 1, 2014), for the taxpayers which are not the owners of the facilities forming part of the Unified Gas Supply System (or part of the such owner's Group).

Associated petroleum gas is subject to 0 MET rate.

Before 2012 the MET rate for gas condensate was 17.5% of the value of extracted mineral resources. As of January 2012, the MET rate for gas condensate was changed to a fixed rate and is now equal to RUB 556 per tonne for 2012 and will be equal to RUB 590 per tonne for 2013 and RUB 647 per tonne for 2014.

Export duty rates on crude oil and oil products

Since 1 December 2008, the export duty rate on crude oil is established by the Russian Government on a monthly basis based on the average world market price of Urals blend crude oil over the preceding month. In practice, this procedure of export duty rate determination results in a one-month gap between actual fluctuation of the average crude oil prices and the export duty rate based on those prices.

The effective Russian legislation provides for the maximum rates of crude oil export duties that may be established by the Russian Government based on the actual average world market price of Urals blend oil:

- for an average world market price of Urals blend oil of up to U.S.$15.00 per barrel (U.S.$109.50 per tonne using a conversion factor of 7.3 barrels/tonne), a zero export duty rate applies;
- for an average world market price of Urals blend oil from U.S.$15.00 to U.S.$20.00 per barrel (U.S.$109.50 to U.S.$146.00 per tonne) each U.S.$1.00 per barrel increase above U.S.$15.00 per barrel (U.S.$109.50 per tonne) results in $0.35 per barrel increase in the maximum allowable export duty rate;

- for an average world market price of Urals blend oil from U.S.$20.00 to U.S.$25.00 per barrel (U.S.$146.00 to U.S.$182.50 per tonne) each U.S.$1.00 per barrel increase above U.S.$20.00 per barrel results in U.S.$0.45 per barrel increase in the maximum allowable export duty rate;
- for an average world market price of Urals blend oil exceeding U.S.$25.00 per barrel (U.S.$182.50 per tonne) each U.S.$1.00 per barrel increase above U.S.$25.00 per barrel results in U.S.$0.65 per barrel increase in the maximum allowable export duty rate;

Effective as of October 2011, the Russian Government took the first step in the planned oil tax reform and introduced the so called "60-66" duty regime. This regime provides for:

- a reduction in the marginal rate of export duty on crude oil to 60% from the previous 65%: ED (U.S.$ per tonne) = U.S.$29.2 + (PM (U.S.$ per tonne) − U.S.$182.5) * 0.60;
- where PM − average price of Urals blend oil based on data provided by Platts and Argus price reporting agencies for a period from the 15th to 14th of the months preceding the month in which the duty was set, in U.S.$ per tonne;
- the unification of export duties for light and dark oil products at 66% of the export duty on crude oil (meaning the export duty on diesel and jet oil has been reduced from 67% of the rate on crude oil to 66%, while the export duty on fuel oil has been increased from 46.7% to 66%; and
- retention of prohibitive export duty for commercial and straight run gasoline—at the level of 90% of the export duty for crude oil (in order to stabilize the situation on the domestic market of petroleum products, Russian Government increased export duty rates on commercial gasoline and straight run gasolines from 67% to 97% of the export duty for crude oil, effective 1 May 2011 and 1 June 2011 respectively).

Revised duty rates for petroleum products have been established by a government decree. In respect of the crude oil rates, the Government has indicated its intent to apply the 60% marginal rate on a monthly basis until respective changes are introduced in law.

The crude oil export duty rate effective from October 2012 amounts to U.S.$418.9 per tonne.

Crude oil export to Kazakhstan is not subject to export duties. Crude oil export to Ukraine is taxable at a standard export duty rate. Pursuant to an agreement between Russia and Belarus, crude oil exported to Belarus in 2009 was subject to a lower-than-standard export duty rate. A customs free regime in respect of a limited annual export volume was enacted in 2010 and customs duties were cancelled as of 1 January 2011.

Starting from December 2009 reduced export duty rates for particular list of new fields were established by the Government. The reduced rate amounts for approximately 50% of "general" export duty rate. From July 2012 reduced export duty rate was also established for oil with a viscosity over 10,000 mPa × S.

Excise tax rates on oil products

Excise tax is applied to petroleum products produced by refineries and sold in the domestic market. Effective from January 2011, the Russian Government changed the petroleum products excise tax methodology, both to increase the base rates and differentiate them depending on the quality (grade) of the product. Effective from January 2012, excise tax rates increased approximately by 29-33% for gasoline and by 49-59% for diesel, depending on the grade. The law provides for further increases in excise rates over the period from 2012 to 2014.

The excise tax rates applicable for transactions in oil products in 2012, 2013 and 2014, respectively, are as follows:

Oil Product Rate	Rate, RUB / metric tonne			
	2012, 1st half	2012, 2nd half	2013	2014
Gasoline not pertaining to classes 3,4 and 5	7,725	8,225	10,100	11,110
Class 3 gasoline	7,382	7,882	9,750	10,725
Class 4 gasoline	6,822	6,822	8,560	9,416
Class 5 gasoline	6,822	5,143	5,143	5,657
Straight-run gasoline	7,824	7,824	9,614	10,579
Diesel fuel not pertaining to classes 3,4 and 5	4,098	4,300	5,860	6,446
Class 3 diesel fuel	3,814	4,300	5,860	6,446
Class 4 diesel fuel	3,562	3,562	4,934	5,427
Class 5 diesel fuel	3,562	2,962	4,334	4,767
Motor oil	6,072	6,072	7,509	8,260

Regular payments for the use of subsoil

Regular subsoil use payments depend on the size of the licence area (subsoil plot) provided to the licensee (the subsoil user), the kind of natural resources and location of subsoil plot (offshore or onshore plot). The current annual minimum and maximum rates of regular payments are set as follows: (1) the rate for the right to prospect and evaluate oil fields ranges from RUB 120 to RUB 360 per square kilometre (from RUB 50 to RUB 150 per square kilometre for offshore subsoil plots (Russian continental shelf and areas outside the territory of Russia but under its jurisdiction)); and (2) the rate for the right to explore oil fields ranges from RUB 5,000 to RUB 20,000 per square kilometre (from RUB 4,000 to RUB 16,000 per square kilometre for offshore subsoil plots (Russian continental shelf and areas outside the territory of Russia but under its jurisdiction)).

Anticipated Changes in Legislation Regarding Oil-Related Taxes and Duties

The Russian Government is currently considering certain amendments to the tax legislation regarding the oil and gas industry. These amendments include:

- Amendments proposed by Government Decree N°443-r dated 12 April 2012 providing for a necessity of creation of stimulating taxation regime for new shelf projects. The main elements of the proposed tax regime include an exemption from export duties on hydrocarbons extracted within shelf projects, reduced as valorem MET tax rates (depending on the category of shelf project) and a fixed profits tax rate for a certain period of time (see table below).

Shelf project category	MET rate	Profits tax rate	Period of tax rate application*
1	30%	20%	5 years from the date of commercial production
2	15%	20%	7 years from the date of commercial production
3	10%	20%	10 years from the date of commercial production
4	5%	20%	15 years from the date of commercial production

* Application of reduced tax rates after this period is not specified.

It is also expected that the proposed tax regime will provide for an extended tax loss carryforward period for profits tax purposes, accelerated depreciation for fixed assets and the creation of a tax reserve for expenses related to shelf project liquidation. The tax regime also includes the application of property tax and customs allowances to facilities used for shelf projects;

- Amendments proposed by Government Decree N°700-r dated 3 May 2012, stipulating a necessity of stimulation of hard-to-recover oil extraction providing reduced MET rates. The reduced MET rates vary from 0% to 50% from the standard tax rate and depend on the permeability of reservoirs. These rates are valid for first several years of the respective reservoir development.

To be enforced and practically applied, the abovementioned tax regimes shall be supported by law. No respective laws have been passed yet. An uncertainty currently exists on whether and when the abovementioned amendments will be enforced.

Additionally, in September 2012, the Russian Government announced (i) an intention to create clear and understandable mechanism of establishing reduced export duty rates (45% from oil price more than 50 U.S. $ / bbl) based on economic analysis of particular projects in Eastern Siberia and other new oil basins; and (ii) decision to extend a deadline for above mentioned tax holidays for Eastern Siberia from 2017 to 2022.

BUSINESS

Information is presented in this Base Prospectus on the basis of certain conventions and definitions that are set forth in "Presentation of Financial and Other Information".

OVERVIEW

Rosneft is a vertically integrated oil and gas group with upstream and downstream operations located principally in Russia. Rosneft's three key areas of operations are exploration and production of hydrocarbons, production of petroleum products and petrochemicals as well as distribution and sales of its products.

Headquartered in Moscow, Rosneft is one of the world's largest publicly-traded oil companies by proved reserves of hydrocarbons, and in terms of proved liquid hydrocarbon reserves and crude oil production. According to the Reserves Report prepared by D&M, at 31 December 2011, Rosneft's proved hydrocarbon reserves under PRMS standards were 23,352 million barrels of oil equivalent, consisting of 18,351 million barrels of oil and 850 billion cubic metres of gas. According to PRMS, as of 31 December 2011, Rosneft's proved reserves had reserve life of 25 years at current production level (including 21 years for oil and 68 years for gas). Rosneft's reserves are located both in traditional oil and gas producing regions (the southern part of European Russia, Western Siberia, central Russia and Timano-Pechora in northern Russia) and in new regions (Eastern Siberia, the Russian Far East and sea shelfs). See *"Classification of Reserves and Resources" and "Presentation of Financial and Other Information"*.

In addition to its reserves, Rosneft has substantial resources potential. These resources are primarily located in Russian offshore and Eastern Siberia. As of 30 September 2012, Rosneft held licences for 29 offshore areas in Russia's seas and has acquired licences for two additional offshore areas in November 2012. According to the Resources Report, Rosneft's onshore prospective resources (excluding Sharjah) were estimated at 10,947 million barrels of oil and condensate and 747 billion cubic metres of gas, prospective resources at 12 out of Rosneft's 31 offshore areas were estimated at 66,067 million barrels of oil and condensate resources and 8,863 billion cubic metres of gas resources. During the course of 2011 and 2012 Rosneft acquired 19 new blocks in offshore areas, however their resource potential was not recognised in the Resources Report, because ownership of these blocks had not been fully transferred to Rosneft as of the time when the Resources Report was prepared.

Rosneft also conducts exploration activities outside Russia, concentrated mostly in Algeria, Abkhazia, Canada, United Arab Emirates and Venezuela. In particular, Rosneft is involved in two projects for development of two oil fields—Junin-6 and Carabobo-2 located in the Faja extra heavy oil belt in the basin of Orinoco river in Venezuela in partnership with CVP, a subsidiary of PDVSA. The first block—Junin-6—will be developed by PetroMiranda S.A., a joint venture created by CVP and NPC. NPC is a joint venture of five Russian companies (Rosneft, Gazprom Neft, TNK-BP, Lukoil and Surgutneftegas) each having a 20% stake in NPC. CVP holds a 60% interest and NPC holds a 40% interest in the joint venture. According to an audit by D&M, as of 31 December 2011 contingent resources of the block accounting for Rosneft's share equal to 803 million barrels of oil and 2.86 billion cubic metres of gas, according to PRMS. In September 2012, Rosneft has entered into a memorandum of understanding with CVP in respect of establishment of a joint venture for the development of Carabobo-2 block and has agreed the form of agreement with CVP for the establishment and management of the joint venture, which is currently awaiting approval by the National Assembly of Venezuela. In the event of approval of the form of joint venture agreement by the National Assembly of Venezuela, CVP will hold a 60% interest and Rosneft will hold a 40% interest in the new joint venture. According to PDVSA estimate, oil-in-place reserves at Carabobo-2 block amount to approximately 6.5 billion tonnes of oil.

Rosneft produces hydrocarbons through 12 fully consolidated production and development units, four producing joint-ventures (which Rosneft accounts for using the equity method) and through Sakhalin-1, an unincorporated joint venture consolidated into Rosneft under the proportionate consolidation method. Rosneft production and development operations spread across all major oil and gas regions of Russia: Western Siberia, central Russia (Samara Region and Republic of Udmurtia), northern Russia (Timano-Pechora), Eastern Siberia, the Russian Far East (Sakhalin Island), as well as the North Caucasus and other parts of southern Russia. Except where expressly stated otherwise, all Rosneft operational information herein includes the share of any minority interest owners and also Rosneft's proportionate share of the respective results of operations accounted for using the equity method.

During the nine months ended 30 September 2012, Rosneft produced 664.5 million barrels of crude oil and 11.02 billion cubic metres of natural and associated gas which is 2.5% and 19.0% more than for the same

period of the previous year. Rosneft produced 868.6 million barrels of crude oil and 12.79 billion cubic metres of natural and associated gas in the year ended 31 December 2011. This represents a 2.5% and 3.6% growth in comparison with the previous year volumes respectively. In 2011, Rosneft's average daily production output was at 2,380 thousand barrels per day, compared to 2,322 and 2,182 thousand barrels per day in 2010 and 2009, respectively.

Rosneft's downstream refining assets include seven large oil refineries in Russia (at Komsomolsk, Tuapse, Angarsk, Achinsk, Samara, Novokuibyshevsk and Syzran, with an aggregate annual throughput capacity of 51.8 million tonnes of crude oil as of 31 December 2011), and four mini-refineries with a total aggregate annual capacity of 0.5 million tonnes. Rosneft also owns a 50% stake in Strezhevsky mini-refinery in Western Siberia. In 2011, Rosneft acquired a 50% interest in Ruhr Oel GmbH (a joint venture between Rosneft and BP), which owns stakes in four refineries in Germany—Gelsenkirchen (Ruhr Oel GmbH stake equals 100%), MiRO (24%), PCK Schwedt (37.5%), and Bayernoil (25%). The share of Ruhr Oel GmbH refining capacity in these four refineries equals 23.2 million tonnes per year (Rosneft's net holding in Ruhr Oel GmbH refining capacity is 11.6 million tonnes), which is approximately 20% of overall German refining capacity. Total throughput of Rosneft's refineries amounted to 57.9 million tonnes in 2011 (including Rosneft's share in total throughput of Ruhr Oel GmbH refineries of 7.21 million tonnes). See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Changes in the Production Volumes of Crude Oil, Gas and Petroleum Products—Petroleum Product Output*".

Rosneft produces petrochemicals (ethylene, propylene and polyethylene) at the Angarsk Polymer Plant in Russia, with annual ethylene production capacity of 0.2 million tonnes per year and annual propylene production capacity of 0.1 million tonnes per year and at the Gelsenkirchen refinery, which has a petrochemical facility with 1.0 million tonnes of ethylene capacity. Rosneft also owns the Neftegorsk and Otradnensky gas-processing plants in Samara region with total annual capacity of 1.9 billion cubic metres of gas.

Rosneft supplies crude oil to its own refineries in Russia and Germany and sells crude oil in the domestic and international markets (including, primarily, CIS, European and Asian-Pacific countries). Rosneft processed 37.75 million tonnes and 50.65 million tonnes of crude oil at its Russian refineries during the 9 months ended 30 September 2012 and the 12 months ended 31 December 2011, respectively.

For the nine months ended 30 September 2012 Rosneft sold 49.9 million tonnes (365.0 million barrels) of crude oil to third parties, of which 0.5 million tonnes (3.6 million barrels) was sold on the domestic market and 49.4 million tonnes (361.4 million barrels) was exported. The Company exported 31.3 million tonnes (229.0 million barrels) of oil to Europe and to countries other than CIS and Asia-Pacific countries, 4.7 million tonnes (34.4 million barrels) of oil to the CIS and 13.4 million tonnes (98.0 million barrels) to Asia-Pacific countries.

Rosneft sold 64.2 million tonnes (469.6 million barrels) of crude oil in 2011, of which 0.3 million tonnes (2.2 million barrels) were sold on the domestic market and 63.9 million tonnes (467.4 million barrels) were exported. The Company exported 41.2 million tonnes (301.4 million barrels) of oil to Europe and to countries other than CIS and Asia-Pacific countries, 4.6 million tonnes (33.6 million barrels) of oil to the CIS and 18.1 million tonnes (132.4 million barrels) to Asia-Pacific countries out of which 15 million tonnes (110 million barrels) were delivered by pipeline to China under a long term contract, with the remaining amounts exported via the ports of Kozmino and De-Kastri.

Rosneft sold most of the crude oil that it exported to third party international oil traders, mainly via Transneft transport capacities, including export pipelines and via Russian sea ports. Rosneft sold 8.18 billion cubic metres and 9.74 billion cubic metres of gas in the 9 months ended 30 September 2012 and the 12 months ended 31 December 2011 respectively. In 2011, Rosneft sold approximately 32% of its gas directly to Gazprom. Of the remaining 68%, Rosneft sold to independent gas traders and independent industrial consumers, in both cases through the UGSS, a gas transportation system owned and operated by Gazprom.

Rosneft owns developed infrastructure for the sale of petroleum products on the domestic market. The Company owns a chain of marketing companies engaged in wholesale and retail sale of petroleum products, including their storage, transport and transhipment. In the first nine months of 2012, Rosneft sold 16.2 million tonnes of petroleum products domestically and 17.6 million tonnes of petroleum products for export (excluding bunker fuel and petroleum products sold from Ruhr Oel GmbH refineries). Rosneft sold 21.43 million tonnes of petroleum products domestically and 24.85 million tonnes for export (excluding bunker fuel and petroleum products sold from Ruhr Oel GmbH refineries) in 2011. In the first nine months of 2012 and in 2011, gasoline (including high and low octane gasoline) accounted for 38% and 40% of petroleum products revenues on the domestic market, while diesel fuel accounted for 44% and 45%, fuel oil accounted for 3% and 4%, and jet fuel accounted for 8% and 6%, respectively.

Rosneft's retail business covers 44 regions of Russia from Murmansk in the north to the North Caucasus in the south, and from Bryansk in the west to Sakhalin Island in the east. Rosneft sells gasoline, diesel fuel and lubricants through its retail network. The Company's network of filling stations consists of approximately 1,700 stations and is currently the second largest network of filling stations in Russia. The Company's retail sales of petroleum products amounted to 5.0 million tonnes and 6.5 million tonnes for the nine months ended 30 September 2012 and for 2011, respectively, which represented 11.7% and 11.9% of total petroleum products. Average daily sales volume of petroleum products per filling station was 10.6 tonnnes in 2011, compared to 8.7 tonnes in 2010 and 8.0 tonnes in 2009.

Rosneft exported 17.6 million tonnes of petroleum products during the first nine months of 2012 and 24.85 million tonnes during the 12 months ended 31 December 2011. Exports accounted for 41.6% and 45.96% of total product revenues, respectively. Gasoline (including high and low octane gasoline) accounted for 0.6% and 3.2%, fuel oil accounted for 55% and 53.5%; diesel fuel accounted for 28% and 27.7%, naphta accounted for 15% and 14.3% of exports to non-CIS counties in the first nine months of 2012 and in the 12 months ended 31 December 2011 respectively. Rosneft's share of petroleum products sales in Germany was 6.8 million tonnes in the nine months ended 30 September 2012 and 5.93 million tonnes in the 12 months ended 31 December 2011. Rosneft has dedicated business subsidiaries for the sale of bunker fuel and jet fuel—RN-Bunker LLC, Rosneft Marine UK Ltd. and RN-Aero. Rosneft sold 2.0 million tonnes and 2.46 million tonnes of bunker fuel during the first nine months of 2012 and in 2011 respectively. Jet fuel sales for the same periods amounted to 1.3 million tonnes and 1.15 million tonnes. Rosneft's total revenues were RUB 2,702 billion in 2011. Rosneft's net income in 2011 was RUB 319 billion. Rosneft's total revenues were RUB 2,268 billion in the nine months ended 30 September 2012. Rosneft's net income was RUB 285 billion in the nine months ended 30 September

2012. The following table sets forth the segmentation of Rosneft's revenues for the years ended 2011, 2010 and 2009 and for the nine months ended 30 September 2012 and 2011:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	(RUB billion)				
	2012	2011	2011	2010	2009
Revenues:					
Oil and gas sales	1,141	1,020	1,392	1,056	779
Petroleum products and petrochemicals sales	1,096	899	1,265	810	653
Support services and other revenues	31	35	45	49	40
Total revenues	2,268	1,954	2,702	1,915	1,472
Costs and expenses:					
Production and operating expenses	158	140	189	144	128
Cost of purchased oil, gas and petroleum products and refining costs	275	189	298	72	59
General and administrative expenses	48	37	52	51	45
Pipeline tariffs and transportation costs	179	161	216	212	171
Exploration expenses	15	6	13	14	11
Depreciation, depletion and amortisation	166	160	213	202	168
Taxes and other income tax	484	356	498	331	254
Export customs duty	664	567	790	509	379
Total costs and expenses	1,989	1,616	2,269	1,535	1,215
Operating income:	279	338	433	380	257
Finance income	15	15	20	20	16
Finance expenses	(12)	(17)	(19)	(21)	(24)
Equity share in profits of associates and joint ventures	20	11	16	4	6
Other expenses	(27)	(29)	(45)	(24)	(43)
Income before income tax	363	312	405	359	212
Income tax expenses	(78)	(65)	(86)	(58)	(57)
Net income	285	247	319	301	155
Other comprehensive income:					
Foreign exchange differences on translation of foreign operations	4	2	(1)	(3)	(1)
Income from changes in fair value of financial assets available for-sale, net of tax	(2)	—	1	—	—
Total other comprehensive income, net of tax	2	2	—	(3)	(1)
Total comprehensive income, net of tax	287	249	319	298	154
Net income					
attributable to shareholders Rosneft	285	244	316	293	155
attributable to non-controlling interest	—	3	3	8	—
Total comprehensive income, net of tax					
attributable to shareholders Rosneft	287	246	316	290	154
attributable to non-controlling interest	—	3	3	8	—
Net income attributable to Rosneft per common share (in RUB)— basic and diluted	30.10	25.44	32.95	30.53	16.15

Rosneft is 75.16% owned by ROSNEFTEGAZ, which is fully owned by the Russian Federation, Rosneft is one of the largest tax payers in the Russian Federation with RUB 1,374 billion (U.S.$46.7 billion) charged in taxes and export duties in 2011, which represented over 11% of the Russian total budget revenues, according to Russian Ministry of Finance. Rosneft has been recognised as a strategic company by the Russian Government and is one of the few Russian companies, which meet the licensing criteria for the development of the continental shelf of the Russian Federation.

Strategy

Rosneft aims to continue to develop its business to transform itself into a global energy company, providing consistently high returns to shareholders through sustainable growth, increased efficiency and development and application of innovative technologies. Rosneft sets for itself the following strategic objectives:

Global leadership in production: maintain production levels at the existing fields, developing greenfield projects, offshore and tight oil reserves, exploring new resources, and expanding into international projects

As the world's largest publicly-traded oil group by proved reserves of liquid hydrocarbons, ensuring effective development of its reserves is one of Rosneft's key objectives. Since its IPO in 2006 until 2011, Rosneft's cumulative average growth rate for crude oil production was 8%. Rosneft produced 664.5 million barrels of crude oil during the nine months ended 30 September 2012 and 868.64 million barrels of crude oil during 2011. Rosneft's existing proved reserves consist of assets that are currently producing or under development. Rosneft intends to ensure the development of its reserves while maintaining industry competitive levels of capital expenditures and operating costs per barrel. The Group's average lifting costs in 2011 calculated as exploration and development operating expenses divided by production volume were at RUB 81.6 (U.S.$2.8) per barrel of oil equivalent in 2011.

Currently, the key production units for Rosneft are Yugansneftegaz and Purneftegaz in Western Siberia, Vankorneft in Eastern Siberia and Samaraneftegaz in Central Russia. Furthermore, Yurubcheno-Tokhomskoye field in Eastern Siberia and the northern extremity of the Chaivo field located on the shelf of the Sakhalin Island are important prospective producing assets for Rosneft. Rosneft expects these assets to drive its production growth in the medium term.

Yuganskneftegaz is the key oil producing asset for Rosneft. It accounted for 56% of Rosneft's total crude oil production (including Rosneft's share in production subsidiaries consolidated on equity basis) in 2011, having produced 488.14 million barrels of crude oil. Yuganskneftegaz' assets are located primarily in Western Siberia with the largest field, Priobskoye, being depleted by about 24% to date. Rosneft intends to apply enhanced oil recovery methods to increase reserve utilisation efficiency on Yuganskneftegaz' fields.

Rosneft also plans to develop its new fields located in Eastern Siberia and the Far East. According to the Reserves Report as of 31 December 2011, 2P reserves of the Vankorskoye field were estimated at 3.3 billion barrels of oil equivalent. Commercial production at this field started only six years after the acquisition of this asset by Rosneft. *See also "History"*. The advantage of the Vankorskoye field is not only its substantial reserves but also high average production rates of new wells which equal up to 3,500 barrels of oil per day. Rosneft owns 11 licences to areas around Vankorskoye field and Rosneft currently believes that these areas have potential to increase its proved reserves.

Yurubcheno-Tokhomskoye field developed by VSNK is another important source of production growth for the Group. According to the Reserves Report as of 31 December 2011, 2P reserves of Yurubcheno-Tokhomskoye field (including Tersk Kamov Licence Block) equal 997 million barrels of oil equivalent. The Group plans to start production at this field in 2016. Oil from Yurubcheno-Tokhomskoye field will be exported to the Asia-Pacific market through the ESPO pipeline. The production on Yurubcheno-Tokhomskoye field is currently expected to start in 2016 and Rosneft expects to reach peak production level for this field at 100,000 barrels of oil per day by 2018.

The northern extremity of the Chaivo field, located offshore of Sakhalin island and developed by Sakhalinmorneftegaz had 2P reserves of 136.7 million barrels of oil and condensate and 5.0 billion cubic metres of gas, according to the Reserves Report as of 31 December 2011. The Group plans to start production at this field in 2014. Peak production is expected to reach 32,000 barrels of oil per day.

Extraction of tight oil from unconventional reservoirs at existing Rosneft fields in Western Siberia is another potential source of production growth for Rosneft. Such reserves are concentrated in Achimov, Bazhenov and Tyumen formations. Amounts of hard-to-recover reserves under Russian classification (ABC1+C2) at Rosneft licence areas are estimated by the Company at 5.8 billion barrels, with the production potential of such reserves being in excess of 300,000 barrels per day. The Company has entered into cooperation agreement with ExxonMobil for the development of tight oil reserves and resources in Yuganskneftegaz' region of activity.

Replacement of extracted reserves is a key priority for Rosneft. The Group's target level for proved reserve replacement ratio is set to be at least 100% of its annual production volume in any year. The proved oil reserve replacement ratio was 162% in 2011 under SEC standards.

According to the Annual Financial Statement for 2011, the Group's finding and development costs calculated as the Group's exploration and development costs divided by increase in hydrocarbon reserves amounted to RUB 84.13 (U.S.$2.86) per barrel of oil equivalent in 2011 – one of the lowest in the oil industry.

Rosneft will concentrate its exploration efforts in the following geographical areas of Russia: licence areas around Vankorskoye field, Irkutsk region and Evenkia in Eastern Siberia, and in the shelfs of Black Sea, Azov Sea, Caspian Sea, Okhotsk Sea and Arctic seas.

According to Rosneft's internal estimate, currently, approximately 90% of Rosneft's prospective resources, amounting to approximately 189.58 billion barrels of oil equivalent (including 66,067 million barrels of oil and condensate resources and 8,863 billion cubic metres of gas resources included in the Resources Report), are concentrated in the Russian offshore, including approximately 138.82 billion barrels of oil equivalent in Barents Sea, Kara Sea and Pechora Sea shelfs, 24.21 billion barrels of oil equivalent in the Black Sea, Azov Sea and Caspian Sea shelfs and 26.55 billion barrels of oil equivalent in the Okhotsk Sea shelf. Rosneft actively cooperates with leading international oil companies in exploration of offshore resources. In 2011 and 2012, Rosneft has signed strategic cooperation agreements (i) with ExxonMobil for the joint exploration and development of subsoil of East Prinovozemelsky Blocks 1,2,3 blocks in Kara Sea and Tuapse Trough Licence Block in the Black Sea; (ii) with Eni for Fedynsky and Central Barents blocks in Barents Sea and the Western Chernomorsky block in the Black Sea and (iii) with Statoil for the joint exploration and development of Perseevsky block in Barents Sea and Kashevarovsky and Lisyansky blocks and Magadan 1 block in the Okhotsk Sea. Each agreement gives Rosneft partners a 33.33% interest in exchange for certain obligations to finance the geological exploration of the areas. Under the agreements, Rosneft's partners will finance relevant exploration activities under carry financing arrangements for an aggregate amount of approximately U.S.$5 billion to cover several years of exploration. Agreements also provide for the exchange of technologies and personnel training as well as give Rosneft the option to participate in certain international projects of its partners.

Rosneft intends to extend its resource potential in the Russian Arctic. The Company has applied for licences in this region for subsoil blocks with large estimated resource potential.

Gas business development: monetisation of associated and natural gas reserves

As at 31 December 2011, Rosneft's proved gas reserves were 850 billion cubic metres, with an additional 388 billion cubic metres of probable reserves and 310 billion cubic metres of possible reserves under PRMS classification. Over 90% of Rosneft's proved gas reserves are located in Western Siberia (Purneftegaz and Yuganskneftegaz) and Eastern Siberia (Vankorneft). Purneftegaz is Rosneft's largest production and development unit in terms of gas production, accounting for approximately 30% of Rosneft's gas production in the nine months ended 30 September 2012. Purneftegaz accounts for 69% of Rosneft's proven gas reserves.

In 2011, Rosneft's natural and associated gas production was 12.79 billion cubic metres, which was 3.6% higher than in 2010, primarily as a result of increased production of associated gas in Samaraneftegaz, Vankorskoye field and Yuganskneftegaz.

Rosneft is undertaking a programme aimed at increasing its associated gas utilisation rate to 95% with a view to increase its overall gas production margins and improve its environmental compliance. The programme envisages construction of gas gathering facilities, booster compressor stations and underground storage facilities as well as gas operated power stations. As part of this programme, Rosneft is constructing the infrastructure for delivery of associated gas from the Vankorskoye field to Gazprom's gas transport system. The construction of this infrastructure, which will enable Rosneft to implement an efficient utilisation system for associated gas, is a crucial element of Rosneft's gas strategy. The infrastructure includes a gas pipeline to Khalmer-payutinskoye field, a gas preparation unit and a compressor station. Completion of the construction work is scheduled for 2013 and will enable utilisation of more than 95% of the gas produced at the field. This programme, when completed in 2013, will substantially increase Rosneft's gas production.

Rosneft sells its gas in the domestic market only. Domestic market prices are currently lower than the market prices in Europe or Asia but have increased steadily. Rosneft's average gas sales price (excluding VAT) was RUB 1,470 (U.S.$50.00) per thousand cubic metres in 2011, RUB 1,289 (U.S.$42.45) per thousand cubic metres in 2010 and RUB 1,058 (U.S.$33.36) per thousand cubic metres in 2009. Rosneft sells its gas to end users, as well as to Gazprom. The Company's long term strategy envisages significant expansion of its gas business.

As part of this strategy, Rosneft has entered into a joint venture with ITERA Group, one of the largest independent producers and traders of natural gas operating in the CIS and the Baltic States, by acquiring an interest in the capital of Itera, an existing company. Rosneft has a 51% interest in this joint venture and has

transferred a 100% interest in its subsidiary, owner of a licence for Kynsko-Chaselsky subsoil block, to Itera in order to increase the production potential of the joint venture. The joint venture will provide Rosneft with access to the regional distribution network. Rosneft intends to consider using the joint venture as an operator of its gas business. In 2011, Itera's gas production was 12.6 billion cubic metres of gas and its proved reserves amounted to 228.30 billion cubic metres of gas and 12.64 million barrels of condensate, under PRMS classification. As a result of its entry into this joint venture, Rosneft's long-term gas production target has been increased up to 100 billion cubic metres of gas.

In 2012, Rosneft and INTER RAO UES have entered into a long-term contract for the supply of up to 875 billion cubic metres of gas. The contract envisages annual supplies of up to 35 bcm of gas produced by Rosneft to the power plants of INTER RAO—Electric Power Plants (or any other INTER RAO UES power plants) starting from 1 January 2016 until 31 December 2040. In 2012, Rosneft also entered into a 5 year contract with Fortum for the annual supply of approximately 2.3 to 2.5 billion cubic metres of gas and into a 3 year contract with E.ON for the annual supply of approximately 1.6 billion cubic metres of gas.

Completion of refinery modernisation program: upgrading product offering and output to meet the growing domestic demand for higher quality fuels and to comply with the latest technical regulations for the quality of motor fuel

Since 2008, Rosneft has been implementing a large-scale refinery expansion and upgrade programme aimed at increasing the refining volumes in order to meet the growing domestic demand for high-quality fuels and at improving the quality of refining capacities in order to comply with new technical regulations for the quality of motor fuel passed by the resolution No 826 of the Commission of Customs Union dated 18 October 2011, which require all motor fuel produced by the Russian refineries to comply with Euro-5 quality standards from 2016. A total of 14 units have been built or upgraded since the start of the modernisation programme, which should be substantially completed by 2016.

The programme is intended to increase primary refining capacity at Rosneft plants by 7 million tonnes, conversion capacity by 17.7 million tonnes and reforming capacity by 30 million tonnes. Additionally, Rosneft intends to increase the light product yields from 56.6% in 2011 to nearly 80%.

Rosneft intends to develop a petrochemical business, primarily in the Far East, and aims at supplying its products primarily to the growing Chinese market. The key element of this strategy is the project for development of the Far Eastern Petrochemical Company (FEPCO), a petrochemical complex in Nakhodka, a sea port located in the Far East, with an input capacity of 3.4 million tonnes. Once completed, the complex will specialise in the production of polymers (polyethylene, polypropylene, monoehylene glycol, as well as other polymers). It is envisaged that the complex will have its own sea terminal for shipment of its products for export. As part of the drive to develop the petrochemical business, in 2011, Rosneft started a project for the expansion of capacities at the Angarsk Polymer Plant. The project is expected to be completed in 2016 and includes reconstruction of existing capacities, and construction of new ones, including Russia's biggest facility for the production of low pressure polyethylene with 345,000 tonnes annual capacity.

Efficient domestic and export marketing of crude oil and petroleum products: enlarging retail network, optimising logistics and increasing the efficiency of distribution channels

Rosneft currently supplies most of its crude oil:

- to its own refineries in Russia and Germany;
- to meet its obligations under long-term export contracts, such as the contract between CNPC and Transneft, under which Rosneft has committed to supplying 15 million tonnes of oil to CNPC annually until 2030;
- through commercial tenders.

Rosneft owns and operates a developed infrastructure for the sale of petroleum products on the domestic and international markets. In the first nine months of 2012, Rosneft sold 16.2 million tonnes of petroleum products domestically and 17.6 million tonnes of petroleum products for export. (excluding bunker fuel and petroleum products sold from Ruhr Oel GmbH refineries). Rosneft sold 21.4 million tonnes of petroleum products domestically and 24.85 million tonnes for export (excluding bunker fuel and petroleum products sold from Ruhr Oel GmbH refineries) in 2011. Oil products produced by Rosneft's German refineries are sold through the BP distribution network in Europe. Rosneft's share of sold petroleum products produced by German refineries amounted to 6.8 million tonnes in the first nine months of 2012 and 5.9 million tonnes in 2011.

Rosneft's strategy of domestic petroleum products distribution is aimed at further developing a proprietary distribution network and signing direct contracts with end users. This strategy consists of the following key components:

- increasing the number of petrol stations in the vicinity of Rosneft refineries and their optimisation through divestiture of petrol stations with low sales volumes;
- increasing the sale of jet fuel, bunker fuel and lubricants to end users through dedicated marketing companies; and
- improving the quality of fuels and other petroleum products through modernisation of its refineries.

Technological leadership: gaining a technological edge through in-house scientific research and collaboration with strategic partners, commitment to implementation of best practices in environmental and health and safety procedures

Technology and innovation is of crucial importance in today's business environment to ensure that an oil company remains competitive and capable of sustainable growth. Rosneft strives for:

- consistent application of the latest know-how and equipment;
- use of global best practices;
- improvement of the quality of management and control over business processes; and
- continuous enhancement of skill levels of Rosneft specialists.

Rosneft's Corporate Scientific and Project Complex consists of 10 regional research and development (R&D) and project institutes, of which seven specialise in exploration and production and three in refining and petrochemicals.

Rosneft began monitoring, testing, adapting and applying promising technologies designed by Russian and foreign companies as part of the implementation of the Group's new technology system. Rosneft has created a technology know-how repository with information on more than 200 technologies.

Rosneft is involved in international projects, programmes and partnerships as part of the implementation of the Group's innovative development programme. In August 2011, Rosneft and ExxonMobil signed an agreement on strategic cooperation, which includes significant scientific and technical cooperation. In 2012, Rosneft signed strategic cooperation agreements with Eni and Statoil, which provide for the mutual exchange of staff, technologies and best practices between the partners. In 2011 Rosneft set up the Arctic Research and Design Center for Offshore Development, whose mission is to engage in research and development of offshore production technologies and to provide scientific support for the implementation of offshore projects on Russia's Arctic shelf. The Arctic Research and Design Center for Offshore Development seeks to: bring together the knowledge of leading sector institutes in Russia, including the competence of Rosneft's seven sector institutes, cooperate with international research and design centres and perform full-cycle design works for the Group's offshore projects. As part of the strategic cooperation agreement with ExxonMobil, in June 2012 Rosneft and ExxonMobil have agreed the key terms of ExxonMobil's participation in the Arctic Research and Design Center for Offshore Development.

Rosneft has the following priorities in health, safety and environmental (HSE) areas:

- continuing to improve industrial safety, working conditions and protection of the environment;
- improving industrial and environmental safety at production facilities to match the best practice of international petroleum majors;
- consistently reduce industrial accident and injury rates, and negative environmental impact;
- further developing the Company's Integrated Management System for HSE.

History

Rosneft was the last vertically integrated oil company to emerge from the reorganisation and large-scale privatisation of Russia's oil industry in the years following the dissolution of the Soviet Union. Initially, Rosneft was established in 1993 as a state enterprise on the basis of assets previously held by ROSNEFTEGAZ, the successor to the USSR Ministry of Oil and Gas. In 1995, a Russian government decree transformed Rosneft into an open joint stock company (OJSC).

Since its establishment, Rosneft has been developing its business through organic growth as well as through the acquisition of new assets. In 2003, Rosneft acquired Severnaya Neft, the Veninsky block on Sakhalin-3 and the Anglo-Siberian Oil Company, which at that time owned the licence to the Vankorskoye field in Eastern Siberia. In December 2004, the Company acquired a controlling share in Yuganskneftegaz, one of the largest oil-producing enterprises in Russia. The acquisition of this asset, along with the significant growth of its own production, enabled Rosneft to become the second-largest producer of oil and gas in Russia as of 2005. At the end of 2005, Rosneft acquired a 25.94% interest in Verkhnechonskneftegaz. In 2006, the Company completed the consolidation of 12 of its subsidiaries engaged in exploration, production, refining and sale of oil and petroleum products by exchanging the minority shareholders' interests in these subsidiaries for newly issued Company's shares and by subsequently merging these subsidiaries into the Company, which resulted in increased management efficiency and transparency. In July 2006, the Company and ROSNEFTEGAZ completed the offering of approximately 13.31% of the Company's ordinary shares, including in the form of global depositary receipts, by means of a public offering in Moscow and London, raising U.S.$10.7 billion.

In 2007, Rosneft acquired a number of major assets which had been previously owned by Yukos through auctions held as part of Yukos insolvency. These assets included major upstream assets in various regions of Russia (such as Samaraneftegaz, VSNK, and a 50% stake in Tomskneft) with total proved reserves of about 1.5 billion barrels of oil equivalent and a crude output of more than 110 million barrels per year. The Company also acquired five major refineries (Samara, Novokuibyshevsk, Syzran, Angarsk, and Achinsk refineries), thus increasing its aggregate refining capacity to more than 50 million tonnes per year. As a result of further acquisitions, Rosneft's retail network grew 2.5 times to approximately 1,700 stations in 2007. Consequently, the Company became the largest oil company in Russia in terms of crude oil production in 2007, accounting for more than 20% of the Russian total oil production, and also ranked first in terms of total refining capacity. In the same year, Rosneft operated the second largest national retail network. See "*Risk Factors—Risks Relating to Rosneft—Rosneft faces several risks arising out of its acquisition of Yuganskneftegaz and other former subsidiaries of Yukos Oil Company (Yukos)*".

In 2008, Rosneft launched a modernisation programme at its seven largest refineries, which should be substantially completed in 2016. The programme is intended to increase primary refining capacity at Rosneft plants by 7 million tonnes.

In 2009, Rosneft launched commercial production at Vankorskoye field, currently the largest field in Eastern Siberia by proved reserves.

Also in 2009, Rosneft was named Russia's most transparent company by Standard & Poor's.

In 2011, Rosneft acquired 50% of Ruhr Oel GmbH, which owns shares in four refineries in Germany, from PDVSA. In the same year, Rosneft—as part of NPC, together with four other Russian oil companies entered into a joint venture with CVP for the development of Junin-6 block in Venezuela.

Throughout 2010 and 2011, Rosneft received a number of licences for prospecting, exploration and development of prospective oil and gas blocks in the Russian offshore, including major areas in Kara Sea and Okhotsk Sea. In August 2011, Rosneft signed a Strategic Cooperation Agreement with ExxonMobil to conduct exploration of licence blocks in the Kara Sea and the Black Sea. In 2012, Rosneft signed strategic cooperation agreements with Eni and Statoil for the joint development of Russian offshore blocks. Also in 2011, the Company has established the Arctic Research and Design Center for Offshore Development whose mission is to engage in research and development of offshore production technologies and to provide scientific support for implementation of the Group's offshore projects on Russia's Arctic shelf. As part of the strategic cooperation agreement with ExxonMobil, in June 2012 Rosneft and ExxonMobil have agreed the key terms of ExxonMobil's participation in the Arctic Research and Design Center for Offshore Development

In September 2012, Rosneft entered into a memorandum of understanding with CVP in respect of establishment of a joint venture for development of the Carabobo-2 block and has agreed the form of agreement with CVP for the establishment and management of the joint venture, which is currently awaiting approval by the National Assembly of Venezuela.

Recent Developments

TNK-BP Acquisition

On 22 October 2012, Rosneft announced two separate agreements in principle to acquire an aggregate 100% equity interest in TNK-BP, Russia's third largest hydrocarbon producer operating in Russia's major hydrocarbon regions (including Western Siberia, Volga-Urals and Eastern Siberia) with assets in Ukraine, Belarus, Venezuela, Vietnam and Brazil, through two separate transactions (together, the ***TNK-BP Acquisition***):

- acquisition of a 50% equity interest in TNK-BP from BP (the ***BP Acquisition***); and
- acquisition of a 50% equity interest in TNK-BP from AAR (the ***AAR Acquisition***).

The BP Acquisition and the AAR Acquisition are entirely independent, and either could be consummated without the other, leaving Rosneft with only a 50% equity interest in TNK-BP. (See "*Risk Factors—Rosneft's acquisition of TNK-BP Limited is subject to significant uncertainties and risks*".)

On 22 November 2012, Rosneft entered into definitive agreements with BP with respect to the BP Acquisition, following the approval of the BP Acquisition by Rosneft's Board of Directors on 20 November 2012. Under the terms of the BP Acquisition, BP will sell its 50% interest in TNK-BP Limited, the ultimate holding company of TNK-BP, and its subsidiary TNK Industrial Holdings Limited to Rosneft for U.S.$17.1 billion in cash (plus interest thereon in the amount of U.S.$1.6 million per day from and including 18 October 2012 to and excluding the closing date) and 1,360,449,797 Rosneft shares, representing a 12.84% stake in Rosneft, currently held in treasury. BP will have the benefit of any Rosneft dividends on such shares having a record date after 18 October 2012. The completion of the BP Acquisition is subject to regulatory approvals, and is expected to occur in the first half of 2013.

In addition, BP has entered into an agreement to purchase from Rosneft's parent, ROSNEFTEGAZ, a further 600 million Rosneft shares, representing a 5.66% stake in Rosneft, at a price of U.S.$8.00 per share (plus interest thereon at a rate of 3.5% per annum from and including 18 October 2012 to but excluding the closing date). Again, BP will have the benefit of any dividends on such shares having a record date after 18 October 2012. On completion of these transactions, BP will hold 19.75% of Rosneft shares, inclusive of its existing 1.25% holding in Rosneft, which, in accordance with Russian law and Rosneft's Charter, would entitle BP to two seats on Rosneft's Board of Directors. BP has agreed not to dispose of any of the Rosneft shares acquired in the transaction for at least 360 days following the completion of the transaction.

Under the terms of the agreement in principle for the AAR Acquisition, Rosneft would acquire AAR's 50% equity interest in TNK-BP for a cash consideration of U.S.$28.0 billion (plus interest thereon at a rate of 3.75% per annum from and including 16 October 2012 to but excluding the closing date), subject to the negotiation of definitive agreements, corporate and regulatory approvals and certain other conditions.

The management of Rosneft believes that the TNK-BP Acquisition is strategically important for the Group and, if and when completed, should place it in a leading position globally among public companies operating in the oil and gas sector, reinforce its position as a regional downstream leader in Russia and Europe, as well as create significant synergies with TNK-BP, including in joint development areas, optimisation of oil and oil product supply logistics, production and sales of natural gas, as well as with respect to cost and asset optimisation. Even if Rosneft ultimately acquires only 50% of TNK-BP, Rosneft believes that the acquisition will be of strategic benefit. Based on press reports, the Russian President has publically supported the BP Acquisition, and the combined TNK-BP Acquisition was subsequently approved by the Russian Government.

If both the BP Acquisition and the AAR Acquisition are completed, Rosneft will become the largest publically traded oil and gas company in the world with daily production of 4.6 million barrels of oil equivalent and proved reserves of 38.3 billion barrels of oil equivalent under PRMS standards. Rosneft (together with TNK-BP) will have the largest refining capacity in Europe of approximately 1.9 million barrels per day and will have the largest retail network of filling stations in Russia consisting of approximately 2,500 filling stations. There can, however, be no assurance that either the BP Acquisition or the AAR Acquisition will be completed. The completion of only one, without the other, would limit the expected benefits of the overall TNK-BP Acquisition and entail certain risks, disadvantages and issues. See "*Risk Factors—Rosneft's acquisition of TNK-BP Limited is subject to significant uncertainties and risks*".

The total consideration payable by Rosneft under the definitive agreements for the BP Acquisition and the agreement in principle for the AAR Acquisition would amount to U.S.$45.1 billion in cash, excluding applicable interest as described above, and a 12.84% equity interest in Rosneft. Rosneft intends to fund the cash component of the consideration with its existing cash resources (Cash, cash equivalents and short-term investments and Financial assets on the consolidated balance sheets of Rosneft and TNK-BP amounted to over U.S.$15 billion as at 30 September 2012, in accordance with the financial statements of Rosneft and TNK-BP for the relevant period prepared in accordance with the IFRS) and a combination of new borrowings from Russian and international banks, proceeds of issues of debt securities in Russia (including domestic RUB bonds issuance programme for the maximum amount of up to the equivalent of approximately U.S.$3 billion, less the amount issued under that programme in October 2012 for the equivalent of approximately U.S.$600 million) and internationally (including the Notes), as well as internal cash flows, prepayments from offtakers under long-term export contracts and the proceeds from asset disposals as part of Rosneft's ongoing asset optimization programme. As at the date of this Base Prospectus, Rosneft has received a commitment from a syndicate of international banks to lend to Rosneft approximately U.S.$30 billion, including up to U.S.$7.5 billion of long-term financing, to fund the combined TNK-BP Acquisition.

INTER RAO UES, Fortum and E.ON Contracts

In 2012, Rosneft and INTER RAO UES have entered into a long-term contract for the supply of up to 875 billion cubic metres of gas. The contract envisages annual supplies of up to 35 bcm of gas produced by Rosneft to the power plants of INTER RAO—Electric Power Plants (or any other INTER RAO UES power plants) starting from 1 January 2016 until 31 December 2040. In 2016, Rosneft will supply 32.3 bcm of gas to INTER RAO UES. Under the agreement, natural gas and dry stripped gas will be supplied from oil fields, which will allow Rosneft to significantly increase associated gas utilisation.

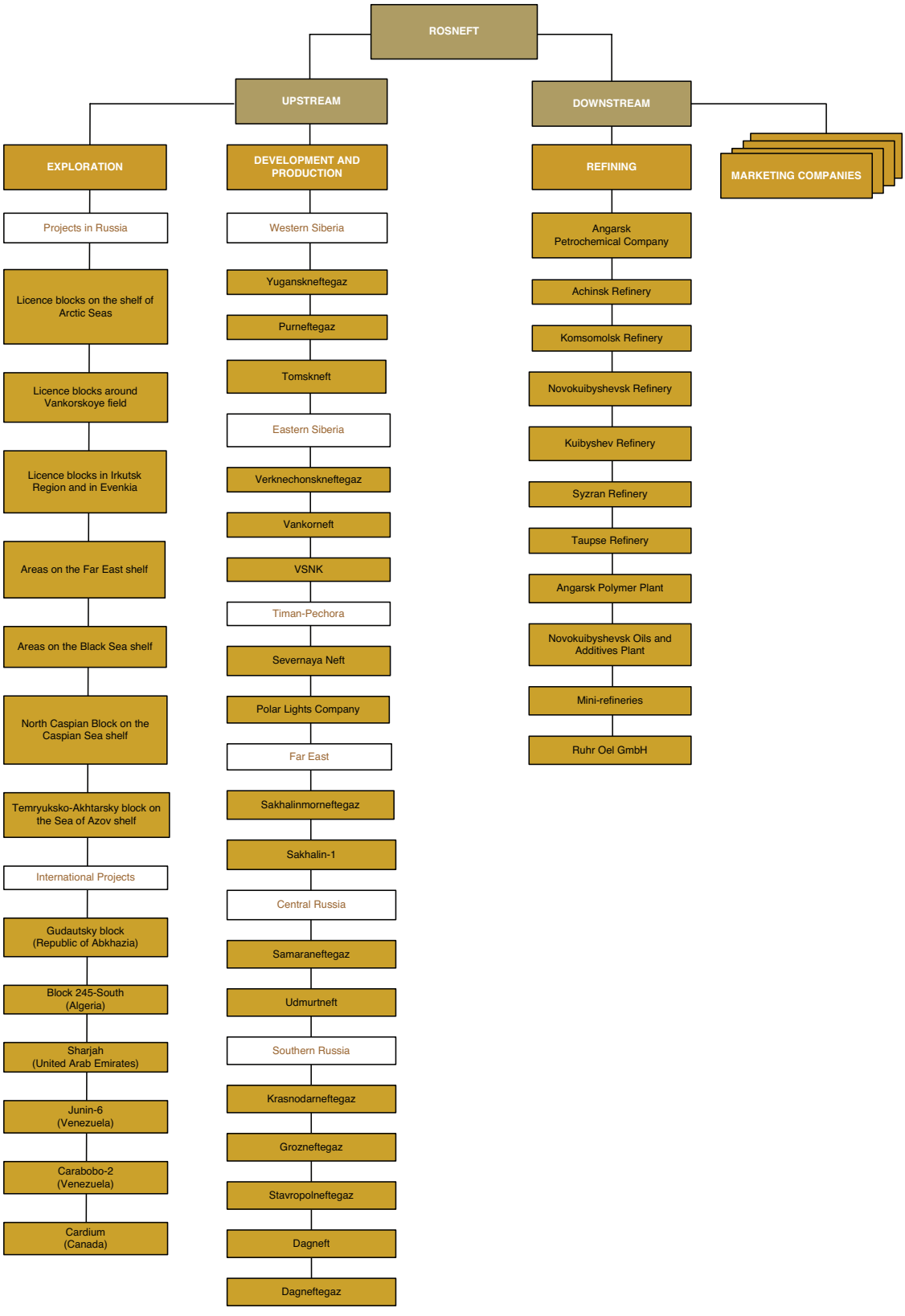
In 2012, Rosneft also entered into a 5 year contract with Fortum for the annual supply of approximately 2.3 to 2.5 billion cubic metres of gas and into a 3 year contract with E.ON for the annual supply of approximately 1.6 billion cubic metres of gas.

Acquisition of Taas-Yuryakh Neftegazodobycha LLC

In March 2012, the Company acquired a 35.3% interest in Taas-Yuryakh Neftegazodobycha LLC from Sberbank Capital LLC for RUB 13 billion. Taas-Yuryakh Neftegazodobycha LLC holds licences for oil production at the Srednebotuobinskoye oil, gas and condensate field located 160 km north of the ESPO pipeline. Oil reserves of the field are estimated at 665 million barrels of C1 and 285 million barrels of C2 category. This investment is accounted for using the equity method.

Operational Structure Chart

The following diagram outlines the operational structure of Rosneft as at the date of this Base Prospectus.



Upstream Operations

Overview

Rosneft classifies its upstream operations into two major categories: production and development assets and exploration projects. Production and development assets consist of production and development units, consolidated subsidiaries and joint ventures with fields and deposits that are either currently producing commercial volumes of crude oil or gas or are at the development stage. Exploration projects are executed and operated by subsidiaries and joint ventures that are not currently producing commercial volumes of crude oil or gas at the blocks that are still at the exploration stage. Rosneft produced 868.6 million barrels of crude oil and gas condensate in 2011 (including 795.8 million barrels by subsidiaries and affiliates), which is a 2.5% increase over the previous year.

Licences

The Group must obtain licences from governmental authorities for prospecting, exploration and production of oil and natural gas and the following main types of licences are granted by Russian authorities:

- prospecting licences, which give licencees the right to undertake geological studies (including prospecting and appraisal works) in a defined area, whilst typically not providing for any extraction rights and are granted for five years from issuance; however, under the existing Russian regulations, if exploration efforts result in the discovery of oil or natural gas, Rosneft may apply to Rosnedra for permission to obtain a production licence without auction or tender.
- exploration and production licences, which give licencees the exclusive right to extract resources from fields in a defined area and are typically valid for 20 years from issuance; and
- combined licences, which permit prospecting, exploration and production and are typically valid for 25 years from issuance.

As of 30 September 2012, Rosneft (including joint ventures, production sharing agreements (PSAs) (see "*Regulation of the Oil Industry in the Russian Federation—Production Sharing Agreements*") and the projects in which Rosneft had an interest) held a total of 593 licences (551 exploration and production and combined licences and 42 prospecting licences of which 262 were held by the Company, 198 by its subsidiaries and 133 by joint ventures, under PSAs and through projects in which Rosneft had an interest. In total, as at 30 September 2012, Rosneft held 237 licences for producing and developing fields and 25 licences for exploration projects (including prospecting and exploration).

As of 31 December 2011, Rosneft (including joint ventures, PSAs and the projects in which Rosneft had an interest) held a total 584 licences (578 licences for prospecting, exploration and production of hydrocarbons in Russia and at the Russian shelf and 6 licences for areas outside Russia).

In the nine months ended on 30 September 2012, the Group obtained 21 new licences, including 3 combined licences for prospecting, exploration and production at Russia's Arctic shelf in the Barents Sea (Fedynsky, Central-Barentsevsky and Perseevsky), 6 prospecting licences to search for and evaluate hydrocarbon reservoirs at West Mongi (Sakhalin) in the Krasnodar Region and in the Republic of Chechnya and 12 further licences as a result of purchasing the assets. The Group was also successful in an auction for rights to carry out prospecting, exploration and production of hydrocarbons in the Republic of Ingushetia. During the same period the Group also returned 12 licences to the Federal Agency of Mineral Resources.

The expiry dates of the Rosneft's production licences vary from 2017 to 2051. 189 of the Group's licences are due to expire in the next five years. Rosneft monitors the expiration of its licences on an ongoing basis and undertakes the necessary measures to ensure their extension. Rosneft obtained extensions for 127 licences in the period from 2007 until 30 September 2012, including 11 licences in 2012.

Licences require the licencees to pay certain local and federal taxes and to meet certain environmental requirements. They may be revoked if the licencees fail to comply with their terms or to heed warnings from the regulatory authorities. Licences generally require the licence holder to make various commitments, including annually extracting an agreed target amount of reserves, conducting agreed minimum drilling levels and other exploratory and development activities, protecting the environment in the licence area from damage, providing certain progress reports and geological data to the relevant authorities and paying royalties and other amounts when due. For a discussion of risks relating to Rosneft's

licences, see *"Risk Factors—Risks Relating to Rosneft—Rosneft's exploration and production licences may be suspended, amended or terminated prior to the end of their terms and Rosneft may be unable to obtain or maintain various permits and authorisations".*

Reserves

The audit of Rosneft's reserves has historically been conducted according to both PRMS standards (formerly called SPE standards) and the standards of reserves measurement applied by the SEC. PRMS standards are the primary basis for reserves management within Rosneft.

D&M produced the Reserves Reports, a summary of which is included as Annex A to this Base Prospectus. Except as otherwise indicated, the Group's reserves are presented at 100% for reserves of oil and condensate and gas at its properties and *pro-rata* for reserves of the Group's production units accounted for on an equity basis or under the proportionate consolidation.

The process of estimating oil reserves is complex and inherently uncertain. Production rates and timing of development must be projected and available geological, geophysical, production, engineering and economic data analysed for each reservoir. The extent, quality and reliability of this data can vary. The accuracy of reserves data is also a function of the quality and quantity of other available data, engineering and geological interpretation and judgment. See *"Classification of Reserves and Resources" and "Presentation of Financial and Other Information".* See also *"Risk Factors—Risks Relating to the Group and the Oil and Gas Industry—Crude oil and gas reserves data are only estimates and are inherently uncertain and the actual size of accumulations may differ materially from these estimates".*

As of 31 December 2011, the Group's total proved plus probable reserves of hydrocarbons totalled 35,090 mmboe according to PRMS standards, including 27,804 mmbbl of oil and condensate and 1,238 bcm of gas. The Group's proved reserves as of 31 December 2011 were 23,352 mmboe, including 18,351 mmbbl of oil and condensate and 850 bcm of gas.

The following table sets forth the Group's oil and gas condensate reserves as of 31 December 2011, 2010 and 2009. The PRMS reserves figures provided in the table below differ from those reported in the supplementary information on oil and gas activities included with the Group's consolidated financial statements. Oil and gas reserves included in that supplementary information are prepared using definitions provided by the SEC, which, in addition to other differences, require the use of a 12-month average of the price as of the first day of the month for each month within the reporting period. The PRMS reserves in the table below use Rosneft's best estimate of future oil and condensate and natural gas prices. The reserves as of 31 December 2011 in the following tables are as reported in the Reserves Reports and the reserves information as of 31 December 2010 and 2009 are based on past reports from D&M not included in this Base Prospectus.

	Oil and Condensate Reserves (mmbbl)[1]								
	31 December 2011			31 December 2010			31 December 2009		
Region	**Proved**	**Probable**	**Possible**	**Proved**	**Probable**	**Possible**	**Proved**	**Probable**	**Possible**
Western Siberia	13,785.9	5,605.7	4,662.5	13,655.0	6,260.1	5,181.7	13,743.6	7,127.4	5,310.3
Timano-Pechora Basin	461.3	338.7	355.7	402.0	316.5	188.1	486.7	340.8	209.6
Russian Far East	240.7	307.1	130.8	208.5	153.8	155.7	170.3	251.5	204.0
Central Russia	1,672.3	889.9	615.0	1,683.6	892.5	567.7	1,599.9	977.3	564.8
Southern Russia	253.2	221.0	114.8	225.2	207.9	85.6	268.3	130.2	130.0
Eastern Siberia	1,937.5	2,077.5	2,017.2	1,935.2	2,133.2	2,056.8	1,789.3	2,161.7	1,981.3
Foreign reserves		13.7	20.5		13.8	20.5		24.2	20.4
Total	18,351	9,454	7,917	18,110	9,978	8,256	18,058	11,013	8,420

(1) Indicates the Group's shares in reserves of its Equity Affiliates

The following table sets forth the Group's reserves of gas as of 31 December 2011, 2010 and 2009.

	Gas Reserves (bcm)								
	31 December 2011			31 December 2010			31 December 2009		
Region	Proved	Probable	Possible	Proved	Probable	Possible	Proved	Probable	Possible
Western Siberia	684.1	302.5	250.7	667.1	348.9	326.3	653.8	370.4	382.9
Timano-Pechora Basin	0	0	0	0	0	0	0	0	0
Russian Far East	37.2	13.1	12.1	29.5	14.1	13.2	26.0	38.8	16.0
Central Russia	6.2	5.3	3.0	5.5	5.7	2.8	5.5	3.3	2.1
Southern Russia	35.1	21.5	22.2	56.9	30.4	22.9	61.8	23.9	22.7
Eastern Siberia	87.1	45.7	21.6	31.8	36.0	13.3	68.4	82.0	26.3
Foreign reserves	0	0	0	0	0	0	0	0	0
Total	849.6	388.2	309.7	790.9	435.2	378.5	815.5	518.5	450.0

Production and Development

Overview

In 2011, Rosneft was the largest producer of crude oil in Russia in terms of volume. Rosneft produces hydrocarbons through 12 fully consolidated production and development units, four producing joint-ventures, which Rosneft accounts for using the equity method, and through Sakhalin-1, an unincorporated joint venture consolidated into Rosneft under the proportionate consolidation method. Rosneft production and development operations span across all major oil and gas regions of Russia: Khanty-Mansiysk Autonomous District (KhMAD), Yamal-Nenets Autonomous District (YaNAD) and Tomsk Region in Western Siberia, Samara Region and Republic of Udmurtia in Central Russia, Timano-Pechora in Northern Russia, Sakhalin Island in the Russian Far East, as well as Eastern Siberia and the North Caucasus and Southern Federal District.

Rosneft prioritises conversion of resources into proved reserves for sustainable production growth in the medium and longer term. The Group therefore makes an effort to optimise its exploration activities. The Group carries out geological exploration in Russia and abroad both independently and in cooperation with foreign partners. See *"Exploration Projects"*.

The following table sets forth Rosneft's production and development units, together with Rosneft's ownership interest and number of fields in production for each unit. Except as otherwise indicated, oil and gas production is presented *pro-rata* for production units accounted for on an equity basis or under the proportionate consolidation and 100% for fully consolidated production units.

	No. of fields in production	Rosneft share of common shares (%)	Consolidation method	Geographical location
1 Yuganskneftegaz	25	100	Fully consolidated	Western Siberia
2 Purneftegaz	13	100	Fully consolidated	Western Siberia
3 Tomskneft	30	50.00	Equity method	Western Siberia
4 Vankorneft	1	93.96	Fully consolidated	Eastern Siberia
5 VSNK	1	99.52	Fully consolidated	Eastern Siberia
6 Verkhnechonskneftegaz	1	25.94	Equity method	Eastern Siberia
7 Severnaya Neft	12	100	Fully consolidated	Timano-Pechora
8 Polar Lights	6	50.00	Equity method	Timano-Pechora
9 Sakhalinmorneftegaz	26	100	Fully consolidated	Russian Far East
10 Sakhalin-1	2	20.00	Proportionate consolidation	Russian Far East
11 Udmurtneft	24	49.54	Equity method	Central Russia
12 Samaraneftegaz	138	100	Fully consolidated	Central Russia
13 Krasnodarneftegaz	34	100	Fully consolidated	Southern Russia
14 Stavropolneftegaz	28	100	Fully consolidated	Southern Russia
15 Grozneftegaz	14	51.00	Fully consolidated	Southern Russia
16 Dagneft	26	68.70	Fully consolidated	Southern Russia
17 Dagneftegaz	4	81.22	Fully consolidated	Southern Russia

Note: All of these production units and joint ventures are included in the Reserves Reports as of 31 December 2011.

The following table sets forth Rosneft's production volumes of crude oil and gas for the periods being analysed, by key regions:

	Oil					Gas				
	For the nine months ended 30 September		For the year ended 31 December			For the nine months ended 30 September		For the year ended 31 December		
	2012	2011	2011	2010	2009	2012	2011	2011	2010	2009
Western Siberia	432.12	431.72	577.32	573.58	582.40	5.86	5.23	7.30	6.90	7.15
Eastern Siberia	106.42	87.67	119.28	98.3	29.1	0.35	0.27	0.38	0.29	0.16
Timano-Pechora	20.95	21.59	28.81	32.43	38.10	0.25	0.22	0.28	0.30	0.31
Russian Far East	14.22	16.12	21.10	21.37	22.10	0.65	0.64	0.80	0.80	0.81
Central Russia	76.43	75.45	100.83	98.97	96.80	0.40	0.43	0.54	0.51	0.42
Southern Russia	14.35	15.65	20.83	22.76	27.90	2.55	2.53	3.39	3.53	3.79
Total	664.5	648.2	868.64	847.41	796.40	10.06	9.32	12.79	12.34	12.68

Production Drilling

As of 31 December 2011, Rosneft had a total of 17,610 wells producing crude oil, compared to 17,571 wells in 2010 and 17,576 wells in 2009. Production from 1,011 new wells in 2011 was 77.2 million barrels of crude oil and 0.9 billion cubic metres of gas.

In 2011, the average daily flow rate per new production well was 509 barrels per day versus 679 barrels per day in 2010. Lower flow rates from new wells, compared with 2010 reflects primarily natural deterioration in the quality of reserves that are under development in Western Siberia as well as artificial restrictions on flow rates at the Vankorskoye field due to limited capacities for oil treatment. The average flow rate for all production wells was 128 barrels per day, which is 2% higher year-on-year. The higher average flow rate from all wells was due to an increase in the number of new wells (which have higher flow rates than mature wells) and efficient management of mature wells.

The table below sets forth the key information about Rosneft's production drilling and well productivity in 2011, 2010 and 2009 (excluding, in each case, Sakhalin-1) and in the nine months ended 30 September 2012 and 30 September 2011:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Production Drilling					
Production drilling, th. metres	3,105	2,685	3,460	2,812	2,355
New production wells	1,042	918	1,011	837	733
Productivity of active crude oil production wells					
Average daily flow of crude oil per well (barrels)	N/A	N/A	128	125	114
Average daily flow of crude oil per new well (barrels)	N/A	N/A	509	679	652

Production and Development by Region

Western Siberia

Yuganskneftegaz

In late December 2004, the Company acquired Baikalfinancegroup, which had won an auction for the sale of 76.79% of the shares (100% of the common shares) of Yuganskneftegaz. Yukos owned the remaining 23.21% of Yuganskneftegaz in the form of preferred shares. In 2006, Yuganskneftegaz was merged into the Company and Yukos became the owner of 1,000,000,000 shares of the Company (9.44% of the total share capital), which were subsequently acquired by the Company at the auction for the sale of Yukos' assets in 2007.

As at 30 September 2012, Yuganskneftegaz was the Company's largest subsidiary by crude oil production, accounting for 55% of Rosneft's total crude oil production for the nine months ended 30 September 2012. Yuganskneftegaz currently operates at 34 prospecting, exploration and production blocks under licences the titles to which are held by the Company. Yuganskneftegaz carries out its business activities by

operating, on the basis of leasing arrangements, the assets owned by the Company. Yuganskneftegaz's main fields are Priobskoye, Prirazlomnoye, Mamontovskoye and Malobalykskoye. Yuganskneftegaz develops Priobskoye and Prirazlomnoye fields, which have low depletion rates, using modern methods of reservoir development. Priobskoye field and Prirazlomnoye field accounted for 64% of Yuganskneftegaz's proved oil reserves as of 31 December 2011, with Priobskoye field being Yuganskneftegaz's main production asset with estimated depletion of 24% and low watercut compared to regional industry average. In addition, the use of enhanced oil recovery methods—in particular, well workovers, sidetracks and hydrofracturing—allows for production growth even at Yuganskneftegaz's mature fields.

In the nine months ended 30 September 2012, Yuganskneftegaz crude oil production volume was 365.9 mmbbl, and its gas production volume was 2.27 bcm, accounting for 55% and 20.6% of Rosneft's total crude oil and gas production for that period, respectively. These figures represented a 0.2% increase in oil production and a 9.7% increase in gas production from the levels in the nine months ended 30 September 2011. In 2011, Yuganskneftegaz's crude oil production volume was 488.14 mmbbl and its gas production volume was 2.86 bcm, which represented a 1% increase and a 7.9% increase over the previous year and accounted for approximately 56% and approximately 22.4% of Rosneft's total crude oil and gas production volumes, respectively. In 2010, Yuganskneftegaz produced a total of 483.23 mmbbl of crude oil and 2.65 bcm of gas, which represented a 0.4% decrease and a 1.1% increase in crude oil and gas production volumes compared with 2009 levels, respectively. The decrease in crude oil production in 2010 is attributable to reduction in average efficiency of new wells due to deteriorating geological conditions in the areas of drilling, in particular at Priobskoye field.

The following table sets forth key information concerning the fields (licence blocks) operated by Yuganskneftegaz:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	31.1	29.7	31.9	29.9	16.4
Exploration wells drilled	15	9	18	13	15
2D seismic, linear km	0	0	0	0	0
3D seismic, sq. km	793	406	563	1,844	1,045
Development and production					
Production drilling, th. metres	2,443	2,115	2,684	2,194	1,854
New production wells	690	639	821	700	605
Wellstock					
Production wells	9,056	8,741	8,802	8,555	8,412
Injection wells	3,882	3,757	3,670	3,511	3,372
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	11,772	11,626	11,533
Probable	N/A	N/A	4,152	4,791	5,586
Possible	N/A	N/A	3,107	3,399	3,217
Crude oil production (mmbbl)					
Total	365.9	365.2	488.14	483.23	485.4
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	80.9	93.3	89.3
Probable	N/A	N/A	57.5	37.8	43.9
Possible	N/A	N/A	22.2	23.0	21.9
Gas production (bcm)					
Total	2.27	2.07	2.86	2.65	2.62

Purneftegaz

The Company currently holds titles to all 13 licences of Purneftegaz's fields, including the licence to develop Komsomolskoye oil field. Purneftegaz carries out its business activities by operating, on the basis of leasing arrangements, the assets owned by the Company. Purneftegaz is also the Group's largest gas producer. In the nine months ended 30 September 2012, Purneftegaz crude oil production volume was 38.2 mmbbl, and its gas production volume was 3.0 bcm, accounting for 6% and 27.2% of Rosneft's total crude oil and gas production for that period, respectively. These figures represented a 0.3% decrease in oil production and a 12.4% increase in gas production from the levels produced in the nine months ended 30 September 2011.

In 2011, Purneftegaz's crude oil production volume was 51.33 mmbbl and its gas production volume was 3.71 bcm, which represented a 2.6% decrease and a 3.1% increase over the previous year and accounted for approximately 5.9% and 29% of Rosneft's total crude oil and gas production volumes, respectively. In 2010, Purneftegaz produced a total of 52.68 mmbbl of crude oil and 3.60 bcm of gas, which represented a 7.8% decrease and a 4.3% decrease in crude oil and gas production volumes compared with 2009 levels, respectively. The decrease in crude oil production in 2010 and in 2011 was caused by depletion of easily extractable reserves at the main fields, while the decrease in gas production in 2010 is attributable to measures which were undertaken by Purneftegaz at Tarasovskoye field to limit the amount of breakthrough gas extracted and increase crude oil production volumes.

The following table sets forth key information concerning the fields (licence blocks) operated by Purneftegaz:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	12.6	3.6	3.6	2.8	0.94
Exploration wells drilled	5	2	3	1	1
2D seismic, linear km	0	0	0	0	0
3D seismic, sq. km	0	0	0	120	317
Development and production					
Production drilling, th. metres	135.9	113.9	153.6	84.7	38.2
New production wells	34	31	48	22	14
Wellstock					
Production wells	1,810	1,796	1,858	1,875	1,839
Injection wells	731	689	700	653	726
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	1,446	1,468	1,625
Probable	N/A	N/A	1,067	1,065	1,133
Possible	N/A	N/A	1,180	1,373	1,713
Crude oil production (mmbbl)					
Total	38.2	38.3	51.33	52.68	57.15
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	587.0	557.6	544.2
Probable	N/A	N/A	239.7	304.8	318.8
Possible	N/A	N/A	221.0	294.3	355.3
Gas production (bcm)					
Total	3.00	2.67	3.71	3.60	3.76

Tomskneft

Rosneft acquired a 100% stake in Tomskneft, formerly owned by Yukos, in the Yukos insolvency auctions. See "*—History*". In late December 2007, Rosneft sold a 50% stake in Tomskneft to Gazprom Neft. Tomskneft holds 35 licences for exploration, development and production. The main fields are Nizhnevartovskoye, Strezhevskoye, Chkalovskoye, Oleniye, Sovetskoye, Krapivinskoye, Dvurechenskoye, West-Moiseevskoye and Igolsko-Talovoye. The Company owns licences for exploration and production of two further licence blocks in the Tomsk Region, which are operated by Tomskneft.

In the nine months ended 30 September 2012, Tomskneft's crude oil production volume attributable to Rosneft was 28.1 mmbbl, and its gas production volume attributable to Rosneft was 0.59 bcm, accounting for 4% and 5.4% of Rosneft's total crude oil and gas production for that period, respectively. These figures represented a 0.7% decrease in oil production and a 18.0% increase in gas production from the levels in the nine months ended 30 September 2011. In 2011, Rosneft's Tomskneft share of crude oil production volume was 37.85 million barrels and its share of gas production was 0.73 bcm, which represented a 0.5% increase and a 12.3% increase over the previous year and accounted for approximately 4.4% and 5.7% of Rosneft's total crude oil and gas production volumes, respectively. In 2010, Tomskneft's crude oil production volume attributable to Rosneft was 37.67 million barrels and its gas production volume attributable to Rosneft was 0.65 bcm, which represented a 5.2% decrease and a 15.6% decrease in crude oil and gas production volumes compared with 2009 levels, respectively. The decrease in crude oil production in 2010 was caused by depletion of reserves at Dvurechenskoye and Igolsko-Talovoye fields, while the decrease in gas production is attributable to the reduction in crude oil production (associated gas).

The table below sets forth crude oil and gas production data of Tomskneft (including two licence blocks owned by the Company) for the years analysed:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	10.3	9.9	9.858	7.85	2.8
Exploration wells drilled	4	3	4	3	1
2D seismic, linear km	0	0	0	520	414
3D seismic, sq. km	555	0	0	216	233
Development and production					
Production drilling, th. metres	389.4	403.5	489.4	409.4	231.7
New production wells	98	130	176	113	86
Wellstock					
Production wells	2,356	2,391	2,348	2,366	2,295
Injection wells	1,168	1,157	1,132	1,109	1,069
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	568	560.5	585.5
Probable	N/A	N/A	367	387.9	392.3
Possible	N/A	N/A	311	296.5	283.8
Crude oil production (Rosneft share) (mmbbl)					
Total	28.1	28.3	37.85	37.67	39.75
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	16.19	16.16	20.3
Probable	N/A	N/A	5.21	6.23	7.6
Possible	N/A	N/A	6.98	6.96	5.2
Gas production (Rosneft share) (bcm)					
Total	0.59	0.50	0.73	0.65	0.77

Timano-Pechora Basin

Severnaya Neft

Rosneft purchased 100% of Severnaya Neft in 2003. As of 30 September 2012, Severnaya Neft accounted for 3% of Rosneft's total crude oil production for that period. Severnaya Neft operates a total of 20 prospecting, exploration and production blocks under licences in the Timano-Pechora basin, the titles to which are held by Rosneft. Severnaya Neft carries out its business activities by operating, on the basis of leasing arrangements, the assets owned by the Company. The principal ones are the Val Gamburtseva and Baganskaya groups of fields. All licences in respect of Severnaya Neft's fields are currently held by Rosneft. The most promising fields in Timano-Pechora in terms of oil production are Naulskiy, Labaganskiy and Osoveyskiy fields.

In the nine months ended 30 September 2012, Severnaya Neft's crude oil production volume was 19.5 mmbbl, a 2% decrease from levels in the nine months ended 30 September 2011. In 2011, Severnaya Neft's crude oil production volume was 26.58 mmbbl and its gas production volume was 0.26 bcm, which represented an 11% decrease and a 7.1% decrease compared with the previous year and accounted for 3% and 2% of Rosneft's total crude oil and gas production volume, respectively. In 2010, Severnaya Neft produced a total of 29.87 mmbbl and 0.28 bcm and experienced a 14.2% decrease and a 3.4% decrease in production volumes of crude oil and gas compared with 2009 levels, respectively. Decrease in crude oil production in 2010 and in 2011 was caused by the reduction in new wells entering production because of the final stage of the drilling process at the Val Gamburtseva group of fields and by the natural depletion of reserves. The drilling of new wells at Baganskaya group of fields was not able to compensate for the overall decrease in oil production.

The following table sets forth key information concerning the fields (licence blocks) operated by Severnaya Neft:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	5.2	3.7	3.9	3.9	1.2
Exploration wells drilled	2	1	0	0	2
2D seismic, linear km	0	0	0	0	0
3D seismic, sq. km	427	294	295	180	0
Development and production					
Production drilling, th. metres	51.2	44.5	69.3	42.3	22.6
New production wells	21	14	26	11	9
Wellstock					
Production wells	316	291	306	277	270
Injection wells	67	63	65	65	59
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	451.1	392.7	474.2
Probable	N/A	N/A	338.7	312.7	338.5
Possible	N/A	N/A	345	177.5	198.5
Crude oil production (mmbbl)					
Total	19.5	19.9	26.58	29.87	34.81
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	0	0	0
Probable	N/A	N/A	0	0	0
Possible	N/A	N/A	0	0	0
Gas production (bcm)					
Total	0.22	0.20	0.26	0.28	0.29

Polar Lights

Polar Lights is Rosneft's joint venture with ConocoPhillips and is operated by ConocoPhillips. Rosneft acquired a 50% interest in Polar Lights in 2003. Rosneft accounts for Polar Lights on an equity basis and reports only Rosneft's respective *pro-rata* share of Polar Lights' reserves and production. However, it reports a 100% share of operational data, such as exploration and wellstock.

Polar Lights is primarily engaged in the development of the Ardalinskaya group of fields and satellite fields in the Timano-Pechora basin, for which it holds relevant licences. In the nine months ended 30 September 2012, Polar Lights crude oil production volume was 1.4 mmbbl, accounting for 0.4% of Rosneft's total crude oil production and an 17.6% decrease from levels in the nine months ended 30 September 2011.

In 2011, Polar Lights' crude oil production volume was 2.23 mmbbl and its gas production volume was approximately 0.02 bcm, which represented an 12.85% decrease and a 2.1% decrease compared with the previous year and accounted for 0.26% and 0.16% of Rosneft's total crude oil and gas production volumes, respectively. In 2010, Polar Lights produced a total of 2.56 mmbbl and 0.02 bcm of gas and experienced a 23.4% decrease and a 6.9% decrease in crude oil and gas production volumes compared with 2009 levels, respectively. The decrease in crude oil and gas production in 2011 and in 2010 was caused by depletion.

The following table sets forth key information concerning Polar Lights:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	4,1	0	0	0	0
Exploration wells drilled	1	0	0	0	0
2D seismic, linear km	0	0	0	0	0
3D seismic, sq. km	0	0	0	0	0
Development and production					
Production drilling, th. metres	0	3.5	3.5	3.5	3.4
New production wells	0	1	1	1	1
Wellstock					
Production wells	28	27	27	28	27
Injection wells	7	7	7	6	6
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	10.2	9.3	12.6
Probable	N/A	N/A	0.03	3.8	2.2
Possible	N/A	N/A	10.8	10.6	11.0
Crude oil production (mmbbl)					
Total	1.4	1.7	2.23	2.56	3.34
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	0	0	0
Probable	N/A	N/A	0	0	0
Possible	N/A	N/A	0	0	0
Gas production (bcm)					
Total	0.02	0.02	0.02	0.02	0.02

Russian Far East

Sakhalinmorneftegaz

Sakhalinmorneftegaz is one of the oldest Russian oil producing enterprises and is currently operates at over 35 oil and gas prospecting, exploration and production blocks under licences in the Northern part of Sakhalin, including the northern extremity of the Chaivo field where Rosneft plans to start production in 2014 and peak production is expected to reach 32,000 barrels of oil per day. All licences in respect of Sakhalinmorneftegaz's fields are currently held by Rosneft, which owns 100% interest in Sakhalinmorneftegaz. Sakhalinmorneftegaz carries out its business activities by operating, on the basis of leasing arrangements, the assets owned by the Company.

In the nine months ended 30 September 2012, Sakhalinmorneftegaz crude oil production volume was 7.8 mmbbl, accounting for 1.2% of Rosneft's total crude oil production and a 8.2% decrease from levels in the nine months ended 30 September 2011.

In 2011, Sakhalinmorneftegaz's crude oil production volume was 11.1 mmbbl, which represented an 8.95% decrease over the previous year and accounted for 1.28% of Rosneft's total production volume. In 2010, Sakhalinmorneftegaz produced a total of 12.2 mmbbl and achieved a 1.5% increase in production volume compared with 2009 levels.

The following table sets forth key information concerning the fields (licence blocks) operated by Sakhalinmorneftegaz:

	As of and for the year ended 31 December		As of and for the nine months ended 30 September		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	2,6	0	0	0	0
Exploration wells drilled	2	0	0	0	0
2D seismic, linear km	0	0	0	0	0
3D seismic, sq. km	62	0	24	18	22
Development and production					
Production drilling, th. metres	17.4	17.8	26.3	20.3	21.0
New production wells	4	5	9	6	3
Wellstock					
Production wells	1,122	1,172	1,148	1,214	1,200
Injection wells	197	212	202	212	235
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	136.0	139.0	132.4
Probable	N/A	N/A	219.7	78.9	73.0
Possible	N/A	N/A	47.0	40.9	45.9
Crude oil production (mmbbl)					
Total	7.8	8.4	11.1	12.2	12.0
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	5.4	5.5	4.6
Probable	N/A	N/A	7.9	4.2	3.2
Possible	N/A	N/A	2.1	2.1	2.3
Gas production (bcm)					
Total	0.38	0.40	0.55	0.51	0.55

Sakhalin-1

Rosneft shares in the production of Sakhalin-1 via a PSA. The PSA in respect of Sakhalin-1 was signed between its original participants (including subsidiaries of the Company, ExxonMobil and SODECO) and the Russian government in 1995. Sakhalin-1 is operated by Exxon Neftegaz Limited, a subsidiary of ExxonMobil. Rosneft currently holds an aggregate interest of 20% in this unincorporated joint venture. Sakhalin-1 is accounted for under proportionate consolidation method. Accordingly, Rosneft reports only its respective *pro-rata* share of Sakhalin-1 reserves and production. However, it reports a 100% share of operational data, such as exploration and wellstock.

Sakhalin-1 consists of three oil and gas fields, Chaivo, Odoptu and Arkutun-Dagi, on the north-eastern Sakhalin shelf in the Okhotsk sea. As part of the first stage of the project, commercial production started in 2005 on the Chaivo field and in 2010 on the Odoptu field. At the second stage of the project starting in 2013 it is planned to start commercial production of gas at the Chaivo field. The third stage of the project commencing in 2014 will see commercial volumes of oil and gas being produced at the Arkutun-Dagi field. The final stage of the project, commencing in 2035, provides for production of gas at Odoptu and Arkutun-Dagi fields.

In the nine months ended 30 September 2012, Sakhalin-1 crude oil production volume was 6.5 mmbbl, accounting for 1% of Rosneft's total crude oil production and an 15.6% decrease from levels in the nine months ended 30 September 2011. In the nine months ended 30 September 2012, Sakhalin-1 gas production volume was 0.23 bcm, which represented a 9.5% increase from levels in the nine months ended 30 September 2011.

In 2011, Sakhalin-1 crude oil production volume was 10.01 mmbbl and its gas production volume was 0.31 bcm, which represented a 9% increase and a 6.9% increase over the previous year and accounted for 1.15% and 2.4% of Rosneft's total crude oil and gas production volumes, respectively. In 2010, Rosneft's

share of Sakhalin-1 production was a total of 9.19 mmbbl of crude oil and a 0.29 bcm of gas and suffered a 8.9% decrease in crude oil production volume, while the gas production increased by 11.5%, compared with 2009 levels. The decrease in crude oil production was caused by depletion at Chaivo field and the interval between drilling at Chaivo field and Odoptu field.

The following table sets forth key information concerning Sakhalin-1:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	0	0	0	0	0
Exploration wells drilled	0	0	0	0	0
2D seismic, linear km	0	0	0	0	0
3D seismic, sq. km	0	0	0	0	0
Development and production					
Production drilling, th. metres	23.7	6.9	6.9	60.0	34.9
New production wells	1	0	0	7	1
Wellstock					
Production wells	42	41	41	41	34
Injection wells	5	5	5	0	5
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	104.7	69.6	37.9
Probable	N/A	N/A	87.4	74.9	178.5
Possible	N/A	N/A	83.9	114.8	158.1
Crude oil production (mmbbl)					
Total	6.5	7.7	10.01	9.19	10.09
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	31.8	24.0	21.3
Probable[(1)]	N/A	N/A	5.2	9.9	35.6
Possible[(1)]	N/A	N/A	10.1	11.1	13.7
Gas production (bcm)					
Total	0.23	0.21	0.31	0.29	0.26

Central Russia

Udmurtneft

Udmurtneft is a group of 17 companies located in the Volga region of the Russian Federation and operates at 61 prospecting, exploration and production blocks under its licences. Rosneft currently indirectly holds a 49.54% interest in Udmurtneft via Taihu Ltd., a joint venture with SINOPEC established in 2006 for holding and management of Udmurtneft. Rosneft accounts for Udmurtneft on an equity basis and reports only Rosneft's respective *pro-rata* share of Udmurtneft's reserves and production. However, it reports a 100% share of operational data, such as exploration and wellstock.

In the nine months ended 30 September 2012, Udmurtneft crude oil production volume was 17.5 mmbbl, accounting for 2.6% of Rosneft's total crude oil production and a 1.2% increase from levels in the nine months ended 30 September 2011.

In 2011, Udmurtneft crude oil production volume was 23.19 mmbbl and its gas production volume was 0.04 bcm, which represented a 0.1% increase and a 1.5% increase over the previous year and accounted for 2.67% and 0.3% of Rosneft's total crude oil and gas production volumes, respectively. In 2010, Udmurtneft produced a total of 23.17 mmbbl of crude oil and 0.04 bcm of gas and achieved a 0.7% and a 33.3% increase in crude oil and gas production volumes compared with 2009 levels, respectively.

The following table sets forth key information concerning Udmurtneft:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	3.9	1.7	1,7	1,5	1,6
Exploration wells drilled	3	1	1	1	1
2D seismic, linear km	8	600	600	600	200
3D seismic, sq. km	30	30	61	62	149
Development and production					
Production drilling, th. metres	65.6	64.0	83.6	82.2	73.2
New production wells	44	39	52	47	46
Wellstock					
Production wells	3,866	3,811	3,781	3,909	3,843
Injection wells	1,591	1,573	1,586	1,550	1,472
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	425.4	425.2	400.1
Probable	N/A	N/A	171.1	174.1	196.2
Possible	N/A	N/A	114.8	102.3	123.8
Crude oil production (mmbbl)					
Total	17.5	17.3	23.19	23.17	23.01
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	0	0.001	0
Probable	N/A	N/A	0	0	0
Possible	N/A	N/A	0.001	0.001	0
Gas production (bcm)					
Total	0.01	0.03	0.04	0.04	0.03

Samaraneftegaz

Samaraneftegaz is the largest oil and gas producer in Russia's Samara region and, as of 30 September 2012, accounted for 8.9% of Rosneft's total crude oil production for that period. Samaraneftegaz's oil fields are located within the Volga-Ural crude oil bearing basin and its largest fields are the West Kommunarskoye, Belozersko-Chubovskoye, Ozerkinskoye and South Neprinkovskoye fields. Despite high levels of depletion at Samaraneftegaz's developed fields, Samaraneftegaz continues to expand its resource base and conduct prospecting and exploration in the Samara region. A total of 17 new licences for prospecting, exploration and production of hydrocarbons in Samara Region were obtained in 2010 and a further 5 licences were obtained in 2011.

In the nine months ended 30 September 2012, Samaraneftegaz crude oil production volume was 58.9 mmbbl, accounting for 8.9% of Rosneft's total crude oil production and an 1.4% increase from levels in the nine months ended 30 September 2011. In the nine months ended 30 September 2012, Samaraneftegaz gas production volume was 0.4 bcm, which represented a 5.3% increase from levels in the nine months ended 30 September 2011.

In 2011, Samaraneftegaz crude oil production volume was 77.64 mmbbl and its gas production volume was 0.5 bcm, which represented a 2.4% increase and a 6.4% increase over the previous year and accounted for 8.94% and 3.9% of Rosneft's total crude oil and gas production volumes, respectively. In 2010, Samaraneftegaz produced a total of 75.80 mmbbl and 0.47 bcm and achieved a 2.7% increase and a 20.5% increase in crude oil and gas production volumes compared with 2009 levels, respectively.

The following table sets forth key information concerning Samaraneftegaz:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	9.4	9.9	12.2	7.1	0
Exploration wells drilled	3	3	4	2	0
2D seismic, linear km	1,360	132	302	100	1,340
3D seismic, sq. km	907	113	1,120	601	0
Development and production					
Production drilling, th. metres	69.6	62.1	79.1	65.9	63.6
New production wells	24	19	28	23	26
Wellstock					
Production wells	3,276	3,439	3,387	3,574	3,787
Injection wells	530	534	531	555	551
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	1,246.8	1,258.3	1,200
Probable	N/A	N/A	718.3	718.0	780.6
Possible	N/A	N/A	498.8	464.0	439.5
Crude oil production (mmbbl)					
Total	58.9	58.1	77.64	75.80	73.81
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	6.18	5.5	5.5
Probable	N/A	N/A	5.29	5.7	3.3
Possible	N/A	N/A	3.03	2.8	2.1
Gas production (bcm)					
Total	0.40	0.38	0.50	0.47	0.39

Southern Russia

Krasnodarneftegaz

Krasnodarneftegaz was acquired by Rosneft in 1994 and is currently Rosneft's largest production unit in the Southern Russia in terms of crude oil production and Rosneft's third largest production unit overall in terms of gas production. Rosneft currently holds title to licences in respect of all oil and gas fields developed by Krasnodarneftegaz (the largest of which is the Anastasievsko-Troitskoye field) and is carrying out hydrocarbon prospecting, exploration and production at 47 licence blocks. Krasnodarneftegaz carries out its business activities by operating, on the basis of leasing arrangements, the assets owned by the Company. Krasnodarneftegaz uses enhanced oil recovery methods to maintain oil flow rates at its oil fields due to significant depletion.

In the nine months ended 30 September 2012, Krasnodarneftegaz crude oil production volume was 5.1 mmbbl and its gas production volume was 2.08 bcm, accounting for 0.8% and 18.9% of Rosneft's total crude oil and gas production for that period, respectively. These figures represented a 0.6% increase in oil production and a 4.0% increase in gas production from the levels in the nine months ended 30 September 2011.

In 2011, Krasnodarneftegaz crude oil production volume was 6.8 mmbbl, accounting for 0.78% of Rosneft's total oil production volume, and its gas production volume was 2.73 bcm, accounting for 21.34% of Rosneft's total gas production volume. This represented a 2.74% decrease and a 0.7% increase, respectively, over the previous year. In 2010, Krasnodarneftegaz produced a total of 6.9 mmbbl of crude oil and 2.71 bcm of gas, which represented a 9.75% decrease in crude oil production. The decrease in gas production in 2010 was attributable to the suspension of wells production caused by breakthrough gas at Dysh field.

The following table sets forth key information concerning the fields (licence blocks) operated by Krasnodarneftegaz:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	0	2.3	2.3	1.2	0
Exploration wells drilled	0	1	1	0	0
2D seismic, linear km	0	47	80	35	25
3D seismic, sq. km	0	0	0	55	0
Development and production					
Production drilling, th. metres	13.3	6.4	11.1	11.0	0
New production wells	5	5	5	4	0
Wellstock					
Production wells	1,115	1,316	1,275	1,318	1,398
Injection wells	61	56	60	54	36
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	71.2	72.2	75.4
Probable	N/A	N/A	68.4	64.3	52.5
Possible	N/A	N/A	26.5	28.3	35.5
Crude oil production (mmbbl)					
Total	5.7	5.4	6.8	6.9	7.7
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	26.95	48.5	52.0
Probable	N/A	N/A	15.33	22.2	18.5
Possible	N/A	N/A	15.31	16.5	17.4
Gas production (bcm)					
Total	2.08	2.00	2.73	2.71	2.93

Stavropolneftegaz

Stavropolneftegaz was founded in 1992. Currently it is an integral part of Rosneft's production and resource base in Southern Russia. Rosneft currently holds title to licences in respect of all oil and gas fields developed by Stavropolneftegaz (the most significant of which are Achikulakskoye and Velichaevsko-Kolodeznoye fields). Stavropolneftegaz carries out its business activities by operating, on the basis of leasing arrangements, the assets owned by the Company.

In the nine months ended 30 September 2012, Stavropolneftegaz crude oil production volume was 4.6 mmbbl, accounting for 0.7% of Rosneft's total crude oil production and an 11% increase from levels in the nine months ended 30 September 2011.

In 2011, Stavropolneftegaz crude oil production volume was 6.8 mmbbl, accounting for 0.8% of Rosneft's total oil production volume, which represented a 3.3% decrease over the previous year. In 2010, Stavropolneftegaz produced a total of 7.0 mmbbl and suffered a 5.4% decrease in crude oil production volume compared with 2009 levels.

The following table sets forth key information concerning the fields (license blocks) operated by Stavropolneftegaz:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	0	0	0	0	0
Exploration wells drilled	0	0	0	0	0
2D seismic, linear km	0	0	0	0	0
3D seismic, sq. km	120	210	275	0	0
Development and production					
Production drilling, th. metres	12.7	0	0	0	0
New production wells	1	0	0	0	0
Wellstock					
Production wells	323	326	325	332	304
Injection wells	51	43	45	39	42
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	122.04	86.6	79.2
Probable	N/A	N/A	97.60	59.8	32.5
Possible	N/A	N/A	31.32	19.8	55.8
Crude oil production (mmbbl)					
Total	4.6	5.1	6.8	7.0	7.4
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	0.68	0.6	0.8
Probable	N/A	N/A	1.34	0.9	0.4
Possible	N/A	N/A	0.28	0.2	0.7
Gas production (bcm)					
Total	0.05	0.05	0.06	0.06	0.07

Grozneftegaz

Grozneftegaz is located in Chechnya and was established in 2000 by the Russian Government. Rosneft currently holds title to licences in respect of all oil and gas fields developed by Grozneftegaz. Rosneft holds a 51% interest in Grozneftegaz and has title to licences in respect of all oil and gas fields developed by Grozneftegaz (the largest of which is Starogroznenkoye field). Rosneft reports Grozneftegaz on a fully consolidated basis.

In the nine months ended 30 September 2012, Grozneftegaz crude oil production volume was 3.7 mmbbl, accounting for 0.6% of Rosneft's total crude oil production and a 16.5% decrease from levels in the nine months ended 30 September 2011.

In 2011, Grozneftegaz crude oil production volume was 5.9 mmbbl, accounting for 0.7% of Rosneft's total oil production volume, which represented a 20.6% decrease over the previous year. In 2010, Grozneftegaz produced a total of 7.4 mmbbl and suffered a 35.1% decrease in crude oil production volume compared with 2009 levels. Decrease in oil production was caused by the natural depletion of reserves.

The following table sets forth key information concerning Grozneftegaz:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	1.6	2.94	3.65	0	0
Exploration wells drilled	0	0	0	0	0
2D seismic, linear km	453	0	0	289	32
3D seismic, sq. km	0	200	200	0	73
Development and production					
Production drilling, th. metres	0	0	0	0	0
New production wells	0	0	0	0	0
Wellstock					
Production wells	122	224	232	199	200
Injection wells	1	2	1	2	6
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	51.9	60.3	108.5
Probable	N/A	N/A	50.5	78.6	40.4
Possible	N/A	N/A	53.3	33.3	33.7
Crude oil production (mmbbl)					
Total	3.7	4.4	5.9	7.4	11.4
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	2.0	3.1	4.1
Probable	N/A	N/A	2.2	4.5	1.5
Possible	N/A	N/A	2.3	2.0	1.2
Gas production (bcm)					
Total	0.17	0.22	0.29	0.47	0.49

Dagneft and Dagneftegaz

OJSC Dagneft was set up by the Russian Government in 1994. Dagneft's shares were contributed into the charter capital of Rosneft in 1996. In 2004, OJSC Dagneft was split into two separate subsidiaries: Dagneft, engaged primarily in crude oil production, and Dagneftegaz, which focuses on gas production. Rosneft currently has 68.70% and 81.22% interests in Dagneft and Dagneftegaz, respectively, and reports them on a fully consolidated basis. The largest oil field developed by Dagneft is Russky Khutor Center and the largest gas field developed by Dagneftegaz is Dmitrovskoy field.

In the nine months ended 30 September 2012, Dagneft crude oil production volume was 0.9 mmbbl, accounting for 0.1% of Rosneft's total crude oil production and a 2.6% increase from levels in the nine months ended 30 September 2011. In 2011, Dagneft crude oil production volume was 1.199 mmbbl, accounting for 0.14% of Rosneft's total oil production volume, which represented a 1.23% increase over the previous year. In 2010, Dagneft produced a total of 1.185 mmbbl and suffered a 1.25% decrease in crude oil production volume compared with 2009 levels.

In the nine months ended 30 September 2012, Dagneftegaz gas production volume was 0.22 bcm, accounting for 2.0% of Rosneft's total gas production and an 8.5% decrease from levels in the nine months ended 30 September 2011. In 2011, Dagneftegaz gas production volume was 0.31 bcm, accounting for 2.42% of Rosneft's total gas production volume, which represented a 4.38% increase over the previous year. In 2010, Dagneftegaz produced a total of 0.3 bcm and suffered a 1% decrease in gas production volume compared with 2009 levels.

The following table sets forth combined key information concerning Dagneft and Dagneftegaz:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	0	0	0	0.2	0
Exploration wells drilled	0	0	0	0	0
2D seismic, linear km	100	0	0	0	0
3D seismic, sq. km	0	0	0	0	0
Development and production					
Production drilling, th. metres	0	0	0	0.8	1.3
New production wells	0	0	0	0	0
Wellstock					
Production wells	95	92	92	95	91
Injection wells	8	8	7	12	9
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	5.6	6.0	5.1
Probable	N/A	N/A	4.6	5.2	4.8
Possible	N/A	N/A	3.7	4.2	5.1
Crude oil production (mmbbl)					
Total	1.0	1.1	1.4	1.4	1.4
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	5.4	4.7	4.9
Probable	N/A	N/A	2.6	2.7	3.6
Possible	N/A	N/A	4.3	4.3	3.4
Gas production (bcm)					
Total	0.22	0.24	0.34	0.32	0.32

Eastern Siberia

Vankorneft

As of 30 September 2012, the Company owned 93.96% of Vankorneft, with the remaining 6.04% of Vankorneft owned by Taymir Petroleum Company. Vankorneft today is the second largest production unit of Rosneft in terms of crude oil production.

The Vankorskoye field is split by the administrative boundary of the Turukhansk region of the Krasnoyarsk territory and the Dudinsk region of the Taymir autonomous district and is located East of Purneftegaz. Its development requires relevant licences from both jurisdictions. Rosneft started commercial production at this field just six years after the acquisition of the licence for it. According to the Reserves Report as of 31 December 2011, 2P reserves of the Vankorskoye field were estimated at 3.3 billion barrels of oil equivalent, including 2.54 billion barrels of oil and 131.3 bcm of gas. The majority of the reserves are in the southern part of the field. As of 30 September 2012, the daily oil production of the Vankorskoye field (calculated as crude oil production volume for the relevant period divided by the number of days in that period) was 351,000 barrels per day, which exceeded the field's daily oil production in each of 2011 (301,000 barrels per day), 2010 (255,000 barrels per day) and 2009 (72,000 barrels per day).

In the nine months ended 30 September 2012, Vankorskoye crude oil production volume was 96.2 mmbbl, and its share of gas production volume was 0.33 bcm, accounting for 14.5% and 3.0% of Rosneft's total crude oil and gas production for that period, respectively. These figures represented a 19.2% increase in oil production and a 26.9% increase in gas production from the levels produced in the nine months ended 30 September 2011.

In 2011, crude oil production volume at Vankorskoye field was 109.74 mmbbl and gas production was 0.37 bcm, which represented an 18.1% increase and a 32.1% increase over the previous year and accounted for approximately 12.6% and 2.9% of Rosneft's total crude oil and gas production volumes, respectively. In

2010, there was a total of 92.90 mmbbl of crude oil produced at Vankorskoye field, which experienced a 248.9% increase in crude oil production volume compared with 2009 level.

The following table sets forth key information concerning the Vankorskoye field:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	0	0	13.161	17.607	2.9
Exploration wells drilled	0	0	6	6	1
2D seismic, linear km	0	0	200	350	1,431
3D seismic, sq. km	0	0	306	0	150
Development and production					
Production drilling, th. metres	283.6	244.3	328.4	301	277
New production wells	64	63	74	71	76
Wellstock					
Production wells	221	172	177	124	71
Injection wells	62	40	46	28	3
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	1,316	1,418	1,381
Probable	N/A	N/A	1,220	1,371	1,473
Possible	N/A	N/A	688	738	741
Crude oil production (mmbbl)					
Total	96.2	80.7	109.74	92.90	26.63
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	87.05	31.5	66.3
Probable	N/A	N/A	44.25	31.7	75.0
Possible	N/A	N/A	20.39	11.0	23.1
Gas production (bcm)					
Total	0.33	0.26	0.37	0.28	0.16

Verkhnechonskneftegaz

The Company holds a 25.94% interest in Verkhnechonskneftegaz. TNK-BP is the majority shareholder, with a 74.05% stake and minority shareholders hold the remaining 0.01%. The Verkhnechonskoye field is the main production asset of Verkhnechonskneftegaz and is located in the Khatangsky district of the Irkutsk region in Eastern Siberia, approximately 420 kilometres northwest of Ust-Kut. Together with the development of new licence blocks, the development of Verkhnechonskoye field is of key importance to Rosneft in the southern part of Eastern Siberia.

In the nine months ended 30 September 2012, Verkhnechonskneftegaz crude oil production volume was 39.0 mmbbl (with Rosneft's share of this production amounting to 9.9 mmbbl), and its gas production volume was 0.83 bcm (with Rosneft's share of this production amounting to 0.2 bcm), accounting for 1.5% and 0.2% of Rosneft's total crude oil and gas production for that period, respectively. These figures represented a 50.0% increase in oil production and a 114.2% increase in gas production from the levels in the nine months ended 30 September 2011.

In 2011, Verkhnechonskneftegaz's crude oil production volume was 9.54 mmbbl, which represented a 93.1% increase over the previous year and accounted for 1.1% of Rosneft's total production volume. In 2010, Verkhnechonskneftegaz produced a total of 4.94 mmbbl and experienced a 120.5% increase in production volume compared with 2009 levels. Verkhnechonskneftegaz did not have material gas production in 2011 and 2010.

The following table sets forth key information concerning Verkhnechonskneftegaz:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	0	0	0	0	0
Exploration wells drilled	0	0	0	0	0
2D seismic, linear km	0	0	0	0	0
3D seismic, sq. km	0	499	498.9	666.1	285
Development and production					
Production drilling, th. metres	146.4	150.8	203.1	125	110.5
New production wells	46	46	63	44	47
Wellstock[(1)]					
Production wells	N/A	N/A	N/A	N/A	N/A
Injection wells	N/A	N/A	N/A	N/A	N/A
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	329	279	200.1
Probable	N/A	N/A	161	216	143.1
Possible	N/A	N/A	121	113	133.2
Crude oil production (Rosneft share) (mmbbl)					
Total	9.9	6.6	9.54	4.94	2.24
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	0	0	0.21
Probable	N/A	N/A	0	0	4.4
Possible	N/A	N/A	0	0	2.2
Gas production (Rosneft share) (bcm)					
Total	0.02	0.01	0.01	0.00	0.00

(1) Verkhnechonskneftegaz is operated by TNK-BP. Data not available.

VSNK

Rosneft acquired VSNK, formerly owned by Yukos, in Yukos insolvency auction in 2007. See *"—History"*. VSNK owns an exploration and production licence for the Yurubchansky block of the Yurubcheno-Takhomskoye oil and gas field, as well as a prospecting licence for the Agaleevsky gas condensate field in Eastern Siberia.

Yurubcheno-Takhomskoye field's 2P reserves according to the Reserves Report equal 997 million barrels of oil equivalent, including 988 million barrels of oil and 1.54 bcm of gas. The Group plans to start production at this field in 2016. Oil from Yurubcheno-Takhomskoye field will be exported to the Asia-Pacific market through the ESPO pipeline. The production on Yurubcheno-Takhomskoye field is currently expected to start in 2016 and Rosneft expects to reach peak production level for this field at 100,000 barrels of oil per day.

The table below sets forth crude oil and gas production data of VSNK for the years analysed:

	As of and for the nine months ended 30 September		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration					
Exploration drilling, th. metres	5.5	5.07	5.3	5.2	2
Exploration wells drilled	3	2	3	3	1
2D seismic, linear km	600	849	915	1,065	0
3D seismic, sq. km	477	393	393	330	0
Development and production					
Production drilling, th. metres	12.2	14.9	20.7	5.7	—
New production wells	0	0	0	0	0
Wellstock					
Production wells	8	8	8	8	4
Injection wells	0	0	0	0	0
Oil and condensate reserves (PRMS, mmbbl)					
Proved	N/A	N/A	292	238	208
Probable	N/A	N/A	696	546	546
Possible	N/A	N/A	1,208	1,207	1,107
Crude oil production (mmbbl)					
Total	0.3	0.4	0.5	0.5	0.3
Gas reserves (PRMS, bcm)					
Proved	N/A	N/A	0.04	0.3	1.9
Probable	N/A	N/A	1.5	4.2	2.7
Possible	N/A	N/A	1.2	2.3	1.0
Gas production (bcm)					
Total	0.00	0.00	0.00	0.01	0.00

Dynamics of Exploration Activities

In 2011, Rosneft had drilled a total of 42 exploration wells at its producing units, compared to 34 wells in 2010 and 29 wells in 2009. The total exploration drilling amounted to 101,800 metres in 2011, compared to 94,400 metres in 2010 and 61,400 metres in 2009. Growth of exploration drilling compared to 2010 mainly reflects more intensive subsurface study work in Eastern and Western Siberia. However, amounts of 2D and 3D seismic studies in 2011 was substantially lower than in 2010 due to completion of the 2D studies in Eastern Siberia and 3D studies in Western Siberia.

The table below sets forth the key aggregate information about Rosneft's exploration drilling at producing units:

	As of and for the year ended 31 December		
	2011	2010	2009
Exploration			
Exploration drilling, th. metres	101.8	94.4	61.4
Exploration wells drilled	42	34	29
2D seismic, linear km	3,482	7,573	6,641
3D seismic, sq. km	5,134	8,809	3,234

Exploration Projects

Rosneft conducts exploration activities both within and outside Russia in order to maintain its current resources base and to support its long-term production growth strategy. According to Rosneft's internal estimate, currently, approximately 90% of Rosneft's prospective resources, amounting to approximately 189.58 billion barrels of oil equivalent (including 66,067 million barrels of oil and condensate resources and 8,863 billion cubic metres of gas resources included in the Resources Report), are concentrated in the Russian offshore, including approximately 138.82 billion barrels of oil equivalent in Barents Sea, Kara Sea

and Pechora Sea shelfs, 24.21 billion barrels of oil equivalent in the Black Sea, Azov Sea and Caspian Sea shelfs and 26.55 billion barrels of oil equivalent in the Okhotsk Sea shelf.

Rosneft's principal exploration assets in Russia are located in the Eastern Siberia, the shelf of Sakhalin Island and the shelf of Magadan in the Russian Far East, the Southern Russia (including the shelf of the Russian Black Sea, the Sea of Azov and the Caspian Sea) and in Russia's Arctic seas. Rosneft also has exploration activities outside Russia, including projects in Algeria, Abkhazia, UAE, Venezuela and Canada.

The following table sets forth Rosneft's principal exploration projects as of 30 September 2012:

	Project	No. of licences	Entity holding licence	Rosneft interest (%)	Geographical location
Exploration projects in Russia					
1	Licence blocks around Vankorskoye field	2 11	Vankorneft CJSC Company	93.96 100	Eastern Siberia
2	Irkutsk region	2 6	Vostok-Energy Ltd. Company	51 100	Eastern Siberia
3	Evenkia	2 5	VSNK Company	99.87 100	Eastern Siberia
4	Sakhalin-3[1]	1	Venineft Ltd.	74.9[2]	Russian Far East
5	Sakhalin-5[1]	1	Elvari Neftegaz	51[2]	Russian Far East
6	Okhotsk Sea[1]	8	Company	100[2]	Russian Far East
7	Arctic Seas (Barents, Pechora, Kara seas)	7	Company	100	Arctic
8	Barents Sea shelf (Admiralteyskiy, Pakhtusovskiy)	2	CJSC Sintezneftegaz	100	Arctic
9	Pechora Sea shelf (Medynsko-Varandeiskiy block)	1	CJSC Arctikshelfneftegaz	50	Arctic
10	Tuapse Trough (Black Sea shelf)	1	Company	100	Southern Russia
11	West-Chernomorsky licence block (Black Sea shelf)	1	Shatsky Ridge LLC	100	Southern Russia
12	South-Chernomorsky licence block (Black Sea shelf)	1	Company	100	Southern Russia
13	Temryuksko-Akhtarsky block (Sea of Azov)[1]	1	Priazovneft Ltd.	57.5	Southern Russia
14	North Caspian block (Caspian Sea)	1	Kaspiyskaya oil company Ltd.	49.892	Southern Russia
International exploration projects					
15	245 S Block[1]	1	Gara Tisselit	30	Algeria
16	Gadautsky block (Black Sea shelf)	1	RN-Shelf Abkhazii Ltd.	100	Abkhazia
17	Sharjah[1]	1	Crescent Petroleum	49	UAE
18	Junin-6[1]	1	CVP/PDVSA/NPC	8	Venezuela
19	Cardium[1]	139[3]	ExxonMobil Canada	30[4]	Canada
20	Carabobo-2[1]	N/A	CVP/PDVSA	40	Venezuela

Notes:

(1) Joint ventures.

(2) Until carry financing has been recovered, Rosneft is entitled to crude oil allocations from the relevant project equal to 10% of its economic interest, except for Sakhalin-3, where Rosneft is entitled to 5% of its economic interest.

(3) Rosneft has acquired long-term leasehold rights in respect of 139 licence blocks owned or leased by ExxonMobil.

(4) Rosneft has acquired a 30% share in ExxonMobil's interest in the licence blocks.

Rosneft's exploration activities include exploratory well drilling, electrical exploration and 2D and 3D seismic surveys activities, gravity-magnetic exploration, engineering-geological surveys, hydro-meteorological surveys, environmental works. Rosneft conducts these activities either itself or in cooperation with its foreign or domestic partners. In the beginning of the drilling process, Rosneft utilises geological-geophysical and hydrodynamic modelling. In the later stages of drilling, Rosneft applies new well drilling and completion techniques.

The following table sets forth certain aggregate data concerning exploration activities at Rosneft's exploration projects in 2011, 2010 and 2009, as well as for the nine months ended 30 September 2012 and 30 September 2011:

	For the nine months ended 30 September		For the year ended 31 December		
	2012	2011	2011	2010	2009
Exploration drilling, th. metres	34.4	23	27.4	31.4	34.7
Exploration wells drilled, including:	10	6	9	14	15
with commercial inflow	7	3	7	11	11
2D seismic, linear km	7,020	1,595	1,595	5,184	4,831
3D seismic, sq. km	9,134	679	1,705	4,716	1,544

In 2011, Rosneft invested a total of RUB 13 billion in exploration, compared to RUB 14 billion invested in 2010.

Russian Exploration Projects by Region

Eastern Siberia

Licence Areas around Vankorskoye Field

The Company currently holds 11 prospecting licences at areas located around the Vankorskoye field in Eastern Siberia. In 2011, 2D seismic work at areas around the Vankorskoye field totalled 200 linear km and the volume of 3D survey work in the same period was 306 sq.km.

As of 31 December 2011 according to the Resources Report, estimated prospective resources at areas located around the Vankorskoye field were 1,971.7 million barrels of oil and 119.0 billion cubic metres of gas, according to PRMS.

Irkutsk Region and Evenkia

Geological exploration in the southern part of Eastern Siberia (Irkutsk Region and Evenkia) has a strategic importance for Rosneft, because of its proximity to the Eastern Siberia—Pacific Ocean pipeline. Rosneft holds licences to 13 blocks in this region and two more licences are held by a joint venture between Rosneft and CNPC. In 2011, Rosneft carried out 2,000 linear km of 2D and 1,142 sq.km. of 3D seismic survey work in the region and eight exploration wells were drilled. Two new fields were discovered as a result of these activities. In the nine months ended 30 September 2012, Rosneft drilled eight new wells and carried out 300 linear km of 2D and 950 sq. km of 3D seismic survey work.

The Resources Report stated that Rosneft's total estimated prospective resources at its blocks areas in Irkutsk Region and Evenkia were 6,350.3 million barrels of oil and 612.6 billion cubic metres of gas, according to PRMS as of 31 December 2011.

Russian Far East

Shelf of Sakhalin Islands

Sakhalin-3

Sakhalin-3 is a joint exploration project of the Company and SINOPEC to develop the Veninsky licence area on the shelf of Sakhalin Island, for which the Company obtained a prospecting licence in 2003. Sakhalin-3 is located in the Okhotsk Sea to the east of the Sakhalin Island. The licence area covers approximately 5,300 sq.km. In the nine months ended 30 September 2012, Rosneft drilled one exploration well at the North-Veninsky field, which confirmed the commercial potential of the field, and is currently evaluating the possible reserves of the field.

In 2006, the Company transferred its prospecting licence for Veninsky licence area to Venineft, the operator of the project and a subsidiary of Venin Holding Ltd, a joint venture entity incorporated by Rosneft and SINOPEC for exploration and development of the Sakhalin-3 project. As at 30 September 2012, Rosneft had a 74.9% stake in the project and the remaining 25.1% was held by SINOPEC. Based on the parties' shareholders agreement, at the exploration stage SINOPEC financed 74.9% portion of the exploration expenses and Rosneft the remaining 25.1%. From 2011 until the end of 2013, the financing will be undertaken proportionally to the parties' stakes in the project, with Rosneft financing 74.9% of the expenses and SINOPEC financing the remaining 25.1%. The financing at the production stage will be separately agreed between the parties.

In accordance with the Resources Report, estimated prospective resources at Veninsky licence area of Sakhalin-3 were 125.6 million barrels of oil and 238.0 billion cubic metres of gas, according to PRMS as of 31 December 2011.

Sakhalin-5

Sakhalin-5 is a joint venture between RN-Kaiganneftegaz LLC, the Company's subsidiary, and BP Holdings International B.V., a BP subsidiary, for geological exploration of the Kaygansko-Vasyukansky licensing block in the Okhotsk Sea, 20-30 km east of the coastal crude oil- and gas-bearing province of Okha-Ekabi on the northern part of Sakhalin Island. The licence area covers 7,183 sq. km. Extensive geological exploration has determined the existence of 13 good structures within the block.

The project is operated through ZAO "Elvari Neftegaz", the project's operator, which holds the prospecting licence in respect of the Kaygansko-Vasyukansky block expiring in 2014. A 100% equity interest in the project operator is held by Elvari Neftegaz Holdings B.V., a joint venture entity, in which the Company has a 51% interest through RN-Kaigannefteggaz LLC and BP Holdings International B.V. has the remaining 49% interest. The relationship of the parties with respect to the project are regulated by different set of documents, but mostly by the shareholders and operations agreement signed in 2004. Under the terms of this agreement, BP has agreed to carry the totality of Rosneft's exploration risk for this project. Based on the arrangements with BP, Rosneft (acting through RN-Kaigannefteggaz LLC, the Company's subsidiary) will acquire BP's share in Sakhalin-5 project by the end of this year.

In accordance with the Resources Report, estimated prospective resources at Kaygansko-Vasyukansky licence block of Sakhalin-5 were 2,594.6 million barrels of oil and 131.5 billion cubic metres of gas, according to PRMS as of 31 December 2011.

Okhotsk Sea shelf

The Company obtained 6 new licences in 2011 for prospecting, exploration and production of raw hydrocarbons within the boundaries of the licence areas, Magadan-1, Magadan-2, Magadan-3, Lisyansky and Kashevarovsky on the shelf of the Okhotsk Sea, and for the northern extremity of the Chaivo field. Five of these licences were obtained in 2011 by a resolution of the Russian Government transferring them to Rosneft without requiring a tender process to be held in consideration for the payment of RUB 836 million. The Company won the auction for the right to carry out prospecting, exploration and production of hydrocarbons at the northern extremity of the Chaivo field against the payment of RUB 1,614 million. As at 31 December 2011, 2P reserves at the northern extremity of the Chaivo field were estimated at 136.7 million barrels of oil and condensate and 5 billion cubic metres of gas, according to the Reserves Report. According to Rosneft's 2011 annual report, resources at these areas are estimated at 2,840 million tonnes of oil equivalent.

In August 2012, Rosneft and Statoil signed shareholder and operating agreements to establish joint ventures for exploration and development on Kashevarovsky, Lisyansky and Magadan-1 licence areas on the terms of the Cooperation Agreement between the two companies. See *"Business—Exploration Projects—Partnerships and Cooperation Agreements—Cooperation Agreement with Statoil"*.

Southern Russia

Tuapse Trough Licence Block (Black Sea)

The Tuapse Trough is located in the north-eastern part of the Black Sea, approximately 100-140 km off the shore of the Kerch Peninsula in Ukraine and the Taman Peninsula in Russia and southwest of the Caucasian coast. The licence area covers approximately 12,000 sq.km. As at 30 September 2012, the Tuapse Trough block has been fully covered by 2D seismic and the most prospective areas have also been studied

using 3D seismic revealing 20 promising structures. Rosneft carried out 4,200 sq. km of 3D seismic survey work at the block in the nine months ended 30 September 2012. Rosneft holds a 100% interest in the project and the relevant prospecting licences.

In 2011, Rosneft reached an agreement with ExxonMobil concerning cooperation in development of the Tuapse Trough. ExxonMobil will assume financing of the initial stage of geological exploration work in exchange for 33.33% stakes in the project. As at 30 September 2012, Rosneft and ExxonMobil specialists have carried out fundamental analyses comparing geology of the Tuapse Trough with that of similar regions where oil discoveries have been made, including the Niger Delta in West Africa, the sediment cone of the Amazon, the Gulf of Mexico and North-West Borneo. Results of this research have supported significant potential of the Tuapse Trough. See *"Business—Exploration Projects—Partnerships and Cooperation Agreements—Strategic Partnership with ExxonMobil".*

According to the Resources Report, estimated prospective resources at Tuapse Trough were 8,902.9 million barrels of oil, according to PRMS as of 31 December 2011.

West-Chernomorsky area and South-Chernomorsky licence block (Black Sea)

Rosneft acquired a 100% stake in the project for the exploration of the West-Chernomorsky licence block on the Black Sea shelf in 2007 through acquisition of Shatsky Ridge LLC at one of the Yukos insolvency auctions. See *"—History"*. The licence block comprises approximately 10 prospective structures, the North-Chernomorskaya, Maria and Sklonovaya being the largest, and borders with Rosneft's Tuapse Trough block. In 2010, Rosneft also acquired an exploration and production licence valid until 2040 for the South-Chernomorsky block, with the total area of 7,000 sq.km.

The project is operated through Shatsky Ridge LLC, a Rosneft subsidiary. In 2012, Rosneft and Eni agreed to conduct joint exploration activity on the West-Chernomorsky area on the terms of the parties' Strategic Cooperation Agreement. See *"Business—Exploration Projects—Partnerships and Cooperation Agreements—Strategic Cooperation Agreement with Eni".*

According to the Resources Report, total estimated prospective resources at West-Chernomorsky and South-Chernomorsky licence blocks were 13,540 million barrels of oil, according to PRMS as of 31 December 2011.

Temryuksko-Akhtarsky (Sea of Azov)

In 2003, Rosneft, Lukoil and the State Property Fund of the Krasnodar territory entered into an agreement to establish a joint venture for the exploration and development of the Temryuksko-Akhtarsky licence area in the Sea of Azov shelf. Under the agreement, Rosneft held a 42.5% interest in the joint venture, Lukoil held a 42.5% interest and the State Property Fund of the Krasnodar Region held a 15% interest, which was subsequently acquired by Rosneft in January 2012. Priazovneft, a company established in 2003, acts as the project's operator. As at 30 September 2012, the Company held a 57.5% interest in the joint venture and Lukoil held a 42.5% interest. The Company and Lukoil finance the project equally and after repayment of all investments, revenues will be distributed pro-rata according to each party's ownership interest. The licence area is located within the Russian sector of the Sea of Azov, to the southeast of the Temryuk Bay. The licence area covers approximately 5,444 sq. km. In 2012, the joint venture carried out 285 linear km of 2D seismic survey work at the Temryuksko-Akhtarsky licence area.

According to the Resources Report, estimated prospective resources at Temryuksko-Akhtarsky licence area were at 56.9 million barrels of oil, according to PRMS as of 31 December 2011.

North Caspian (Caspian Sea)

In 2007, Rosneft acquired a stake in the Caspian Oil Company at the auction held in connection with the Yukos insolvency. See "*—History*". The Caspian Oil Company holds a prospecting licence to the North-Caspian licence block in the Russian part of the Caspian Sea, where exploration has identified 10 prospective structures to date. The licence area covers approximately 8,800 sq.km.

Rosneft currently holds a 49.892% interest in the Caspian Oil Company, with another 49.892% being held by Lukoil and 0.216% held by Gazprom. The Company and Lukoil finance the project in equal shares. The licence is valid until the end of 2014 and its terms are currently fully complied with.

As a result of exploration in the area, Rosneft discovered a new field, West-Rakushechnoye field, in 2008.

Construction and drilling of a prospecting and assessment well Ukatnaya-1 was completed at the North-Caspian block in 2010, but delivered insignificant oil and gas strata and was shut down without testings.

According to the Resources Report, total estimated prospective resources at the North Caspian licence block were 1,611 million barrels of oil and 50.5 billion cubic metres of gas, according to PRMS as of 31 December 2011.

Arctic Offshore

Rosneft intends to extend its resource potential in the Russian Arctic. The Company has applied to Rosnedra for licences in this region for subsoil blocks in Pechora Sea, Kara Sea, East-Siberian Sea, Chukchi Sea and Laptev Sea, with estimated resource potential of 29 billion tonnes of oil equivalent.

Kara Sea

In 2010, Rosneft acquired three combined prospecting, exploration and production licences in respect of three areas in the Kara Sea, East-Prinovozemelsky-1, East-Prinovozemelsky-2 and East-Prinovozemelsky-3. They are located in the southern part of Kara Sea and cover an area of 125,900 sq. km. The Kara Sea is a continuation of the Western Siberian oil and gas province, which currently accounts for more than 60% of oil production in the Russian Federation. The licences are held by the Company and valid until 2040.

The first phase of the project is focused on confirming hydrocarbon reserves through the exploration drilling. In the nine months ended 30 September 2012, Rosneft carried out 5,293 linear km of 2D and 2,998 sq. km of 3D seismic survey work at the blocks of Kara Sea. Extended 2D and 3D seismic work, interpretation of seismic data and development of geological models will precede well positioning and drilling of exploration wells, which is provisionally scheduled for 2014 and 2015.

In 2011, Rosneft reached an agreement with ExxonMobil to conduct joint exploration and development of oil and natural gas in Russia and mutual exchange of technology and expertise. In April 2012, Rosneft and ExxonMobil signed an agreement setting up the joint venture framework to operate the exploration programme in the Kara Sea. ExxonMobil will assume financing of the initial stage of geological exploration work in exchange for 33.33% stakes in the relevant projects. See *"Business—Exploration Projects—Partnerships and Cooperation Agreements—Strategic Partnership with ExxonMobil".*

According to the Resources Report , total estimated prospective resources at three areas in the Kara Sea were 31,226.5 million barrels oil and 8,279.1 billion cubic metres of gas, according to PRMS as of 31 December 2011.

Barents Sea

In 2010, Rosneft acquired a combined licence for prospecting, exploration and production in respect of the South-Russky area in the Barents Sea. As of 31 December 2011 in accordance with the Resources Report recoverable resources are estimated at 1,920 million barrels of oil and 64 million cubic metres of gas. In 2011, Russian Government has resolved to grant further licences for the Central-Barentsevsky, Fedynsky and Perseevsky areas (all located close to the border with Norwegian territorial waters) to Rosneft without a tender. In 2012, Rosneft acquired a 100% equity interest in CJSC "Sintezneftegaz", the owner of prospecting licences at Pakhtusovskiy and Admiralteyskiy blocks in the eastern part of Barents Sea with the recoverable resources of 10,965 million barrels of oil equivalent. In 2012, Rosneft also acquired a 50% equity interest in CJSC "Arctikshelfneftegaz", the owner of the prospecting, exploration and production licence at Medynsko-Varandeiskiy licence block with reserves estimated as 753 million barrels of oil and 2 billion cubic metres of gas and recoverable resources 439 million barrels of oil.

In 2012, Rosneft and Eni agreed to conduct joint exploration activity on the Fedynsky and Central-Barentsevsky areas in the Barents Sea. In August 2012, Rosneft and Statoil signed shareholder and operating agreements to establish a joint venture for joint exploration and development of the Perseevsky area. See *"Business—Exploration Projects—Partnerships and Cooperation Agreements—Strategic Cooperation Agreement with Eni"* and *"Business—Exploration Projects—Partnerships and Cooperation Agreements—Cooperation Agreement with Statoil".*

International Exploration Projects

Algeria

245 S Block

In March 2001, Rosneft-Stroytransgaz Ltd. (***Rosneft-Stroytransgaz***), a partnership between the Company and Stroytransgaz, entered into an agreement with Sonatrach, for the exploration and development and production of hydrocarbons at the 245 S Block in Algeria, which covers approximately 6,548 square kilometres. Under the agreement, Rosneft-Stroytransgaz has a 60% interest in the project and Sonatrach a 40% interest. Since the Company holds a 50% interest in Rosneft-Stroytransgaz, its indirect interest in the project is 30%. In the nine months ended 30 September 2012, works have been implemented at the block to evaluate the volume of the reserves and to develop the fields development scheme. In the nine months ended 30 September 2012, 187 sq. km of 3D seismic survey work was carried out and 5 exploration wells were drilled at the block.

According to the Reserves Report as of 31 December 2011, total reserves at 245 S Block were estimated at 34 million barrels of oil, under PRMS, and according to the Resources Report as of 31 December 2011, prospective resources have been estimated at 10,460 million tonnes of oil equivalent under PRMS.

Abkhazia

Gudautsky Area (Black Sea)

Gudautsky Area is located in Abkhazian sector of the Black Sea. The licence area covers approximately 3,800 sq.km. Rosneft holds a 100% interest in the project through its subsidiary RN-Shelf Abkhazii. The licence is valid until the end of 2014 and the terms of the licence are fully observed.

According to the Resources Report, estimated prospective resources at Gudautsky Area are 487.0 million barrels of oil and condensate, according to PRMS as of 31 December 2011.

UAE

Sharjah Onshore Concession

In 2010, Rosneft has agreed with Crescent Petroleum to jointly develop the Sharjah Onshore Concession. Rosneft receives a 49% share of the participating interest in the concession, with Crescent Petroleum holding the remaining 51%. The block covers 1,243 sq. km and is located near gas field Sajaa which has been in development since 1982. The investment plan agreed between Rosneft and Crescent Petroleum provides for investment of approximately U.S.$60 million in initial exploration activities. See *"Business—Exploration Projects—Partnerships and Cooperation Agreements—Strategic Cooperation Agreement with Crescent Petroleum"*.

As at 31 December 2011, estimated prospective resources of the Sharjah Onshore Concession amounted to 51.6 million barrels of condensate and 26.6 billion cubic metres of gas under PRMS, according to the Resources Report.

Venezuela

Rosneft is involved in the projects for development of two oil fields—Junin-6 and Carabobo-2 located in the Faja extra heavy oil belt in the basin of Orinoco river in Venezuela in a partnership with CVP, a subsidiary of PDVSA.

Junin-6

Junin-6 will be developed by PetroMiranda S.A., a joint venture created by CVP and NPC. CVP holds a 60% interest and NPC holds a 40% interest in the joint venture. According to an audit by D&M, as of 31 December 2011 contingent resources of the block accounting for Rosneft's share equal to 803 million barrels of oil and 2.86 billion cubic metres of gas, according to PRMS.

Carabobo-2

In September 2012, Rosneft has entered into a memorandum of understanding with CVP in respect of establishment of a joint venture for development of Carabobo-2 block and has agreed the form of the future agreement with CVP for the establishment and management of the joint venture, which is currently

awaiting approval by the National Assembly of Venezuela. In the event of approval of the joint venture agreement by the National Assembly of Venezuela, CVP will hold a 60% interest and Rosneft will hold a 40% interest in the new joint venture. In accordance with PDVSA estimate, oil-in-place at Carabobo-2 block amount to approximately 6.5 billion tonnes of oil.

Canada

Cardium

In August 2012, Rosneft and ExxonMobil have agreed to jointly develop the tight oil Cardium formation at the Harmattan licence area in Western Canada Basin in Alberta, Canada. The Cardium formation is an active unconventional oil play in which ExxonMobil has a significant acreage position. Under the terms of the agreement, Rosneft will acquire a 30% share in ExxonMobil's interest to 139 licence blocks in the Harmattan area owned or leased by ExxonMobil. The project is primarily in exploration phase, but certain licence blocks of the project have started commercial production of oil in 2012. Recoverable reserves of the Harmattan licence area amount to 6.3 million tonnes of oil. Participation in this project will give enable Rosneft to gain experience in the development of technologies for unconventional reserves.

Partnerships and Cooperation Agreements

Cooperation Agreement with Gazprom: in September 2012, Rosneft and Gazprom have signed a cooperation agreement to create and jointly operate offshore field development infrastructure. Under the agreement, the two companies will combine technical and financial capacities to strengthen their cooperation with the view to identify the most efficient methods and solutions to drive exploration of Russia's continental shelf and resource development and replacement. The parties have also agreed to implement a long-term business strategy encompassing industrial, infrastructure and socio-economic development founded in the creation of high-tech production facilities for the study, exploration and production of hydrocarbons, the exploration of offshore fields and the creation of transport and energy infrastructure. Under the terms of the agreement, the parties will create an environmental monitoring system, develop innovative environmental protection measures and create a research and development programme for exploration and production at offshore fields with the view to ensure Rosneft's compliance with the terms of Russian law and international treaties for environmental protection and safety and for the protection and preservation of offshore natural and mineral resources.

Creation of a joint venture with ITERA Group: on 28 February 2012, Rosneft and ITERA Group signed a strategic cooperation agreement for joint exploration and development of gas deposits in Russia. In August 2012, Rosneft has entered into a joint venture with ITERA Group, one of the largest independent producers and traders of natural gas operating in the CIS and the Baltic States, by acquiring an interest in the capital of Itera, an existing company, Rosneft has a 51% interest in this joint venture and has transferred a 100% interest in its subsidiary, owner of a licence for Kynsko-Chaselsky subsoil block, to Itera in order to increase the production potential of the joint venture. The joint venture will provide Rosneft with access to the regional distribution network. Rosneft intends to consider using the joint venture as an operator of its gas business. In 2011, Itera's gas production was 12.6 billion cubic metres of gas and its proved reserves amounted to 228.30 billion cubic metres of gas and 12.64 million barrels of condensate, under PRMS classification. As a result of its entry into this joint venture, Rosneft's long-term gas production target has been increased to 100 billion cubic metres of gas.

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, and to commence technology and expertise sharing activities. The agreement includes approximately U.S.$3.2 billion to be spent funding exploration and development of certain blocks in the Kara Sea and the Black Sea according to final contracts to be signed by the parties. Additionally, the agreement provides Rosneft with an opportunity to acquire equity interest in a number of ExxonMobil's exploration and operating assets in North America and several projects in other countries. The companies have also agreed to conduct a joint study of developing tight oil (including shale oil) resources in Western Siberia. ExxonMobil will assume financing of the initial stage of geological exploration work in exchange for 33.33% stakes in the projects.

Strategic Cooperation Agreement with Eni: in April 2012, Rosneft and Eni signed a Strategic Cooperation Agreement to jointly explore fields in Russian sections of the Black and Barents Seas and exchange technology and staff. For these projects, Eni will hold 33.33% in the project and Rosneft will hold 66.67%.

The agreement also envisages Rosneft's participation in Eni's international projects. In July 2012, Rosneft and its subsidiary, Shatsky Ridge LLC, signed a further agreement with Eni Energy Russia B.V. to finance exploration works at three offshore Russian licence blocks, the Fedynsky and Central Barents blocks in the Barents Sea and the Western Chernomorsky block in the Black Sea, on the terms of the parties' Strategic Cooperation Agreement. In particular, Eni will fully finance exploration works stipulated in licence obligations and expenses for geological exploration outside of the licence obligations will be split between the Companies in line with their respective stakes in the projects. In addition, Eni will compensate the majority of historical costs on completed geological works at the Russian offshore blocks. Eni's investment will be returned from project cash flows once production is launched at any of the blocks. Rosneft will not be obliged to return the investment if production does not begin.

Cooperation Agreement with Statoil: in May 2012, Rosneft and Statoil signed a cooperation agreement to jointly explore offshore fields in the Russian sections of the Barents Sea and Sea of Okhotsk, as well as development of tight oil (including shale oil) reserves in Russia. In June 2012, Rosneft and Statoil signed further documents aimed at implementing their cooperation agreement. The agreements between Rosneft and Statoil also provide for Rosneft's participation in exploration of licence blocks in the Norwegian part of the Barents Sea (subject to passing relevant pre-qualification tests set out by the Norwegian authorities), as well as the possible acquisition by Rosneft of interests in Statoil's international projects. In particular, the documents determine the boundaries of the parties' area of mutual interest in the Norwegian sections of the Barents Sea and lay out the terms of joint bidding for the licences in such sections, which are taking place from 2012 to 2013.

It is agreed that Statoil will hold a 33.33% interest in the projects in Russia, with the remainder held by Rosneft. Statoil will fully finance geological exploration work at these blocks. It is also agreed that Statoil will reimburse historical expenses incurred by Rosneft in connection with exploration in the Russian sections of the Barents Sea and Sea of Okhotsk.

Strategic Cooperation Agreement with Crescent Petroleum: In May 2010, Rosneft and Crescent Petroleum have signed a strategic cooperation agreement to explore opportunities for joint development of prospective projects in the Middle East and North Africa region. The agreement sets out the framework for future cooperation between the parties and certain procedures in respect of it, including procedures for exchange of information on prospective projects.

TRANSPORTATION

Transportation of Crude Oil and Petroleum Products

Rosneft transports crude oil and petroleum products in several ways, including via pipelines, rail car tanks, tank trucks, barges and marine terminals. For further discussion of these transportation systems, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Pipeline Tariffs and Transportation Costs*".

Pipelines

Transneft: most of the Group's crude oil is transported through the Transneft pipeline system, which is the state-owned pipeline monopoly. In 2011, 61.5 million tonnes (450.2 million barrels) of the crude oil produced by Rosneft was transported through the Transneft pipeline system which was equal to 96.3% of Rosneft's total exports. The system consists of pipelines (including the Eastern Siberia—Pacific Ocean (ESPO) pipeline), marine export terminals and pipeline transhipment points. The Russian government regulates access to Transneft's pipeline network and is required to provide access on a non-discriminatory basis. Crude oil exported by Rosneft via the pipeline system of Transneft is blended with crude oil of other producers, which is of varying quality. The resulting Urals blend is typically traded at a discount to Brent. Crude oil exported via the ESPO is sold using a price which is linked to the price of Dubai crude. Rosneft transports a portion of its refined petroleum products through the pipeline network of Transnefteprodukt, a Transneft subsidiary.

Caspian Pipeline: The Caspian Pipeline Consortium (CPC) connects the Tengiz oil field in Western Kazakhstan with a CPC-owned marine export terminal near Novorossiysk. Rosneft delivers its products to the pipeline through oil injection point "Kropotkin". Rosneft has participated in the CPC project since 1996 via a joint venture Rosneft Shell Caspian Ventures Ltd, which holds a 7.5% stake in the CPC. Rosneft owns a 51% stake in the joint venture and the other 49% belongs to Shell. In 2011, the Group delivered approximately 3.6 million tonnes of oil and gas condensate through the pipeline. CPC joint venture

participants have "access priority rights" for oil and gas products deliveries via CPC pipeline. Besides, the CPC operates a "quality bank" system, under which exporters who supply high-quality hydrocarbons receive a price premium, and those who supply lower-quality hydrocarbons receive a price discount, to the average blend transported through the CPC pipeline. The blend of crude oil transported through the CPC pipeline is referred to as the "CPC blend", the price for which is quoted separately and is typically at premium over Urals blend.

Marine Export Terminals Operated by Rosneft

In addition to marine export terminals of the Transneft pipeline system, Rosneft exports crude oil through the following marine export terminals operated by Rosneft:

Nakhodka Terminal: the Nakhodka terminal is the largest oil terminal in the Russian Far East with a transhipment capacity of 7 million tonnes and is owned by Rosneft. It is used to export petroleum products from the Company's Komsomolsk, Angarsk and Achinsk refineries to the Pacific Rim. In 2011, the Group exported approximately 6.7 million tonnes of own petroleum products through the Nakhodka terminal (3.5 million tonnes from Komsomolsk refinery, 2.9 million tonnes from Angarsk refinery and 0.3 million from Achinsk refinery), including bunkering fuel for export and the domestic market.

De-Kastri Terminal: De-Kastri is one of the largest ports in the Far East and provides efficient export deliveries of crude oil to the Asian market. The De-Kastri oil loading terminal has a capacity of 12 million tonnes (88 million barrels) and belongs to the Sakhalin-1 project consortium, in which Rosneft has a 20% stake. See *"Business—Operations—Production and Development—Sakhalin-1"*. It is used by the Group to provide export deliveries of crude oil to the Asian market. In 2011, approximately 1.6 million tonnes (11.7 million barrels) of Rosneft oil was dispatched through De-Kastri.

Tuapse Terminal: the Tuapse oil loading terminal has an annual capacity of 10.2 million tonnes and is located adjacent to the Tuapse refinery in the Krasnodar territory, also owned by Rosneft. The Tuapseterminal is used for export of products from the Tuapse and Achinsk refineries and from Rosneft's refineries in the Samara region. Deliveries of Rosneft petroleum products via the Tuapse terminal in 2011 (including deliveries of bunker fuel to the domestic market and export) were 6.9 million tonnes; 9.8 million tonnes including transhipment of third party products. The plan is to raise annual capacity to 17 million tonnes to accommodate the smooth handling of any increase in export flows from the Tuapse refinery as a result of its ongoing modernisation and upgrade.

Belokamenka Terminal: the Belokamenka is established on a joint basis by Rosnefteflot and Bergesen Worldwide Offshore (Norway) and is under Rosneft's management. Rosneft indirectly owns 25.5% of Belokamenka terminal through Rosnefteflot, Rosneft's subsidiary. In 2003, Rosneft, acting through RN-Arkhangelsknefteproduct, concluded a 15 year contract with Belokamenka terminal for oil transhipment until 2019. Currently, the Belokamenka terminal is used as a transhipment point for oil transported by third parties and, in part, for Rosneft's bunker fuel. The oil is transported by shuttle tankers to the floating storage unit and is then delivered by large tankers to the international market. In 2011, the unit was used for transhipment of 3.2 million tonnes (23.4 million barrels) of crude oil.

Rail

Rosneft transports crude oil and petroleum products via the railway network owned and operated by RZD, which is a state-owned natural monopoly. In 2011, Rosneft transported by railroad and combined transport approximately 2.4 million tonnes (17.3 million barrels) of crude oil for export (3.7% of total exports) and 6.2 million tonnes of crude oil for the domestic market (mostly for the needs of own refineries). In 2011, the volume of petroleum products railroad transportation was 31.1 million tonnes (18.2 million tonnes for export and 12.9 million tonnes for domestic market). RN-Trans, a Rosneft subsidiary, acts as a consignor and a transportation operator.

Gas Transportation

Rosneft sells the majority of its gas either directly to Gazprom or its affiliates, to independent regional gas traders or to independent industrial consumers. The natural gas is delivered to independent regional gas traders and to independent industrial consumers via the Gazprom-controlled UGSS trunk pipeline system.

New Transportation Project

In September 2012, Rosneft and Transneft have signed an agreement to jointly construct an offshoot of the Eastern Siberia—Pacific Ocean (ESPO) trunk pipeline linking to Rosneft's Komsomolsk refinery. The pipeline offshoot will be designed to transport crude oil to the refinery in Komsomolsk-on-Amur. The pipeline is currently expected to have an annual capacity of up to 8 million tonnes and construction is expected to be completed in 2016. Transneft intends to finance the design and construction of the offshoot by way of the agreed fee paid by Rosneft in line with a separate agreement. Rosneft also plans to supply up to 8 million tonnes of crude oil a year into Transneft's trunk pipelines for supply to the Komsomolsk refinery. The offshoot will be built as part of Transneft's long-term trunk pipeline system development policy under the Russian Federation's general oil industry development plan and also as part of Rosneft's large-scale refinery modernisation drive, which aims to boost output of high quality products by ensuring efficient supply to the Komsomolsk refinery.

REFINING FACILITIES

Oil refining

Rosneft's downstream refining assets in Russia include seven large oil refineries in Russia (at Komsomolsk, Tuapse, Angarsk, Achinsk, Samara, Novokuibyshevsk and Syzran, with annual capacity of approximately 51.8 million tonnes of crude oil, and four mini-refineries with a total annual capacity of 0.5 million tonnes. The aggregate capacity of Rosneft's refineries is approximately 1.05 million barrels per day, including mini-refineries. Rosneft also owns a 50% stake in Strezhevsky mini-refinery in Western Siberia. Outside Russia, Rosneft has a 50% equity stake in Ruhr Oel GmbH, which operates four refineries in Germany with a total capacity of 23.2 million tonnes of crude oil per year.

At its refineries, Rosneft currently produces a range of petroleum products, including light oil products such as gasoline (including naphta), diesel fuel, jet fuel and bunkering fuel, and heavy oil products, such as fuel oil (mazut). In 2011, approximately 56% of the Group's total daily refining capacities have been focused on producing light oil products with the remaining 44% of daily refining capacity producing heavy oil products. The Group also produces a range of petrochemicals (principally ethylene, propylene and polyethylene) and lubricants.

In 2011, the Group processed a total of 57.86 mln tonnes of crude oil, compared to 50.49 mln tonnes in 2010 and 49.83 mln tonnes in 2009. The Group's output of petroleum products in 2011 was at 55.38 mln tonnes, which represent a 15.6% increase year-on-year from 2010 and a 1.8% increase from 2009. The Group's lubricant plants produced 637,600 tonnes of lubricants, additives and other related products in 2011, which is 11.9% more than in 2010. Based on Rosneft estimates, Rosneft was the second-largest producer of lubricants in Russia, and was the largest producer of additives by volume, in 2011. In particular, Rosneft commenced production in 2011 of an anti-wear additive for diesel fuels, Komplexal-EKO D, which is the first additive produced in Russia in compliance with the European 'no harm' list of additives, meeting very stringent environmental requirements.

The following table sets forth Rosneft's throughput and output volumes:

	For 9 months ended 30 September			For 12 months ended 31 December				
	2012	2011	% change 2012 - 2011	2011	2010	2009	% change 2011 - 2010	% change 2010 - 2009
	(millions of tonnes)		(%)	(millions of tonnes)			(%)	(%)
Crude oil processing at Rosneft's own refineries	37.75	37.50	0.7	50.65	50.49	49.83	0.3	1.3
Crude oil processing at Ruhr Oel GmbH	7.81	4.45	75.5	7.21	—	—	100.0	—
Total group crude oil processing	45.56	**41.95**	8.6	**57.86**	**50.49**	**49.83**	**14.6**	**1.3**
Product output:								
High octane gasoline	3.96	3.95	0.3	5.33	4.92	4.82	8.3	2.1
Low octane gasoline	0.28	0.26	7.7	0.35	1.53	1.37	(77.1)	11.7
Naphtha	2.73	2.79	(2.2)	3.83	3.13	3.40	22.4	(7.9)
Diesel	12.72	12.79	(0.5)	17.25	16.84	17.01	2.4	(1.0)
Fuel oil	12.06	12.52	(3.7)	16.91	17.39	16.47	(2.8)	5.6
Jet	1.16	0.89	30.3	1.20	1.10	1.10	9.1	—
Petrochemicals	0.37	0.38	(2.6)	0.54	0.52	0.48	3.8	8.3
Other	2.64	2.03	30.0	2.68	2.46	2.41	8.9	2.1
Product output at Rosneft's own refineries	**35.92**	**35.61**	**0.9**	**48.08**	**47.89**	**47.06**	**0.4**	**1.8**
Product output at Ruhr Oel GmbH	8.02	4.56	75.9	7.30	—	—	100.0	—
Total group product output	43.94	**40.17**	9.4	**55.38**	**47.89**	**47.06**	**15.6**	**1.8**

The following table sets forth Rosneft's crude oil processing by refinery:

	Output (in millions of tonnes) for			
	9 months ended 30 September 2012	12 months ended 31 December 2011	12 months ended 31 December 2011	12 months ended 31 December 2009
Tuapse refinery	3.39	4.55	4.51	5.21
Komsomolsk refinery	5.42	7.62	7.76	7.30
Kuibyshev refinery	4.81	6.67	6.67	6.68
Novokuibyshevsk refinery	5.67	7.69	7.61	7.38
Syzran refinery	5.22	6.56	6.53	6.40
Angarsk refinery	7.75	9.81	9.71	9.53
Achinsk refinery	5.34	7.51	7.46	7.10
Mini-refineries (not accounting for heavy fractions,. which mini-refineries return to the Transneft system)	0.42	0.24	0.24	0.23
Total	**38.02**	**50.65**	**50.49**	**49.83**

The following table sets forth Rosneft's refining depth by refinery:

	Refining depth in %			
	9 months ended 30 September 2012	12 months ended 31 December 2011	12 months ended 31 December 2011	12 months ended 31 December 2009
Tuapse refinery	54.0	52.8	52.9	55.3
Komsomolsk refinery	61.0	60.3	60.2	60.6
Kuibyshev refinery	60.3	59.9	56.8	57.7
Novokuibyshevsk refinery	79.5	74.7	69.5	75.3
Syzran refinery	68.7	65.0	65.2	65.5
Angarsk refinery	73.4	74.1	75.5	75.5
Achinsk refinery	61.6	62.3	62.4	62.6

Refinery Modernisation Programme

In 2012, Rosneft continued to implement the programme for modernisation of Rosneft's oil refineries, which started in 2008, in order to meet the growing domestic demand, comply with the technical regulations of the Customs Union for the quality of motor fuel and meet its obligations under the agreement between major Russian oil companies, including Rosneft, and several Russian governmental agencies declaring the commitment of Russian oil producers to increase their refining capacities and fuel supplies. Rosneft currently expects Rosneft's modernisation programme to be substantially complete by 2016. Completion of the programme will enable Rosneft to increase its primary refining capacity and to improve the quality of its refining, thus allowing Rosneft to increase the share of light oil products in its refining output and to increase its overall refining margin.

As part of the modernisation programme, progress in 2011 included completion of a coking unit at the Komsomolsk refinery, launch of an isomerisation unit at the Syzran refinery and of a gasoline blending station at the Achinsk refinery. Rosneft also completed modernisation of reforming units at the Syzran and Kuibyshev refineries, a hydro-treatment unit at Achinsk, and a hydrogen production unit at the Angarsk Polymer Plant.

A total of 14 refining units have now been built or upgraded since the programme began in 2008. The programme is expected to increase primary refining capacity at Company plants by 7 mln tonnes annually or by 0.14 million barrels per day, conversion capacity by 17.7 mln tonnes and reforming capacity by 30 mln tonnes. Daily light product yield is expected to increase from 56.6% in 2011 to nearly 80%.

The Group has made substantial investments in the modernisation programme since its start in 2008. The Group expects the total cost of the refineries modernisation programme to reach U.S.$25 billion, with U.S.$18 billion planned for investment from 2013 to 2016.

Existing refining facilities

The Group's seven largest refining facilities are discussed in turn below:

Komsomolsk refinery: As of 31 December 2011, the Komsomolsk refinery had a capacity of approximately 8.0 million tonnes per year and its light product output was approximately 4.4 million tonnes per year. Located in the Khabarovsk territory in the Russian Far East, the refinery has been part of Rosneft since its establishment. The plant construction began in 1938 and was completed in 1942. The Komsomolsk refinery processes crude oil from Western Siberia and Sakhalin Island. Komsomolsk refinery carries out its business activities by operating, on the basis of leasing arrangements, the assets owned by the Company. The Komsomolsk refinery is a one of the key refineries for Rosneft's supply of petroleum products to wholesalers in the Russian Far East, as well as to Rosneft's regional network of filling stations. The modernisation of the Komsomolsk refinery commenced in 2006 and is due to be completed by 2015. The Company expects that following the completion of the upgrading work, the Komsomolsk refinery will be able to start producing Euro-3 and Euro-5 quality diesel fuel. Capital Expenditures at the Komsomolsk refinery in 2011 were U.S.$166 million.

The following table sets forth the output structure of the petroleum products at the Komsomolsk refinery:

	Output (in millions of tonnes) for			
	9 months ended 30 September 2012	12 months ended 31 December 2011	12 months ended 31 December 2011	12 months ended 31 December 2009
Gasoline (including naphta)	1.02	1.50	1.51	1.45
Diesel	1.47	2.13	2.11	2.09
Jet	0.21	0.27	0.27	0.28
Fuel oil	2.08	2.98	3.05	2.83
Other	0.53	0.53	0.61	0.47
Total	**5.31**	**7.42**	**7.56**	**7.12**

Tuapse refinery: As of 31 December 2011, the capacity of Tuapse refinery was approximately 4.4 million tonnes per year and its light product output was approximately 2.3 million tonnes per year. The Tuapse refinery is the only Russian refinery on the Black Sea coast. The Tuapse refinery is the Company's oldest refinery (it was commissioned in 1929) and has been part of Rosneft since the Company's establishment. The refinery has access to crude oil produced by Rosneft's production units in Western Siberia and in

Southern Russia. Tuapse refinery carries out its business activities by operating, on the basis of leasing arrangements, the assets owned by the Company. The refinery is adjacent to Rosneft's Tuapse oil loading terminal, which enables the refinery to export approximately 90% of petroleum products it produces. The remainder is sold domestically. The modernisation of the Tuapse refinery commenced in 2010. The modernisation programme consists of various projects including the construction of an entirely new refinery. The Company expects that the completion of the programme will enable Rosneft to increase Tuapse's refining volumes up to 12 million tonnes per year. In addition, the Company expects that, following completion of the modernisation programme in 2016, the Tuapse refinery will be able to start producing Euro-4 and Euro-5 quality diesel fuel. Capital expenditures at the Tuapse refinery in 2011 were U.S.$1,984 million.

The following table sets forth the output structure of the petroleum products at the Tuapse refinery:

	Output (in millions of tonnes) for			
	9 months ended 30 September 2012	12 months ended 31 December 2011	12 months ended 31 December 2011	12 months ended 31 December 2009
Gasoline (including naphta)	0.71	0.91	0.87	1.06
Diesel	1.07	1.43	1.43	1.71
Jet	—	—	—	—
Fuel oil	1.51	2.07	2.07	2.27
Other	0.04	0.05	0.05	0.06
Total	**3.33**	**4.46**	**4.42**	**5.10**

Angarsk refinery: Angarsk refinery is operated by Angarsk Petrochemical Company. As of 31 December 2011, the capacity of the Angarsk refinery was approximately 9.0 million tonnes per year and its light product output was approximately 6.1 million tonnes per year. The Angarsk refinery ranks among the largest Russian oil processing plants. The refinery was commissioned in 1955. It was acquired by Rosneft in May 2007. The refinery supplies a large amount of petroleum products to Siberia and the Far East. A substantial part of the crude oil is sourced from the Group's production units in West Siberia. The refinery also produces various other types of petroleum products, including jet fuel, which are sold domestically and exported. The refinery also provides 600-700,000 tonnes of naphtha per year as a raw material for the thermal decomposition unit of the Angarsk Polymer Plant, which produces a wide range of petrochemical products and is owned by Angarsk Petrochemical Company. The modernisation of the Angarsk refinery commenced in 2010. Completion of the ongoing modernisation programme in 2016 will enable the Angarsk refinery to produce high-quality fuel to Euro-4 and Euro-5 quality gasoline. Capital expenditures at the Angarsk Petrochemical Company in 2011 were U.S.$181 million.

The following table sets forth the output structure of the petroleum products at the Angarsk refinery (accounting for the production of the Angarsk Polymer Plant):

	Output (in millions of tonnes) for			
	9 months ended 30 September 2012	12 months ended 31 December 2011	12 months ended 31 December 2011	12 months ended 31 December 2009
Gasoline (including naphta)	1.29	1.63	1.87	1.81
Diesel	2.15	2.90	2.84	2.91
Jet	0.40	0.46	0.35	0.16
Fuel oil	1.87	2.30	2.13	2.05
Other	1.17	1.76	1.84	1.81
Total	**6.88**	**9.04**	**9.04**	**8.74**

Angarsk Polymer Plant processed 729,500 tonnes of inputs and produced 467,500 tonnes of saleable products in 2011, consisting of 126,100 tonnes of ethylene, 68,900 tonnes of propylene, 57,900 tonnes of high-density polyethylene, 20,200 tonnes of styrene, 19,400 tonnes of polystyrene, and 56,700 tonnes of benzene. A modernisation and expansion programme began at Angarsk Polymer Plant in 2010. The money was spent on licences and on basic design of new facilities, project work for polypropylene production, and maintenance of installations in safe working order. The project also includes reconstruction of existing capacities and construction of new ones, including the construction of the facility for production of low pressure polyethylene with 345,000 tonnes annual capacity, which is expected to be the largest of its kind in

Russia. In 2011, contracts with selected technology licensors were signed, main components of the project were designed and approved, and work began on the construction of a railway loading facility, which is designed to reduce the transportation component in raw materials costs. As a result of these modernisation efforts, in 2011 Angarsk Polymer Plant began production of engine oils in the 'Rosneft Premium' series, which have SM/CF quality levels under API classification.

Achinsk refinery: As of 31 December 2011, the capacity of the Achinsk refinery was approximately 7.0 million tonnes per year and its light product output was approximately 4.3 million tonnes per year. The Achinsk refinery was acquired by Rosneft in 2007 and is the only major producer of petroleum products in the Krasnoyarsk territory. A substantial part of the crude oil is sourced from the Group's production units in Western Siberia. The refinery specialises in the production of motor and jet fuels and produces the most Euro-3 and Euro-4 quality gasoline of any Rosneft refinery. The Achinsk refinery produces approximately 100 different grades of petroleum products. The modernisation of the Achinsk refinery commenced in 2010. Completion of the modernisation programme in 2016 is expected to enable the Achinsk refinery to produce gasoline to Euro-5 quality. Capital expenditures at the Achinsk refinery in 2011 were U.S.$192 million.

The following table sets forth the output structure of the petroleum products at the Achinsk refinery:

	Output (in millions of tonnes) for			
	9 months ended 30 September 2012	12 months ended 31 December 2011	12 months ended 31 December 2011	12 months ended 31 December 2009
Gasoline (including naphta)	1.10	1.64	1.58	1.50
Diesel	1.59	2.45	2.47	2.29
Jet	0.15	0.17	0.17	0.28
Fuel oil	1.93	2.66	2.67	2.52
Other	0.36	0.26	0.24	0.20
Total	**5.13**	**7.18**	**7.13**	**6.79**

Kuibyshev refinery: As of 31 December 2011, the capacity of the Kuibyshev refinery was approximately 6.5 million tonnes per year and its light product output was approximately 3.6 million tonnes per year. The refinery was acquired by Rosneft in 2007. A substantial part of the crude oil is sourced from Yuganskneftegaz and Samaraneftegaz. The Kuibyshev refinery processed 6.67 million tonnes of crude oil in 2011, matching the 2010 level. The refinery produced 6.23 million tonnes of marketable petroleum products. Construction of a 0.8 million tonnes block for separation of fractions containing benzol was completed as part of the catalytic reforming unit allowing Kuibyshev refinery to produce petrol of higher quality. This was done with the aim of achieving greater output of engine fuels with improved performance features and better environmental characteristics. The Company currently expects the modernisation programme to be complete by 2015. Capital expenditures at the Kuibyshev refinery in 2011 were U.S.$184 million.

The following table sets forth the output structure of the petroleum products at the Kuibyshev refinery:

	Output (in millions of tonnes) for			
	9 months ended 30 September 2012	12 months ended 31 December 2011	12 months ended 31 December 2011	12 months ended 31 December 2009
Gasoline (including naphta)	0.87	1.21	1.16	1.15
Diesel	1.68	2.33	2.15	2.20
Jet	—	—	—	—
Fuel oil	1.77	2.47	2.70	2.61
Other	0.18	0.22	0.20	0.25
Total	**4.5**	**6.23**	**6.21**	**6.21**

Novokuibyshevsk refinery: As of 31 December 2011, the capacity of the Novokuibyshevsk refinery was approximately 8.0 million tonnes per year and its light product output was approximately 4.2 million tonnes per year. The refinery started operations in 1951 and was acquired by Rosneft in 2007. A substantial part of the crude oil is sourced from Yuganskneftegaz and Samaraneftegaz. The Novokuibyshevsk refinery processed 7.69 million tonnes of oil in 2011, which is 1.1% more than in 2010. The refinery produced

6.86 million tonnes of marketable petroleum products. Construction work was carried out on the new 1.2 million tonnes catalytic reforming unit with continuous catalyst regeneration. Work also began on construction of an isomerisation unit with capacity of 280,000 tonnes and units of the vacuum gasoil hydrocracking complex, which will have 2.0 million tonnes capacity. In 2011, the modernisation of the packaging lines was completed at the Novokuibyshevsk refinery. Also in 2011, a lubricant blending station was launched at Novokuibyshevsk Oils and Additives Plant (which is associated with the Novokuibyshevsk refinery), thus expanding the range of lubricant production and enabling variation in packaged product lines. As a result of these modernisation efforts, in 2011 the Novokuibyshevsk Oils and Additives Plant began production of engine oils in the 'Rosneft Premium' series, which have SM/CF quality levels under API classification. The Company currently expects the modernisation programme to be complete by 2016. Capital expenditures at the Novokuibyshevsk refinery in 2011 were U.S.$210 million.

The following table sets forth the output structure of the petroleum products at the Novokuibyshevsk refinery (accounting for the production of the Novokuibyshevsk Oils and Additives Plant):

	Output (in millions of tonnes) for			
	9 months ended 30 September 2012	12 months ended 31 December 2011	12 months ended 31 December 2011	12 months ended 31 December 2009
Gasoline (including naphta)	0.97	1.32	1.30	1.33
Diesel	1.54	2.25	2.02	2.13
Jet	0.23	0.28	0.30	0.35
Fuel oil	1.34	2.21	2.63	2.14
Other	0.94	1.19	0.91	0.97
Total	**5.02**	**7.24**	**7.16**	**6.92**

Syzran refinery: As of 31 December 2011, the capacity of the Syzran refinery was approximately 8.9 million tonnes per year and its light product output was approximately 3.7 million tonnes per year. The Syzran refinery was acquired by Rosneft in 2007. The Syzran refinery processed 6.56 million tonnes of oil in 2011, which is 0.4% more than in 2010, and produced 6.22 million tonnes of saleable products. Refining depth was 65.0%. A substantial part of the crude oil is sourced from Yuganskneftegaz and Samaraneftegaz. The refinery produces a wide range of petroleum products, such as motor fuels and jet fuel. In 2011 an isomerisation unit for light gasoline fractions was brought into operation and the upgrading work on a reforming unit with the same capacity was completed. Launch of these facilities will enable the Syzran refinery to produce fuel to Euro-4 and Euro-5 quality standard. Completion of the modernisation programme is expected occur by 2016. Capital expenditures at the Syzran refinery in 2011 were U.S.$162 million.

The following table sets forth the output structure of the petroleum products at the Syzran refinery:

	Output (in millions of tonnes) for			
	9 months ended 30 September 2012	12 months ended 31 December 2011	12 months ended 31 December 2011	12 months ended 31 December 2009
Gasoline (including naphta)	0.95	1.19	1.22	1.23
Diesel	1.52	2.14	2.16	2.09
Jet	0.17	0.03	—	0.03
Fuel oil	1.56	2.19	2.14	2.03
Other	0.75	0.68	0.61	0.60
Total	**4.95**	**6.22**	**6.12**	**5.98**

Mini-refineries

The following table sets forth the output structure of the petroleum products at the Group mini-refineries:

	Output (in millions of tonnes) for			
	9 months ended 30 September 2012	12 months ended 31 December 2011	12 months ended 31 December 2011	12 months ended 31 December 2009
Gasoline (including naphta)	0.05	0.09	0.06	0.06
Diesel	0.08	0.14	0.15	0.13
Jet	—	—	—	—
Fuel oil	—	0.01	0.01	0.02
Other	0.05	0.04	0.03	—
Total	**0.18**	**0.29**	**0.25**	**0.21**

Ruhr Oel GmbH

In 2011 Rosneft acquired a 50% interest in Ruhr Oel GmbH (a joint venture between Rosneft and BP) which owns stakes in four refineries in Germany—Gelsenkirchen (Ruhr Oel GmbH stake equals 100%), MiRO (24%), PCK Schwedt (37.5%) and Bayernoil (25%). The share of Ruhr Oel GmbH refining capacity in these four refineries equals to 23.2 million tonnes per year (Rosneft's net holding in Ruhr Oel GmbH refining capacity is 11.6 million tonnes) which is approximately 20% of overall German refining capacity.

New refining facilities

In 2011, Rosneft began work on the strategic project for development of the Far Eastern Petrochemical Company (FEPCO), a petrochemical complex in the Russian Far East with the input capacity of 3.4 million tonnes. The complex will specialise in the production of polymers (polyethylene, polypropylene, monoehylene glycol, as well as other polymers). The project also includes the construction of a dedicated export sea terminal. Rosneft currently anticipates that its refineries in the Russian Far East (primarily, Achinsk, Angarsk and Komsomolsk refineries) will become major suppliers of feedstock, including naphta and hydrocarbons, to FEPCO and that FEPCO's principal markets will be the Russian Far East, China and countries in South-East Asia. Rosneft is currently looking for a foreign partner to help implement the project. Technology licensors, selected in 2011, were: Lummus, Shell, Axens and Ineos. In 2011, steps were taken for lease and purchase of land for the site, and a list of potential foreign partners was prepared.

Rosneft is currently evaluating the construction of a new refinery in Tianjin, China with projected annual capacity of approximately 13 million tonnes and a target light production yield in excess of 80%. The project is considered as a joint venture between Rosneft (49%) and CNPC (51%). The proximity of the project to the port of Tianjin will allow oil to be transported to the refinery from the port via a short pipeline.

Gas processing plants

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

SALES

Sales of Crude Oil

Rosneft supplies its crude oil to its own refineries in Russia and Germany and also sells the oil in Russia, CIS countries and on the international market. Rosneft delivered 50.65 million tonnes (370.5 million barrels) of oil to its own refineries in Russia during 2011. Rosneft also delivered 1.08 million tonnes (7.93 million barrels) of its own crude oil for refining at Ruhr Oel GmbH refineries in Germany. Rosneft sold 64.2 million tonnes (469.6 million barrels) of crude oil in 2011, excluding swap operations, of which 0.3 million tonnes (2.2 million barrels) were sold on the domestic market and 63.9 million tonnes (467.4 million barrels) were exported. The Company exported 41.2 million tonnes (301.4 million barrels) of oil to Europe and other directions, 4.6 million tonnes (33.6 million barrels) of oil to the CIS and

18.1 million tonnes (132.4 million barrels) to Asia-Pacific countries. Rosneft sells most of the crude oil that it exports to third party international oil traders. Any excess crude oil is sold domestically through a tender process.

The following table sets forth a breakdown of Rosneft's crude oil sales volumes for the years ended 31 December 2011, 2010 and 2009 and for the nine months ended 30 September 2012 and 2011. The table reflects data for the Group's production units, including fully consolidated subsidiaries and pro-rata share of proportionately consolidated Sakhalin-1 joint venture only and does not include data for Rosneft's production units consolidated using the equity method:

	As of and for the nine months ended 30 September					As of and for the year ended 31 December							
												% change	
	2012		2011		% change 2012 - 2011	2011		2010		2009		2011 - 2010	2010 - 2009
	mln bbls	% of total volume	mln bbls	% of total volume		mln bbls	% of total volume	mln bbls	% of total volume	mln bbls	% of total volume		
Crude oil													
International Sales to non-CIS	327.0	47.3	323.3	49.3	1.1	433.8	48.9	420.6	51.8	379.6	49.9	*3.1*	*10.8*
Europe and other directions	229.0	33.1	223.1	34.0	2.6	301.4	34.0	297.00	36.6	302.80	39.8	1.5	(1.9)
Asia	98.0	14.2	100.2	15.3	(2.2)	132.4	14.9	123.60	15.2	76.80	10.1	7.1	60.9
CIS	34.4	5.0	25.6	3.9	34.4	33.6	3.8	24.90	3.1	30.70	4.0	34.9	(18.9)
Domestic	3.6	0.5	1.5	0.2	140.0	2.2	0.2	8.80	1.1	5.10	0.7	(75.0)	72.5
Total crude oil	365.0	52.8	350.4	53.4	4.2	469.6	52.9	454.3	56.0	415.4	54.6	3.4	9.4
	mln tonnes		mln tonnes			mln tonnes		mln tonnes		mln tonnes			
Crude oil													
International Sales to non-CIS	44.7	47.3	44.2	49.3	1.1	59.3	48.9	57.5	51.8	51.9	49.9	3.1	10.8
Europe and other directions	31.3	33.1	30.5	34.0	2.6	41.2	34.0	40.60	36.6	41.4	39.8	1.5	(1.9)
Asia	13.4	14.2	13.7	15.3	(2.2)	18.1	14.9	16.90	15.2	10.5	10.1	7.1	61.0
CIS	4.7	5.0	3.5	3.9	34.4	4.6	3.8	3.40	3.1	4.2	4.0	35.3	(19.0)
Domestic	0.5	0.5	0.2	0.2	140.0	0.3	0.2	1.20	1.1	0.7	0.7	(75.0)	71.4
Total crude oil	49.9	52.8	47.9	53.4	4.2	64.2	52.9	62.1	56.0	56.8	54.6	3.4	9.3

Sales of Gas

The Group sold 9.74 billion cubic metres of gas in 2011, of which 5.1 billion cubic metres were sold in Western Siberia, 2.91 billion cubic metres were sold in Southern Russia, 1.03 billion cubic metres were delivered to regions in European Russia and the rest was sold in the Russian Far East.

The following table sets forth a breakdown of Rosneft's gas volumes and sales for the years ended 31 December 2011, 2010 and 2009 and for the nine months ended 30 September 2012 and 2011. The table reflects data for the Group's production units, including fully consolidated subsidiaries and pro-rata share

of proportionately consolidated Sakhalin-1 joint venture only and does not include data for Rosneft's production units consolidated using the equity method:

	As of and for the nine months ended 30 September			As of and for the year ended 31 December				
							% change	
	2012	2011	% change 2012 - 2011	2011	2010	2009	2011 - 2010	2010 - 2009
	(RUB billion, except %)							
Revenue								
Western Siberia	4.0	4.0	0.0	4.1	3.4	3.0	20.6	13.3
South Russia	5.6	5.0	12.0	6.8	6.0	4.9	13.3	22.4
Far East	1.0	0.8	25.0	1.2	1.0	1.0	20.0	0.0
European part of Russia	5.1	1.6	218.8	2.1	2.1	2.1	0.0	0.0
Total	**15.7**	**11.4**	**37.7**	**14.2**	**12.5**	**11.0**	13.6	13.6
	(bcm. except %)							
Sales volumes								
Western Siberia	3.25	3.84	(15.4)	5.09	5.15	5.46	(1.2)	(5.7)
South Russia	2.17	2.14	1.4	2.91	3.04	3.24	(4.3)	(6.2)
Far East	0.51	0.51	0.0	0.71	0.66	0.62	7.6	6.5
European part of Russia	2.25	0.79	184.8	1.03	0.95	1.29	8.4	(26.4)
Total	**8.18**	**7.28**	**12.4**	**9.74**	**9.80**	**10.61**	(0.6)	(7.6)

As Gazprom has a monopoly on gas exports, Rosneft does not export gas. In 2011, Rosneft sold approximately 32% of its gas directly to Gazprom. Of the remaining 68%, Rosneft sold to independent gas traders and independent industrial consumers, in both cases through the UGSS. Rosneft sells its natural gas to Gazprom at predetermined prices set by the FTS, which are substantially lower than prices paid by independent industrial consumers.

Sales of Petroleum Products

Rosneft owns and operates developed infrastructure for the sale of petroleum products on the domestic and international markets. The Company sold 54.8 million tonnes of petroleum products in 2011 which is an increase of 14% year-on-year. Growth of sales volumes was due to an increase in refinery throughputs following the acquisition of refining capacities in Germany.

The following table sets forth a breakdown of Rosneft's petroleum sales volumes for the years ended 31 December 2011, 2010 and 2009 and for the nine months ended 30 September 2012 and 2011. The table reflects data for the Group's production units, including fully consolidated subsidiaries and pro-rata share of proportionately consolidated Sakhalin-1 joint venture only and does not include data for Rosneft's production units consolidated using the equity method:

	As of and for the nine months ended 30 September				As of and for the year ended 31 December					
	2012		2011		2011		2010		2009	
	million tonnes	% of total volume	million tonnes	% of total volume	million tonnes	% of total volume	million tonnes	% of total volume	million tonnes	% of total volume
International Sales to non-CIS	24.1	25.5	22.1	24.6	30.5	25.2	25.5	23.0	27.2	26.2
Europe and other directions	17.6	18.6	15.1	16.8	21.1	17.4	15.40	13.9	16.4	15.8
Asia	6.5	6.9	7.0	7.8	9.4	7.8	10.10	9.1	10.8	10.4
International Sales to CIS	0.3	0.3	0.3	0.4	0.4	0.3	0.30	0.3	0.4	0.4
Domestic	16.2	17.1	16.1	17.9	21.4	17.7	20.5	18.5	17.7	17.0
Wholesale	11.2	11.8	11.3	12.6	14.9	12.3	15.20	13.7	12.9	12.4
Retail	5.0	5.3	4.8	5.3	6.5	5.4	5.30	4.8	4.8	4.6
Sales of bunker fuel to end-users	2.0	2.1	1.8	2.0	2.5	2.1	1.80	1.6	1.2	1.1
Total petroleum products	42.6	45.0	40.3	44.9	54.8	45.3	48.1	43.4	46.5	44.7

Domestic Sales of Petroleum Products

The Group owns a chain of marketing companies engaged in wholesale and retail sale of petroleum products, their storage, transport and transhipment. Rosneft sold 21.43 million tonnes of petroleum

products on the domestic market in 2011. Gasoline accounted for 31% of petroleum product sales on the domestic market, while 44% were diesel fuel, 10% were fuel oil, and jet fuel accounted for 5% of sales.

The following table sets forth the Group's domestic sales of petroleum products for the nine months ended 30 September 2012 and 2011 and the years ended 31 December 2011, 2010 and 2009:

	For the nine months ended 30 September		For the year ended 31 December		
	2012	2011	2011	2010	2009
	(million tonnes)				
Own products sold on the domestic market	15.1	14.1	19.0	18.9	17.0
Products procured from the third parties to be sold via Rosneft's network	1.1	2.0	2.4	1.6	0.7
Total sold in Russia, including	16.2	16.1	21.4	20.5	17.7
Wholesale sales of petroleum products	11.2	11.3	14.9	15.2	12.9
Retail sales of petroleum products	5.0	4.8	6.5	5.3	4.8

Wholesale Distribution: Wholesale sales of petroleum products on the domestic market were 14.9 million tonnes in 2011. All domestic petroleum products sold by Rosneft are produced in Russia. The largest wholesale buyers of Rosneft petroleum products are independent traders and large end users (including state organisations, such as the Russian Ministry of Defence). The main product types delivered to these buyers are boiler fuel, diesel and jet fuel. The Company also sells petroleum products through Russian commodity exchanges. Rosneft sold 3.4 million tonnes of petroleum products via the Saint Petersburg International Mercantile Exchange and Russian Inter-Regional Oil & Gas Trading Exchange in 2011.

Retail Distribution: Rosneft sells gasoline, diesel fuel and lubricants through its network of filling stations, which as of 31 December 2011, covered 44 regions of Russia and consisted of 1,604 stations in ownership or lease, and 52 stations operating under the Rosneft brand through franchising agreements. As at 30 September 2012, Rosneft operated the second largest network of filling stations in Russia. Growth of demand for Company products led to an increase of fuel sales through the Rosneft filling station network to 6.5 million tonnes in 2011, representing an increase of 22.6% over 2010.

Petroleum products are transported from refineries to petroleum storage depots at the Company's marketing and transhipment units and subsidiaries, from where they are transported by road tankers to the filling stations. The operating filling stations are generally located in the same region as the petroleum storage depots. In 2011, Rosneft began a programme for optimisation of its filing station network, mainly through closure and disposal of certain filling stations. The programme also included upgrading of filing stations and constructing of new filling stations. The Company sold, closed or mothballed 114 stations in the course of 2011, while 29 new stations were built and 53 were upgraded. Rosneft currently plans further expansion of its service station network in regions adjacent to the Group's refineries, particularly in Siberia and the Russian Far East, as well as on promising markets in Moscow, Saint Petersburg and other large Russian cities. Average daily sales volume of petroleum products per filling station was 10.6 tonnes in 2011, compared to 8.7 tonnes in 2010 and 8.0 tonnes in 2009.

International Sales of Petroleum Products

Rosneft sells a wide range of petroleum products abroad. These products primarily include diesel, gasoline and fuel oil. In 2011, Rosneft international sales of petroleum products (excluding bunker fuel) were 30.8 million tonnes. International sales accounted for 25.5% of total products sales in 2011. Rosneft sold 30.4 million tonnes of products (which represented 98.7% of Rosneft's total exports) in non-CIS countries and 0.4 million tonnes in CIS countries. The use of Tuapsenefteproduct's and Nakhodkanefteproduct's proprietary marine export terminals facilitates the export of petroleum products. Total sales of petroleum products and petrochemicals, produced at the Ruhr Oel GmbH refineries during 2011, amounted to 14.6 million tonnes (of which 7.3 million was the Company's share), including 5.9 million tonnes of petroleum products.

The following table sets forth the Group's international sales of petroleum products (excluding bunkering fuel) for the nine months ended 30 September 2012 and 2011 and the years ended 31 December 2011, 2010 and 2009:

	For the nine months ended 30 September		For the year ended 31 December		
	2012	2011	2011	2010	2009
	(million tonnes, except %)				
International sales of petroleum products	24.4	25.0	30.8	25.8	27.6
% of total products produced (except for petrochemicals)	45	57.5	57.8	53.9	58.6
Gasoline (including naphtha and auto)	2.7	4.5	6.7	3.5	3.8
Diesel fuel (gas oil)	5.1	6.3	8.7	8.4	9.5
Jet fuel (kerosene)	0	0.3	0.4	0.0	0.1
Fuel oil (mazut)	39	10.2	13.5	13.5	13.8
Other products	0.3	1.1	1.6	0.4	0.4

Petrochemical Sales

The Company sold 2.2 million tonnes of petrochemicals in 2011. For the same year, sales on the domestic market were 0.7 million tonnes (0.6% of total sales) and exports were 1.5 million tonnes (1.3% of total sales) mainly to non-CIS countries (98% of total exports). Compared to total sales in 2010 (0.7 million tonnes), sales of petrochemicals increased by 198.6% in 2011 which reflects the acquisition of a stake in Ruhr Oel GmbH.

Bunkering

Bunkering business is carried out through the Company subsidiaries RN-Bunker LLC and Rosneft Marine UK Ltd., and extends to all main Russian bunkering regions as well as several areas outside Russia (the Baltic, Barents Sea, Mediterranean, Far East, Pacific and Atlantic Oceans). Rosneft sold 2.5 million tonnes of bunker fuel in 2011, which is 38.9% more than in 2010. Fuel quality is in compliance with Russian standards and with ISO 8217:2010. Rosneft continued to strengthen its presence on the main bunkering markets in Russia in 2011. The Company strengthened its leading positions in the Russian Far East thanks to a contract with the Sakhalin-2 offshore project operator for deliveries of bunker fuel. New bunkering tankers, RN-Magellan and RN-Taurus, were brought into operation in 2011 as part of the programme for expanding Company presence on the bunker fuel market of the North-West and Black Sea regions of Russia. These modern vessels meet all the requirements specified for the vessels of this class and are expected to work in the ports of Murmansk, Arkhangelsk and Tuapse.

Aircraft refuelling

Rosneft aircraft refuelling services are provided through a subsidiary, RN-Aero, and extend to nearly all regions of Russia, owing to the wide geographical spread of Company refineries. The Company currently makes direct deliveries of jet fuel to numerous companies, including: Aeroflot, TransAero, Sibir, Vladivostok Avia, UTAir, Volga-Dnepr, Yakutia, Kuban Airlines, Taimyr, KrasAvia, Orenburg Airlines, Severny Veter, Turukhan, Moskovia, Donavia, Rusline AK, Rossiya, Ural Airlines, Abakan Avia, RusLine, Aerologic, and others. Sales of jet fuel totalled 636,000 tonnes in 2011, which is 28.2% more than in 2010. In 2011, Rosneft has acquired a 50% interest in the aircraft refuelling business of Vnukovo airport.

Lubricant Sales

Rosneft sold 621,000 tonnes of oils and lubricants in 2011. Sales on the domestic market were 403,000 tonnes or 65% of total sales. Sales of lubricants were 469,000 tonnes, including 299,000 tonnes (64% of the total) on the domestic market. Sales of packaged lubricants were 82,900 tonnes. Sales of packaged lubricants under Rosneft brands were 10,100 tonnes. Lubricants from the Novokuibyshevsk Oils and Additives Plant have been supplied to manufacturing facilities of the Russian car maker AvtoVAZ since May 2010. Total supplies in 2011 were 6,200 tonnes of industrial lubricants, quench oil and engine oils, and clutch fluids.

Competition

The oil and gas industry is intensely competitive. Rosneft competes mainly with other leading Russian oil and gas companies such as Lukoil, Surgutneftegaz and Gazprom Neft and Bashneft in various areas of business, including:

- Purchase of prospecting, exploration and production licences at auctions held by Russian Government agencies;
- Acquisition of other Russian companies;
- Engaging the services of leading independent service companies;
- Obtaining equipment for capital projects, which may be in short supply;
- Employment of highly skilled and experienced staff;
- Acquisition of existing retail enterprises and of land plots to develop new retail enterprises;
- Acquisition of, or gaining access to, oil refining facilities.

Generally, Rosneft does not compete directly with international oil and gas majors because such companies generally do not compete for licences within Russia. However, to the extent that international oil and gas majors support the activities of Rosneft's Russian competitors, they may indirectly compete with Rosneft. In addition, international oil and gas majors may directly compete with Rosneft for licences in countries other than Russia in which Rosneft has operations or may otherwise be interested.

Research and Development

Rosneft places great strategic importance on research and development and nearly tripled its investments in this area in 2011. Ten regional research and development and project institutes of which seven specialise in exploration and production and three in refining and petrochemicals, provide the basis for implementing and introducing new technologies and equipment to the Group and its activities. Rosneft intends to create and apply certain technologies with the aim of:

- ensuring that new hydrocarbon reserves will replace current production;
- achieving maximum possible rates of recovery of hydrocarbons at new fields and fields which are already in development;
- increasing the usage efficiency of associated gas;
- devising technologies for economically effective exploitation of unconventional reserves of hydrocarbons;
- increasing refining depth;
- introducing new technologies for refining of heavy residues in the petrochemical segment.

Rosneft's Innovative Development Programme was specifically designed to address these tasks. The Programme was approved by decision of Rosneft's Board of Directors on 1 April 2011 as well as by the working group for the development of private-public partnership in innovation (attached to the Russian Government Commission for High Technology and Innovation).

The Programme has the following main aspects:

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

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

- the new post of Vice-President for Innovative Development and New Technologies was created by decision of the Board of Directors of Rosneft;
- a Department for Scientific and Technical Development and Innovation was established;

- a Coordination Council for Innovative Development, answerable to the Company President, was established;
- Membership of the Company's Scientific and Technical Council was strengthened and the composition of its sections was expanded; and
- a system of indicators was introduced that encourages innovative development at all levels of management, including senior management.

Developments in exploration and production

Rosneft has established the Geological Drilling Support Centre, which is designed to collect real-time drilling data from the Group's operating units, conduct comprehensive review of well construction data and provide on-going drilling support. Since the establishment of the Geological Drilling Support Centre, well drilling efficiency has increased by over 20%.

In 2011, Rosneft established the Arctic Research and Design Center for Offshore Development to provide a scientific base for implementation of its offshore projects on Russia's Arctic shelf. The Arctic Research and Design Center for Offshore Development will bring together the knowledge of leading sectoral institutes in Russia, including the competences of Rosneft's other sector institutes, and will cooperate with international research and design centres. As part of the strategic cooperation agreement with ExxonMobil, Rosneft and ExxonMobil have in June 2012 agreed the key terms of ExxonMobil's participation in the Arctic Research and Design Center for Offshore Development

Developments in oil refining

In 2011, Rosneft has made a number of achievements in research and development on oil refining, including: the development of catalysts for hydrotreatment of diesel fuel and reforming of gasoline, the design of a technology for non-catalytic hydrosulphurisation of oil residues and the creation of the Company's own process for catalytic cracking in order to obtain maximum yields. Further, new technology to obtain alkylates was designed and a catalyst and constant reforming process in a moving layer was developed.

Trademarks

Rosneft is the registered owner of 19 trademarks in Russia, including a black-and-white and a coloured version of its logo, words "РОСНЕФТЬ" and "ROSNEFT", as well combinations of these words and of the logo. Rosneft's registered trademarks also include the "TPMSYS" trademark relating to the Total Production Management system developed by Rosneft in 2005, which is an electronic system for well and reservoir management.

HEALTH, SAFETY AND ENVIRONMENT

Rosneft applies modern technologies and production methods to try to ensure a safe working environment for its employees and to attempt to minimise the risk of accidents and emergency situations. Rosneft's injury rate due to accidents at work, measured by the number of injuries sustained per million hours of work time, was 0.19 in 2011, which is 14% less than in 2010 and 0.12 during nine months ending 30 September 2012.

Rosneft's activities are subject to various environmental laws and regulations in the jurisdictions in which the Group operates. These laws govern emissions; wastewater discharges; the remediation of contaminated soil; the use, handling and disposal of hazardous substances and wastes; and employee health and safety. In addition, Rosneft has long-term obligations concerning the decommissioning of operational facilities and the remediation of soil or groundwater at certain of its facilities and liability for waste disposal. Rosneft is also committed to reducing pipeline accidents and oil spill risks and reducing its emission rates, including by implementing its programme to raise the rate of associated gas utilisation to 95%. In carrying out its environmental policies, Rosneft generally seeks to adhere to international standards for environmental protection and monitors its compliance with these principles.

Rosneft undertakes significant efforts to ensure compliance with applicable environmental regulations. In 1998, Rosneft implemented an environmental management system for a Vertically Integrated Company based on the ISO 14000:2007 international standard. The Company adopted a Comprehensive Environmental and Production Safety Programme in 2001, including an Environmental Monitoring Plan,

so as to ensure ongoing adherence to environmental standards and to more closely control the impact of Rosneft's activities on the environment. In 2006, Rosneft established its Integrated Management System for health, safety and the environment (HSE), enabling ongoing management and control of Company activity in these fields, and assessment of its efficiency. This system is designed to ensure that staff at all levels are involved in ensuring production safety and lowering negative environmental impacts. In May 2006, the Group underwent a certification programme concerning its integrated system of operational, work and environmental safety management, demonstrating compliance with the relevant international standards ISO 14001:2004 and OHSAS 18001:2007. In 2011, CJSC Bureau Veritas Certification Rus, the Russian subsidiary of the international certification specialist, carried out a second compliance audit of the Company's Integrated System for HSE Management. The audit results confirmed the System's continuing compliance with applicable international standards and relevant ISO and OHSAS certifications have been officially awarded. In 2011, Rosneft established a specialised Department for Environmental Safety and Technologies with the purpose of improving the Company's environmental management system and levels of environmental security, with particular reference to increasing amounts of work at offshore fields.

Rosneft actively cooperates with the relevant state authorities to identify and remedy instances of negative environmental impact as well as to optimise its exploration activities and has made significant investments in environmental protection in each year under review in this Base Prospectus.

EMPLOYEES

Rosneft's employees are the key resource for its development. Rosneft believes that employee motivation, as well as professional and personal development, are key factors in its ability to achieve its strategic goals and future growth. Rosneft is therefore focused on, and has been successfully implementing, advanced compensation schemes and employee motivation systems. These systems include a payroll system designed to ensure that employees' productivity is accurately reflected in their compensation. Rosneft also maintains social policies designed to improve the employees' and their families' quality of life. Rosneft's internal employee regulations give Rosneft's employees a higher level of benefits (including various social benefits), compared to the level envisaged by Russian employment laws. Rosneft ensures the professional and personal development of its employees through a wide range of in-house training programmes. In 2011, Rosneft provided its employees with 129,836 places on such programmes, which is 7.8% greater than in 2010.

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

The following table shows the personnel structure as of 31 December 2011:

	2011
Exploration and production	27,222
Refining	23,441
Marketing and transportation	33,702
Production and refining support services	31,924
Other services	35,225
Science	3,749
Head office	2,111
Other	3,463
Total	**160,837**

No wage arrears currently exist at Company and its subsidiaries. Rosneft strives to resolve any employment relates issues amicably, through negotiations, and is not aware of any material labour disputes. Rosneft considers its employee relations to be stable.

INSURANCE

Rosneft maintains insurance policies, typically subject to annual renewal to protect itself against risks associated with oil exploration, refining and storage of crude oil and petroleum products. Insurance policies also cover its production and refining facilities and construction risks. Mandatory insurance is maintained by Rosneft in compliance with provisions of Russian legislation.

In 2012 Rosneft implemented business interruption programme and insurance against all construction and repair risks arising out of the fixed assets modernisation, as well as insurance against civil liability risks covering the Company's onshore and offshore activities with a maximum limit up to RUB 30 billion (U.S.$1.0 billion).

Litigation and Arbitration

Rosneft is currently the defendant in several material arbitral or judicial proceedings. Other than as set forth below, neither the Company nor the Group is, or has been, involved in any governmental, legal or arbitration proceedings, including any such proceedings pending or threatened of which the Company or the Group is aware, during the last 12 months preceding the date of this Base Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of the Company or its subsidiaries taken as a whole.

Yukos Oil Company Matters Involving Rosneft as Defendant or Respondent

Rosneft is currently the defendant or respondent in several lawsuits brought by entities controlled by former management of Yukos Oil Company or other third parties that relate to these acquisitions and Rosneft or members of the Group may be named a defendant or respondent in other claims as well. The currently pending lawsuits include:

- On 9 July 2007, Glendale Group Limited (***Glendale***), a BVI incorporated former indirect subsidiary of Yukos, filed against Rosneft in the Amsterdam District Court a writ of summons demanding payment on OJSC Yuganskneftegaz promissory notes in an amount of approximately RUB 3.53 billion plus interest, and costs. On 7 July 2010, Rosneft filed a statement of defence. Rosneft has asserted various defences in the matter including defences related to the validity of the notes and public policy grounds on which the notes should not be enforced under the circumstances. A hearing on the merits of Glendale's claims took place on 30 August 2012. An additional hearing on discreet issues of law took place in November 2012 and the court decision is pending.
- In 2007, lawsuits were filed in Russian arbitrazh courts in Moscow, Samara Region and Tomsk Region to nullify the loan agreements of Yukos Capital S.a.r.l. (***Yukos Capital***) with Yuganskneftegaz, Samaraneftegaz and Tomskneft:
    - In the Moscow Arbitrazh Court, the claimant is ZAO "Investitsionnaya kompania "VESTA", a minority shareholder of Rosneft. On 11 July 2012, the Moscow Arbitrazh Court declared invalid the loan agreements between Yukos Capital and Yuganskneftegaz. On 15 October 2012 the 9th Arbitrazh Appellate Court dismissed Yukos Capital's appeal of that judgment.
    - In the Arbitrazh Court of the Samara Region, the claimant is Neft-Aktiv, the direct shareholder of Samaraneftegaz. On 1 February 2012, the Arbitrazh Court of the Samara Region declared invalid the loan agreements between Yukos Capital and Samaraneftegaz. On 17 July 2012, the 11th Arbitrazh Appellate Court dismissed Yukos Capital's appeal of that judgment. Yukos Capital filed a cassation appeal. The hearing is scheduled for 28 February 2013.
    - In the Arbitrazh Court of the Tomsk Region, the claimant is Neft-Aktiv, a direct shareholder of Tomskneft. On 29 October 2012 the Arbitrazh Court of the Tomsk Region declared invalid the loan agreements between Yukos Capital and Tomskneft.
- In 2008, Glendale brought a claim in Russian courts against Angarsk Petrochemical Company to collect debt principal and interest under promissory notes for the total amount of RUB 2,750,687,326.90. Angarsk Petrochemical Company challenged the validity of the promissory notes. The proceedings were suspended on 16 November 2009 and the case remains suspended.
- In 2008, Glendale brought a claim in Russian courts against Tomskneft to collect debt principal and interest under promissory notes for the total amount of RUB 26,478,624,913.03. The first instance court dismissed the claim on 26 June 2009. Glendale filed an appeal, but the proceedings were suspended on 31 August 2009, and remain suspended.
- In March 2010, Yukos Capital initiated proceedings against Rosneft in the Commercial Court in London to enforce four alleged ICC arbitral awards totalling RUB 12 billion, and interest thereon amounting to approximately U.S.$150 million. The awards had previously been annulled in Russia, the seat of the arbitrations. Yukos Capital has since recovered the principal amount, but is still pursuing

the interest claim. On 14 June 2011, the Commercial Court ruled on two preliminary issues in favour of the claimant. Rosneft filed an appeal to the Court of Appeal, which was heard on 20 to 22 March 2012. The Court of Appeal's judgment, handed down on 27 June 2012, allowed Rosneft's appeal in part. Yukos Capital prevailed on the first issue, which concerned the scope of the act of state legal doctrine. The second preliminary issue concerned issue estoppel, namely the effect of a decision of the Dutch courts in earlier enforcement proceedings. Yukos Capital contended that the Dutch court's decision created an issue estoppel binding on Rosneft in the English proceedings. The Commercial Court had accepted this contention, but the Court of Appeal unanimously reversed it. The matter is now again before the Commercial Court.

- In February 2010, Yukos Capital commenced proceedings against Tomskneft in the Arbitrazh Court of the Tomsk Region seeking to enforce in Russia a 12 February 2007, ICC arbitral award of approximately RUB 4.35 billion, plus simple interest of 9% per annum, plus penalties of 0.1% per day (from 1 December 2005, through the date of the award), plus costs. On 7 July 2010, the Arbitrazh Court of the Tomsk Region denied Yukos Capital's enforcement application. On 27 October 2010 Yukos Capital's cassation appeal was dismissed.
- In July 2010, Yukos Capital brought an action against Tomskneft in the Paris Court of First Instance seeking enforcement of the same 12 February 2007 ICC arbitral award in France. On 20 July 2010, the court issued an ex parte preliminary award in Yukos Capital's favor. On 22 February 2011, Tomskneft filed an appeal against this order in the Paris Court of Appeals. Tomskneft claims that Yukos Capital lacks standing to bring this enforcement action because Tomskneft has no assets in France. Tomskneft also argues that recognition of the award should be refused for want of jurisdiction, because of violations of fundamental due process requirements during the arbitral process and on public policy grounds. The Paris Court of Appeals has not yet ruled on the appeal.
- In August 2010, Yukos Capital brought an action in the Southern District of New York to enforce an arbitral award against Samaraneftegaz in the amount of RUB 3,080,711,971 in principal and interest, plus U.S.$435,000 in arbitration costs, U.S.$284,474.54 in legal fees, and post-judgment simple interest of 9% per annum accrued from the date of the award (15 August 2007) through payment of the judgment. Samaraneftegaz has disputed the enforcement of the award, for want of jurisdiction, because of violations of fundamental due process requirements during the arbitral process and on public policy grounds. On 24 July 2012, the court rejected Samaraneftegaz's motion for summary judgment on personal jurisdiction grounds; the proceedings are continuing.
- In August 2010, Yukos Capital commenced proceedings in the Arbitrazh Court of the Samara Region seeking enforcement of the same 15 August 2007 arbitral award in the Russian Federation. On 15 February 2011, the Arbitrazh Court of the Samara Region denied Yukos Capital's enforcement application. The time for cassation appeal from the ruling has lapsed without Yukos Capital having filed such an appeal.
- Since August 2010, Rosneft (as successor to Yuganskneftegaz), Tomskneft and Samaraneftegaz have received demand letters from Yukos International (UK) BV (***YIUK***) referring to alleged guarantees of a loan agreement, dated 30 September 2003, between, Yukos, Société Générale S.A., JSC "Banque Société Générale S.A Vostok" and others. Rosneft contends that these guarantees are void based on Russian court decisions to this effect as well as an LCIA arbitral award relating to the alleged guarantee from OJSC Yuganskneftegaz. Each of the three entities has responded in writing to YIUK, disputing that YIUK is entitled to any payment. Further demand letters have been sent, but no formal proceedings are known to have been initiated.
- On 27 December 2011, YIUK initiated proceedings in the Amsterdam District Court a writ of summons claiming damages of up to U.S.$333,294,677.05, plus statutory interest with effect from 7 February 2011, plus costs, against Rosneft and others, relating to alleged injury supposedly caused by the entry of a freezing order that YIUK claims restricted its ability to invest certain funds as it chose. Rosneft filed its Statement of Defence on 3 October 2012. That statement asserts various defences including that the court properly granted the freezing order and that YIUK suffered no damages as a result of having its funds deposited in an interest bearing account of its choice.
- In 2012, Stichting Administratiekantoor Financial Performance Holdings (***Stichting FPH***), Luxtona Limited, Financial Performance Holdings B.V., D. Godfrey, D. Feldman filed in the Amsterdam District Court a writ of summons against Rosneft, Yukos CIS Investment Limited, Wincanton Holding B.V. (Wincanton) and the directors of Yukos CIS Investment Limited and Wincanton.

Stichting FPH, Luxtona Limited and Financial Performance Holdings B.V. are entities believed to have been established by former Yukos executives. The dispute arises from Rosneft's acquisition of Yukos CIS Investment Limited in the Yukos bankruptcy proceedings, which former Yukos executives consider to be unlawful and which they have been challenging in various fora. The case is at an early stage.

Rosneft accounts for the relevant claims as liabilities or discloses them under IFRS in the Company's Financial Statements. See "*IFRS Consolidated Financial Statements for Rosneft Oil Company for the years ended 31 December 2011, 2010 and 2009*" and "*IFRS Interim Condensed Consolidated Financial Statements for Rosneft Oil Company for the three and nine months ended 30 September 2012 (Unaudited)*".

Debt Recovery

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 suretyship agreements in the aggregate amount of RUB 1.3 billion; this account receivable was reserved in full.

Antimonopoly Proceedings

During 2008-2010, the Federal Antimonopoly Service and its regional bodies (***FAS Russia***) claimed that the Company and some of its subsidiaries violated certain antimonopoly regulations in relation to petroleum products trading. The Company appealed the aforementioned claims relating to violations of antimonopoly regulations and decisions on imposition of administrative liability in relevant arbitrazh courts. Proceedings in respect of majority of these cases have been completed. In particular, on 1 December 2010, the Moscow Arbitrazh Court resolved to reduce the original amount of the penalty imposed on the Company in the amount of RUB 5.3 billion to RUB 2 billion. This penalty was paid in December 2010. In a court hearing on 25 February 2011, the Moscow Arbitrazh Court has accepted the Company's refusal to pursue the appeal of a decision, direction and resolution of FAS Russia issued in respected of the Company in 2008, and which were originally appealed within single proceedings. The proceedings in respect of this case have been terminated. In connection with this, in 22 April 2011, a penalty of RUB 1.5 was paid.

As of 31 December 2011, the total amount of administrative penalties claimed by FAS Russia and its regional bodies in respect of the Company and its subsidiaries, amounted to RUB 2,137 million, including decision received in January 2012 to claim administrative responsibility in the form of penalties in relation to the Company and one of its subsidiary in the amount of RUB 1,756 million, of which the Company has paid a penalty of RUB 1,375,312,315 and its subsidiary, LLC "RN-Trading", has paid RUB 380,834,213.

The Company 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 condition of the Company.

As of 30 September 2012, the total administrative fines levied by FAS Russia and its regional bodies against the Company and its subsidiaries amount to approximately RUB 0.4 billion.

MANAGEMENT

Members of the Board of Directors of the Company are elected at the Company's General Meeting of Shareholders The majority of the Company's Board of Directors represent the interests of the Russian Government as the Company's indirect majority shareholder. The current members of the Board of Directors of the Company were elected on 20 June 2012 and are as follows:

Name	Position	Year of birth
Alexander Nekipelov	Chairman of the Board of Directors of the Company	1951
Nikolai Laverov	Independent Member of the Board of Directors of the Company, Deputy Chairman of the Board of Directors	1930
Hans-Joerg Rudloff	Independent Member of the Board of Directors of the Company, Vice Chairman of the Board of Directors	1940
Sergei Shishin	Independent Member of the Board of Directors of the Company, Vice Chairman of the Board of Directors of the Company	1963
Matthias Warnig	Independent Member of the Board of Directors of the Company	1955
Mikhail Kuzovlev	Member of the Board of Directors of the Company	1966
Eduard Khudaynatov	First Vice President and Deputy Chairman of the Management Board of the Company	1960
Dmitry Shugayev	Member of the Board of Directors of the Company	1965
Ilya Scherbovich	Member of the Board of Directors of the Company	1974

The current members of the Company's Management Board are as follows:

Name	Position	Year of birth
Igor Sechin	President of the Company, Chairman of the Management Board of the Company	1960
Eduard Khudaynatov	First Vice President, Deputy Chairman of the Management Board of the Company	1960
Larisa Kalanda	Vice President of the Company	1964
Gani Gilaev	Vice President of the Company	1956
Dmitry Avdeev	Vice President of the Company	1973
Igor Pavlov	Vice President of the Company	1967
Didier Casimiro	Vice President of the Company	1966
Nail Mukhitov	Vice President, Head of Security of the Company	1965
Peter Lazarev	Financial Director of the Company	1967
Alexei Perepelkin*	Company's President Chief of Staff	1970

The business address for the Board of Directors of the Company and the Management Board is Russian Federation, 115035 Moscow, 26/1 Sofiyskaya embankment.

Director's Biographies

Alexander Nekipelov was born in 1951 and graduated from Lomonosov Moscow State University in 1973, specialising in Political Economy. He holds a PhD degree in economics and is a member of the Russian Academy of Sciences. Mr. Nekipelov has a number of state orders and awards.

Between 1998 and 2001 Mr. Nekipelov served as Director of the Institute of International Economic and Political Studies at the Russian Academy of Sciences. In 2001 he was appointed Vice-President of the Russian Academy of Sciences and Presidium member of the Russian Academy of Sciences. From 2004 he

held the role of Director of the Moscow School of Economics at Lomonosov Moscow State University. Between 2006 and 2011 he was a member of the Board of Directors of the Company and was also a member of the Board of Directors of Transneft between 2008 and 2012. From 2008 onwards, he was a member of the Board of Directors of JSC Zarubezhneft. He has been Chairman of the Board of Directors of the Company since 2011.

Mr. Nekipelov holds 28,944 shares in the Company (0.0003% in share Company's share capital).

Nikolai Laverov was born in 1930. In 1954, he graduated from M.I. Kalinin Moscow Institute of Non-ferrous Metals and Gold with a degree in geology and exploration of mineral resources. He is a Doctor of geological and mineralogical sciences and a member of the Russian Academy of Sciences. He is the author of several scientific works and inventions, which have been awarded with orders, governmental and industrial awards, as well as orders and awards of foreign countries.

Since 1991, Mr. Laverov was the Vice President of the Russian Academy of Sciences and a member of the Presidium of the Russian Academy of Sciences. He has been a member of the Board of Directors of JSC Rusgeology since 2012. He has been an Independent Director and Deputy Chairman of the Company's Board since 2012.

Mr. Laverov does not own shares in the Company.

Hans-Joerg Rudloff was born in 1940 and graduated from Berne University in 1965 with a degree in economics.

Since 1998, he has been the Chairman of Barclays Investment Bank. Mr. Rudloff was the non-executive chairman of Blue-Bay Asset Management plc (2001-2010), a member of the Board of Directors of JSC RBC Information Systems (2002-2009), Chairman of the International Capital Market Association (2005-2011) and a director of Thybo Investments Limited (2004-2012). Mr. Rudloff has been a member of the Supervisory Board of TBG Holdings NV (Thyssen-Bornemisza Group) since 1995, Chairman of Marcuard S.A. since 2000, a member of the Advisory Boards of Landeskreditbank Baden-Wurttemberg since 1993 and of EnBW Energie Baden-Wurttemberg since 2000, an executive director of ABD Capital S.A. since 2003 and a member of the Board of Directors of New World Resources N.V since 2007. Additionally, Mr. Rudloff sat on the board of Novartis AG from 1996 to −2001. He has also been the Chairman of Supervisory Board of Escada AG in 2007. He has been an Independent Director of the Company since 2006 and Deputy Chairman of the Company's Board of Directors since 2011.

Mr. Rudloff holds 511,876 ordinary shares and GDRs of the Company (0.0048% in Company's share capital).

Sergei Shishin was born in 1963 and graduated in 1984 from the Higher Borderguard School of the CSS of the USSR, in 1990 from the Higher Institute of the CSS and in 1999 from the Russian Presidential Academy of Government. He holds a PhD degree in economics. Mr. Shishin has state and agency-level awards.

From 1980 to 2007 Mr. Shishin served in CSS of the USSR, FSS of Russia. Mr. Shishin has been a Senior Vice President of JSC VTB Bank since 2007. In 2011 he became a member of the Supervisory Board of PJSC RRDB and a member of the Board of Directors of JSC Rushydro. He has been an Independent Director and Deputy Chairman of the Company's Board since 2011.

Mr. Shishin holds 24,906 shares in the Company (0.0002% in Company's share capital).

Matthias Warnig was born in 1955 and graduated in 1981 from the Bruno Leuschner Higher School of Economics, specialising in national economics. From 1993 to 1995 he studied at Dresdner Bank AG in Bad Homburg and in London and was awarded a degree in Credit and Risk Management.

Between 1990 and 2006 he was employed by Dresdner Bank Group in Frankfurt am Main, Saint Petersburg and Moscow as President, Chairman of the Board of Directors and Chief Coordinator of Dresdner Bank Group AG in the Russian Federation. In 2006 Mr. Warnig was appointed Managing Director of Nord Stream AG. Mr. Warnig has been a member of the Board of Directors of OJSC AB Ruissia ssince 2003, a member of the Supervisory Board of JSC VTB Bank since 2007, a member of the Supervisory Board of Verbundnetz Gas AC since 2010 and a member of Administrative Board of GAZPROM Schweiz AG since 2011. Chairman of the Board of Directors of Transneft since 2011 and an independent director and a Chairman of the Board of Directors of UC RUSAL since 2012. Mr. Warning has been an Independent Director of the Company since 2011.

Mr. Warnig holds 16,260 shares in the Company (0.0002% in Company's share capital).

Mikhail Kuzovlev was born in 1966. He graduated from the Moscow State Institute of International Relations of the Ministry of Foreign Affairs USSR with a degree in international economic affairs in 1988.

Between 2004 and 2008 he held the position of Executive Managing Director at the Russian Commercial Bank (Cyprus) Ltd and since 2008 has been the Chairman of its Board. From 2008 to 2011, Mr. Kuzovlev was First Deputy of the President—Chairman of the Management Board at JSC VTB Bank. In 2011 he became First Vice President of the Bank of Moscow and from August 2011 he has served as President and Chairman of the Management Board of Bank of Moscow. Mikhail Kuzovlev is also a current member of the Board of Directors of OJSC VTB Leasing and O.J.S.C. Metropolitan Insurance Group. Mikhail Kuzovlev has been a member of the Board of Directors of the Company since 2012.

Mr. Kuzovlev does not own shares in the Company.

Eduard Khudaynatov was born in 1960. He graduated in 1996 from the International Business Academy (Moscow) with a degree in trade. Mr. Khudaynatov completed a second degree in Law in 2000 at Tyumen State University.

Mr. Khudaynatov served as the head of Evikhon, Evikhon-2 and LLC Yuganskpromfinco between 1993 and 1996. In 1996 he was appointed Deputy Head of Administration of the town of Nefteyugansk. From 1996 to 2000 he served as First Deputy Head of Nefteyugansk District and Head of Administration of the town of Poikovsky. Between 2000 and 2003 Mr. Khudaynatov was Chief Federal Inspector for the Nenets Autonomous District in the Office of the Representative of the President of the Russian Federation in the Northwestern Federal District. Between 2003 and 2008 he was General Director of OJSC Severneftegazprom. In 2008 he was appointed as Vice-President of the Company and in 2009 as First Vice-President of the Company. From September 2010 to May 2012 Mr. Khudaynatov served as President and Chairman of the Management Board of the Company and in May 2012 he was appointed First Vice President and Deputy Chairman of the Management Board of the Company. Mr. Khudaynatov has been a board member of several other companies, including Chairman of the Board of Directors of Rosneft's Arctic Research and Design Center for Offshore Development since 2011 and a board member of National Oil Consortium since 2010. He is also a Supervisory Board member of LLC Professional hockey club ZSKA. He has been a member of the Board of Directors of the Company since 2011.

Mr. Khudaynatov holds 6,414,330 shares in the Company (0.0605% in Company's share capital).

Dmitry Shugayev was born in 1965 and graduated from the Moscow State Institute of International Relations of the USSR Foreign Ministry with a degree in International journalism in 1987. Mr. Shugayev holds a PhD degree in economics.

He served as Executive Director of CJSC Yuridichesky Profil from 1997 to 2001 and held various posts at JSC Rosoboronexport (formerly known as State Unitary Enterprise Rosoboronexport), between 2001 and 2008. Since 2008 he has been Head of Administration of the CEO's Office at Russian Technologies State Corporation and since 2009 he has been Deputy CEO of Russian Technologies State Corporation. Mr. Shugayev is a member of the boards of directors and supervisory boards of several Russian companies, including of JSC INTER RAO UES and JSC NPO Saturn since 2011. He has been a member of the Board of Directors of the Company since 2011.

Mr. Shugayev holds 22,213 shares in the Company (0.0002% in Company's share capital).

Ilya Scherbovich was born in 1974. He graduated from the Plekhanov Russian University of Economics with a degree in economics and production management in 1995.

Between 2000 and 2007 he was a member of the Board of Directors and Management Board at UFG Ltd. Between 2006 and 2007 he held the position of President of Deutsche UFG. He was also Head of Investment Business at Deutsche Bank Russia between 2006 and 2007. He became President of United Capital Partners (UCP) Group of Companies as well as a member of the Management Board of United Capital Partners Advisory in 2007. Mr. Scherbovich has also been a member of the Board of Directors of Transneft and JSC FGC UES since 2012 and a member of the Board of Directors of LLC Uralmash Oil and Gas Equipment Holding since 2011. He became a member of the Board of Directors of the Company in 2012.

Mr. Scherbovich is a beneficial owner of 3,627,000 ordinary shares and 4,920,198 GDRs of the Company (0.0806% in Company's share capital).

Management Board Biographies

Igor Sechin was born in 1960 and graduated from Leningrad State University in 1984. He holds a PhD degree in economics.

From 2000 Mr. Sechin served as Deputy Head of the Executive Office of the President of the Russian Federation. In March 2004, he was appointed Aide to the President of the Russian Federation, Deputy Head of the Executive Office of the President of the Russian Federation. From May 2008 to 2012, he was Deputy Prime Minister of the Russian Federation and between 2004 and 2011 he was Chairman of the Board of Directors of the Company. Mr. Sechin has also chaired a number of other boards, including JSC INTER RAO UES from 2008 to 2011, JSC USC from 2008 to 2011, ROSNEFTEGAZ from 2006 and National Oil Consortium from 2008 to the present time. He is also currently Chairman of the Supervisory Board of LLC Professional hockey club ZSKA. Since May 2012, Mr. Sechin has been President and Chairman of the Company's Management Board.

Mr. Sechin does not hold shares in the Company.

Eduard Khudaynatov Please see Mr. Khudaynatov's biography and information on share ownership set out in the section "Director's Biographies" above. From May 2012, Mr. Khudaynatov has been the First Vice President and Deputy Chairman of the Management Board of the Company.

Larisa Kalanda was born in 1964 and graduated from the Sverdlov Institute of Law in 1985, specialising in law. She completed postgraduate studies at the Institute of Philosophy and Law of the Belarus Academy of Sciences in 1994 and is a Distinguished Lawyer of the Russian Federation.

She was appointed Deputy Head of the Legal Service of OJSC TNK and OJSC TNK-BP Management in 1997 and served as Vice-President of OJSC TNK-BP Management, responsible for legal support from 2003 to 2006. Ms Kalanda has held memberships on a number of boards, including the Supervisory board of PJSC RRDB from 2006 to 2007 and from 2009 till the present time, the board of Transneft from 2009 till 2012, JSC Zarubezhneft from 2010 to 2012 and Rosneft's Arctic Research and Design Center for Offshore Development from 2011 to the present. She has also been an acting general director of ROSNEFTEGAZ from 2007 to the present. Starting in 2006, she took the role of Vice President of the Company being responsible for legal support of the Company's business, as well as property and corporate governance matters. Between 2009 and May 2012 she held the position of Deputy Chairman of the Management Board of the Company. Ms. Kalanda has been a member of the Management Board of the Company since May 2012.

Ms. Kalanda holds 1,250,958 shares in the Company (0.0118% in Company's share capital).

Gani Gilaev was born in 1956 and graduated in 1990 from the Ufa State Petroleum University specialising in exploration and development of oil and gas fields. He holds a PhD in engineering science.

Mr. Gilaev joined NGDU Vostokneft of the Sakhalinneft conglomerate in 1975 as a drilling assistant. He worked at management positions at Sakhalinmorneftegas, OJSC Rosneft-Termneft and Krasnodarneftegas between 1993 and 2006. In 2006 he was appointed General Director of Udmurtneft; in 2008, he became Director of the Oil and Gas Production Department of the Company. He was appointed Acting Vice President of the Company with responsibility for production in October 2010 and has been Vice President of the Company with responsibility for exploration and production since September 2011. In November 2010, he was appointed a member of the Company's Management Board.

Mr. Gilaev holds 337,832 shares in the Company (0.0032% in Company's share capital).

Dmitry Avdeev was born in 1973 and graduated from the M.V. Lomonosov Moscow State University with a degree in applied mathematics in 1995.

From 1997 to 1998, he served as Deputy Head of the project finance department at oil company OJSC Sidanco, before moving to work as Managing Director at UFG and Deutsche UFG. In 2006, Mr. Avdeev was appointed Executive Director for the Russian and CIS oil and gas industry at Morgan Stanley and, in 2008, took up the post of Chief Financial Officer at the oil field services group Integra. In 2010, Mr. Avdeev was appointed Managing Director of investment banking in Russia and CIS at Morgan Stanley. In June 2012, he was appointed Vice President for finance and economics at the Company and a member the Company's Management Board.

Mr. Avdeev holds 393,770 shares in the Company (0.0037% in Company's share capital).

Igor Pavlov was born in 1967 and graduated from the Angarsk Institute of Technology in 1995, the Irkutsk State Academy of Economics in 2001 and the Moscow State University of International Relations (MGIMO) of the Russian MFA in 2011.

From 1989 to 2008, he worked at Angarsk Petrochemical Company, advancing from a process unit operator to director of the Lubricants Plant Administration. Between 2008 and 2012, he was Director General of the Achinsk refinery. In March 2012, he was appointed Vice President for oil refining at the Company. In June 2012, he was appointed a member of the Company's Management Board.

Mr. Pavlov holds 295 shares in the Company (0.000003% in Company's share capital).

Didier Casimiro was born in 1966 and graduated with honours from Ghent University, Belgium, in 1991 and Lisbon University, Portugal, in 1992.

From 1996 he occupied top management positions at BP and, between 2005 and 2012, held similar posts at TNK-BP. In May 2012, he was appointed Vice President for commerce and logistics at the Company. In June 2012, he was appointed a member of the Company's Management Board.

Mr. Casimiro does not own shares in the Company.

Nail Mukhitov was born in 1965.

In 2012, Mr. Mukhitov was appointed Vice President—Head of Security at the Company. In June 2012, he was appointed a member of the Company's Management Board.

Mr. Mukhitov does not own shares in the Company.

Peter Lazarev was born in 1967 and graduated in 1990 from the Plekhanov Moscow Institute of National Economy specialising in finance and credit.

He occupied various posts at the Soviet Ministry of Finance and the Russian Ministry of Economy and Finance between 1990 and 1993 and held various positions at the Office of Securities of the International Joint-Stock Bank of Savings Banks between 1993 and 1995. From 1995 to 1996 he was a member of the Executive Board and Head of the Securities Department at the International Joint-Stock Bank of savings bank. From 1996 to 1999 he occupied senior positions at LLC ACB Center, CJSC Finco Investment Finance Company and CJSC Russian Industrial Bank. Mr. Lazarev has been a member of a number of other boards, including the Board of PJSC RRDB since 2012 and NPF Neftegarant between 2010 and 2012, amongst others. He was appointed Head of Promissory Note and Investment Programmes in the Finance Department at the Company and Deputy Director and Head of Securities in the Finance Department between 2000 and 2004. He served as the Company's Head of Treasury from June 2004. In February 2012, he was appointed Financial Director of the Company and a member of its Management Board.

Mr. Lazarev holds 111,575 shares in the Company (0.0011% in Company's share capital).

Alexei Perepelkin** was born in 1970 and graduated from the N.E. Bauman Moscow State Technical University in 1993 and from the Moscow State Academy of Law in 1998.

Mr. Perepelkin entered public service in 1996. In 2009, he was appointed Deputy General Director for corporate governance and property at JSC IDGC Holding and in this role held board positions in a number of companies within the MRSK group. He also remains a Board member at JSC IDGC of Center and Volga Region, JSC IDGC of South, JSC IDGC of Volga, and Kubanenergo. Since June 2012, he has been the Company's President Chief of Staff and a member of the Company's Management Board.

Mr. Perepelkin does not own shares in the Company.

Description of the Company's Management

The Company's management bodies are comprised of the General Meeting of Shareholders, the Board of Directors, the Management Board (the Company's collective executive body) and the Company' President (the Company's sole executive body).

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* Mr. Perepelkin has voluntarily resigned as the Company's employee. In accordance with applicable provisions of Russian corporate law, this resignation of member of the Company's Management Board will be effected following the next meeting of the Board of Directors of the Company, at which the relevant issue will be considered.

The principles and foundations for the Company's corporate governance structure are formulated in the Company's Corporate Code of Conduct, which was designed to comply with the Federal Law "On Joint Stock Companies", the Corporate Code of Conduct recommended by the Russian Federal Commission for the Securities Market, principles of corporate governance of Organisation for Economic Cooperation and Development and the Company's Charter.

General Meeting of Shareholders

The General Meeting of Shareholders is the Company's highest governing body, which operates in accordance with Regulations on the General Meeting of Shareholders of the Company approved by the General Meeting of Shareholders on 19 June 2009. According to the Company's Charter, the General Meeting of Shareholders must be conducted in Moscow, where the Company's official seat is located, or Krasnodar, Krasnoyarsk, St. Petersburg or Khabarovsk. The following decisions, amongst others, can only be taken by the General Meeting of Shareholders: amendments and addenda to and restatement of the Charter of the Company (except for the cases provided for by the Federal Law "On Joint Stock Companies" and the Charter); the Company's reorganisation or liquidation; the appointment of the liquidation commission and approval of interim and final liquidation balance sheets; the determination of the number, par value and category (type) of authorised shares and the rights attached to such shares; the increase of the charter capital of the Company by way of placement of additional shares where such a placement is performed by (i) closed subscription to the issued shares or by (ii) open subscription to additional shares in the amount that exceeds 25% of earlier placed common shares; the reduction of the charter capital of the Company by way of reduction of the par value of shares and the approval of major transactions in the cases provided for by paragraph 3 of Article 79 of the Federal Law "On Joint Stock Companies", as well as other matters referred to the authority of the General Meeting of Shareholders by the Federal Law "On Joint Stock Companies" and the Company's Charter.

The latest Annual General Meeting of Shareholders held by the Company was that in respect of 2011 year results and was held on 20 June 2012 in St. Petersburg and attended by 97.19% of the Company's shareholders.

An Extraordinary General Meeting of Shareholders can be convened by the decision of the Board of Directors of the Company at its own initiative or at the request of the Audit Committee of the Company, the auditor of the Company or shareholder(s) of the Company holding at least 10% of the voting shares of the Company at the date of such request. As at the date of this Base Prospectus, the last Extraordinary General Meeting was held on 10 April 2012 in the form of absentee voting.

Board of Directors

In accordance with the Company's Charter and Regulations on the Board of Directors of the Company approved by the General Shareholders' Meeting on 19 June 2009, the Board of Directors carries out the general management of the Company except for matters which are within the authority of the General Shareholders Meeting. The nomination by the shareholders of a candidate to the Board of Directors of the Company is governed by Article 53 of the Federal Law "On Joint Stock Companies", the Company's Charter and Article 7 of the Company's Corporate Code of Conduct, which sets out that the Board of Directors must be composed of nine members with at least three independent directors. All members of the Board of Directors of the Company are elected by a cumulative vote at the Annual General Shareholders Meeting for a term until the next Annual General Shareholders' Meeting. By the decision of the General Meeting of Shareholders the authority of all members of the Board of Directors can be terminated before the expiration of their term.

According to the Company's Charter, the powers of the Board of Directors of the Company include the following matters: approving the long-term strategy of the Company and the plans for its financial and business operations; approving key management and business processes; making decisions on Company's participation in commercial organisations; approving (on a preliminary basis) the Company's annual report; determining remuneration levels payable to the Company's auditor; making decisions on the use of Company funds and the establishment and liquidation of representative offices; amending the Charter of the Company in connection with the establishment of branches and representative offices and their liquidation; approving criteria to determine levels of remuneration payments to key personnel including bonuses; making decisions on the audit of financial and business operations; determining the value of property in the cases provided for by the Federal Law "On Joint Stock Companies"; convening the General Shareholders Meeting and recommending and approving its agenda; increasing the charter capital

by means of open subscription of additional shares in the Company from and among authorised shares (the number of which does not exceed 25% of the total number of outstanding shares in the Company); placing and acquiring bonds and other issuable securities; acquiring shares placed by the Company; approving major and related-party transactions in the cases provided for by the Federal Law "On Joint Stock Companies"; deciding on implementation of business-projects, joint ventures and investments equal or exceeding the amount of U.S.$500 million; and determining the Group's policy in relation to companies of the Group; as well as other matters refered to its authority under the Federal Law "On Joint Stock Companies" and the Company's Charter.

The Board of Directors of the Company has three permanent committees: The Strategic Planning Committee, the Audit Committee and the Staff and Remunerations Committee. The majority of the committee members are non-executive members of the Board of Directors. Since the Company adheres to the best standards of corporate governance all committees of the Board of Directors are chaired by independent directors, as required by the Company's Corporate Code of Conduct and other internal regulations. The committees are responsible for preliminary consideration of the most important matters within the Board's authority and preparation of respective recommendations to the Board of Directors.

Audit Committee

In accordance with the Regulations on Audit Committee of Boards of Directors of the Company approved by the Board of Directors on 18 October 2008, the Audit Committee assesses candidates for the role of auditors of Rosneft and reviews the auditor's opinion and efficacy of procedures for internal control and risk management. It provides a preliminary review of the Company's financial accounts, assesses the quality of auditing services provided to the Company, ensures observance by the auditor of auditing independence and supervises completeness and accuracy of the Company's tax, financial and management accounting. Currently, Hans-Joerg Rudloff is the Chairman of the Audit Committee with Matthias Warnig and Sergei Shishin as members.

Strategic Planning Committee

In accordance with Regulations on Strategic Planning Committee of Boards of Directors of the Company approved by the Board of Directors on 18 October 2008, the Strategic Planning Committee determines the strategic objectives and priorities of Rosneft. This committee's main tasks include the review and preparation of recommendations on issues concerning the development, management and investment strategies of the Company, as well as the Company's plans for financial and economic activity to the Board of Directors, monitoring and assessing the efficient implementation of strategy which has been approved by the Board of Directors, assessment of how efficiently the Company interacts with investors and the analysis and provision of information to the Board of Directors concerning the main aspects of economic policy of the Russian Government in the Company's sphere of business. Currently, Nikolai Laverov is the Chairman of the Strategic Planning Committee with Mikhail Kuzovlev, Alexander Nekipelov, Eduard Khudaynatov, Dmitry Shugayev and Ilya Scherbovich as members.

Staff and Remunerations Committee

In accordance with Regulations on Staff and Remunerations Committee of Boards of Directors of the Company approved by the Board of Directors on 18 October 2008, the Staff and Remunerations Committee seeks to recruit highly qualified specialists for the Company whilst trying to provide conditions which allow for such individuals to succeed. Its main functions include Human Resources policy formation, regulation of matters concerning compensation and incentives to Rosneft employees, definition of principles and criteria for determining the scale of remuneration and compensation to members of the Board of Directors, Management Board and executives of Rosneft and development of long-term remuneration programmes for Company employees including bonuses and option schemes. Currently, the Chairman of the Staff and Remunerations Committee is Sergei Shishin with Matthias Warnig, Mikhail Kuzovlev and Hans-Joerg Rudloff as members.

Executive managing bodies of the Company

Management of the Company's day-to-day business is carried out by the Management Board and the President of the Company, who report to the Board of Directors and the General Shareholders Meeting of the Company.

President of the Company

In accordance with the Regulations on the President of the Company approved by the General Shareholders' Meeting on 19 June 2009, the President of the Company is appointed by the Board of Directors for a period of three years. His powers include the authority to act on behalf of the Company without a power of attorney and to conclude transactions in the interest of the Company. His powers further include, *inter alia*, management of Company's operations in accordance with the resolutions of the General Shareholders Meeting and the Board of Directors of the Company, proposing candidates to the Board of Directors for appointment to the Management Board, management of the preparation of Rosneft's annual reports and accounts and making of decisions on the conclusion, amendment or termination of transactions of a value of less than U.S.$50 million. Currently, Igor Sechin holds the position of President of the Company.

Management Board

In accordance with the Company's Charter and the Regulations on the Management Board approved by the General Shareholders' Meeting on 19 June 2009, the members of the Management Board are appointed by the Board of Directors for a term of three years. The procedure for formation of the Management Board and the requirements for professional qualifications of its members (including education and experience) are established by the internal documents of the Company. The President of the Company performs the function of the Chairman of the Management Board and it is his or her duty to organise the Management Board's functions. The presence of more than half of all members of the Management Board constitutes a quorum to conduct a meeting with each member in attendance holding one vote.

Matters which fall within the competence of the Management Board include, *inter alia,* developing plans for financial and business operations for submission to the Board of Directors, the preliminary consideration and approval of expenses which have not been provided for under the plan on financial and business activity, organising the implementation of priority areas of activities of the Company and optimising the Company's financial and business activities, approving the personnel structure, committee formation and nominees for the heads of branches and representative offices of the Company, deciding on whether to participate in non-commercial organisations, approving the performance indices and amounts of annual premiums for managers of the Company's independent structural units, deciding on conclusion, amendment and early termination of contracts with a value of less than U.S.$500 million, deciding on implementation of business projects with a value of less than U.S.$500 million, approving candidate lists for the governing bodies of Group companies and approving internal documents of the Company.

Additional Information about the Company's Directors and Management Board

Director's and officer's compensation

Short-term remuneration of the Company's key management personnel including payroll, bonuses (including personal income tax and contributions to insurance funds) amounted up to RUB 3 billion, RUB 2 billion and RUB 2 billion in 2011, 2010 and 2009, respectively. See "*Note 37 to the Consolidated Financial Statements*".

For these purposes, key management personnel includes: the President of Rosneft, Rosneft's Vice-Presidents, members of the Board of Directors, members of the Management Board, members of the Audit Committee, directors of departments and heads of independent units, as well as others charged with governance. Compensation of key management personnel is determined by the terms of their employment contracts.

Conflicts of Interest

The Company is not aware of any potential conflicts of interest between any duties of the members of its Board of Director or Management Board owed to it and their own private interests and/or other duties.

SHAREHOLDING STRUCTURE AND DIVIDENDS

Share Capital and Shareholders

As of 30 September 2012, the Company's charter capital was RUB 105,981,778.17, consisting of 10,598,177,817 ordinary shares with a nominal value of RUB 0.01 each. No preferred shares are authorised or outstanding. The Company's shares are traded in Moscow on MICEX Stock Exchange. The Company's shares are also listed on the London Stock Exchange in the form of GDRs. As of 30 September 2012, 9.2% of the Company's shares were held in the form of GDRs.

The following table summarises the Company's shareholding structure as at 30 September 2012:

Shareholders	Number of Shares	%
ROSNEFTEGAZ[1]	7,965,816,383	75.16
RN-Razvitie[2]	1,010,158,003	9.53
Sberbank[3]	1,079,659,409	10.19
Other legal entities owning less than 1% of the Company's shares	166,800,814	1.57
Individuals	53,695,053	0.51
Treasury shares[4]	321,778,155	3.04
Total	10,598,177,817	100

(1) ROSNEFTEGAZ is fully owned by the Russian Government. Russian Government also owns a direct stake in Company's share capital amounting to less than 0.1%.

(2) The Company indirectly holds 100% interest in RN-Razvitie.

(3) Nominal holder.

(4) Shares resulted from Company's share buyback from its shareholder.

For more information on Company's shareholders' equity, see "Note 35 to the Consolidated Financial Statements" and "Note 21 to the Interim Condensed Consolidated Financial Statements (unaudited)".

Dividends and Dividends policy

Under the Company's dividend policy, the Company aims to pay dividends of no less than 10% of its RAS net profit. The Company may adjust this amount to reflect one-time gains or losses. In determining the amount of any annual dividends to propose to the shareholders of the Company, the Board of Directors will take into account the dividend payment practices of other oil and gas companies. In any given year, several factors may affect the Company's determination of whether to pay dividends and the amount of such dividends, including the Company's business prospects, cash requirements, financial performance, the condition of the market and the general economic climate, and other factors, including tax and other regulatory considerations.

In accordance with the decisions made at the Annual General Shareholders' Meetings in 2012, 2011 and 2010, the Company announced the following total dividends:

- RUB 24,376 million (U.S.$782 million at the CBR exchange rate as at the date of decision), or RUB 2.30 (U.S.$0.07 at the CBR exchange rate as at the date of decision) per ordinary share, for the year ended 31 December 2009;
- RUB 29,251 million (U.S.$1,056 million at the CBR exchange rate as at the date of decision), or RUB 2.76 (U.S.$0.1 at the CBR exchange rate as at the date of decision) per ordinary share, for the year ended 31 December 2010; and
- RUB 36,564 million (U.S.$1,124 million at the CBR exchange rate as at the date of decision), or RUB 3.45 (U.S.$0.1 at the CBR exchange rate as at the date of decision) per ordinary share, for the year ended 31 December 2011.

On 17 September 2012, Rosneft's Board of Directors recommended shareholders to approve additional dividends on the Rosneft's common shares for 2011 in the amount of RUB 4.08 per share, for a total amount of RUB 38 billion relating to outstanding shares, including dividend withholding tax on treasury shares.

RELATED PARTY TRANSACTIONS

The following is a summary of Rosneft's most significant transactions with related parties for the nine months ended 30 September 2012 and the years ended 31 December 2011, 2010 and 2009. For further details of these transactions for the years ended 31 December 2011, 2010 and 2009, see Note 37 to the Consolidated Financial Statements and for the nine months ended 30 September 2012 and 2011. See Note 22 of the Interim Financial Statements for the nine months ended 30 September 2012 and 2011.

Interested Party Transactions under Russian Law

Joint Stock Companies Law

The Joint Stock Companies Law sets forth certain requirements with respect to transactions involving interested parties. An interested party is any of the following: (i) a member of the board of directors, (ii) a person performing functions of the sole executive body (e.g., the Chairman of the Management Board), (iii) a member of the collective executive body (e.g., the Management Board), including a sole manager or a management company, (iv) a shareholder who owns, together with any of its affiliates, at least 20% of the company's voting shares, or (v) any person who has the rights to issue mandatory instructions to the company, so long as any of the abovementioned persons and their spouse, parents, children, adoptive parents or children, brothers or sisters and/or their affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20% of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or holds offices in any of the company's management bodies (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; and
- in other cases, as provided by Russian law.

The Joint Stock Companies Law requires that an interested party transaction must be approved before execution by the board of directors or by a shareholders meeting, in accordance with the procedure set out in the said law.

For companies with more than 1,000 shareholders, a decision to approve an interested party transaction must be adopted by the company's board of directors by a majority vote of the independent directors, which are not interested in the entry into the transaction. For purposes of this rule, an "independent director" is a member of the board of directors who is not, and within the year preceding the decision to approve the transaction was not:

- a person exercising the role of the sole executive body of the company, including a sole manager of the company, as well as a member of any executive body; or
- a person, which is a member of a management body of the company's management company; or
- a person whose spouse, parents, children, adoptive parents or children, brothers or sisters hold positions in the executive bodies of the company, company's management company or were sole managers of such company; or
- an affiliate of the company, except for being a member of its board of directors.

An interested party transaction must be approved by a decision of the majority of disinterested shareholders holding voting shares, if:

- the value of such a transaction, or series of related transactions, is two percent or more of the balance sheet value of the company's assets as of the last reporting date;
- the transaction, or series of interrelated transactions, involves the issuance by subscription or disposal of, ordinary shares in an amount exceeding two percent of the earlier issued existing ordinary shares or securities convertible into such shares;
- the transaction, or series of related transactions, involves the issuance by subscription of securities convertible into shares, which may be converted into ordinary shares, in an amount exceeding two percent of the earlier issued existing ordinary shares or ordinary shares into which the above-mentioned convertible securities may be converted;

- all members of the board of directors are interested parties, and/or none of them is an independent director; or
- the number of the disinterested directors is not sufficient to constitute a quorum.

The approval of interested party transactions of an open joint stock company is not required if:

- the company has only one shareholder that simultaneously performs the functions of the executive body of a company;
- all shareholders are interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares;
- the company is purchasing or buying out its issued shares;
- the company is undergoing reorganisation in the form of a merger or accession; or
- the company is required by federal legislation to enter into the transactions, and settlements under such transactions are made pursuant to fixed tariffs and prices established by competent state authorities.

Any interested party transaction must be approved prior to its execution. An interested party transaction entered into in breach of the above-mentioned rules may be invalidated by a court pursuant to an action of a company or any of its shareholders only if the other party to the transaction knew or should have known of its interested party nature and if it is proved that the transaction resulted or may result in losses to the company or a shareholder, which brought the relevant action, or may result in other unfavourable consequences, and unless the transaction was subsequently approved by the relevant governing body of the company prior to the relevant action. The interested party is liable to a company for any loss incurred by the company. If there are several interested parties, their liability towards the company is joint and several.

Rosneft's Related Party Transactions for the Years Ended 31 December 2011, 2010 and 2009 and Nine Months Ended 30 September 2012 and 2011, as reported under IFRS

For the purpose of the Annual Financial Statements, two parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Rosneft's Related Party Transactions with Other Companies Controlled by the Russian Government

As of 30 September 2011, the state indirectly owned 75.16% of the Company. In the course of its ordinary business, the Company enters into transactions with other companies controlled by the Russian Government. Such companies include Gazprom, RZD, Sberbank, Vnesheconombank, JSC VTB Bank, GPB (OJSC), OJSC AB Russia, Transneft, certain power and utility companies, and federal agencies, including tax authorities. Rosneft believes that these transactions will continue in the foreseeable future. See "*Risk Factors—Risks Relating to Rosneft—The Russian government, whose interests may not coincide with those of the Noteholders, controls Rosneft and may exercise significant influence over Rosneft*". For additional information on such transactions for the years ended 31 December 2011, 2010 and 2009, see "Note 37 to the Consolidated Financial Statements", and for the nine months ended 30 September 2012 and 2011, see "Note 22 to the Interim Condensed Consolidated Financial Statements (unaudited)".

Rosneft's Other Related Party Transactions

The Company also enters into transactions with related parties not directly or indirectly controlled by the government of the Russian Federation. For additional information on transactions with such related parties, which are primarily equity investees and joint ventures, for the years ended 31 December 2011, 2010 and 2009, see "Note 37 to the Consolidated Financial Statements", and for the nine months ended 30 September 2012 and 2011, see "Note 22 to the Interim Condensed Consolidated Financial Statements (unaudited)".

Rosneft's Transactions with Key Management Personnel

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

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

For more information on compensation to key personnel for the years ended 31 December 2011, 2010 and 2009, see "Note 37 to the Consolidated Financial Statements".

FACILITY AGREEMENT

Dated 28 November 2012

ROSNEFT OIL COMPANY

and

ROSNEFT INTERNATIONAL FINANCE LIMITED

FACILITY AGREEMENT

Linklaters LLP

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This Facility Agreement is made on 28 November 2012 **between**:

(1) **Rosneft Oil Company** (***Rosneft***) a company established under the laws of the Russian Federation whose registered office is at 26/1 Sofiyskaya Embankment, Moscow, 115035 (***Rosneft***); and

(2) **Rosneft International Finance Limited**, a company incorporated in Ireland with limited liability whose registered office is at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland (the ***Lender***).

Whereas:

(A) The Lender has at the request of Rosneft agreed to make available to Rosneft a loan facility in the maximum amount of the Programme Limit (as defined below) on the terms and subject to the conditions of this Facility Agreement, as amended and supplemented in relation to each Loan (as defined below) by a loan supplement dated the relevant Closing Date (as defined below) substantially in the form set out in Schedule 1 hereto (each, a ***Loan Supplement***).

(B) It is intended that, concurrently with the extension of any Loan under this loan facility, the Lender will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such Loan.

Now it is hereby agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Facility Agreement (including the recitals), the following terms shall have the meanings indicated:

Account means an account in the name of the Lender with the Principal Paying Agent as specified in the relevant Loan Supplement.

Accounting Standards means, with respect to a person, as applicable, U.S. GAAP, or, to the extent that such person has elected to prepare its consolidated financial statements on the basis of IFRS or other generally accepted accounting standards within the European Union (each an ***EU Accounting Standard***) and has commenced generating financial data on such alternative basis, IFRS or such EU Accounting Standard.

Affiliate means a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified (and ***affiliate of*** and ***affiliated with*** shall be construed accordingly), and for the purposes of this definition, the term "control" (including the terms ***controlling***, ***controlled by*** and ***under common control with***) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.

Agency means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body.

Agency Agreement means the paying agency agreement relating to the Programme dated 28 November 2012 between the Lender, Rosneft, the Trustee and the agents named therein, as may be amended or supplemented from time to time.

Arrangers means the banks named as such in the Dealer Agreement or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has terminated pursuant to the Dealer Agreement.

Auditors means the auditors of Rosneft's consolidated financial statements (prepared in accordance with applicable Accounting Standards) for the time being.

Broken Amount has the meaning set out in the Loan Supplement.

Business Centre has the meaning set out in the Loan Supplement.

Business Day means:

(i) save in relation to Clause 4, a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified

Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating (a ***TARGET Business Day***) and (d) in relation to a Loan corresponding to a Series of Notes to be sold pursuant to Rule 144A under the Securities Act, banks and foreign exchange markets are open for business generally in New York City; and

(ii) in relation to Clause 4, (a) in the case of a Specified Currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such Specified Currency; and/or (b) in the case of euro, a TARGET Business Day; and/or (c) in the case of a Specified Currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

Calculation Agent means, in relation to a Loan, Deutsche Bank AG, London Branch or any person named as such in the relevant Loan Supplement or any successor thereto.

Calculation Amount has the meaning specified in the relevant Loan Supplement.

Capital Stock means, with respect to any person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a person other than a corporation; in each case whether now outstanding or hereafter used.

Change of Control means the Russian Federation Federal Agency for the Management of Federal Property and/or any other federal state agencies appropriately authorised to hold the shares of Rosneft (a) ceasing to own or control (directly or indirectly) 50% plus one share of the issued and outstanding voting share capital of Rosneft; or (b) no longer has the right to appoint or remove a majority of Rosneft's board of directors.

Change of Control Put Option means the put option granted to Noteholders pursuant to the Conditions upon a Change of Control.

Change of Control Put Period means the 30 day time period granted to Noteholders to exercise the Change of Control Put Option after the Noteholders have been notified of a Change of Control by the Lender in accordance with the Conditions.

Change of Control Put Settlement Date means the fifth Business Day after the expiration of the Change of Control Put Period.

Closing Date means the date specified as such in the relevant Loan Supplement.

Conditions means, in relation to a Series of Notes the terms and conditions applicable thereto, which shall be substantially in the form set out in Schedule 3 of the Trust Deed as modified, with respect to any Notes represented by a Global Certificate or a Definitive Certificate, by the provisions of such Global Certificate or Definitive Certificate and which shall incorporate any additional provisions forming part of such terms and conditions set out in the Supplemental Trust Deed or Part A of the Final Terms relating to the Notes of that Series;

Consolidated Assets means the total amount of assets appearing on the consolidated balance sheet of Rosneft, prepared in accordance with applicable Accounting Standards, as of the date of the most recently prepared consolidated financial statements.

Day Count Fraction means, in respect of the calculation of an amount of interest on any Loan for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the ***Calculation Period***):

(i) if ***Actual/Actual*** or ***Actual/Actual—ISDA*** is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if ***Actual*/365 (*Fixed*)** is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;

(iii) if ***Actual*/360** is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;

(iv) if ***30*/*360***, ***360*/*360*** or ***Bond Basis*** is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\textit{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D_1 is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

(v) if ***30E*/*360*** or ***Eurobond Basis*** is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\textit{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D_1 is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30.

(vi) if ***30E*/*360* (*ISDA*)** is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\textit{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D_1 is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Repayment Date or (ii) such number would be 31, in which case D2 will be 30.

(vii) if **Actual/*Actual-ICMA*** is specified in the relevant Loan Supplement:

(a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(I) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(II) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

Determination Period means the period from and including a Determination Date in any year to but excluding the next Determination Date.

Determination Date means the date specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date.

Dealer Agreement means the dealer agreement relating to the Programme dated 28 November 2012 between the Lender, Rosneft, the Arrangers and the other dealers appointed pursuant to it, as may be amended or supplemented from time to time.

Definitive Certificates means the definitive notes in fully registered form representing the Notes to be issued in limited circumstances pursuant to the Trust Deed.

Dollars, U.S. dollars, ***$*** and ***U.S.$*** means the lawful currency of the United States of America.

Domestic Relevant Indebtedness means any Relevant Indebtedness which is denominated and payable in Russian Roubles and is not quoted, listed or ordinarily dealt in or traded on any stock exchange or other recognised securities market outside the Russian Federation.

Early Redemption Amount has the meaning specified in the relevant Loan Supplement.

Energy Charter Treaty means the Energy Charter Treaty as opened for signature in Lisbon on 17 December 1994 and entered into force on 16 April 1998.

euro or **€** means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended.

Euro-zone means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

Event of Default has the meaning assigned to such term in Clause 10.1 hereof.

Extraordinary Resolution means (i) a resolution passed at a meeting of the Noteholders duly convened and held in accordance with the provisions contained in the Trust Deed or (ii) a resolution passed by way of electronic consents given by holders through the relevant clearing system(s), in each case, by the affirmative votes of not less than three quarters of votes cast and reference to an Extraordinary Resolution shall be deemed to include a reference to a written resolution made in accordance with the Trust Deed.

Excluded *Event* means any event, which but for the exclusions contained in Clause 10.1 of the relevant Loan Agreement would have constituted an Event of Default or a Potential Event of Default, arising out of the following:

(A) SG Surety Claims, Yukos Capital Disputes, Promissory Notes Claims, Yukos International Disputes and Yukos CIS Disputes unless a final judgment or a final order to enforce an arbitral award or a foreign court judgment in respect thereof is made in a court of the Russian Federation and Rosneft has failed to repay the amount due within 30 days after such final judgement or final order being granted to the relevant claimant;

(B) Investment treaty claims, being claims under treaties (including, but not limited to, the Energy Charter Treaty) or parts of treaties for the promotion and protection of investment, whether multilateral or bilateral, for any relief, including interim relief, brought by any Interested Person, before any arbitral tribunal, arising out of or in connection with any measures, directly or indirectly taken against Yukos or its assets, by the Russian Federation, any Agency of the Russian Federation, or any other entity allegedly acting on behalf of the Russian Federation, including but not limited to taxation measures and orders for sale of Yukos assets;

(C) Subject to paragraph (A) above, commercial arbitration claims, being any claims for any relief, including interim relief, brought by any person, whether or not they are an Interested Person, before any arbitral tribunal, for any breach of law, domestic or international, including but not limited to breaches of contract, tort, and equitable principles, arising out of or in connection with any measures, directly or indirectly taken against Yukos or its assets, by any state, including the Russian Federation, any Agency or person;

(D) International or European law claims, being claims brought by any state or person, whether or not they are an Interested Person, before any international or European court or tribunal, including but not limited to the International Court of Justice and the European Court of Human Rights, for any breach of any international law, criminal law, European law, human rights, treaty or other international or European instrument, including but not limited to the European Convention on Human Rights, arising out of or in connection with any measures, directly or indirectly taken against Yukos or its assets, by any state, including the Russian Federation, any Agency or person; or

(E) Domestic law claims before any court or tribunal of any jurisdiction, being claims brought by any person, whether or not they are an Interested Person for:

  (i) any breach of law, domestic or international, including but not limited to criminal law, breaches of contract, tort, and equitable principles; or

  (ii) the recognition and enforcement of an arbitral award; or

  (iii) enforcement or execution orders of whatever nature; or

  (iv) interim measures, including but not limited to injunctive relief; or

  (v) any other claim,

arising out of or in connection with any measures, directly or indirectly taken against Yukos or its assets, by any state, including the Russian Federation, any Agency, or Person.

To the extent the foregoing exclusions give rise to or refer to enforcement actions against Rosneft and its Principal Subsidiaries that would otherwise constitute an Event of Default or a Potential Event of Default on the basis of awards, judgments or orders against third parties, including the Russian Federation, such events are excluded out of an abundance of caution. Neither Rosneft nor any Principal Subsidiary acknowledges any legitimacy of any such potential enforcement actions.

Fees and Expenses Side Agreement means, in relation to each Loan, the letter specified as such in the relevant Loan Supplement.

Final Terms means, in relation to a Loan, final terms issued specifying the relevant issue details of the Notes corresponding to such Loan, substantially in the form of Schedule C to the Dealer Agreement.

Fixed Amount has the meaning set out in the Loan Supplement.

Fixed Rate Loan means a Loan specified as such in the relevant Loan Supplement.

Floating Rate Loan means a Loan specified as such in the relevant Loan Supplement.

Global Certificates means the Rule 144A Global Certificates and the Regulation S Global Certificates

Group means Rosneft and its Subsidiaries taken as a whole.

Hedging Agreement means in respect of any person, any interest rate swap agreement, interest rate option agreement, interest rate cap agreement, interest rate collar agreement, interest rate floor agreement, currency exchange agreement, currency exchange option agreement, currency exchange cap agreement, currency exchange collar agreement, currency exchange floor agreement, forward sale, commodity swap or other similar agreement or arrangement designed to protect such person against fluctuations in interest rates, currency exchange rates or commodity prices.

IFRS means International Financial Reporting Standards issued by the International Accounting Standards Board (***IASB***) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time).

Indebtedness means any obligation for the payment of money in any currency, whether sole, joint or several, in respect of:

(a) moneys borrowed and interest and other charges thereon or in respect thereof;

(b) any amount raised by acceptance under any acceptance or documentary credit facility;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument or any redeemable preference shares;

(d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with Accounting Standards, be treated as a finance or capital lease;

(e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

(f) any Hedging Agreement (and, when calculating the value of any Hedging Agreement, only the mark-to-market value shall be taken into account);

(g) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;

(h) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;

(i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing; and

(j) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (i) above.

Interest Accrual Period means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

Interest Amount means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which in the case of Fixed Rate Notes and unless otherwise specified in the relevant Loan Supplement shall mean the Fixed Amount or Broken Amount specified in respect of any Loan as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

Interest Commencement Date means the Closing Date or such other date as may be specified in the relevant Loan Supplement.

Interest Determination Date means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London and for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

Interest Payment Date means the date(s) specified as such in the relevant Loan Supplement, or, in the event of a prepayment in whole (but not in part) in accordance with Clause 5.2, 5.3 or 5.4 the date set for such redemption in respect of the Loan.

Interest Period means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

Interest Period Date means each Interest Payment Date unless otherwise specified in the relevant Loan Supplement.

Interested Person means a legal person that has or has had an interest in Yukos, or assets that Yukos held directly or indirectly at any time, and includes:

(A) investor(s), including but not limited to direct, indirect, majority or minority investor(s) in Yukos or its assets; or

(B) beneficial owner(s) of Yukos or its assets; or

(C) participant(s) in Yukos or its assets;

(D) creditors of Yukos or its assets; or

(E) any other interest-holder in Yukos or its assets.

ISDA Definitions means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

Lender Agreements means the Dealer Agreement, this Facility Agreement, the Agency Agreement, the Principal Trust Deed and the Trustee and Agents Fee Side Letter and together with, in relation to each Loan, the relevant Final Terms, Subscription Agreement, Loan Supplement, Supplemental Trust Deed and Fees and Expenses Side Agreement.

Loan means each loan to be made pursuant to, and on the terms specified in this Facility Agreement and the relevant Loan Supplement, and includes each Fixed Rate Loan and Floating Rate Loan.

Loan Agreement means this Facility Agreement and (unless the context requires otherwise), in relation to a Loan, means this Facility Agreement as amended and supplemented by the relevant Loan Supplement.

Make Whole Amount means the excess of (a) the present value at such Redemption Date of the Loan, plus any required interest payments that would otherwise be due to be paid on such Loan from such Redemption Date through to the Repayment Date, together with any accrued and unpaid interest as of such Redemption Date, if any, calculated using a discount rate equal to the Treasury Rate at such Redemption Date plus the number of basis points specified as the Make Whole Premium in the relevant Loan Supplement, over (b) the principal amount of the Loan, provided that if the value of the Make Whole Amount at any time would otherwise be less than zero, then in such circumstances for the purpose of this Loan Agreement, the value of the Make Whole Amount will be equal to zero.

Margin has the meaning set out in the Loan Supplement.

Material Adverse Effect means a material adverse effect on (a) the financial condition or results of operations of the Group, (b) Rosneft's ability to perform its payment obligations under a Loan Agreement or (c) the rights or remedies of the Lender under a Loan Agreement.

Material Subsoil Licences means one or more Subsoil Licences which (individually or in the aggregate) are material to the business operations of the Group such that its or their cancellation, revocation, suspension, material restriction, termination, expiry, or re-issuance or renewal in a different form from that which exists on the relevant Closing Date could reasonably be expected to have a Material Adverse Effect.

Maximum Rate of Interest has the meaning set out in the Loan Supplement.

Minimum Rate of Interest has the meaning set out in the Loan Supplement.

Merge means consolidate with, merge with or into or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the property or assets of one person to another person and the terms ***Merged*** and ***Merger*** shall be construed accordingly.

Noteholder means, in relation to a Note, the person in whose name such Note is registered from time to time in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

Notes means the loan participation notes that may be issued from time to time by the Lender under the Programme in Series, each Series corresponding to a Loan and, in relation to a Loan, as defined in the relevant Loan Supplement.

Notification Time means the time and date specified as such in the relevant Loan Supplement.

Officers' Certificate means a certificate signed on behalf of Rosneft by any two duly authorised signatories, in a form substantially similar to that set out in Schedule 2 hereto.

Paying Agent means, as at the date of this Agreement, the Principal Paying and the U.S. Paying Agent and thereafter means the Principal Paying, the U.S. Paying Agent and any other person appointed as a paying agent pursuant to the terms Agency Agreement.

Payment Time means the time and date specified as such in the relevant Loan Supplement.

Permitted Security Interest means:

(i) any Security Interest, guarantee or indemnity which is existing as at the date of the relevant Loan Agreement, including any assignment or novation of such existing Security Interest, guarantee or indemnity (or any such existing Security Interest, guarantee or indemnity as previously assigned or novated) at any time;

(ii) any Security Interest existing on any property, income or assets of any company or any guarantee or indemnity given by any such company in respect of Relevant Indebtedness at the time such company becomes a Subsidiary of Rosneft or such property, income or assets are acquired by Rosneft or any Subsidiary provided that such Security Interest, guarantee or indemnity was not created in contemplation of such event and that no such Security Interest shall extend to other property, income or assets of such company or the Group nor shall any other member of the Group be required to give a guarantee or indemnity in respect of such Relevant Indebtedness in respect of which such guarantee or indemnity was given by such company;

(iii) any renewal or extensions of a Security Interest, guarantee or indemnity in accordance with paragraphs (i) and (ii) hereof provided that the principal amount of the Relevant Indebtedness secured by any such Security Interest, guarantee or indemnity is not increased;

(iv) any Security Interest, guarantee or indemnity created or existing in respect of Domestic Relevant Indebtedness;

(v) any Security Interest, guarantee or indemnity created or existing in respect of Relevant Indebtedness the principal amount of which (when aggregated with the principal amount of any other Relevant Indebtedness which has the benefit of a Security Interest, guarantee or indemnity) does not exceed 20 per cent. of the Consolidated Assets of the Group, as determined by reference to the most recently available consolidated financial statements prepared in accordance with Accounting Standards; or

(vi) any Security Interest, guarantee or indemnity created or existing in respect of any Indebtedness that is not Relevant Indebtedness.

person means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

Potential Event of Default means any event specified in Clause 10.1 hereof which, after expiry of a grace period, the giving of notice or passage of time and combination thereof, would be an Event of Default.

Principal Paying Agent means, Deutsche Bank AG, London Branch or any other person appointed as such pursuant to the terms of the Agency Agreement.

Principal Subsidiary means at any relevant time:

(a) a Subsidiary of Rosneft:

(i) whose total assets (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets) are equal to 10 per cent. or more of the total assets of the Group, as shown in the most recently available consolidated or unconsolidated, as the case may be, financial statements of such Subsidiary and the Group respectively. The financial statements of the Subsidiary are to be prepared in accordance with RAS or the generally accepted accounting principles of the jurisdiction in which the Subsidiary is incorporated (unless financial statements prepared in accordance with Accounting Standards are available and are prepared for such Subsidiary, in which case such financial statements prepared in accordance with Accounting Standards are to be used). The financial statements of the Group are to be prepared in accordance with Accounting Standards (together, the ***Relevant Statements***); or

(ii) whose gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose gross consolidated revenues) is equal to 10 per cent. or more of the gross revenues of the Group, as calculated by reference to, and over the same period as, the Relevant Statements (the ***Relevant Period***); or

(b) a Subsidiary of Rosneft to which has been transferred (whether in a single transaction or a series of transactions (whether related or not)) the whole or substantially the whole of the assets of a different Subsidiary which immediately prior to such transaction(s) was a Principal Subsidiary.

For the purposes of this definition if a Subsidiary becomes a Principal Subsidiary under paragraph (b) above, the Principal Subsidiary by which the relevant transfer was made shall, subject to paragraph (a) above, cease to be a Principal Subsidiary.

Principal Trust Deed means the principal trust deed dated 28 November 2012 between the Lender and the Trustee, as it may be amended or supplemented from time to time.

Programme means the programme for the issuance of loan participation notes of the Lender.

Programme Limit means U.S.$10,000,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement.

Promissory Notes Claims means any claims against Rosneft or any of its Subsidiaries under the promissory notes issued by YNG, Samaraneftegaz, Joint Stock Company East-Siberian Oil and Gas Company, JSC Angarsk Petrochemical Company, Tomskneft and any other former subsidiary of Yukos that is a Subsidiary of Rosneft, with a total principal amount not exceeding RUB 44,000,000,000.

Put Settlement Date has the meaning specified in the relevant Loan Supplement.

RAS means accounting and standalone reporting principles and practices specified by the laws of the Russian Federation, consistently applied.

Rate of Interest has the meaning specified in the relevant Loan Supplement.

Reference Banks has the meaning specified in the relevant Loan Supplement.

Reference Rate means the rate specified as such in the relevant Loan Supplement.

Regulation S means Regulation S under the Securities Act;

Regulation S Global Certificate means in relation to any Regulation S Series, the single, permanent global certificate representing the Regulation S Notes of such Series in fully registered form, without interest coupons, substantially in the form set out in Part 1 of Schedule 1 of the Trust Deed.

Regulation S Notes means Notes offered and sold in "offshore transactions" (within the meaning of Regulation S), outside of the United States to non-U.S. persons in compliance with Regulation S;

Regulation S Series means a Series consisting in whole or in part of Regulation S Notes sold pursuant to Rule 903 or 904 of Regulation S;

Relevant Indebtedness means any present or future Indebtedness in the form of, or represented by, notes, debentures, bonds or other securities (but for the avoidance of doubt, excluding term loans (whether

syndicated or not), credit facilities, credit agreements, leases or hire purchase agreements, redeemable preference shares, receivables sold or discounted, Hedging Agreements, counter indemnity obligations, guarantees, deferred acquisition costs and other similar facilities and arrangements and evidence of indebtedness under such instruments and/or documents) which either are by their terms payable, or confer a right to receive payment, in any currency and are for the time being, or ordinarily quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market, provided, for the avoidance of doubt, that "Relevant Indebtedness" does not include any liability referred to in the definition of Excluded Event.

Relevant Screen Page means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Loan Supplement.

Relevant Time means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time.

Repayment Date means the date specified as such in the relevant Loan Supplement.

Rosneft Account means an account in the name of Rosneft as specified in the relevant Loan Supplement for receipt of Loan funds.

Rosneft Entity means (x) Rosneft, (y) any other member of the Group and (z) an employee, director, officer, representative or insurer of, or legal counsel acting on behalf of any member of the Group, in each case acting on behalf of, and duly authorised by, Rosneft or any other member of the Group.

RUB or ***Roubles*** means the lawful currency of the Russian Federation.

Rule 144A means Rule 144A under the Securities Act;

Rule 144A Global Certificate means in relation to any Rule 144A Series, the single, permanent global certificate representing the Rule 144A Notes of such Series, in fully registered form, without interest coupons, substantially in the form set out in Part 2 of Schedule 1 of the Trust Deed.

Rule 144A Notes means in relation to any Rule 144A Series, the Rule 144A Notes offered and sold within the United States in reliance on Rule 144A to persons who are "qualified institutional buyers" (***QIBs***) (within the meaning of Rule 144A) that are qualified purchasers (***QPs***) (as defined in Section 2(a)(51) of the Investment Company Act) in reliance on Rule 144A.

Rule 144A Series means a Series consisting, in whole or in part, of Rule 144A Notes sold pursuant to Rule 144A to QIBs that are also QPs.

Samaraneftegaz means Open Joint Stock Company Samaraneftegaz.

Same-Day Funds means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby.

Screen Rate Determination has the meaning set out in clause 4.3 and the Loan Supplement.

Securities Act means the U.S. Securities Act of 1933.

Security Interest means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any preferential arrangement (including any conditional sale or other title retention agreement) or lease in the nature thereof).

Series means a series of Notes, whether or not issued on the same date, that (except in respect of the first payment of interest payable in respect of the interest payment date immediately following the issue date and their issue price) have identical terms on issue and are expressed to have the same series number.

SG Surety Claims means any claims (including any claims subject to arbitration or litigation brought or to be brought by Moravel Investments Limited (or its successors and assigns) against Rosneft, YNG, Samaraneftegaz and/or Tomskneft (or their successors and assigns), including, but not limited to, the arbitration by Moravel Investments Limited in the London Court of International Arbitration for the recovery of approximately U.S.$662,000,000) pertaining to the surety in respect of the loan of U.S.$1,600,000,000 originally from Société Générale S.A. to Yukos.

Specified Currency means the currency specified as such in the relevant Loan Supplement.

Stock Exchange means the Irish Stock Exchange Limited, and/or such other stock exchange or market on which any Notes may be listed or admitted to trading.

Subscription Agreement means the agreement specified as such in the relevant Loan Supplement.

Subsidiary of any specified person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by such first-named person and/or any of its Subsidiaries and such first-named person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business or entity, with respect to which such first-named person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if (in each case) in accordance with Accounting Standards, as consistently applied, such entity would be fully consolidated with the first-named person for financial statement purposes.

Subsoil Licence means a licence issued by the Ministry of Natural Resources of the Russian Federation which permits the holder thereof to extract and exploit oil and natural gas deposits in the geographical territory specified therein.

Supplemental Trust Deed means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, inter alia, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 9 to the Principal Trust Deed).

TARGET System means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereof.

Taxes means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation or Ireland, or any taxing authority thereof or therein, as applicable, provided however that for the purposes of this definition and any related provisions of this Agreement references to Ireland shall, (a) upon the occurrence of a Relevant Event (as the term is defined in the Trust Deed), be deemed to include references to any jurisdiction in which the Trustee is domiciled or resident for tax purposes and (b) upon any change of the Lender's tax residence, be deemed to include references to any jurisdiction in which the Lender becomes tax resident (notwithstanding the prohibitions on changes to the Lender's tax residence contained herein and in the Trust Deed); and the terms **Taxation** and ***Taxing Jurisdiction*** shall be construed accordingly.

Tomskneft means Open Joint Stock Company Tomskneft VNK.

Treasury Rate means a rate equal to the yield, as published by the Treasury Publisher specified in the relevant Loan Supplement, on the actively traded Reference Treasury specified in the relevant Loan Supplement with a maturity comparable to the remaining life of the Loan, as selected by the Financial Adviser specified in the relevant Loan Supplement. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary Reference Treasury dealers in the Business Centre specified in the relevant Loan Supplement selected by the Financial Adviser specified in the relevant Loan Supplement. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in the Business Centre specified in the relevant Loan Supplement preceding the Redemption Date.

Trust Deed means the Principal Trust Deed as supplemented by the relevant Supplemental Trust Deed and specified as such in the relevant Loan Supplement.

Trustee means Deutsche Trustee Company Limited as trustee under the Trust Deed and any other trustee or trustees thereunder.

Trustee and Agents Fee Side Letter means a side letter between Rosneft, the Trustee and the Agents (as named therein) dated on or around 28 November 2012.

U.S. Paying Agent means Deutsche Bank Trust Company Americas or any other person appointed as such pursuant to the terms of the Agency Agreement.

US GAAP means generally accepted accounting principles, standards and practices in the United States of America.

Voting Stock means, in relation to any person, Capital Stock entitled (without the need for the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

YNG means Open Joint Stock Company Yuganskneftegaz (which was liquidated as a legal entity on 1 October 2006).

Yukos means Yukos Oil Company, an open joint stock company incorporated under the laws of the Russian Federation (which was liquidated as a legal entity on 21 November 2007).

Yukos Capital means Yukos Capital S.a.r.l. a company incorporated under the laws of Luxembourg at registered address 1 Allee Scheffer, Luxembourg L-2520, Luxembourg at the date of this Agreement.

Yukos Capital Disputes means the past, ongoing or future litigation or arbitration proceedings between any of YNG, Samaraneftegaz and/or Tomskneft (or their successors and assigns) on the one hand and Yukos Capital (or its successors and assigns) on the other hand arising out of the Yukos Capital Loans and/or acceleration and non-payment of the Yukos Capital Loans.

Yukos Capital Loans means any of the loans from Yukos Capital to (i) YNG in the aggregate principal amount of RUB 11,233,000,000, (ii) Samaraneftegaz in the aggregate principal amount of RUB 2,416,000,000, and (iii) Tomskneft in the aggregate principal amount of RUB 4,350,000,000.

Yukos CIS means Yukos CIS Investment Limited a company incorporated under the laws of the Republic of Armenia at registered address 13 Mash tots Avenue, Yerevan, Republic of Armenia at the date of this Agreement.

Yukos CIS Disputes means the past, ongoing or future litigation or arbitration proceedings involving Rosneft (or its successors and assigns) arising out of Rosneft's acquisition of Yukos CIS.

Yukos International means Yukos International (UK) BV a company incorporated under the laws of the Netherlands at registered address Herikerbergweg 238, Luna Arena, 1101 CM Amsterdam Zuidoost, The Netherlands at the date of this Agreement.

Yukos International Disputes means the past, ongoing or future litigation or arbitration proceedings between Rosneft (or its successors and assigns) on the one hand and Yukos International (or its successors and assigns) on the other hand arising out of a freezing order against Yukos International and its directors issued by the Preliminary Relief Court in Amsterdam in its judgment of 6 March 2008.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Facility Agreement which are not defined in this Facility Agreement but which are defined in the Principal Trust Deed, the relevant Notes, the Agency Agreement, the Dealer Agreement or the relevant Loan Supplement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Facility Agreement otherwise require, the following shall govern the interpretation of this Facility Agreement:

1.3.1 All references to "Clause" or "sub-Clause" are references to a Clause or sub-Clause of this Facility Agreement.

1.3.2 The terms "hereof", "herein" and "hereunder" and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof.

1.3.3 Words importing the singular number include the plural and vice versa.

1.3.4 All references to "taxes" include all present or future taxes, levies, imposts and duties of any nature and the terms "tax" and "taxation" shall be construed accordingly.

1.3.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

1.3.6 References to "Russia" and "Russian" shall mean the Russian Federation.

1.3.7 Any reference herein to a document being in "agreed form" means that the document in question has been agreed between the proposed parties thereto, subject to any amendments that such parties may agree upon prior to the respective effective date.

1.3.8 Unless otherwise stated, whenever an amount in one currency needs to be converted into an amount in another currency for the purposes of determining compliance with any provision under this Agreement, such calculation shall be determined in good faith on the basis of reasonable exchange rates by a responsible financial or accounting officer of Rosneft and, for the avoidance of doubt, whenever it is necessary thereafter to determine whether Rosneft complied with any such provision, such determination shall be made on the basis of the conversion rate applied in compliance with the foregoing provisions hereof.

2 Loans

2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to Rosneft Loans up to the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Loan will be used for general corporate purposes (unless otherwise specified in the relevant Loan Agreement), but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Facility Agreement and the Loan Supplement shall apply mutatis mutandis separately and independently to each such Loan and the expressions ***Account, Arrangement Fee, Closing Date, Day Count Fraction, Interest Payment Date, Loan Agreement, Notes, Rate of Interest, Repayment Date, Specified Currency, Subscription Agreement*** and ***Trust Deed***, together with all other terms that relate to such a Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Facility Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided, events affecting one Loan shall not affect any other.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on the Closing Date thereof the Lender shall make a Loan to Rosneft and Rosneft shall make a single drawing in the full amount of such Loan.

3.2 Loan Arrangement Fee

In consideration of the Lender's undertaking to make a Loan available to Rosneft, Rosneft hereby agrees that it shall, one Business Day before each Closing Date, pay to the Lender, in Same-Day Funds, an Arrangement Fee (as defined in the relevant Loan Supplement) in connection with the financing of such Loan. Rosneft may, provided it gives one Business Day prior written notice to the Lender, elect that the Lender withhold from the proceeds of a Loan, an amount equal to the amount of such fee. The total amount of the Arrangement Fee as increased by the front-end commissions referred to below in Clause 12.1 shall be as specified in the relevant Loan Supplement.

3.3 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on each Closing Date the Lender shall transfer the full amount (subject to any payment of fees pursuant to Clause 3.2 above) of the relevant Loan to the Rosneft Account specified in the relevant Loan Supplement, or such other bank account that is notified in writing to the Lender by Rosneft at least one Business Day prior to the Closing Date, in Same-Day Funds.

4 Interest

4.1 Rate of Interest for Fixed Rate Loans

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

4.2 Payment of Interest for Fixed Rate Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear by Rosneft to the Account not later than the relevant Payment Time prior to each Interest Payment Date. The amount of interest payable shall be determined in accordance with Clause 4.6.

4.3 Interest for Floating Rate Loans

4.3.1 **Interest Payment Dates**: Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, which interest shall be paid in arrear by Rosneft to the relevant Account not later than the relevant Payment Time prior to each Interest Payment Date. The amount of interest payable shall be determined in accordance with Clause 4.6. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 **Business Day Convention**: If any date referred to in the relevant Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each such subsequent date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 **Rate of Interest for Floating Rate Loans**: The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

(i) ISDA Determination for Floating Rate Loans

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (i), ***ISDA Rate*** for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(a) the Floating Rate Option is as specified in the relevant Loan Supplement;

(b) the Designated Maturity is a period specified in the relevant Loan Supplement; and

(c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this sub-paragraph (i), ***Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity, Reset Date*** and ***Swap Transaction*** have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans

Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(a) the offered quotation; or

(b) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, only one of such quotations) and the lowest (or, if there is more than one such lowest quotation, only one of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Loans is specified in the relevant Loan Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Floating Rate Loans will be determined as provided in the relevant Loan Supplement.

(x) if the Relevant Screen Page is not available or if, sub-paragraph (a) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (b) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(y) if paragraph (b) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean

of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of Rosneft and the Lender suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be the same rate as determined at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

4.4 Accrual of Interest

Interest shall cease to accrue on each Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the applicable Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made.

4.5 Margin, Maximum/Minimum Rates of Interest and Rounding

4.5.1 If any Margin is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.

4.5.3 For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes ***unit*** means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable per Calculation Amount in respect of any Loan for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified on such Loan, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Loan for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

4.7 Determination and Publication of Rates of Interest and Interest Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date to be notified to Rosneft, the Trustee, the Lender, each of the Paying Agents and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Clause 4.3.2, the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of Rosneft and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under Clause 10, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this Clause but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Lender otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Calculation Agent and Determination or Calculation by Trustee

Rosneft shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in a Loan Supplement and for so long as any amount remains outstanding under a Loan Agreement. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if it does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount in relation to a Floating Rate Loan or comply with any other requirement, the Lender and Rosneft agree that:

4.8.1 the Lender shall (with the prior written approval of Rosneft) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place; failing which

4.8.2 such determination or calculation may be made by or at the direction of the Trustee (or by an agent appointed on its behalf) as set out in the conditions of the corresponding Series of Notes and such determination or calculation shall be deemed to have been made by the Calculation Agent. The parties acknowledge that in doing so, the Trustee shall apply or shall have applied the foregoing provisions of this sub-Clause 4.8.2, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances and in the absence of ,gross negligence, bad faith or wilful default of the Trustee shall have no liability to any person for so doing.

The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both Rosneft and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to each particular Series.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein and in the applicable Loan Supplement, Rosneft shall repay each Loan not later than the relevant Payment Time prior to the Repayment Date therefor.

5.2 Prepayment in the event of Taxes or Increased Costs

If, as a result of (i) the application of, or any amendments or clarification of, or change (including a change in interpretation or application) in, the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or Ireland or of any political sub-division thereof or any

authority therein or any change in the application or official interpretation of such treaty, laws or regulations, or (ii) the enforcement of the security provided for in any Trust Deed, Rosneft would thereby be required to make or increase any payment due pursuant to a Loan Agreement as provided in Clause 6.2 or 6.3 (other than, in each case, where the increase in payment is solely in respect of any amounts due or paid pursuant to Clauses 3 and 12), or if (for whatever reason) Rosneft would have to or has been required to pay additional amounts pursuant to Clause 8, and in any such case such obligation cannot be avoided by Rosneft taking reasonable measures (provided however that Rosneft shall not be required to undertake any such measure that would impose a material economic burden on Rosneft or any Subsidiary of Rosneft) available to it, then Rosneft may (without premium or penalty), upon not less than 30 days' notice to the Lender (which notice shall be irrevocable), prepay the Loan relating to such Loan Agreement in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 6.2, Rosneft shall deliver to the Lender an Officers' Certificate confirming that it would be required to increase the amount payable, supported by an opinion of an independent tax adviser addressed to the Lender and Rosneft.

5.3 Prepayment in the event of Illegality

If, at any time after the date of the relevant Loan Supplement, by reason of the introduction of or any change in any applicable law or regulation or regulatory requirement or directive or any agency of any state, the Lender reasonably determines that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive of any Agency of any state or otherwise for the Lender to allow all or part of the relevant Loan or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan and/or to charge or receive or to be paid interest at the rate then applicable to such Loan (an ***Event of Illegality***), then upon notice by the Lender to Rosneft in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), Rosneft and the Lender shall consult in good faith as to a basis which eliminates the application of such Event of Illegality; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 calendar days of the date on which it so notified Rosneft. If such a basis has not been determined within the 30 calendar days, then upon written notice by the Lender to Rosneft and the Trustee, Rosneft shall prepay such Loan in whole (but not in part) on the next Interest Payment Date therefor, in the case of a Floating Rate Loan, or, in the case of a Fixed Rate Loan, on such date as the Lender shall certify to be necessary to comply with such requirements.

5.4 Prepayment in the Event of Change of Control

5.4.1 If, following a Change of Control, any Noteholder has exercised its Change of Control Put Option, Rosneft shall, before the relevant Payment Time prior to the Change of Control Put Settlement Date, prepay the principal amount of the relevant Loan in an amount which is equal to the aggregate principal amount of the Notes in relation to which the Change of Control Put Option has been duly exercised by the Noteholders in accordance with the Conditions of such Series of Notes.

5.4.2 Promptly, and in any event within 10 calendar days after the date of any Change of Control, Rosneft shall deliver to the Lender and the Trustee a written notice in the form of an Officer's Certificate, which notice shall be irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control.

5.4.3 The Lender shall notify Rosneft on the next Business Day after receipt of notice thereof from the Paying Agent (which notice shall be given on the first Business Day following the end of the Change of Control Put Period) of (i) the amount of each relevant Loan to be prepaid as a consequence of the exercise of the Change of Control Put Option by any Noteholders and (ii) of the relevant Change of Control Put Settlement Date.

5.4.4 For the avoidance of doubt, this sub-clause 5.4 may be disapplied under the terms of the relevant Loan Supplement.

5.5 Reduction of a Loan Upon Cancellation of Corresponding Notes

Rosneft may from time to time deliver to the Lender Definitive Certificates, having an aggregate principal value of at least U.S.$1,000,000 (or its equivalent in a Specified Currency), together with a request for the Lender to present such Definitive Certificates to the Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the relevant Global Certificates with instructions to cancel a specified aggregate principal amount of Notes (being at least U.S.$1,000,000 or its equivalent in a Specified Currency) represented thereby, whereupon the Lender shall, pursuant to Clause 8.1 of the Agency Agreement, request the Registrar to cancel such Notes (or specified aggregate principal amount of Notes represented by the relevant Global Certificates). Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes together with accrued interest and other amounts (if any) thereon shall be extinguished for all purposes as of the date of such cancellation.

5.6 Payment of Other Amounts

If a Loan is to be prepaid by Rosneft pursuant to any of the provisions of Clause 5.2, 5.3 or 5.4 or pursuant to the terms of the relevant Loan Agreement, Rosneft shall, simultaneously with such prepayment, pay to the Lender, (a) accrued interest on the Loan to the date of actual payment and (b) all other sums (if any) payable by Rosneft to the Lender pursuant to and in accordance with the terms of this Agreement. For the avoidance of doubt, if the principal amount of such Loan is reduced pursuant to the provisions of Clause 5.5, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which such Loan is so reduced and Rosneft shall not be entitled to any interest in respect of the cancelled Notes.

5.7 Optional Prepayment under Call Option

If Call Option is specified in the relevant Loan Supplement, Rosneft may, at its option at any time prior to the Repayment Date on giving not less than 30 nor more than 60 days' irrevocable notice to the Lender, in whole or in part, repay the Loan at the Early Redemption Amount plus the Make Whole Amount. The notice to be given shall specify the date(s) for repayment of the Loan and the date(s) for the redemption of the Notes (the ***Optional Redemption Date(s)***), which, unless otherwise specified, shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of such notice, the Lender shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. The Loan shall be repaid on the date specified in such notice.

5.8 Optional Repayment under Put Option

If Put Option is specified in the relevant Loan Supplement, following notification from the Lender, Rosneft shall prepay the Loan (without premium or penalty), in the principal amount equal to the aggregate principal amount of the Notes to be properly redeemed in accordance with Condition 6.5 of the Conditions, no later than the relevant Payment Time prior to the Put Settlement Date.

5.9 Notices Irrevocable

Any notice of cancellation or prepayment given under this Clause 5 shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.

5.10 Provisions Exclusive

Rosneft shall not prepay or repay all or any part of any Loan except in accordance with the express terms of the relevant Loan Agreement. Any amount prepaid may not be reborrowed under such Loan Agreement.

6 Payments

6.1 Making of Payments

All payments of principal, interest and other amounts (if any) to be made by Rosneft under each Loan Agreement shall be made unconditionally by credit transfer to the Lender not later than the relevant Payment Time prior to each Interest Payment Date or the Repayment Date (as the case may be) or such other date as may be specified in the relevant Loan Supplement in Same-Day Funds to the relevant Account or as the Trustee may otherwise direct following the occurrence of a Potential Event of Default, an Event of Default or a Relevant Event.

Rosneft shall, before the relevant Notification Time prior to each Interest Payment Date or the Repayment Date or such other date (as the case may be), procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by authenticated SWIFT the payment instructions relating to such payment.

The Lender agrees with Rosneft that it will not deposit any other monies into the Account and that no withdrawals shall be made from such Account other than as provided for and in accordance with the relevant Trust Deed and the Agency Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by Rosneft under each Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If Rosneft shall be required by applicable law to make any deduction or withholding from any payment under a Loan Agreement for or on account of any such Taxes, it shall increase any payment due under such Loan Agreement to such amount as may be necessary to ensure that the Lender receives on the relevant date a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, Rosneft shall reimburse the Lender in the Specified Currency for such payment on demand.

6.3 Withholding on Notes

Without prejudice to the provisions of Clause 6.2, if the Lender notifies Rosneft (setting out in reasonable detail the nature and extent of the obligation with such evidence as Rosneft may reasonably require) that it has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make under or in respect of a Series of Notes, Rosneft agrees to pay to the Lender, not later than the relevant Payment Time prior to the date on which payment is due to the Noteholders of such Series in Same-Day Funds to the relevant Account, such additional amounts as are equal to the additional amounts which the Lender would be required to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; provided, however, that the Lender shall procure that immediately upon receipt from any Paying Agent of any reimbursement of the sums paid pursuant to this provision, to the extent that any Noteholders of such Series, are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes, pay such amounts received by way of such reimbursement to Rosneft (it being understood that neither the Lender, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series is entitled to any such additional amount).

Any notification by the Lender to Rosneft in connection with this Clause 6.3 shall be given promptly after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

6.4 Reimbursement

6.4.1 To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which Rosneft has made a payment pursuant to this Clause 6 it shall pay to Rosneft so much of the benefit it received as will leave the Lender in substantially the same position as it would have been in had no additional amount been required to be paid by Rosneft pursuant to this Clause 6; provided, however, that the

question of whether any such benefit has been received, and accordingly, whether any payment should be made to Rosneft, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender, provided that the Lender shall notify Rosneft promptly upon determination that it has received any such benefit. The Lender shall use reasonable commercial efforts to obtain any credits or refunds available to it and the Lender shall disclose to Rosneft such information regarding its tax affairs or computations reasonably requested by Rosneft.

6.4.2 If as a result of a failure to obtain relief from deduction or withholding of any Taxes referred to in Clause 6.2, (i) such Taxes are deducted or withheld by Rosneft and pursuant to Clause 6.2 an increased amount is paid by Rosneft to the Lender in respect of such deduction or withholding and (ii) following the deduction or withholding of Taxes as referred to above, the Lender (upon instructions by Rosneft) applies to the competent taxing authority for a withholding tax refund and such withholding tax is refunded or repaid by the relevant taxing authority, the Lender shall as soon as reasonably practicable notify Rosneft of the receipt of such withholding tax refund and promptly transfer the actually received amount of the withholding tax refund in the currency actually received and less any applicable costs to a bank account of Rosneft specified for that purpose by Rosneft.

6.5 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of Rosneft to make any deduction, withholding or payment as described in Clause 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or Rosneft's obligations, under such Clauses, such party shall, upon becoming aware of the same, promptly notify the other party thereof and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon, and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so lawfully and without taking any action which, in the reasonable opinion of such party, is prejudicial to its own position or which could result in the Lender being in breach of the Trust Deed or the Notes, take all reasonable steps to remove such circumstances or mitigate the effects thereof. Rosneft agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 6.5.

6.6 Tax Treaty Relief

The Lender shall once in each calendar year, provided that in each case a corresponding request from Rosneft is received by the Lender no later than 25 Business Days prior to the first Interest Payment Date or, as applicable, the beginning of each calendar year, and at Rosneft's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, use commercially reasonable efforts to obtain and to deliver to Rosneft no later than 10 Business Days before the first Interest Payment Date or, as applicable, the beginning of each calendar year a certificate issued by the competent taxing authority in Ireland (or, where the Lender has become resident for tax purposes in a different jurisdiction, such other jurisdiction (the ***Relevant Tax Jurisdiction***)) confirming that the Lender is tax resident in such Relevant Tax Jurisdiction and such other information or forms as may need to be duly completed and delivered by the Lender to enable Rosneft to apply to obtain relief from deduction or withholding of Russian taxes after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. The Lender shall, at the request of Rosneft and at Rosneft's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, from time to time use its commercially reasonable efforts to obtain and to deliver to Rosneft any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable Rosneft to apply to obtain relief from deduction or withholding of Russian taxes or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. The certificate and, if required, other forms referred to in this Clause 6.6 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent taxing authority in the Relevant Tax Jurisdiction, if applicable. Together with any such certificate and, if required, other forms, the Lender shall deliver to Rosneft a copy of the same, certified by an appropriate notary to be a true and up to date copy of the original document and to the extent that the Lender is reasonably able to do so, such certificate and, if required, other forms shall be otherwise certified or verified in such manner as Rosneft may reasonably require. Any such notary's certificate shall be legalised or notarised and apostilled.

The Lender shall not be responsible for any failure to provide, or any delays in providing, such tax residency certificate as a result of any action or inaction of any authority in Ireland, but shall notify Rosneft as soon as practicable about any such failure or delay with an indication of the actions taken by the Lender to obtain such tax residency certificate.

6.7 Delivery and Acceptance Act

In connection with all payments to be made by Rosneft to the Lender under this Agreement or any Loan Agreement (other than those of interest and/or principal), the Lender and Rosneft shall, within 10 Business Days of such payment becoming due or, if appropriate, the applicable indemnity claim having been made, where required by Russian law, enter into and sign a delivery and acceptance act (a bilingual document which Rosneft shall prepare in Russian and English) with respect to the amounts to be paid by Rosneft. Such delivery and acceptance acts and related invoices shall separately specify (i) the specific clause of this Agreement or the Loan Agreement under which payments are due; (ii) the time period to which the payment relates; (iii) the gross amount owed by Rosneft to the Lender, (iv) any applicable Russian income tax withheld, (v) any applicable Russian VAT imposed (if any), (vi) the resulting net amount due from Rosneft to the Lender and (vii) any other information that is required or could be required under applicable Russian legislation including, without limitation, information in relation to currency controls, as notified by Rosneft to the Lender.

7 Conditions Precedent

The obligation of the Lender to make each Loan shall be subject to the conditions precedent that as of the relevant Closing Date, (a) no event shall have occurred and be continuing that constitutes an Event of Default or a Potential Event of Default, (b) Rosneft shall not be in breach of any of the terms, conditions and provisions of the relevant Loan Agreement, (c) the relevant Subscription Agreement, Trust Deed and the Agency Agreement shall have been executed and delivered, and the Lender shall have received the full amount of the proceeds of the issue of the corresponding Series of Notes pursuant to such Subscription Agreement, and (d) the Lender shall have received in full the amount referred to in Clause 3.2, if due and payable, above, as specified in the relevant Loan Supplement.

8 Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of a Loan Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof which:

8.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any Taxes payable by the Lender on its overall net income or any Taxes referred to in Clause 6.2 or 6.3); or

8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any Taxes referred to in Clause 6.2 or 6.3); or

8.1.3 imposes or will impose on the Lender any other condition affecting such Loan Agreement or such Loan,

and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining such Loan is increased; or

(ii) the amount of principal, interest or other amounts payable to or received by the Lender under such Loan Agreement is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from Rosneft hereunder or

makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of such Loan, then subject to the following, and in each such case:

(a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to Rosneft, together with a certificate signed by one duly authorised signatory of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated providing all relevant supporting documents evidencing the matters set out in such certificate; and

(b) Rosneft shall, in the case of Clauses (i) and (iii) above, on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return,

provided that this Clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clause 6.2 or 6.3.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1:

8.2.1 the Lender shall consult in good faith with Rosneft and shall use commercially reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, Rosneft's obligations to pay any additional amount pursuant to such Clause; and

8.2.2 Rosneft may, to the extent that any such substitution does not conflict with the Conditions or this Agreement and includes the consent of the Trustee thereunder), require the substitution of the Lender under the relevant Loan Agreement(s) and as issuer of the corresponding Series of Notes,

except that nothing in this Clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder which, in the reasonable opinion of the Lender, is prejudicial to it unless Rosneft agrees to reimburse the Lender such costs or expenses.

9 Covenants

So long as any amount remains outstanding under a Loan Agreement:

9.1 Negative Pledge

(a) Rosneft will not, and will procure that no Principal Subsidiary will, directly or indirectly, create, incur or permit to subsist any Security Interest (other than a Permitted Security Interest) upon or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure for the benefit of the holders of any Relevant Indebtedness:

9.1.1 payment of any sum due in respect of any such Relevant Indebtedness;

9.1.2 any payment under any guarantee of any such Relevant Indebtedness; or

9.1.3 any payment under any indemnity or other like obligation relating to any such Relevant Indebtedness;

(b) Rosneft will procure that no person gives any guarantee of, or indemnity in respect of, any of Rosneft's Relevant Indebtedness to the holders thereof (other than a Permitted Security Interest),

without in any such case at the same time or prior thereto, procuring that Rosneft's obligations under each Loan Agreement (x) are secured equally and rateably with such Relevant Indebtedness for so long as such Relevant Indebtedness is so secured or (y) have the benefit of such other guarantee, indemnity or other like obligations or such other security (in each case) as the Lender in its reasonable opinion shall deem to

be materially no less beneficial to it or (z) as shall be approved by an Extraordinary Resolution of the Noteholders, as such form of approval is provided for under the terms of the Notes.

9.2 Mergers, Disposals and Other Transactions

9.2.1 Rosneft shall not and Rosneft shall ensure that no Principal Subsidiary shall, without the prior written consent of the Lender, in each case with or to a person that is not Rosneft or a Subsidiary of Rosneft:

(i) enter into any Merger, corporate reorganisation (whether by way of an accession, division, separation or transformation, as these terms are construed by applicable legislation in the jurisdiction of incorporation of Rosneft or such Subsidiary of Rosneft, as applicable), or participate in any other type of corporate reconstruction; or

(ii) sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets,

in each case if such action would have a Material Adverse Effect.

9.3 Reports

9.3.1 Rosneft will (i) make available on its website or (ii) so long as any Notes are listed on any Stock Exchange, file with such Stock Exchange, to the extent and in the manner permitted by the rules or guidelines of such Stock Exchange and (iii) deliver to the Lender and the Trustee:

(i) within 6 months of the relevant year-end, each set of its audited annual financial statements prepared in accordance with Accounting Standards as consistently applied, including a report thereon by the Auditors;

(ii) within 4 months after the end of the first half of each of its financial years, each set of its half-yearly consolidated financial statements for such period prepared in accordance with Accounting Standards as consistently applied; and

(iii) if Rosneft chooses to publish or is required to publish such accounts by applicable law or regulation, within 4 months of its relevant quarter-end, interim accounts prepared in accordance with Accounting Standards.

9.3.2 At the same time as delivering its audited annual financial statements to the Lender pursuant to Clause 9.3.1(i), and within 14 days of any request by the Lender or the Trustee, Rosneft shall deliver to the Lender and the Trustee a written notice in the form of an Officers' Certificate:

(i) stating whether any Potential Event of Default or Event of Default has occurred as at a date (the ***Certification Date***) not more than 5 days before the date of such certificate and, if any Potential Event of Default or Event of Default has occurred as at the Certification date specifying such event and, what action Rosneft is taking or proposes to take with respect thereto;

(ii) certifying that, as at the Certification Date, Rosneft has complied with its obligations under each Loan Agreement (or if such is not the case, giving the circumstances of such non-compliance); and

(iii) certifying as to which of the Subsidiaries of Rosneft as at the date of the certificate are Principal Subsidiaries.

9.3.3 So far as permitted by applicable law and the rules of any exchange upon which its shares are listed or traded, Rosneft will, on request of the Lender, provide the Lender (for delivery to the Trustee pursuant to clause 14.13 of the Principal Trust Deed) with such further information, other than information which Rosneft determines in good faith to be sensitive or confidential, about the business and financial condition of Rosneft and its Subsidiaries as the Lender may reasonably require and in such form as it shall reasonably require for the purposes of the discharge of the duties and discretions vested in the Lender and the Trustee under this Agreement and the Trust Deed or by operation of law.

9.3.4 At any time after Rosneft or any Subsidiary of Rosneft shall have purchased any Notes and retained such Notes for its own account or for the account of any other company, Rosneft will notify the Lender and the Trustee to that effect. Rosneft shall deliver to the Lender and the Trustee as soon as practicable after being so requested in writing by the Lender a certificate of Rosneft setting out the total number of Notes which, at the date of such certificate are beneficially held by, or on behalf of, Rosneft or any Subsidiary of Rosneft.

9.4 Withholding Tax Exemption

Rosneft shall give to the Lender all the assistance it reasonably requires to ensure that, prior to the first Interest Payment Date and at the beginning of each calendar year the Lender can provide Rosneft with the documents required under Russian laws for the relief of Rosneft from Russian withholding tax in respect of any payment under a Loan Agreement.

10 Events of Default

10.1 Events of Default

If one or more of the following events of default (each, an ***Event of Default***) shall occur and be continuing, the Lender shall be entitled to the remedies set forth in sub-clause 10.3:

10.1.1 Rosneft fails to pay within seven Business Days, in respect of principal, or fourteen Business Days, in respect of interest or additional amounts, any amount payable under a Loan Agreement as and when such amount becomes payable in the currency and in the manner specified therein.

10.1.2 Rosneft fails to perform or observe any of its other obligations under a Loan Agreement and (except where in any such case that failure is not capable of remedy when no such notices as is hereinafter mentioned will be required) that failure continues for the period of 45 calendar days (or such longer period as the Lender may permit) following the submission by the Lender to Rosneft of notice in writing requesting the same to be remedied, provided that no failure shall be deemed to have occurred under this sub-clause 10.1.2 to the extent only that it would arise as a result of any Excluded Event and provided further, in respect of Rosneft's obligations under clause 9.2.1 only, no failure shall be deemed to have occurred under this sub-clause 10.1.2 to the extent only that it would arise as a result of an order of a competent court or arbitral tribunal that has been instigated by a person that is not a Rosneft Entity in connection with any Excluded Event.

10.1.3 Rosneft or any Principal Subsidiary (i) fails to pay when due any interest or other amount with respect to its Indebtedness, taking into account any applicable grace period, and the Indebtedness is accelerated so as to be immediately due and payable in full prior to its stated maturity (ii) fails to pay when due any amount of principal in respect of any Indebtedness, taking into account any applicable grace period or (iii) fails to perform or observe any covenant or agreement to be performed or observed by it contained in any other agreement or in any instrument evidencing any of its Indebtedness but only if, in the case of each of (i) and (iii) above, as a result of such failure and taking into account any relevant grace period, any other party to such agreement or instrument having the right to do so has exercised the right to accelerate the maturity of any amount owing thereunder and such amount becomes so accelerated so as to be immediately due and payable in full prior to its stated maturity, and such failure continues for the period of 14 calendar days, provided, that if one or more of the events or circumstances set out in this sub-clause 10.1.3 occurs in respect of a liability referred to in the definition of Excluded Event, it shall not be an Event of Default under this sub-clause 10.1.3 unless the occurrence of such event or circumstance also causes one or more of the other events or circumstances set out in this sub-clause 10.1.3 to occur in respect of a loan or debt instrument not described in the definition of Excluded Event provided in all cases that, either, (x) the individual amount of the Indebtedness, in respect of which the event or circumstances mentioned above in this sub-clause 10.1.3 has occurred and is continuing exceeds U.S.$50,000,000 or (y) the aggregate amount of the Indebtedness, in respect of which one or more of the events mentioned above in this sub-clause 10.1.3 have occurred and is continuing equals or exceeds U.S.$150,000,000 and, for the avoidance of doubt, in no event shall the individual or aggregate amounts of Indebtedness in respect of a liability referred to in the definition of Excluded Event count towards either the U.S.$50,000,000 or U.S.$150,000,000 threshold referred to in sub-paragraphs (x) and (y) above.

10.1.4 Rosneft or any Principal Subsidiary commences negotiations with its creditors generally with a view to the general readjustment or rescheduling of its Indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally (otherwise (i) than with the prior consent of the Lender, or (ii) for the purposes of consolidation, amalgamation, merger or reconstruction or any other process the result of which will be that all or part of Rosneft's or a Principal Subsidiary's assets and undertaking will be transferred to another solvent Group entity), provided in the case of any Principal Subsidiary the same could reasonably be expected to have a Material Adverse Effect.

10.1.5 (i) Rosneft or any Principal Subsidiary ceases to have corporate existence, or (ii) Rosneft or any Principal Subsidiary takes any corporate action or any order is made by a competent court for its winding-up, dissolution, external administration or re-organisation whether by way of voluntary arrangement, scheme of arrangement or otherwise or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of all or a material part of its revenues and assets, including any of Rosneft or any Principal Subsidiary seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commission (likvidatsionnaya komissiya) or a similar officer of any of Rosneft or any Principal Subsidiary, as the case may be (otherwise (x) than with the prior consent of the Lender, (y) for the purposes of consolidation, amalgamation, merger or reconstruction or any other process the result of which will be that all or part of Rosneft's or a Principal Subsidiary's assets and undertaking will be transferred to another solvent Group entity or (z) than permitted pursuant to clause 9.2.1); provided that the same could reasonably be expected to have a Material Adverse Effect and provided further that no Event of Default which relates to, is in connection with, or is as a result of, any Excluded Event shall be deemed to have occurred under this sub-clause 10.1.5(ii) unless such corporate action was taken by, or such order of a competent court or such appointment was requested by, a Rosneft Entity.

10.1.6 (i) Rosneft or any Principal Subsidiary fails or is unable to pay all or substantially all of its debts as they become due or generally suspends making payments on its debts, (ii) Rosneft or any Principal Subsidiary commences a voluntary case in bankruptcy or any other action or proceeding for any other relief under any law affecting creditors' rights as is similar to bankruptcy law which affects all or substantially all of its debts, or (iii) the presentation or filing of a petition in respect of Rosneft or any Principal Subsidiary in any court, arbitration court or before any agency which affects all or substantially all of its debts alleging, or for, the bankruptcy, insolvency, dissolution, liquidation of any of Rosneft or any Principal Subsidiary if such petition is accepted by the court and bankruptcy, insolvency, dissolution or liquidation proceedings are initiated by such competent court and are not dismissed within 30 calendar days, (iv) the institution of the supervision (nablyudeniye), financial rehabilitation (finansovoye ozdorovlenie), external management (vneshneye upravleniye), bankruptcy management (konkursnoye proizvodstvo) which shall include implementation of recovery (sanatsiya, as defined in the Federal Law of Russia No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time) (the ***Insolvency Law***) over Rosneft or any Principal Subsidiary, (v) the entry by Rosneft or any Principal Subsidiary into, or the agreeing by Rosneft or any Principal Subsidiary to enter into, a general amicable settlement (mirovoe soglashenie) with its creditors generally, as such terms are defined in the Insolvency Law; and/or (vi) any judicial liquidation in respect of Rosneft or any Principal Subsidiary or any action is brought in and accepted by any competent court in a jurisdiction in which Rosneft or such Principal Subsidiary has either (i) all or a material part of its assets and/or (ii) its registered office (in each case otherwise (x) than with the prior consent of the Lender, or (y) for the purposes of consolidation, amalgamation, merger or reconstruction or any other process the result of which will be that all or part of a Rosneft's or a Principal Subsidiary's assets and undertaking will be transferred to another solvent Group entity) and provided that no Event of Default which relates to, is in connection with, or is as a result of, any Excluded Event shall be deemed to have occurred under this sub-clause 10.1.6 (iii) and (iv) unless such presentation, filing or institution of such procedures was made or sought by a Rosneft Entity.

10.1.7 Any governmental authorisation necessary for the performance of any obligation of Rosneft under a Loan Agreement fails to be in full force and effect and such failure has not been remedied within 60 calendar days after the occurrence thereof or Material Subsoil Licences are cancelled or restricted or expire and such cancellation, restriction or expiry is not renewed within 60 calendar days thereof.

10.1.8 Any governmental authority or court takes any action that has a Material Adverse Effect on Rosneft's ability to perform its payment obligations under a Loan Agreement or the validity or enforceability of a Loan Agreement, save where such action is being contested in good faith by Rosneft and is not removed, paid out, stayed or discharged within 60 calendar days of such action being taken and provided further that no Event of Default shall be deemed to have occurred under this sub-clause 10.1.8 to the extent only that it would arise as a result of any Excluded Event.

10.1.9 Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the assets of Rosneft or any Principal Subsidiary and the same for such Principal Subsidiary only could reasonably be expected to have a Material Adverse Effect unless such execution, distress or enforcement of a Security Interest is being contested in good faith by Rosneft and is not removed, paid out, stayed or discharged within 60 calendar days of such execution, distress or enforcement, as the case may be and provided further that no Event of Default shall be deemed to have occurred under this sub-clause 10.1.9 to the extent only that it would arise as a result of any Excluded Event.

10.1.10 There are unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against Rosneft and its Principal Subsidiaries which could reasonably be expected to have a Material Adverse Effect, provided, however, that there will not be an Event of Default under this sub-clause 10.1.10 if, by the expiry of the ordained period for challenge following the entry thereof, the relevant judgment, decree or order is contested in good faith and the execution thereof stayed pending the outcome of such challenge and provided further that no Event of Default shall be deemed to have occurred under this sub-clause 10.1.10 to the extent only that it would arise as a result of any Excluded Event.

10.1.11 Any effective seizure, compulsory acquisition, expropriation or nationalisation after the date of a Loan Agreement by or under the authority of a government authority of the whole or substantially the whole of the assets of the Group, provided that no Event of Default shall be deemed to have occurred as a result of any seizure which is the result of any Excluded Event unless such seizure is (x) effective against the whole or substantially the whole of the assets of the Group in the Russian Federation and (y) has not been effectively removed or discharged within 14 days of its execution or enforcement.

10.1.12 The Group ceases to carry on the hydrocarbon business.

10.1.13 At any time (i) it is or becomes unlawful for Rosneft to perform or comply with its payment obligations under a Loan Agreement (provided that, but without prejudice to sub-clause 10.1.1, no failure shall be deemed to have occurred under this sub-clause 10.1.13(i) to the extent only that it would arise as a result of any Excluded Event) or (ii) such payment obligations are not, or cease to be, legal, valid, binding and enforceable or Rosneft repudiates any Loan Agreement.

10.1.14 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Clause 10.1.4, 10.1.5, 10.1.6, 10.1.9 or 10.1.11.

10.2 Notice of Default

Rosneft shall deliver to the Lender and the Trustee promptly on becoming aware thereof, written notice in the form of an Officers' Certificate, substantially in the form set out in Schedule 2, of any event which is a Potential Event of Default or Event of Default, its status and what action Rosneft is taking or proposes to take with respect thereto.

10.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice to Rosneft, (a) declare the obligations of the Lender under the relevant Loan Agreement to be terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Loan Agreement by Rosneft that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by Rosneft; provided, however, that if any event of any kind referred to in Clause 10.1.6 occurs, the obligations of the Lender under such Loan Agreement shall immediately terminate, and all amounts payable under such Loan Agreement by Rosneft that would otherwise be due after the occurrence of such event shall become

immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by Rosneft.

10.4 Rights Not Exclusive

The rights provided for in each Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

11 Indemnity

11.1 Indemnification

Rosneft undertakes to the Lender that if the Lender or any director, officer, employee or agent of the Lender (each an "Indemnified Party") incurs any loss, liability, cost, claim, charge, expense (including all legal fees and expenses and taxes relating thereto) demand or damage (a "Loss") which may be incurred in respect of a Loan Agreement (or enforcement thereof), and/or the issuance, constitution, sale, listing and/or enforcement of the corresponding Series of Notes and/or the Notes of such Series being outstanding (excluding a Loss that is the subject of the undertakings contained in Clauses 8 and 12 and Clause 13.6 of this Agreement (it being understood that the Lender may not recover twice in respect of the same Loss)) Rosneft shall pay to the Indemnified Party on demand an amount equal to such Loss (as evidenced by an invoice distributed to Rosneft by the Lender in accordance with Clause 13.4) unless, in any such case, such Loss was either caused by such Indemnified Parties' negligence or wilful misconduct or arose out of a breach of the representations and warranties of the Lender contained herein or in the Dealer Agreement; provided that this Clause 11.1 will not apply to or in respect of any Taxes with respect to payments of principal and interest on the Loan or any other amount payable under such Loan Agreement.

11.2 Independent Obligation

Clause 11.1 constitutes a separate and independent obligation of Rosneft from its other obligations under or in connection with each Loan Agreement or any other obligations of Rosneft in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of any Loan Agreement or any such other obligations.

11.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 11.1 and specifying in full detail the basis therefor shall, in the absence of manifest error, be conclusive evidence of the amount of such losses, expenses and liabilities.

11.4 Survival

The obligations of Rosneft pursuant to Clauses 6.2, 6.3, 11, 13.2 and 13.6 shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the relevant Loan, in each case by Rosneft.

12 Expenses

12.1 Front-end Commissions for the Extension of the Loan by the Lender

In consideration of the Lender establishing and maintaining the Programme and agreeing to make Loans to Rosneft, Rosneft shall, pursuant to Clause 3.2 hereof and the relevant Loan Supplement, pay to the Lender on demand certain front-end commissions. Such commissions shall be payable along with the Loan Arrangement Fee as referred to above in Clause 3.2 in the Specified Currency and in an amount sufficient to cover all reasonable costs and expenses incurred by the Lender in connection with the negotiation, preparation and execution of each Loan Agreement and all related documents and other expenses connected with the extension of each Loan, including, without limitation, the legal fees and expenses of its counsel.

12.2 Payment of Loan Servicing Fees

In addition, in consideration of the Lender establishing and maintaining the Programme and agreeing to make Loans to Rosneft, Rosneft shall pay to the Lender on demand from time to time certain fees (the

Loan Servicing Fees) as set forth to Rosneft in an invoice from the Lender. Such Loan Servicing Fees shall be payable in the Specified Currency and in an amount sufficient to cover (i) all ongoing commissions, costs, fees and expenses and taxes (including, without limitation those incurred by the Lender in connection with making Loans in accordance with Clause 2.1. and its management and operation in servicing the Loans, enforcement costs, any corporate services provider fees, stock exchange fees, listing fees, audit fees, legal fees and the anticipated winding-up expenses of the Lender), payable by the Lender under or in respect of the Lender Agreements and the Trustee and Agents Fee Side Letter and (ii) any payments made by the Lender for any indemnification or other payment obligations of the Lender under or in respect of the Agency Agreement, Trust Deed and/or the Trustee and Agents Fee Side Letter (other than the obligation of the Lender to make payments of principal, interest or additional amounts in respect of the corresponding Series of Notes). Payments to the Lender referred to in this Clause 12.2 shall be made by Rosneft by at least the relevant Payment Time before the relevant payment is to be made or expense incurred.

13 General

13.1 Evidence of Debt

The entries made in the relevant Account shall, in the absence of manifest error, constitute prima facie evidence of the existence and amounts of Rosneft's obligations recorded therein.

13.2 Stamp Duties

13.2.1 Rosneft shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on Rosneft by any person in the United Kingdom, the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by Rosneft to pay such taxes or similar charges.

13.2.2 Rosneft agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the United Kingdom, the Russian Federation, Ireland, Belgium or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and any documents related thereto as well as Notes of corresponding series and any documents related thereto, Rosneft shall repay the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by Rosneft to procure the payment of such taxes or similar charges.

13.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or Rosneft, any right, power to privilege under any Loan Agreement, and no course of dealing between Rosneft and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided in each Loan Agreement are cumulative and not exclusive of any rights, or remedies provided by applicable law.

13.4 Notices

All notices, requests, demands or other communications to or upon the respective parties to each Loan Agreement shall be given or made in the English language by fax or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail, to the party to which such notice, request, demand or other communication is required or permitted to be given or made under such Loan Agreement addressed as follows:

13.4.1 if to Rosneft:

26/1 Sofiyskaya Embankment
Moscow, 115035
Russian Federation

Fax: +7 495 231 4034
Attention: Finance Director of Structured Finance and Debt Obligations

13.4.2 if to the Lender:

Rosneft International Finance Limited
5 Harbourmaster Place
IFSC
Dublin 1
Ireland

Fax: +353 1 680 6050

Attention: The Directors or to such other address or fax number as any party may hereafter specify in writing to the other.

13.5 Assignment

13.5.1 Each Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights, benefits and discretions by the Lender, or the giving of an opinion of the Lender or making of any determination following the enforcement of the security and/or assignment referred to in Clause 13.5.3 below, shall be references to the exercise of such rights, benefits or discretions, the giving of opinions or the making of determinations by the Trustee (as Trustee).

13.5.2 Rosneft shall not to be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other person.

13.5.3 The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of the Lender's rights and benefits under such Loan Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under such Loan Agreement, in each case, pursuant to Clause 6 of the relevant Supplemental Trust Deed.

13.6 Currency Indemnity

To the fullest extent permitted by law, the obligation of Rosneft in respect of any amount due in the Specified Currency under a Loan Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the Specified Currency that the Lender may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the Specified Currency that may be so purchased for any reason falls short of the amount originally due (the ***Due Amount***), Rosneft hereby agrees to indemnify and hold harmless the Lender against any deficiency in the Specified Currency. Any obligation of Rosneft not discharged by payment in the Specified Currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in the relevant Loan Agreement, shall continue in full force and effect. If the amount in the Specified Currency that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to Rosneft.

13.7 Prescription

Subject to the Lender having received the principal amount thereof or interest thereon from Rosneft, the Lender shall forthwith repay to Rosneft the principal amount or the interest amount thereon, respectively, of any Series of Notes upon such Series of Notes becoming void pursuant to Condition 11 of such Notes. The Lender and Rosneft shall, at such time, enter into the relevant Loan Agreement providing for such repayment and the corresponding reduction of the relevant Loan in a form satisfactory to Rosneft.

13.8 Contracts (Rights of Third Parties) Act 1999

Except as otherwise specifically provided herein and other than in the case of the Trustee who shall have rights under the Contracts (Rights of Third Parties) Act 1999 under this Agreement, a person who is not a party to a Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce

any term of such Loan Agreement except to the extent expressly provided herein including, without limitation, Clauses 4.8.2, 5.3., 6.1, 8.2, 9.1, 9.3, 10.1, 10.2 13.5 and Clause 13.9.2 (vii)). Save as otherwise agreed between the Lender and the Trustee under the Trust Deed, the parties to a Loan Agreement and the Trustee may agree to terminate such Loan Agreement or vary any of its terms without the consent of any third party (other than the Trustee) and the parties to such Loan Agreement and the Trustee will have no responsibility to any such third party under or as a result of such Loan Agreement.

13.9 Law and Arbitration

13.9.1 This Agreement, and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law

13.9.2 **Arbitration**

(i) Any dispute arising out of or in connection with a Loan Agreement (including a dispute regarding the existence, validity or termination of a Loan Agreement) (a ***Dispute***) shall be referred to and finally resolved by arbitration under the LCIA Arbitration Rules (the ***Rules***).

(ii) The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator in the Request for Arbitration; the respondent(s), irrespective of number, shall nominate jointly the second arbitrator in the Response; and a third arbitrator, who shall serve as Chairman, shall be selected by the two party nominated arbitrators. For the avoidance of doubt, the parties to this Agreement agree for the purpose of Article 8.1 of the Rules, that the claimant(s), irrespective of number, and the respondent(s), irrespective of number, constitute two separate sides for the formation of the arbitral tribunal.

(iii) In the event that the claimant(s) or the respondent(s) fail to nominate an arbitrator in accordance with the Rules, such arbitrator shall be nominated by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that both the claimant(s) and the respondent(s) fail to nominate an arbitrator in accordance with the Rules, all 3 arbitrators shall be nominated and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure, with the LCIA Court designating one of them as chairman

(iv) If all the parties to an arbitration so agree, there shall be a sole arbitrator appointed by the LCIA Court within 15 days of such agreement. Such agreement shall be reached no later than 30 days after service of the Request on the Respondent.

(v) The seat of arbitration shall be London, England and the language of the arbitration shall be English.

(vi) Where arbitral proceedings have already been commenced under a Loan Agreement or any other Lender Agreement (a ***Pre-Existing Arbitration***) and a party to this Agreement or any other Lender Agreement contends that a Dispute has arisen relating to issues that are so closely connected to the Pre-Existing Arbitration that it is expedient for them all to be resolved in the Pre-Existing Arbitration, then that party may seek to consolidate the Dispute with the Pre-Existing Arbitration. The Parties agree that if the parties to the Dispute and the parties to the Pre-Existing Arbitration do not all consent to the consolidation, then consolidation shall not occur if a date has been fixed for the merits hearing in the Pre-Existing Arbitration. If a date has not been fixed for the merits hearing in the Pre-Existing Arbitration, then the arbitral tribunal in the Pre-Existing Arbitration shall have the power, taking into account the interests of justice and efficiency, the stage of the proceedings and all other relevant circumstances, and after giving all of the parties to the Dispute and the Pre-Existing Arbitration an opportunity to be heard, to decide whether the Dispute shall be consolidated with the Pre-Existing Arbitration and to so order.

(vii) For the avoidance of doubt, the parties to any other Lender Agreement are intended by the parties to this Agreement to have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce the terms of sub-Clause 13.9.2(vi).

13.9.3 To the extent that Rosneft or the Lender may now or hereafter be entitled, in any jurisdiction in which any legal action or proceeding may at any time be commenced with respect to any Loan Agreement, to claim for itself or any of its undertaking, properties, assets or revenues present or future any immunity (sovereign or otherwise) from suit, jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or award or from set-off, banker's lien, counterclaim or any other legal process or remedy with respect to its obligations under such Loan Agreement and/or to the extent that in any such jurisdiction there may be attributed to Rosneft or the Lender any such immunity (whether or not claimed), Rosneft and the Lender hereby irrevocably agree not to claim, and hereby waive, any such immunity.

13.9.4 Each Loan Agreement will be signed in the English language and translated into Russian and may be signed in the Russian language. In the event of any discrepancies between the English and Russian versions of any such Loan Agreement or any dispute regarding the interpretation of any provision in the English or Russian versions of any such Loan Agreement, the English version of such Loan Agreement shall prevail and questions of interpretation shall be addressed solely in the English language.

13.9.5 The parties exclude the jurisdiction of the English courts under Sections 45 and 69 of the Arbitration Act 1996.

13.10 Counterparts

Each Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

13.11 Language

The language which governs the interpretation of each Loan Agreement is the English language.

13.12 Amendments

Except as otherwise provided by its terms, each Loan Agreement may not be varied except by an agreement in writing signed by the parties hereto.

13.13 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of each Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

13.14 Limited Recourse

Rosneft hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received by or for the account of the Lender pursuant to this Agreement (after deduction or withholding of such taxes or duties as may be required to be made by the Lender by law in respect of such sum or in relation to the Notes and for which the Lender has not recovered a corresponding additional payment from Rosneft (also after deduction or withholding of such taxes or duties as may be required to be made by the Lender in respect thereof) pursuant to this Agreement (the ***Lender Assets***), subject always to (i) the Security Interests (as defined in the Trust Deed) and (ii) to the fact that any claims of the dealers that are party to any subscription agreement in relation to the Notes shall rank in priority to claims of Rosneft hereunder, and that any such claim by such dealers or Rosneft shall be reduced pro rata so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither Rosneft nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, neither Rosneft nor any other person acting on behalf of any of them shall be entitled at any time to institute against the Lender, or join with any other person in bringing, instituting or joining, insolvency proceedings (whether court based or otherwise) against the Lender.

None of the parties to this Agreement shall have recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in

respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

13.15 Non-Petition

None of the parties to this Agreement nor any other person acting on their behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

13.16 Severability

In case any provision in or obligation under any Loan Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

13.17 Anti-bribery compliance

13.17.1 Each party hereto undertakes not to pay or offer to pay any monies or valuables to any other party or employee or officer of that party for the purpose of inducing any action or decision on the part of that other party, in each case in order to receive any benefit which would contravene any provision of any law or regulation applicable to the relevant party in performance of such respective obligations.

13.17.2 The Lender shall promptly (and in any event within the timeframes specified in Clause 13.17.3(v) below) after receipt by the Lender of a written request from Rosneft (the "Certificate Request") provide to Rosneft a certificate setting out the following information (the "Lender Certificate"):

(i) a list of shareholders who directly hold more than 2% of the issued share capital of the Lender (the "Minority Shareholders"); and

(ii) a list of shareholders who directly hold more than 10% of the issued share capital of the Lender (the "Majority Shareholders").

13.17.3 Each Lender Certificate provided in accordance with Clause 13.17.2 above shall:

(i) be in writing;

(ii) be signed by an authorised signatory of the Lender;

(iii) insofar as such information relates to:

(a) the Minority Shareholders, be certified by the Lender as correct and complete as of the date of the Lender's most recent register, annual report or other document or notice available to the Lender containing details of the shareholders of the Lender; and

(b) the Majority Shareholders, subject to Clause 13.17.5 below, be correct as of the date specified in such Lender Certificate;

(iv) specify if the information relating to Majority Shareholders has been obtained from:

(a) the Lender or a source connected with the Lender; or

(b) a source which is, as far as the Lender is aware, unconnected with the Lender ("Third Party Information");

(v) be provided to Rosneft:

(c) no later than 30 Business Days after receipt by the Lender of the Certificate Request, by fax or e-mail (as a scanned copy) to the e-mail address specified by Rosneft in its Certificate Request; and

(d) no later than 30 Business Days after receipt by the Lender of the Certificate Request, by courier (in original); and

(vi) only contain such information as is permitted under the applicable law of the jurisdiction of incorporation of the Lender.

13.17.4 For the purposes of this Clause 13.17, any communication by e-mail in respect of a Lender Certificate will be deemed received once the relevant message is received in legible form together with all attachments (if applicable).

13.17.5 If the information relating to Majority Shareholders set out in a Lender Certificate provided by the Lender in accordance with this Clause 13.17 is Third Party Information, then Rosneft agrees that neither the Lender nor any of its officers, employees or advisers:

(i) make any representation or warranty (whether express or implied) as to, or assume any responsibility for, the accuracy, reliability or completeness of such Third Party Information or any of the assumptions on which such Third Party Information is based; or

(ii) shall be under any obligation to verify, update or correct such Third Party Information.

13.17.6 In addition to the requirements set out in Clause 13.17.2 (but subject to Clause 13.17.3(vi)), upon receipt of any additional written request from Rosneft, the Lender shall, promptly after receipt of such request by the Lender, use all commercially reasonable endeavours to provide Rosneft with any additional information reasonably required for Rosneft's anti-bribery compliance or compliance with similar instructions of the Russian government or other relevant authority.

IN WITNESS WHEREOF, the parties hereto have caused this Facility Agreement to be executed on the date first written above.

For and on behalf of Rosneft Oil Company

By:
Title:

By:
Title:

Signed by a duly authorised attorney for and on behalf of Rosneft International Finance Limited:

By:
Authorised Signatory

Schedule 1
Form of Loan Supplement

[DATE]

Rosneft Oil Company

and

ROSNEFT INTERNATIONAL FINANCE LIMITED

LOAN SUPPLEMENT
to be read in conjunction with a Facility Agreement dated 28 November 2012

in respect of

a Loan of [•]

Series [•]

This Loan Supplement is made on [SIGNING DATE] **between**:

(1) **Rosneft International Finance Limited**, a company incorporated in Ireland with limited liability whose registered office is at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland (the **Lender**); and

(2) **Rosneft Oil Company**, a company established under the laws of the Russian Federation whose registered office is at 26/1 Sofiyskaya Embankment, Moscow, 115035 (**Rosneft**).

Whereas:

(A) Rosneft has entered into a facility agreement dated 28 November 2012 (the **Facility Agreement**) with the Lender in respect of Rosneft's U.S.$10,000,000,000 Programme for the Issuance of Loan Participation Notes (the **Programme**).

(B) Rosneft proposes to borrow [•] (the **Loan**) and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

It is agreed as follows:

1 Definitions

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Facility Agreement save to the extent supplemented or modified herein.

2 Additional Definitions

For the purpose of this Loan Supplement, the following expressions used in the Facility Agreement shall have the following meanings:

Account means the account in the name of the Lender with the Principal Paying (account number [•], [•]);

Base Prospectus means [•];

[**Business Centre** means [•];]

[**Calculation Agent** means [•];]

Calculation Amount means [•];

Closing Date means [•];

[**Early Redemption Amount** means [•] per [•] amount of the Loan, plus accrued interest, if any, to the Redemption Date;]

Fees and Expenses Side Agreement means the letter entered into by the Issuer dated on or about the date hereof;

Loan Agreement means the Facility Agreement as amended and supplemented by this Loan Supplement;

[**Financial Adviser** means [•];]

[**Make Whole Premium** means [•] basis points;]

Notes means [•] [[•] per cent.][Floating Rate] Loan Participation Notes due [•] issued by the Lender as Series [•] under the Programme;

Notification Time means [•] a.m./p.m. (Relevant Time) [•] Business Days [which for U.S.$, € and £ shall be two Business Days and for ¥ and RUB shall be three Business Days];

Payment Time means [•] a.m./p.m. (Relevant Time) [•] Business Day[s] [which for U.S.$, € and £ shall be one Business Day and for ¥ and RUB shall be two Business Days];

[**Put Settlement Date** means [•];]

Rate of Interest means the rate of interest in respect of the Loan, as set forth in Clause 4.2 below;

[**Redemption Date** means such date as Rosneft will repay Loan pursuant to the exercise of its Call Option;]

[**Reference Banks** means [•];]

[**Reference Treasury** means [•];]

Repayment Date means [●] [amend as required for Floating Rate Notes];

Rosneft Account means the account in the name of Rosneft (account number [●][FURTHER DETAILS]);

Specified Currency means [●];

Subscription Agreement means an agreement between the Lender, Rosneft and [MANAGERS] dated [●] relating to the Notes; [and]

[**Treasury Publisher** means [●][;][.]

Trust Deed means the Principal Trust Deed between the Lender and the Trustee dated 28 November 2012 as amended and supplemented by a Supplemental Trust Deed dated [●] constituting and securing the Notes.

3 Incorporation by Reference

Except as otherwise provided, the terms of the Facility Agreement shall apply to this Loan Supplement as if they were set out herein and the Facility Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4 The Loan

4.1 Drawdown

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to Rosneft and Rosneft shall make a single drawing in the full amount of the Loan on that date.

4.2 Interest

The Loan is a [Fixed Rate][Floating Rate] Loan. Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:

4.2.1	**Fixed Rate Loan Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Interest Commencement Date	[●]
(ii)	Rate[(s)] of Interest:	[●] per cent. per annum payable [annually/ semi-annually quarterly/monthly/other (*specify*)] in arrear
(iii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day*]/not adjusted]
(iv)	Fixed Amount[(s)]:	[●] per Calculation Amount
(v)	Broken Amount:	[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●] [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount* [*(s)*]]
(vi)	Day Count Fraction (Clause 4.6):	[30/360/Actual/Actual (ICMA/ISDA)/other]
(vii)	Determination Date(s) (Clause 4.7):	[●] in each year. [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon—NB only relevant where Day Count Fraction is Actual/Actual (ICMA)*]

	(viii)	Other terms relating to the method of calculating interest for Fixed Rate Loans:	[Not Applicable/give details]
4.2.2	**Floating Rate Loan Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Commencement Date	[●]
	(ii)	Interest Period(s):	[●]
	(iii)	Specified Interest Payment Dates:	[●]
	(iv)	Interest Period Date(s):	[●] (Not applicable unless different from Interest Payment Date)
	(v)	First Interest Payment Date:	[●]
	(vi)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(vii)	Business Centre(s):	[●]
	(viii)	Manner in which the Rate(s) of Interest is/ are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
	(ix)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
	(x)	Screen Rate Determination (Clause 4.3.3):	
		— Reference Rate:	[●]
		— Interest Determination Date:	[●]
		— Relevant Screen Page	[●]
	(xi)	ISDA Determination (Clause 4.3):	
		— Floating Rate Option:	[●]
		— Designated Maturity:	[●]
		— Reset Date:	[●]
		— Reference Banks:	[●]
	(xii)	Margin(s):	[+/−][●] per cent. per annum
	(xiii)	Minimum Rate of Interest:	[●] per cent. per annum
	(xiv)	Maximum Rate of Interest:	[●] per cent. per annum
	(xv)	Day Count Fraction (Clause 4.6):	[●]
	(xvi)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Facility Agreement:	[●]]
4.2.3	**Put/Call Options**		[Put Option/Call Option/Not Applicable]

5 Fees and Expenses

Pursuant to Clauses 3.2 and 12.1 of the Facility Agreement and in consideration of the Lender making the Loan to Rosneft, Rosneft shall, one Business Day before the Closing Date, pay to the Lender, in Same-Day Funds, the total sum of [•], being the **Arrangement Fee** in respect of the Loan and [•],

being the front-end commissions representing the reasonable costs and expenses (including, without limitation, taxes) incurred by the Lender in connection with such Loan pursuant to an invoice submitted by the Lender to Rosneft.

6 Governing Law

This Loan Supplement, and any non-contractual obligations arising out of or in connection with it, shall be governed by and construed in accordance with English law. Other provisions of Clause 13 of the Facility Agreement shall apply to this Loan Supplement mutatis mutandis.

This Loan Supplement has been entered into on the date stated at the beginning.

IN WITNESS WHEREOF, the parties hereto have caused this Loan Supplement to be executed on the date first written above.

Rosneft Oil Company

By: By:

Signed by a duly authorised attorney for and on behalf of Rosneft International Finance Limited:

By:

Authorised Signatory

Schedule 2
Form of Officers' Certificate

To: Rosneft International Finance Limited and Deutsche Trustee Company Limited

From: Rosneft Oil Company

Dated: [●]

Dear Sirs

Rosneft Oil Company—Facility Agreement dated 28 November 2012 (the Facility Agreement)

1 We refer to the Facility Agreement. Terms defined therein shall mean the same herein.

2 This is an Officers' Certificate for the purposes of Clause [●](1) of the Facility Agreement.

3 [Provide explanation, as per relevant Clause]

For and on behalf of Rosneft Oil Company

Signed: ....

Duly authorised signatory of Rosneft Oil Company	[officer] of Rosneft Oil Company

[encl:]

(1) Insert the relevant Clause under the Facility Agreement pursuant to which the Officers Certificate is being given. See Clauses 5.2, 5.4.2, 9.3.2 and 10.2.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which (subject to completion and amendment in accordance with the provisions of Part A of the Final Terms) will be endorsed on to the Certificates in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Certificates representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Definitive Certificates. All capitalised terms that are not defined in these terms and conditions will have the meanings given to them in the Trust Deed and in Part A of the relevant Final Terms. Those definitions will be endorsed on the Definitive Certificates. References in the terms and conditions to Notes are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the ***Supplemental Trust Deed***) supplemental to a trust deed (as amended, supplemented or replaced as at the Issue Date and includes any such document that amends, supplements or replaces it, the ***Principal Trust Deed***) dated 28 November 2012, each made between Rosneft International Finance Limited (the ***Issuer***) and Deutsche Trustee Company Limited (the ***Trustee***, which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee for the holders of the Notes (the ***Noteholders***). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the ***Trust Deed***. Unless otherwise stated or defined herein, all capitalised terms that are not defined in these terms and conditions (the ***Conditions***) will have the meanings given to them in the Trust Deed or the Final Terms.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan (in respect of the loan funded by the Notes, the ***Loan***) as specified hereon to Rosneft Oil Company (***Rosneft***). The Issuer and Rosneft have recorded the terms of the Loan in a facility agreement (as amended, supplemented or replaced from time to time and includes any document that amends, supplements or replaces it) (the ***Facility Agreement***) dated 28 November 2012, as supplemented on the Issue Date specified hereon by a loan supplement (the ***Loan Supplement*** and, together with the Facility Agreement, the ***Loan Agreement***) each between the Issuer and Rosneft. In each case where amounts of principal, interest and additional amounts (if any) are stated hereon or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely on the covenant to pay under the Loan Agreement and the credit and financial standing of Rosneft. Noteholders shall otherwise have no recourse (direct or indirect) to the Issuer or any other assets of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes and under the Trust Deed (a) all principal, interest and other amounts payable by Rosneft to the Issuer as lender under the Loan Agreement, (b) the right to receive all sums which may be or become payable by Rosneft under any claim, award or judgment relating to the Loan Agreement and (c) all the rights, title and interest in and to all sums of money now or in the future deposited in an account with Deutsche Bank AG, London Branch in the name of the Issuer (the ***Account***) and debts represented thereby, including interest from time to time earned on the Account (other than any rights and benefits constituting Reserved Rights and amounts relating to the Reserved Rights) (the ***Charge***) and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the Assignment and together with the Charge, the ***Security Interests***).

Reserved Rights are the rights excluded from the Security Interests, being all and any rights, interests and benefits of the Issuer in respect of the obligations of Rosneft under Clauses 3.2 (*Loan Arrangement Fee*), 3.4 (*Ongoing Fees and Expenses*), 5.3 (*Prepayment in the event of Illegality*) (other than the right to receive any amount payable under such Clause), 6.2 (*No Set-Off, Counterclaim or Withholding; Gross*-Up) (to the extent that Rosneft shall reimburse the Issuer on demand for any amount paid by the Issuer in respect of Russian Federation taxes, penalties or interest), 6.3 (*Withholding on Notes*) (only to the extent that the

Issuer has received amounts to which the Noteholders are not entitled), 8 (*Change in Law or Increase in Cost*), 11.1 (*Indemnification*) (only to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 11.2 (*Independent Obligation*), 11.3 (*Evidence of Loss*), 12.1 (*Reimbursement of Front-end Expenses for the Extension of the Loan by the Lender*), 12.2 (*Payment of Ongoing Expenses*) and 13.2 (*Stamp Duties*) (to the extent that Rosneft shall reimburse the Issuer for any amount paid by the Issuer in respect of such taxes, charges or costs) of the Facility Agreement and, for the avoidance of doubt, Clauses 6.4 (*Reimbursement*) and 6.5 (*Mitigation*) of the Facility Agreement.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of the relevant funds from Rosneft) pursuant to, a paying agency agreement (the ***Agency Agreement***) dated 28 November 2012 and made between, amongst others, the Issuer, Rosneft, the Trustee, Deutsche Bank AG, London Branch and Deutsche Bank Trust Company Americas. Deutsche Bank AG, London Branch will act as principal paying agent (the ***Principal Paying Agent*** and a ***Paying Agent***) and calculation agent (the ***Calculation Agent***), Deutsche Bank Trust Company Americas will act as United States paying agent (the ***U.S. Paying Agent*** and a ***Paying Agent***), a transfer agent (a ***Transfer Agent***) and as United States registrar in respect of the Rule 144A Notes (the ***U.S. Registrar*** and a ***Registrar***), and Deutsche Bank Luxembourg S.A. will act as a registrar in respect of the Regulation S Notes (a ***Registrar***), and a transfer agent in respect of the Regulation S Notes (a ***Transfer Agent***).

Copies of the Trust Deed, the Loan Agreement, the Agency Agreement and the Final Terms are available for inspection by Noteholders during normal business hours at the principal office of the Trustee being, at the date hereof, at Winchester House, 1 Great Winchester Street, London EC2N 2DB, at the registered office of the Issuer, at the specified office of the Principal Paying Agent and at the specified office of the Paying Agent.

Certain provisions of these Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Final Terms, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

All capitalised terms used but not otherwise defined in these Conditions have the meanings given to them in the Trust Deed.

1 Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights, will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided hereon and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off, counterclaim or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and Rosneft.

Noteholders have notice of, and have accepted, these Conditions, the Final Terms and the contents of the Trust Deed the Agency Agreement and the Loan Agreement. It is hereby expressly provided, and Noteholders are deemed to have accepted, that:

1.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, liability or obligation in respect of the performance and observance by Rosneft of its obligations under the Loan Agreement or the recoverability of any

sum of principal or interest (or any additional amounts) due or to become due from Rosneft under the Loan Agreement;

1.2 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of Rosneft;

1.3 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of Rosneft under or in respect of the Loan Agreement;

1.4 the Trustee shall not at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, any of the Paying Agents, the Registrars or the Transfer Agents, of their respective obligations under the Agency Agreement;

1.5 the financial servicing and performance of the terms of the Notes depend solely upon performance by Rosneft of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing; and

1.6 the Issuer and the Trustee shall be entitled to rely on certificates signed by two duly authorised officers of Rosneft as a means of monitoring whether Rosneft is complying with its obligations under the Loan Agreement and identifying Principal Subsidiaries (as defined in the Facility Agreement) and shall not otherwise be responsible for investigating any aspect of Rosneft's performance in relation thereto and, subject as further provided in the Trust Deed, neither the Issuer as lender under any Loan Agreement nor the Trustee will be liable for any failure to make the usual, or any, investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security.

The obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by Rosneft to, or to the order of, the Trustee or the Principal Paying Agent, they will, subject to Clauses 2.4 and 2.8 of the Trust Deed, *pro tanto* satisfy the obligations of the Issuer in respect of the Notes, except to the extent there is a failure in the subsequent payment of such amounts to the relevant Noteholder.

Save as otherwise expressly provided hereon and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to Rosneft except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take any actions, steps or proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction.

The obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equal to each sum actually received and retained by or for the account of the Issuer from the Borrower in respect of principal, interest or, as the case may be, other amounts relating to the Loan pursuant to the Loan Agreement (after deduction or withholding of such taxes or duties as may be required to be made by the Issuer by law in respect of or in relation to such sum or in respect of the Notes and for which the Issuer has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Issuer in respect thereof) pursuant to the Loan Agreement) (less any amounts in respect of Reserved Rights), the right to receive which will, inter alia, be assigned to the Trustee as security for the Issuer's payment obligations in respect of the Notes. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums actually received and retained net of tax or recovered by or on behalf of the Issuer or the Trustee (following a Relevant Event or (if applicable) an Event of Default). Noteholders shall look solely to such sums for payment to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in

respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. To the extent that such sums and the proceeds of the enforcement of the security relating to the Notes are less than the amounts that would otherwise be due to Noteholders if the full amount due under the Loan Agreement had been received and retained net of tax (the difference being the referred to as a "shortfall"), such shortfall shall be extinguished and Noteholders may take no further action to recover such amounts.

None of the Noteholders or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

2 Form, Denomination and Title

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon (which, in the case of any Notes shall not be less than €100,000 or its equivalent in other currencies as at the date of issue of the Notes) or integral multiples in excess thereof, without interest coupons, provided that (i) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.$200,000 and (ii) Notes with a maturity of less than 365 days shall be held in amounts not less than €300,000 (or its equivalent in other currencies).

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

3 Register, Title and Transfers

3.1 Registers

Each Registrar will maintain a register in respect of the Notes (each, the ***Register***), all in accordance with the provisions of the Agency Agreement. In these Conditions the ***Holder*** of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Noteholder" shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding.

3.2 Title

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

3.3 Transfers

Subject to Conditions 3.6 and 3.7, a Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the relevant Registrar or at the specified office of a Transfer Agent, together with such evidence as the relevant Registrar or such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer *provided*, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are not less than the minimum Specified Denomination (if any). Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

3.4 Registration and Delivery of Notes

Within five Business Days of the surrender of a Note in accordance with Condition 3.3, the relevant Registrar will register the transfer in question and deliver a new Note to each relevant holder for collection at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, ***Business Day*** means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the relevant Registrar has its specified office.

3.5 No Charge

The transfer of a Note will be effected without charge but against such indemnity as the relevant Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 Closed Periods

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

3.7 Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the relevant Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the relevant Registrar and the other parties to the Agency Agreement. A copy of the current regulations will be mailed (free of charge) by the relevant Registrar to any Noteholder who requests in writing a copy of such regulations from the relevant Registrar.

4 Restrictive Covenants

As provided in the Trust Deed, so long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Trust Deed or the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not:

(i) engage in any business (other than (a) entering into limited recourse debt securities programmes and other limited recourse debt securities issues for the sole purpose of making loans to Rosneft (including the Programme), (the ***Permitted Debt Issuances***), (b) issuing limited recourse notes thereunder from time to time for the sole purpose of financing any loans (including Loans) to Rosneft in accordance with the relevant loan documentation for the Permitted Debt Issuances (in the case of the Programme, being the Facility Agreement and each Loan Supplement), (c) entering into related agreements and transactions (including derivative contracts on a limited recourse basis), (d) granting the Security Interests in relation to the Programme or other security interests under an applicable loan agreement for Permitted Debt Issuances, and (e) performing any act incidental or necessary in connection with any of the foregoing);

(ii) incur any indebtedness for borrowed moneys or assume any other liability (other than (x) issuing further Notes (which may be consolidated and form a single series with Notes of any Series) or issuing other limited recourse notes for the purposes of financing the Permitted Debt Issuances, and/or (y) creating or incurring further obligations relating to such Notes or limited recourse notes);

(iii) declare any dividends;

(iv) have any subsidiaries or employees;

(v) purchase, own, lease or otherwise acquire any real property (including office premises or like facilities);

(vi) to the extent the same is within the control of the Issuer, consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these Conditions and the Trust Deed);

(vii) issue any shares (other than such shares as are necessary for the Issuer to convert to a public limited company or as are in issue at the date of entry into of the Principal Trust Deed);

(viii) enter into a single transaction, or series of transactions, (whether related or not and whether voluntary or involuntary) to sell, factor, lease, pledge, charge, assign, transfer or otherwise deal with any Charged Property or any right or benefit either present or future arising under or in respect of a Loan Agreement (other than the Reserved Rights) or an Account or any part thereof or any interest therein, or create any mortgage, charge or other security or right of recourse in respect thereof in favour of any person other than the security referred to in Clause 4 of the Trust Deed;

(ix) give any guarantee;

(x) cause or permit any Loan Agreement or the priority of the Security created by any Supplemental Trust Deed to be amended, terminated or discharged (other than as contemplated by the Trust Deed and these Conditions);

(xi) release any party to any Loan Agreement, the Principal Trust Deed or any Supplemental Trust Deed from any existing obligations thereunder (other than as contemplated by the Trust Deed and these Conditions;

(xii) consent to any variation of, or exercise any powers or consents or waiver pursuant to, the terms of the Agency Agreement, the Conditions, any Loan Agreement, the Principal Trust Deed, any Supplemental Trust Deed or any other agreement relating to the issue of Notes or the advancing of Loans or any other related transactions;

(xiii) open or have any interest in any account with a bank or financial institution other than an Account or unless such account relates to any Notes or any Charged Property or any other Permitted Debt Issuances or any party thereto or any account held by the Issuer into which the subscription proceeds of any Series of Notes are to be paid, save where either such account or the Issuer's interest in it is simultaneously charged in favour of the Trustee so as to form part of such Charged Property or such account is opened (a) in connection with the administration and management of the Issuer and only moneys necessary for that purpose are credited to it or (b) in connection with the settlement of the net issue proceeds of any Notes or any transaction permitted by Condition 4 (i) above;

(xiv) use the proceeds of any Series of Notes for purposes other than making Loans and the payment of related expenses; or

(xv) subject to the laws of Ireland, petition for any winding-up or bankruptcy of the Issuer.

5 Interest

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified in the Final Terms which shall be equal to the rate per annum at which interest under the Loan accrues. Interest at the Rate of Interest shall accrue on each Fixed Rate Note from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear by Rosneft pursuant to the relevant Loan Agreement to the Account not later than the Payment Time specified hereon prior to each Interest Payment Date. Accordingly, on each Interest Payment Date or as soon as possible thereafter as the same is received the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement. The amount of interest payable shall be determined in accordance with Condition 5.4.

5.2 Interest on Floating Rate Notes

(i) *Interest Payment Dates*: Each Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date or as soon as thereafter as the same is received. The amount of interest payable shall be determined in accordance with Condition 5.4 and the Loan Agreement. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

(ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each such subsequent date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period (as defined in the Loan Agreement) shall be determined in the manner specified hereon and as set out in the Loan Agreement.

5.3 Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

5.4 Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

5.5 Publication of Rates of Interest and Interest Amounts

As soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, the Calculation Agent shall cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, Rosneft, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the

Notes are listed and/or admitted to trading on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination, but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5.2(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If a Loan becomes due and payable under Clause 10 of the Facility Agreement as it applies in any relevant Loan Agreement, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon the Noteholders, the Trustee, Rosneft and the Issuer.

Interest Amount means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified in the Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

5.6 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee may do so (or may appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances and, in the absence of gross negligence, bad faith or wilful default the Trustee shall have no liability to any person for so doing.

6 Redemption

6.1 Scheduled redemption

Unless the Loan is previously prepaid or repaid pursuant to Clause 5.2, 5.3, 5.4, 5.7 or 5.8 of the Facility Agreement, Rosneft will be required to repay the Loan by the Payment Time specified hereon prior to its Repayment Date (as defined in the Loan Agreement) and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will be redeemed or repaid by the Issuer in the relevant Specified Currency on the Maturity Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100 per cent. of the principal amount thereof).

6.2 Early redemption

If the Loan should become repayable (and be repaid) or be prepaid pursuant to the Loan Agreement prior to its scheduled Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will endeavour to give not less than fifteen nor more than thirty days' notice thereof to the Trustee and the Paying Agent and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest and/or additional amounts, if any, (other than amounts in respect of the Reserved Rights) following acceleration of the Loan pursuant to Clause 10 of the Loan Agreement, the Issuer shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 7.

6.3 Compulsory Sales and Rule 144A notes

6.3.1 **Compulsory Sales:** The Issuer, subject to Rosneft's written consent (which consent shall not be unreasonably withheld or delayed) may compel any beneficial owner of an interest in the Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder (i) if the Issuer has reason to believe that such holder is a Benefit Plan Investor or (ii) if such holder, after being required to do so, fails to deliver the certification referred to in Clause 3.1.8 of the Trust Deed.

6.3.2 **Rule 144A Notes:** The Issuer may compel any beneficial owner of an interest in the Rule 144A Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, (i) if the Issuer has reason to believe that such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940), or (ii) if such holder, after being required to do so, fails to deliver the certification referred to in Clause 3.1.8 of the Trust Deed.

6.4 Call Option

If Call Option is specified in the Final Terms, then pursuant to Clause 5.7 of the Facility Agreement and the relevant Loan Supplement, Rosneft may, at its option at any time prior to the Repayment Date specified in the Final Terms on giving not less than 30 nor more than 60 days' irrevocable notice to the Issuer, in whole or in part, repay the Loan at the Early Redemption Amount specified in the Final Terms plus the Make Whole Amount specified below (the ***Call Option***). The notice to be given (the ***Call Option Notice***) shall specify the date for repayment of the Loan and the date(s) for the redemption of the Notes (the ***Optional Redemption Date(s)***), which, unless otherwise specified, shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of the Call Option Notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. If the Loan should become repayable following exercise of the Call Option by Rosneft (and be repaid) prior to the Repayment Date, the Notes will thereupon become due and repayable and the Issuer shall, subject to receipt of such amounts from Rosneft under the Loan, redeem the Notes on the Optional Redemption Date(s). In the case of a partial redemption, the Notes shall be redeemed pro rata by drawing lots and otherwise in such manner as the Issuer deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant regulatory requirements. The Issuer's obligations in respect of this Condition to redeem and make payment for the Notes shall constitute an obligation only to account to Noteholders on the Redemption Date for an amount equivalent to the sums received by or for the account of the Issuer pursuant to the Loan Agreement.

For the purposes of this Condition 6.4:

Make Whole Amount means the excess of (a) the present value at such Repayment Date of the Notes, plus any required interest payments that would otherwise be due to be paid on the Notes from such Repayment Date through to the Maturity Date, together with any accrued and unpaid interest as of such Repayment Date, if any, calculated using a discount rate equal to the Treasury Rate at such Repayment Date plus the number of basis points specified as the Make Whole Premium in the Final Terms, over (b) the principal amount of the Notes, provided that if the value of the Make Whole Amount at any time would otherwise be less than zero, then in such circumstances for the purpose of these Conditions, the value of the Make Whole Amount will be equal to zero; and

Treasury Rate means a rate equal to the yield, as published by the Treasury Publisher specified in the Final Terms, on the actively traded Reference Treasury specified in the Final Terms with a maturity comparable to the remaining life of the Notes, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary Reference Treasury dealers in the Business Centre specified in the Final Terms selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in such Business Centre preceding the Repayment Date.

6.5 Put Option

If Put Option is specified in the Final Terms, the Issuer shall, at the option of any Noteholder redeem such Note on the Put Settlement Date specified in the Final Terms (the ***Put Option***) at its principal amount together with accrued interest. To exercise such option a Noteholder must deposit the Note or Notes to be redeemed with any Paying Agent together with a duly completed Put Redemption Notice (as defined in the

Agency Agreement) in the form obtainable from any of the Paying Agents, not more than 60 but not less than 30 days prior to the Put Settlement Date. No Note so deposited may be withdrawn. Provided, however, that if, prior to the Put Settlement Date, a Relevant Event has occurred or, upon due presentation of any Note on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note shall, without prejudice to the exercise of the Put Option, be returned to the Noteholder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Redemption Notice. The Issuer shall notify Rosneft, not more than three Business Days after receipt of notice thereof from the Paying Agent, of the amount of the Loan to be prepaid as a consequence of the exercise by Noteholders of the option contained in this Condition 6.5. Subject to timely receipt of the relevant amounts from Rosneft under the Loan Agreement, the Issuer shall redeem the Notes in accordance with this Condition 6.5 on the Put Settlement Date, subject as provided in Condition 7.

6.6 Redemption on a Change of Control at the Option of Noteholders

If a Change of Control Put Event (as defined below) shall occur while any Notes are outstanding, the holder of each such Note will have the option (the ***Change of Control Put Option***) (unless, prior to the delivery of the Change of Control Put Option Notice referred to below, the Issuer gives notice under Condition 6.2) to require the Issuer to redeem that Note on the Change of Control Put Settlement Date (as defined below) at its principal amount together with accrued interest and additional amounts (if any) to the Change of Control Put Settlement Date.

Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a ***Change of Control Put Event Notice***) to the Noteholders in accordance with Condition 14 and the Trustee, specifying the details relating to the occurrence of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

In order to exercise the Change of Control Put Option, the holder of a Note must deliver no later than 30 days after the Change of Control Put Event Notice is given (the ***Change of Control Put Period***), to the specified office of the Principal Paying Agent or any Paying Agent, evidence satisfactory to such Paying Agent of such holder's entitlement to such Note and a duly completed put option notice (a ***Change of Control Put Option Notice***) specifying the principal amount of the Notes in respect of which such option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. Provided that the Notes that are the subject of any such Change of Control Put Option Notice have been delivered to the Principal Paying Agent or a Paying Agent prior to the expiry of the Change of Control Put Period, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from Rosneft and (ii) as provided in Condition 7) redeem all such Notes on the date falling five Business Days after the expiration of the Change of Control Put Period (the ***Change of Control Put Settlement Date***). No Change of Control Put Option Notice, once delivered in accordance with this Condition 6.6, may be withdrawn.

For the purposes of these Conditions, a Change of Control means the Russian Federation Federal Agency for the Management of Federal Property and/or any other federal state agencies appropriately authorised to hold the shares of Rosneft (a) ceasing to own or control (directly or indirectly) 50% plus one share of the issued and outstanding voting share capital of Rosneft; or (b) no longer has the right to appoint or remove a majority of Rosneft's board of directors.

Change of Control Put Event means a Change of Control has occurred.

6.7 Cancellation

The Facility Agreement also provides that Rosneft or any Subsidiary (as defined in the Facility Agreement) of Rosneft may, among other things, from time to time deliver Notes to the Issuer, having an aggregate principal value of at least U.S.$1,000,000 (or its equivalent in a Specified Currency), together with a request for the Issuer to present such Notes to the relevant Registrar for cancellation, and may also from time to time procure the delivery to the relevant Registrar of the relevant Global Certificates with instructions to cancel a specified aggregate principal amount of Notes (being at least U.S. $1,000,000 or its equivalent in a Specified Currency) represented thereby whereupon the Issuer shall, pursuant to the Agency Agreement, request the relevant Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the relevant Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation together with all accrued interest and other amounts shall be deemed to have been prepaid by Rosneft and extinguished for all purposes as of the date of such

cancellation and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

7 Payments and Agents

7.1 Principal

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent or Registrar and in the manner provided in the Condition below.

7.2 Interest

Interest shall be paid to the person shown on the relevant Register at the opening of business on the fifteenth day before the due date for payment thereof (the ***Record Date***). Payments of interest shall be made in the Specified Currency by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007 or any successor thereof (a ***Bank***) and mailed to the Noteholder (or to the first named of joint Noteholders) of such Note at its address appearing in the relevant Register. Upon application by the holder to the specified office of the relevant Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank, or by transfer to an account in the Specified Currency maintained by the payee with, a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a euro-cheque and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent.

7.3 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.4 Payments on Business Days

If the due date for payments of interest or principal is not a Business Day, a Noteholder shall not be entitled to payment of the amount due until the next following Business Day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, ***Business Day*** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as ***Financial Centres*** hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of a payment in euro) which is a TARGET Business Day.

7.5 Accrued Interest

The names of the initial Paying Agents and their initial specified offices are set out below. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents provided that (i) so long as the Notes are listed and/or admitted to trading on any stock exchange or market or admitted to listing by any other relevant authority, there will be a paying agent and transfer agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or market or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

7.6 Payments by Rosneft

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 6 of the Agency Agreement require Rosneft to make all payments of principal and interest and any additional amounts to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the ***Account***). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of the Noteholders.

8 Taxation

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes, duties or assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes, duties, assessments or governmental charges is required by law.

In such event, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives an equivalent amount from Rosneft under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from Rosneft, the Issuer will account to each Noteholder for an additional amount equivalent to a pro rata proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, provided that no such additional amount will be payable in respect of any Note:

8.1 to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with Ireland other than the mere holding of such Note or the receipt of payments in respect thereof;

8.2 presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;

8.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

8.4 to any party where such withholding or deduction is required pursuant to Section 1471(b) of the U.S. Internal Revenue Code (the ***Code***) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto; or

8.5 presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used hereon, ***Relevant Date*** (i) means the date on which any payment under the Loan Agreement first becomes due but (ii) if the full amount payable by Rosneft has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference hereon or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9 Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails to do so within a reasonable time and such failure is continuing.

At any time an Event of Default (as defined in the Facility Agreement) or a Relevant Event has occurred and is continuing, the Trustee may, at its discretion and without notice and shall, if requested in writing to do so by Noteholders holding at least 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in any case, subject to it being indemnified and/or secured and/or prefunded to its satisfaction, institute such actions, steps or proceedings as it may think fit (subject to the non-petition covenant in Condition 1) to enforce the rights of the Noteholders and the provisions of the Trust Deed, including to declare all amounts payable under the Loan Agreement by Rosneft to be due and payable (in the case of an Event of Default), or enforce the security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided hereon, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10 Meetings of Noteholders; Modification and Waiver; Substitution; Exercise of Powers: Appointment and Removal of Trustee

10.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Noteholders will vote *pro rata* according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amounts payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

10.2 Written Resolutions

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

10.3 Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (save as mentioned in the Trust Deed) is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions or the Trust Deed or by Rosneft of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders; provided always that the Trustee may not exercise such power of waiver in contravention of any request given by the holders of 25 per cent. in aggregate principal amount of the Notes or any express direction by an Extraordinary Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

10.4 Substitution

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of Rosneft shall, having obtained the prior written consent of Rosneft (if such substitution is not to be made at the request of Rosneft) and the Trustee (which latter consent may be given without the consent of the Noteholders but will require the consent of Rosneft (if such substitution is not made at the request of Rosneft)) and having complied with such certain requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 or Rosneft shall use its best endeavours to ensure that the substitute obligor does so.

10.5 Exercise of Powers

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, Rosneft or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

10.6 Appointment and Removal of Trustee

The Trust Deed contains provisions for the appointment or removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that, in the case of removal of a Trustee, at all times there remains a trustee in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders by the Issuer in accordance with Condition 14. The Trustee may also resign such appointment without giving any reason therefor, by giving not less than three months' notice to the Noteholders provided that such resignation shall not become effective unless there remains a trustee in office after such resignation.

11 Prescription

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12 Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking any actions, steps or proceedings to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction and to be paid its fees, costs and expenses (including its remuneration) in priority to the claims of Noteholders. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or Rosneft and any entity related to the Issuer and/or Rosneft without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by Rosneft in respect of the Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

The Trustee has no obligation to take any action, step or proceeding which would or might in its opinion result in it incurring liabilities of any nature unless it is indemnified and/or secured and/or prefunded to its satisfaction in respect of the same and in forming any such opinion the Trustee shall be entitled to rely on legal advice or other advice received by it (as provided for by the Trust Deed) as to the existence and extent of such liabilities without liability to Noteholders for so doing regardless of whether and the extent to which the taking of any action or step or proceeding by the Trustee is thereby delayed.

Nothing contained in these Conditions or the Trust Deed shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power, authority or discretion hereunder if it has reasonable grounds for believing the repayment of such funds or adequate indemnity against, or security or prefunding for, such risk or liability is not reasonably assured to it.

13 Replacement of Notes

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of the relevant Registrar or at the specified office of the Principal Paying Agent in London on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14 Notices

All notices to the Noteholders shall be deemed to have been duly given if (i) posted to such Noteholders at their respective addresses as shown on the relevant Register and (ii) so long as the Notes are listed and/or admitted to trading on the Irish Stock Exchange and the guidelines of that exchange so require, published on the Regulatory News Service via the Companies Announcement Office of the Irish Stock Exchange. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

15 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and the date of the first payment of interest) so as to be consolidated and form a single series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single series with the Notes, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with Rosneft on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Notes). The Issuer will provide a further fixed charge in favour of the Trustee and amend the existing Security Interests in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement which will secure both the Notes and such further Notes and which will amend and supplement the Security Interests in relation to the existing Notes of such Series.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

The Notes, these Conditions, the Agency Agreement and the Trust Deed, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England.

THE ISSUER

Introduction

The Issuer was incorporated in Ireland on 5 October 2012, with registered number 518513 as a private company with limited liability under the Companies Act 1963-2012 (as amended) of Ireland (the ***Companies Acts***). The registered office of the Issuer is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and its telephone number is +353 1 680 6000.

The authorised share capital of the Issuer is EUR100 divided into 100 ordinary shares of par value EUR1 each. The Issuer has issued 1 share (the ***Share***) which is fully paid and held on trust by Deutsche International Finance (Ireland) Limited (the ***Share Trustee***) under the terms of a declaration of trust (the ***Declaration of Trust***) dated 18 October 2012, under which the Share Trustee holds the Share on trust for charity. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Share. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

Deutsche International Corporate Services (Ireland) Limited (the ***Corporate Service Provider***), an Irish company, acts as the corporate service provider for the Issuer. The office of the Corporate Service Provider serves as the general business office of the Issuer. Pursuant to the terms of the corporate services agreement entered into on 28 November 2012 between the Issuer and the Corporate Service Provider (the ***Corporate Services Agreement***), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other chargers payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary.

The Corporate Services Provider's principal office is at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland.

Principal Activities

The principal objects of the Issuer are set forth in clause 2 of its Memorandum of Association (as currently in effect) and permits the Issuer, *inter alia*, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company and was established to raise capital by the issue of debt securities and to use amounts equal to the proceeds of each such issuance to advance loans to the Company. Since its incorporation, the Issuer has not engaged in material activities other than those incidental to its registration as a private company under the Companies Acts and those related to the issue of the Notes. The Issuer has no employees.

Directors and Company Secretary

The Issuer's articles of association provide that the board of directors of the Issuer will consist of at least two Directors. The Directors of the Issuer and their business addresses as at the date hereof are as follows:

- Carmel Naughton, 5 Harbourmaster Place, IFSC, Dublin 1, Ireland;
- Eimir McGrath, 5 Harbourmaster Place, IFSC, Dublin 1 , Ireland;

The Company Secretary is Deutsche International Corporate Services (Ireland) Limited.

The directors do not hold any direct, indirect, beneficial or economic interest in the shares of the Issuer. The directorship of the directors is provided as part of the Corporate Services Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement.

The directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer.

Financial Statements

Since its date of incorporation, the Issuer has not commenced operations and no financial statements of the Issuer have been prepared as at the date of this Base Prospectus. The Issuer intends to publish its first financial statements in respect of the period ending on 31 December 2013. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December each year.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer together with a report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The profit and loss account and balance sheet can be obtained free of charge from the registered office of the Issuer. The Issuer must hold its first annual general meeting within 18 months of the date of its incorporation (and no more than nine months after the financial year end) and thereafter the gap between its annual general meetings must not exceed 15 months. One annual general meeting must be held in each calendar year.

The Issuer has selected Ernst & Young, Harcourt Centre, Harcourt Street, Dublin 2, Ireland as its auditors, who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practise in Ireland.

TRANSFER RESTRICTIONS

In view of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale or other transfer of Notes.

Rule 144A Notes

Each purchaser of Rule 144A Notes that is within the United States or that is a U.S. person (or purchasers for the account or benefit of a U.S. person), by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is (a) a qualified institutional buyer within the meaning of Rule 144A (a ***QIB***) that is also a qualified purchaser as defined in Section 2(a)(51) of the Investment Company Act (a ***QP***), (b) not a broker-dealer that owns and invests on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acting for its own account, or for the account of a QIB that is also a QP, (e) not formed for the purpose of investing in the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

(2) It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.$200,000 (or its equivalent in any other currency) and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories.

(3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP or (b) to a non-U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.

(4) It understands that the Issuer has the power under the Trust Deed and Condition 6.4 to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP.

(5) It understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE ***SECURITIES ACT***) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (***RULE 144A***) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (A ***QIB***) THAT IS ALSO A QUALIFIED PURCHASER (A ***QP***) WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS EACH OF WHICH IS A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.$200,000 (OR ITS EQUIVALENT IN ANY OTHER CURRENCY) PRINCIPAL AMOUNT OF NOTES (D) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, EACH OF WHICH IS A QP; (E) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (F) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES; (G) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS, WILL

HOLD AND TRANSFER AT LEAST U.S.$200,000 (OR ITS EQUIVALENT IN ANY OTHER CURRENCY) IN PRINCIPAL AMOUNT OF NOTES AND (H) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT (***REGULATION S***) IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S. $25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST U.S.$200,000 (OR ITS EQUIVALENT IN ANY OTHER CURRENCY) IN PRINCIPAL AMOUNT OF NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A U.S. PERSON WHO IS NOT A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (I) A U.S. PERSON WHO IS A QIB AND QP AND THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON IN AN OFFSHORE TRANSACTION PURSUANT TO REGULATION S UNDER THE SECURITIES ACT OR (B) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND A QUALIFIED PURCHASER. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE, OR WILL NOT BE ACTING ON BEHALF OF, (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, (***ERISA***) THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, APPLIES OR (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" UNDER SECTION 3(42) OF ERISA, 29 C.F.R. SECTION 2510.3-101 BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE (EACH, A ***BENEFIT***

PLAN INVESTOR), (2) IF IT IS A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL, NON- U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY AND/OR THE PROHIBITED TRANSACTION PROVISIONS OF ERISA AND/OR SECTION 4975 OF THE CODE (***SIMILAR LAWS***) AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE "PLAN ASSETS" OF SUCH PLAN (EACH, AN ***OTHER PLAN INVESTOR***), THE PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT AND WILL NOT RESULT IN A NON EXEMPT VIOLATION OF ANY SIMILAR LAWS AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH OTHER PLAN INVESTOR SOLELY AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH OTHER PLAN INVESTOR, AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTY AND COVENANTS FROM THAT PERSON. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF THIS RULE 144A DEFINITIVE NOTE, OR ANY INTEREST HEREIN, WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER DETERMINES THAT THIS RULE 144A DEFINITIVE NOTE, OR ANY INTEREST HEREIN, IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED HEREIN.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT, OR ANY ACCOUNT FOR WHICH IT PURCHASED SUCH NOTES, IS A BENEFIT PLAN INVESTOR, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A NON-BENEFIT PLAN INVESTOR OR (B) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A PERSON WHO IS A BENEFIT PLAN INVESTOR.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THIS NOTE THAT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S TO CERTIFY PERIODICALLY THAT SUCH OWNER IS A QIB AND A QP.

(6) At the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan to which Section 4975 of the U.S. Tax Code applies, or (iii) an entity whose underlying assets include plan assets by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a an Other Plan Investor, the purchase and holding of the Notes or any interest therein does not and will not result in a non exempt violation of any Similar Laws and will not subject the Issuer to any laws, rules or regulations applicable to such Other Plan Investor solely as a result of the investment in the Issuer by such Other Plan Investor, and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations, warranties and covenants from that person.

(7) It understands that the Issuer has the power under the Trust Deed and Condition 6.3 to compel any beneficial owner of Rule 144A Notes that is a Benefit Plan Investor (or purchased such Rule 144A Notes for the account of a Benefit Plan Investor) to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a Benefit Plan Investor.

(8) It acknowledges that the Issuer, the Company, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Company and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each

of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(9) It understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Note. Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Trust Deed) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States (other than U.S. persons) and each subsequent purchaser of Regulation S Notes in resales prior to the expiration of the distribution compliance period (as defined below), by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, Company or a person acting on behalf of such an affiliate.

(2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP or (b) to a non- U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State or jurisdiction of the United States.

(3) It acknowledges that the Issuer, the Company, the Registrar, the Dealers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, Company and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

(4) It understands that the Regulation S Notes will be evidenced by the Regulation S Global Note. Before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Trust Deed) as to compliance with applicable securities laws.

(5) At the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan to which Section 4975 of the U.S. Tax Code applies or (iii) an entity whose underlying assets include plan assets by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is an Other Plan Investor, the purchase and holding of the Notes or any interest therein does not and will not result in a non exempt violation of any Similar Laws and will not subject the Issuer to any laws, rules or regulations applicable to such Other Plan Investor solely as a result of the investment in the Issuer by such Other Plan Investor, and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations, warranties and covenants from that person.

(6) It understands that the Issuer has the power under the Trust Deed and Condition 6.3 to compel any beneficial owner of Regulation S Notes that is a Benefit Plan Investor (or purchased such Regulation S Notes for the account of a Benefit Plan Investor) to sell its interest in the Regulation S

Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Regulation S Notes to a Benefit Plan Investor.

(7) It understands that such Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following:

THIS NOTE AND THE LOAN IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND THE ISSUER HAS NOT AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. THIS NOTE AND THE LOAN IN RESPECT HEREOF MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND IN CIRCUMSTANCES THAT WOULD NOT CAUSE THE ISSUER TO BE REQUIRED TO REGISTER UNDER THE INVESTMENT COMPANY ACT.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Notes

Each Series of Notes will be evidenced on issue by (i) in the case of Regulation S Notes, a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, a Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg. See "*—Book-Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, if it determines to transfer such beneficial interest prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part (the ***Distribution Compliance Period***), it will not offer, sell, pledge or otherwise transfer such interest except to a person (a) who is a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) who is a person who takes delivery in the form of an interest in a Rule 144A Global Note (as applicable). See "*Transfer Restrictions*". Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See "*—Book-Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Paying Agency Agreement. See "*Transfer Restrictions*".

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Trust Deed, and with respect to the Rule 144A Global Note, as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*". Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the ***Definitive Notes***). The Notes are not issuable in bearer form.

So long as the Notes are represented by a Global Note and the relevant clearing systems(s) so permit, the Notes shall be tradable only in principal amounts of at least the minimum denomination specified in the relevant Final Terms or Series Prospectus (or if more than one, the lowest minimum denomination).

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7.4 of the Terms and Conditions of the Notes.

All payments in respect of Notes represented by a Global Note will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on

the Clearing System Business Day immediately prior to the date for payment, where ***Clearing System Business Day*** means Monday to Friday inclusive except 25 December and 1 January.

Notices. So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes provided that for so long as the Notes are listed and admitted to trading on the Irish Stock Exchange and the guidelines of the Irish Stock Exchange so require, notices will also be filed at the Companies Announcements Office of the Irish Stock Exchange.

Meetings. The holder of each Global Note will, at a meeting of Noteholders, be treated as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.

Trustee's Powers. In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

Cancellation. Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

Redemption at the Option of the Issuer. Any Call Option provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions.

Redemption at the Option of Noteholders. The Change of Control Put Option and any Put Option provided for in the Conditions may be exercised by the holder of the Global Note (i) giving notice to the Issuer within the time limits relating to the deposit of Notes set out in the Conditions substantially in the form of the notice available from any Paying Agent, the Registrar or any Transfer Agent (except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised) stating the nominal amount of Notes in respect of which the option is exercised and (ii) at the same time depositing the Global Note with the Registrar or any Transfer Agent at its specified office.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note is held by or on behalf of (a) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (b) Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a notice to such effect signed by two authorised signatories of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

Exchange Date means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (failing which the Company) (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the applicable exemption from registration under the Investment Company Act.

Book-Entry Procedures for the Global Notes

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*—Book-Entry Ownership—Settlement and Transfer of Notes*".

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (***Direct Participants***) or indirectly (***Indirect Participants*** and together with Direct Participants, ***Participants***) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the law of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*Exchange for Definitive Notes*", DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard due Roi Albert II, B-12201 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Note representing Rule 144A Notes of any Series will have an ISIN, Common Code and CUSIP number and will be deposited with a custodian (the ***Custodian***) for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or

payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the ***Beneficial Owner***) will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading Between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Notes.

Trading Between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement system in same day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading Between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Trust Deed), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant

class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading Between Euroclear and Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Trust Deed), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that the delivery of Notes will be made against payment therefor on the closing date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant closing date will be required, by virtue of the fact that the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant closing date should consult their own advisers.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in the Dealer Agreement dated 28 November 2012 (the ***Dealer Agreement***), the Notes will be offered from time to time by the Issuer to such Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers. In addition, Notes may also be offered from time to time by the Issuer to such additional dealer(s) as agreed with the Issuer.

Each of the Company and the Issuer has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Securities and the corresponding Loans have not been and will not be registered under the Securities Act and the Securities may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons, except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in the preceding sentence and the paragraph immediately below and not otherwise defined therein have the meanings given to them by Regulation S under the Securities Act.

Each Relevant Dealer (as defined the Dealer Agreement) severally and not jointly nor jointly and severally represents that it has offered and sold the Securities, and agrees that it will offer and sell any Securities (i) as part of their distribution at any time and (ii) otherwise until 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the Relevant Dealer (or in the case of a such Series of Notes sold to or through more than one Relevant Dealer, by each of such Relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such Relevant Dealer when all such Relevant Dealers have so certified), only in accordance with Rule 903 of Regulation S or Rule 144A as set forth below. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Securities, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Relevant Dealer severally and not jointly nor jointly and severally agrees that, at or prior to confirmation of a sale of Notes (other than a sale pursuant to Rule 144A), it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

> The securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the ***Securities Act***), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the Relevant Dealer (or in the case of a such Series of Notes sold to or through more than one Relevant Dealer, by each of such Relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such Relevant Dealer when all such Relevant Dealers have so certified), except in either case in accordance with Rule 903 of Regulation S or Rule 144A under the Securities Act to a person that the seller reasonably believes is a qualified institutional buyer (within the meaning of Rule 144A under the Securities Act) that is also a qualified purchaser (as defined in

Section 2(a)(51) of the Investment Company Act). Terms used above which are not otherwise defined have the meanings given to them by Regulation S under the Securities Act."

Each Relevant Dealer severally and not jointly nor jointly and severally represents and agrees that neither it nor any of its affiliates (as defined in Rule 501 (b) of Regulation D), nor any person acting on its or their behalf has engaged or will engage in any form of "general solicitation" or "general advertising" (within the meaning of Regulation D) in connection with any offer and sale of the Securities in the United States.

Each Relevant Dealer may, through its respective U.S. registered broker-dealer affiliates, arrange for the offer and resale of the Securities in the United States only to QIBs that are QPs and in accordance with Rule 144A.

Each Relevant Dealer severally and not jointly nor jointly and severally represents and agrees that it is a QIB that is a QP and that it has offered and sold and will offer and sell the Securities in the United States only to persons whom it reasonably believes are QIBs and QPs who can represent that (A) they are QPs who are QIBs within the meaning of Rule 144A; (B) they are not broker-dealers who own and invest on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers; (C) they are not a participant-directed employee plan, such as a plan under subsection 401(k) of the U.S. Internal Revenue Code; (D) they are acting for their own account, or the account of another QIB who is a QP; (E) they are not formed for the purpose of investing in the Issuer; (F) each account for which they are purchasing will hold and transfer at least U.S.$200,000 in principal amount of Notes at any time; (G) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories; and (H) they will provide notice of the transfer restrictions set forth in this Base Prospectus to any subsequent transferees.

Each Relevant Dealer severally and not jointly nor jointly and severally represents that it has not entered and agrees that it will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of Securities, except with its affiliates or with the prior written consent of the Issuer and Company.

United Kingdom

Each Relevant Dealer represents to and agrees with the Issuer, Company and each other Relevant Dealer that:

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each of the Relevant Dealers agrees that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Ireland

Each Relevant Dealer represents to and agrees with the Issuer, Company and each other Relevant Dealer that:

(1) it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended), including, without limitation, Regulations 7 and 152 thereof or any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998;

(2) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Companies Acts 1963 – 2012 (as amended), the Central Bank Acts 1942 - 2011 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;

(3) it will not underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of this Base Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank; and

(4) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 (as amended) and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No action has been or will be taken in any jurisdiction by the Issuer or any Relevant Dealer that would permit a public offering of the Notes, or possession or distribution of any offering material (in preliminary, proof or final form) in relation thereto, in any country or jurisdiction where action for that purpose is required.

Each Relevant Dealer undertakes to the Issuer and the Company that it will, to the best of its knowledge and belief (having made such inquiries as is reasonable in each such country and jurisdiction), comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes such offering material, in all cases at its own expense.

Each Relevant Dealer will also ensure that no obligations are imposed on the Company or the Issuer in any such jurisdiction as a result of any of the foregoing actions. Neither the Company nor the Issuer will have any responsibility for, and each Relevant Dealer will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of the Notes under the laws and directives in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery.

No Relevant Dealer is authorised to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in any prospectus or any amendment or supplement to it and/or replacement thereof and all other documents and information supplied to it pursuant to Clause 4.2 of the Dealer Agreement.

Other Relationships

Some of the Relevant Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Company or their relevant affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Relevant Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or

instruments of the Issuer, the Company and/or their respective affiliates. Certain of the Relevant Dealers or their affiliates that have a lending relationship with the Issuer or the Company routinely hedge their credit exposure to the Issuer or the Company consistent with their customary risk management policies. Typically, such Relevant Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer or the Company's securities, including potentially the notes offered hereby. Any such short positions could adversely affect future trading prices of any Notes offered hereby. The Relevant Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and the Loans and does not purport to be a complete analysis of tax considerations relating to the Notes or the Loans.

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the consequences of the purchase, ownership and disposition of the Notes arising in their particular circumstances under the tax laws of countries of which they are residents, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of Notes. This summary is based upon the law as in effect on the date of this Base Prospectus and this law may be subject to any changes taking effect after such date and affecting this summary.

The information and analysis contained within this section are limited to tax issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes as well as the taxation of interest payments on the Loan. This summary is based on the laws of the Russian Federation in effect on the date of this Base Prospectus (whereas they are subject to changes which could occur frequently, at short notice and could be applied retroactively). The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving any Series of Notes. This summary does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation, nor does it seek to address the availability of double tax treaty relief in respect of income payable on any Series of Notes, or practical difficulties connected with claiming such double tax treaty relief.

Prospective investors should consult their own tax advisors regarding the tax consequences of investing in the Notes that may arise in their own particular circumstances. No representation with respect to the Russian tax consequences pertinent to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack of interpretive guidance resulting in inconsistent interpretations and application thereon. Further, provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable changes and inconsistent interpretation than in jurisdictions with more developed capital markets and tax systems.

In practice, interpretation of tax laws and regulations by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Furthermore, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, the term ***Non-Resident Noteholder*** means:

- a legal entity or an organisation in each case not organised under the Russian law which holds and disposes of the Notes otherwise than through its permanent establishment in the Russian Federation (the ***Non Resident Noteholder—Legal Entity***), and
- a Noteholder who is an individual not actually present in the Russian Federation for an aggregate period of 183 days or more in a period comprised of 12 consecutive months (the ***Non-Resident Noteholder—Individual***). Presence in the Russian Federation is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education purposes. The interpretation of this definition by the Ministry of Finance of Russia states that for tax withholding purposes an individual's tax residency status should be determined on the date of the income payment (based on the number of days in Russia in the 12-month period preceding the date of the payment). The individual's final tax liability in Russia for the reporting calendar year should be determined based on the number of days spent in Russia in such calendar year.

For the purposes of this summary, the term ***Resident Noteholder*** means any Noteholder (including any individual and any legal entity or an organisation) not qualifying as a Non-Resident Noteholder.

Tax residency rules and the Russian Federation's taxation rights may be affected by an applicable double tax treaty. It is expected that the Russian tax residency rules applicable to legal entities may change in the future.

The Noteholders should seek professional advice on their tax residence in Russia.

Taxation of the Notes

Resident Noteholders

A Resident Noteholder will generally be subject to all applicable Russian taxes in respect of the purchase of the Notes and income received on the Notes, including gains from a disposition of the Notes and interest received on such Notes. Resident Noteholders should consult their own tax advisers with respect to their tax position regarding the Notes.

Non-Resident Noteholders

A Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer, subject to the conditions and requirements described in "*Taxation of Interest on the Loan*".

Furthermore, a Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of any gain or other income realised on the redemption, sale or other disposition of the Notes outside Russia, provided that the proceeds from such redemption, sale or other disposition are not received from a source within Russia.

A Non-Resident Noteholder who is a legal entity or organisation should also not be subject to Russian withholding tax on the sale, redemption or disposition of the Notes, even if the proceeds from the sale, redemption or disposition of the Notes are received from a source within Russia.

If income from a sale, redemption or disposition of the Notes is received from a source within Russia, a Non Resident Noteholder who is an individual will generally be subject to Russian personal income tax at a rate of 30 per cent. on the gain from such disposal (the gain generally being calculated as the gross proceeds from such disposal less any available cost deduction which includes the purchase price of the Notes), subject to any available double tax treaty relief. According to Russian tax legislation, income received from a sale, redemption or disposition of the Notes should be treated as having been received from a Russian source if such sale, redemption or disposition occurs in Russia. Russian tax law gives no clear indication as to how to identify the source of income received from a sale, redemption or disposition of securities except that income received from the sale of securities "in Russia" will be treated as having been received from a Russian source. There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the tax authorities, the deduction will be disallowed and the tax will apply to the gross amount of sales proceeds. The taxable base should be calculated in roubles and, therefore, may be affected by changes in the exchange rate between the currency of acquisition of the Notes, the currency of disposition of the Notes and roubles. The tax may be withheld at source of payment or, if the tax is not withheld, the Non-Resident Noteholder who is an individual may be liable to declare its income in Russia and to pay the tax.

Additionally, acquisition of the Notes by a Non-Resident Noteholder who is an individual may constitute a taxable event pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of acquisition of securities. If the acquisition price of the Notes is below the lower threshold of the range of fair market value calculated under a specific procedure for the determination of market prices of securities for tax purposes, the difference may be subject to the Russian personal income tax at a rate of 30 per cent. (arguably, this would be subject to reduction or elimination under the applicable double tax treaty).

As noted above with respect to the disposal of the Notes, under Russian tax legislation, taxation of the income of Non-Resident Noteholders who are individuals will depend on whether this income would be assessed as received from Russian or non-Russian sources. Although Russian tax legislation does not contain any provisions on how the related material benefit should be sourced, the tax authorities may infer that such income should be considered as Russian source income if the Notes are purchased "in Russia". In the absence of any additional guidance as to what should be considered as the purchase of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the

related material benefit, including consideration of the place of conclusion of the acquisition transaction, the location of the Issuer, or other similar criteria.

Non-Resident Noteholders should consult their own tax advisers with respect to the tax consequences of an acquisition and disposition of the Notes and the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposition of the Notes.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These tax treaties may contain provisions that allow for the reduction or elimination of Russian withholding tax due with respect to income received by a Non-Resident Noteholder from a source within the Russian Federation, including income from disposition of the Notes. In order to obtain benefits available under the respective tax treaty, a Non-Resident Noteholder must comply with the certification, information, and reporting requirements in force in the Russian Federation.

Currently a Non-Resident Noteholder—legal entity would need to provide the payer of income with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. The certificate should confirm that the respective Non-Resident Noteholder—legal entity is the tax resident of the relevant double tax treaty country in a particular calendar year during which the income is paid. This certificate should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate may be required. There can be no assurance however that the advance treaty relief will be available in practice.

Under Russian domestic tax legislation, in order to enjoy benefits of the applicable tax treaty a Non Resident Noteholder—individual must provide to the Russian tax authorities a tax residency certificate issued by the competent authorities of his or her country of residence for tax purposes and a confirmation certified by the relevant foreign tax authorities of income received and the tax paid outside the Russian Federation in relation to income with respect to which treaty benefits are claimed. Such requirements may be imposed even if they directly contradict the provisions of the applicable double tax treaty. Technically, these requirements mean that a Non-Resident Noteholder—individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. Individuals in practice would not be able to obtain the advance treaty relief in relation to income derived from Russian sources, as it is unlikely that the supporting documentation required for the treaty relief can be provided to the Russian tax authorities and, consequently, approval from the latter can be obtained before the receipt of income by a Non-Resident Noteholder—individual occurs.

Refund of Tax Withheld

Where double tax treaty relief is available but Russian income tax has nevertheless been withheld at source by the payer of the proceeds, an application for the refund of the taxes withheld may be filed within three years from the end of the tax period in which the tax was withheld for Non-Resident Noteholders.

In order to obtain a refund, the Non-Resident Noteholder would need to file with the Russian tax authorities a duly notarised, apostilled and translated certificate of tax residence issued by the competent tax authority of the relevant treaty country, as well as documents confirming receipt of income and withholding of Russian tax. In addition, a Non-Resident Noteholder who is an individual would need to provide appropriate documentary proof of tax payments made outside of Russia on income with respect to which tax refund is claimed. The supporting papers shall be provided within one year after the year to which the treaty benefits relates for Non-Resident Noteholders who are individuals. The Russian tax authorities may, in practice, require a wide variety of documentation confirming a Noteholder's right to benefit under a double tax treaty. Such documentation, in practice, may not be explicitly required by the Tax Code. Obtaining a refund of Russian tax withheld may be a time-consuming process and can involve considerable practical difficulties.

Noteholders, whether individuals or organisations, should consult their own tax advisers should they need to obtain refund of tax withheld on any payments from the Notes. Taxation of Interest on the Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal entity or organisation are subject to Russian withholding tax at a rate of 20 per cent. subject to reduction or elimination pursuant to the terms of an applicable double tax treaty.

However, there is a specific release from the withholding tax obligation provided by the Russian Tax Code for the Russian organisations paying interest income to foreign organisations having no permanent establishment in Russia on debt obligations arising in connection with issuance by foreign organisations of traded bonds. According to this exemption, a Russian organisation that pays interest income to a foreign organisation having no permanent establishment in Russia should not withhold the tax from interest payments made to foreign organisations on debt obligations arising in connection with issuance by foreign organisations of traded bonds, provided that the foreign organisation receiving interest income is a tax resident in a jurisdiction having double tax treaty with Russia and duly confirmed its tax residence at the date of receiving interest income. This exemption is applied retrospectively from 1 January 2007, and with respect to traded bonds issued until 1 January 2014.

The debt obligation is treated as connected with the issuance of traded bonds by foreign organisations if it is explicitly stated in the agreement governing the relevant debt obligation, and (or) terms and conditions, and (or) prospectus of issuance of quoted bonds or if this fact is confirmed by the actual transfer of funds upon the issuance of traded bonds.

For the purpose of the above exemption term ***traded bonds*** means bonds and other debt obligations listed and/or traded on one or several foreign stock exchanges and/or rights to which are recorded by recognised depository clearing organisations, provided such foreign stock exchanges and depository clearing organisations are specified in a list approved by the Federal authority for securities markets in consultation with the Ministry of Finance of Russia. Until such list is not announced, term "traded bonds" means bonds and other debt obligations listed and/or traded on one or several foreign stock exchanges and/or rights to which are recorded by recognised depository clearing organisations. The fact that bonds are traded should be confirmed by Russian companies based on information provided by foreign stock exchanges, depository clearing organisations, offering memorandum or other documents relating to the issue of the bonds or on the basis of information from public sources.

The Company believes that it should be released from the obligation to withhold the Russian withholding tax from interest payments made to the Issuer under the Loan Agreement provided that the Issuer duly confirms its tax residence since the Notes should be considered as "traded bonds" as described above and the Loan is financed from the funds received from the issue of the Notes.

If the Notes are simultaneously (i) delisted from Irish Stock Exchange and (ii) exchanged for duly executed and authenticated registered Notes in definitive form in the limited circumstances specified in the Global Notes, the Company could be required to withhold Russian withholding income tax from interest payments made by the Borrower to the Issuer.

If interest under any Loan becomes payable to the Trustee pursuant to the Trust Deed, there is uncertainty if the Borrower will be released from obligation to withhold the Russian withholding tax from interest payments made to the Trustee. In such a case payments of interest under such Loan Agreement to the Trustee may become subject to the Russian withholding tax at a rate of 20 per cent. or Russian personal income tax at a rate of 30 per cent. (or such other rate as may be effective at the time of payment). It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption or reduction under the applicable double tax treaty under such circumstances. In such cases, the Noteholders may seek the reduction or elimination of Russian withholding tax or a refund of the tax under applicable double taxation treaties entered into between their countries of residence and the Russian Federation. There is no assurance however that the respective treaty relief will be available to them in practice under these circumstances. If payments under any Loan are subject to Russian withholding tax (as a result of which the Issuer would reduce payments made under the Notes by the amount of tax withheld), the Company will be obliged (subject to certain conditions) to increase payments under the Loan Agreement as may be necessary so that the net payments received by the Issuer and the Noteholders will be equal to the amounts they would have received in the absence of such withholding.

It is currently unclear whether the provisions obliging the Company to gross up interest payments under the Loan will be enforceable under Russian law. There is a risk that gross up for withholding tax will not take place and that the interest payments made by the Company under the Loan Agreement will be reduced by the amount of the Russian income tax withheld by the Company at the rate of 20 per cent., or such other rate as may be in force at the time of payment.

If the Company is obliged to increase payments under the Loan Agreement, it may (without premium or penalty), subject to certain conditions prepay such Loan in full. In such case, all outstanding Notes would each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of the redemption.

No VAT will be payable in the Russian Federation in respect of interest and principal payments under the Loan.

European Union Directive on the Taxation of Savings Income

Under the Savings Directive, each Member State of the EU is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. However, for a transitional period, Austria and Luxembourg will (unless during such period they elect otherwise) instead operate a withholding system in relation to such payments. Under such a withholding system, the beneficial owner of the interest payment must be allowed to elect that certain provision of information procedures should be applied instead of withholding. The rate of withholding is 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those countries and territories in relation to payments made by a person in a Member State to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, one of those countries or territories.

A proposal for amendments to the Savings Directive has been published, including a number of suggested changes which, if implemented, would broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment under a Note were to be made by a person in a Member State or another country or territory which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts under the terms of such Note as a result of the imposition of such withholding tax. The Issuer is, however, required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive or any such law.

Ireland

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Taxation of Noteholders

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.), is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

- the Notes are quoted Eurobonds i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish Stock Exchange) and which carry a right to interest; and
- the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:
    - the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or

- the Noteholder is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and

- one of the following conditions is satisfied:
  - the Noteholder is resident for tax purposes in Ireland; or
  - the Noteholder is subject, without any reduction computed by reference to the amount of such interest, premium or other distribution, to a tax in a relevant territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or
  - the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:
    - from whom the Issuer has acquired assets;
    - to whom the Issuer has made loans or advances; or
    - with whom the Issuer has entered into a swap agreement,
    - where the aggregate value of such assets, loans, advances or swap agreements represents not less than 75 per cent. of the assets of the Issuer; or
  - at the time of issue of the Notes, the Issuer was not in possession, or aware, of any information which could reasonably be taken to indicate whether or not the beneficial owner of the Notes would be subject to tax on any interest payments.
  - where the term:
  - "relevant territory" means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty (***Relevant Territory***); and
  - "swap agreement" means any agreement, arrangement or understanding that—
    - provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and
    - transfers to a person who is a party to the agreement, arrangement or understanding or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in an asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

- Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange, are held in DTC, Euroclear and/or Clearstream, Luxembourg, and one of the conditions set out in paragraph (c) above is met, interest on the Notes can be paid by any paying agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a paying agent outside Ireland and one of the conditions set out in paragraph (c) above is met.

Encashment Tax

In certain circumstances, Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of Section 110 of the Taxes Consolidation Act, 1997 (***TCA***), the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its trade or business to a company are exempt from income tax provided the recipient company is not resident in Ireland and is either resident for tax purposes in a Relevant Territory which imposes a tax that generally applies to interest receivable in that territory by companies from sources outside that territory or the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which will come in to force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax where the recipient is a person not resident in Ireland and resident in a Relevant Territory. Finance Act 2012 extends the quoted Eurobond exemption to companies which are under the control, whether directly or indirectly, of person(s) who by virtue of the law of a Relevant Territory are resident for the purposes of tax in a Relevant Territory and are not under the control of person(s) who are not so resident, and to 75% subsidiary companies of a company or companies the principal class of shares in which is substantially and regularly traded on a recognised stock exchange. For the purposes of these exemptions and where not specified otherwise, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, the charge to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to income tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A holder of Notes will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 30 per cent) if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Irish Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

EU Savings Directive

Ireland has implemented the EC Council Directive 2003/48/EC on the taxation of savings; income into national law. Accordingly, any Irish paying agent making an interest payment on behalf of the Issuer to an individual or certain residual entities resident in another Member State of the European Union or certain associated and dependent territories of a Member State will have to provide details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address) to the Irish Revenue Commissioners who in turn is obliged to provide such information to the competent authorities of the state or territory of residence of the individual or residual entity concerned.

The Issuer, or any person or agent acting on behalf of the Issuer, shall be entitled to require Noteholders to provide any information regarding their tax status, identity or residency in order to satisfy the disclosure requirements in Directive 2003/48/EC and Noteholders will be deemed by their subscription for Notes to have authorised the automatic disclosure of such information by the Issuer, or any person or agent acting on behalf of the Issuer, to the relevant tax authorities.

United States

The following discussion is a summary based on present law of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. This discussion addresses only U.S. Holders who purchase Notes in the original offering at the original offering price, hold the Notes as capital assets and use the U.S. dollar as their functional currency. This discussion is not a complete description of all U.S. tax considerations relating to the Notes. It does not address the tax treatment of prospective purchasers that will hold the Notes in connection with a permanent establishment. It also does not address the tax treatment of prospective purchasers subject to special rules, such as banks, dealers, traders that elect to mark to market, insurance companies, investors liable for the alternative minimum tax, U.S. expatriates, tax-exempt entities or persons holding the Notes as part of a hedge, straddle, conversion or other integrated financial transaction.

No authority directly addresses the U.S. federal income tax characterisation of securities like the Notes and the Issuer has not and will not seek a ruling from the U.S. Internal Revenue Service (***IRS***) as to their characterisation for such purposes. To the extent relevant for U.S. federal income tax purposes, the Issuer intends to treat the Notes as indebtedness for such purposes and this discussion assumes that treatment is correct. No assurance can be given that the IRS will not assert, or a court would not sustain, a position regarding the characterisation of the Notes that is contrary to this discussion. Alternative characterisations include treatment of the Notes as beneficial ownership of the Loan or as equity in the Issuer, which is a passive foreign investment company (***PFIC***). Prospective investors should seek advice from their own tax advisors as to the consequences to them of alternative characterisations of the Notes for U.S. federal income tax purposes.

THE FOLLOWING STATEMENTS ABOUT U.S. FEDERAL TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE NOTES. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN NOTES UNDER THE LAWS OF IRELAND, THE RUSSIAN FEDERATION, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

For purposes of this discussion, a ***U.S. Holder*** is a beneficial owner that is, for purposes of U.S. federal income taxation, (i) an individual citizen or resident of the United States, (ii) a corporation, partnership or other business entity created or organised under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of a U.S. person and the primary supervision of a U.S. court, or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source.

If a partnership acquires or holds the Notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership that acquires or holds the Notes should consult its own tax advisors.

Interest

Stated interest paid on the Notes, including any additional payments made in respect of taxes required to be deducted or withheld, will be included in the gross income of a U.S. Holder in accordance with the holder's regular method of tax accounting. The interest and any original issue discount (***OID***) accrued on the Notes will generally be ordinary income from sources outside the United States. Interest on the Floating Rate Notes will generally accrue at a hypothetical fixed rate equal to the rate at which the Floating Rate Notes bore interest on their Issue Date. The amount of interest actually recognized for any accrual period will increase (or decrease) if the interest actually paid during the period is more (or less) than the amount accrued at the hypothetical rate. U.S. Holders of Floating Rate Notes, therefore, generally will recognize income for each period equal to the amount paid during that period.

A U.S. Holder of a Note issued with OID must accrue the OID into income on a constant yield to maturity basis whether or not it receives cash payments. Generally, a Note will have OID to the extent that its stated redemption price at maturity exceeds its issue price. However, a Note generally will not have OID if the stated redemption exceeds its issue price by less than ¼ of 1 percent of the Note's stated redemption price at maturity multiplied by the number of complete years to maturity (***de minimis OID***). The issue price of a Note is the initial offering price at which a substantial amount of the Notes are sold (excluding sales to brokers or similar persons). The stated redemption price at maturity of a Note is the total of all payments due on the Note other than payments of qualified stated interest. In general, qualified stated interest is interest that is unconditionally payable at least annually at a single fixed rate.

A U.S. Holder may elect to recognise all yield on a Note (including de minimis OID) using a constant yield method. The constant yield election generally will apply only to the Note with respect to which it is made, and it may not be revoked without the consent of the IRS.

It is unclear whether a U.S. Holder of Notes eligible for benefits under the income tax treaty between the Russian Federation and the United States may claim an exemption from Russian withholding tax, if any, imposed on the Notes. A U.S. Holder also may not be able to claim a deduction or a foreign tax credit for Russian withholding tax, if any, imposed on the Notes. Each U.S. Holder should consult its own tax advisor about its eligibility for exemption from, and its ability to credit or deduct, Russian withholding tax, if any, imposed on the Notes.

For the tax years beginning after 31 December 2012, interest received by certain individuals, estates and trusts will generally be includible in "net investment income" for purposes of the Medicare contribution tax.

Further Issues

Further notes issued in additional offerings by the Issuer may not be fungible for U.S. federal income tax purposes with the Notes issued in the original offering. Further notes are not fungible unless they are issued in a qualified reopening of the original offering. Whether the issuance of further notes is a qualified reopening depends on the interval after the original offering, the yield of the outstanding Notes at that time (based on their fair market value), whether the outstanding Notes were issued with OID and whether any outstanding Notes are publicly traded or quoted at the time of the new issuance. If issuance of the further notes is not a qualified reopening, the further notes may be issued with OID that exceeds the OID, if any, on the Notes. Unless the further notes can be distinguished from the Notes, the market value of the Notes may be adversely affected.

Disposition

A U.S. Holder will recognise gain or loss on the sale, redemption or other disposition of a Note in an amount equal to the difference between the U.S. dollar value of the amount realised (less any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will be the amount the U.S. Holder paid for the Note increased by OID included in the U.S. Holder's income with respect to the Note and reduced by payments other than qualified stated interest.

Gain or loss on disposition of a Note generally will be U.S. source capital gain or loss. A U.S. Holder will have long-term capital gain or loss if it has held the Note for more than one year. The long-term capital gains of non-corporate U.S. Holders may be taxed at lower rates. Deductions for capital losses are subject to limitations.

For the tax years beginning after 31 December 2012, gain on the disposition of the Notes by certain individuals, estates and trusts will generally be includible in "net investment income" for purposes of the Medicare contribution tax.

Information Reporting and Backup Withholding

Payments of principal, interest and accruals of OID on and proceeds from the sale, redemption or other disposition of a Note by a U.S. paying agent or other U.S. intermediary may be reported to the IRS unless the holder (i) is a corporation, (ii) provides a properly executed IRS Form W-8BEN or (iii) otherwise establishes a basis for exemption. Backup withholding tax may apply to these payments, including payments of accrued OID, if the holder fails to provide an accurate taxpayer identification number, otherwise fails to certify its exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. A holder can claim a credit against its U.S. federal income tax liability for the amount of any backup withholding tax and a refund of any excess. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Certain U.S. Holders are required to report to the Internal Revenue Service information with respect to Notes not held through an account with a U.S. financial institution. Investors who fail to report required information could become subject to substantial penalties. Potential investors should consult their own tax advisors regarding the possible implications of this new legislation for their investment in Notes.

THE ABOVE DISCUSSION IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS STRONGLY URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NOTES.

Foreign Currency Notes

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

In the case of an accrual basis U.S. Holder, upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Sale or Retirement

As discussed above under "*—Purchase, Sale and Retirement of Notes*", a U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and its tax basis in the Note. A U.S. Holder's tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects).

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement, or the settlement date for the sale, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (i) on the date of sale or retirement and (ii) on the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Backup Withholding and Information Reporting

In general, payments of interest on, and the proceeds of a sale, redemption or other disposition of, the Notes payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Foreign Account Tax Compliance Requirements

Beginning in 2017, the Issuer may be required pursuant to FATCA to withhold U.S. tax on payments on Notes issued after 31 December 2012 to investors who do not provide information sufficient for the Issuer to determine whether the investors are U.S. persons or should otherwise be treated as holding a "United States account" of the Issuer, or to investors that are, or hold their Notes through, non-U.S. financial institutions that are not in compliance with FATCA. If an amount of, or in respect of, U.S. withholding tax on account of FATCA were to be deducted or withheld from interest or other payments on the Notes as a result of the failure of an investor or such non-U.S. financial institution to comply with these rules, neither the Issuer nor any Paying Agent nor any other person would, pursuant to the Terms and Conditions of the Notes, be required to pay additional amounts with respect to any Notes as a result of the deduction or withholding of such tax. Holders should consult their own tax advisers on how these rules may apply to payments they receive under the Notes.

Reportable Transactions

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Holder may be required to

treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds U.S.$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders. In the event the acquisition, holding or disposition of Notes constitutes participation in a reportable transaction for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.$10,000 in the case of a natural person and U.S.$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Accordingly, if a U.S. Holder realises a loss on any Note (or, possibly, aggregate losses from the Notes) satisfying the monetary thresholds discussed above, the U.S. Holder could be required to file an information return with the IRS, and failure to do so may subject the U.S. Holder to the penalties described above. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Notes.

CERTAIN U.S. EMPLOYEE BENEFIT PLAN CONSIDERATIONS

Notes are not permitted to be acquired by employee benefit plans as described in Section 3(3) of ERISA that are subject to Title I of ERISA (collectively, ***ERISA Plans***), plans not subject to ERISA but subject to Section 4975 of the U.S. Tax Code, including IRAs, Keogh Plans which cover only self-employed persons and their spouses and other employee benefit plans which cover only the owners of a business (collectively, ***4975 Plans***), or by entities whose underlying assets include plan assets by reason of an investment in the entity by ERISA Plans or 4975 Plans or otherwise (collectively, ***Plan Asset Entities***). ERISA Plans, 4975 Plans and Plan Asset Entities are collectively referred to as ***Benefit Plan Investors***. Subject to certain restrictions described below, Notes are permitted to be acquired by governmental plans, non-electing church plans, and non- U.S. plans that are not subject to ERISA or Section 4975 of the U.S. Tax Code (collectively, ***Non-ERISA Plans***).

ERISA imposes fiduciary standards and certain other requirements on ERISA Plans and on those persons who are fiduciaries with respect to ERISA Plans. 4975 Plans are subject to certain restrictions similar to ERISA's prohibited transaction rules. Non-ERISA Plans are subject to applicable state, local or federal law, as well as the restrictions of duties of common law, and may also be subject to prohibited transaction provisions that operate similarly to those under ERISA.

Under the regulations issued by the U.S. Department of Labor (***DOL***), as modified by Section 3(42) of ERISA (the ***Plan Assets Regulations***), unless certain exceptions apply, if a Benefit Plan Investor invests in an "equity interest" of an entity, its assets include both the equity interest and an undivided interest in each of the entity's underlying assets. This "look through" rule will only apply where Benefit Plan Investors own 25% or more of the value of any class of equity interest in the entity. For purposes of this 25% determination, the value of equity interests held by persons (other than Benefit Plan Investors) that have discretionary authority or control with respect to the assets of the entity or that provide investment advice for a fee (direct or indirect) with respect to such assets (or any affiliate of such person) is disregarded. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. To the extent that the value of a Benefit Plan Investor's equity interest in an entity relates solely to identified property of the entity, such property may be treated as the sole property of a separate entity.

If the underlying assets of an entity are deemed to be plan assets, those with discretionary authority or control over the entity would be fiduciaries with respect to the entity's assets. The assets of the entity would also be subject to the prohibited transaction rules of ERISA and Section 4975 of the U.S. Tax Code, as well as other rules applicable to plan assets.

The Issuer believes that the Notes should be treated as debt rather than equity for purposes of the Plan Assets Regulations. The DOL, however, may take a contrary view or may view the Notes as having substantial equity features. Further, the Issuer will not be able to monitor the Noteholders' status as Benefit Plan Investors. Accordingly, the Notes are not permitted to be acquired by any Benefit Plan Investor.

Non-ERISA Plans and entities that include the assets of Non-ERISA Plans are permitted to acquire the Notes subject to certain restrictions described below. Non-ERISA Plans are generally not subject to ERISA nor do the prohibited transaction provisions of ERISA or Section 4975 of the U.S. Tax Code apply to these types of plans. However, governmental plans and non-electing church plans are subject to prohibitions on related-party transactions under Section 503 of the U.S. Tax Code, which prohibitions operate similarly to the prohibited transaction rules under ERISA or Section 4975 of the U.S. Tax Code. In addition, the fiduciary of a Non-ERISA Plan must consider applicable state, local, or non-US laws, if any, imposed upon such plan before purchasing a Note or any interest therein.

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF ERISA THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE U.S. TAX CODE APPLIES OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE, (2) IF IT IS A GOVERNMENTAL, CHURCH, NON-U.S. OR OTHER PLAN WHICH IS SUBJECT TO ANY

FEDERAL, STATE, LOCAL, NON- U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY AND/OR THE PROHIBITED TRANSACTION PROVISIONS OF ERISA AND/OR SECTION 4975 OF THE CODE (***SIMILAR LAWS***) AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE "PLAN ASSETS" OF SUCH PLAN (EACH, AN ***OTHER PLAN INVESTOR***) AS DEFINED IN SECTION 3(32) OF ERISA, THE PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT AND WILL NOT RESULT IN A NON EXEMPT VIOLATION OF ANY SIMILAR LAWS AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH OTHER PLAN INVESTOR SOLELY AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH OTHER PLAN INVESTOR, AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY SUCH NOTE OR INTEREST TO ANY PERSON WITHOUT FIRST OBTAINING THIS SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

The foregoing is not intended to be exhaustive and the law governing investments by Benefit Plan investors and Non-ERISA Plans is subject to extensive administrative and judicial interpretations. The foregoing discussion should not be construed as legal advice. Any potential purchaser of Notes should consult counsel with respect to issues arising under ERISA, the US. Tax Code and other applicable laws and make their own independent decisions.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Series, subject only to the deletion of non-applicable provisions, is set out below:

Final Terms dated [•]

Rosneft Oil Company

Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes]
by Rosneft International Finance Limited for the purpose of financing a Loan to Rosneft Oil Company
under a U.S.$10,000,000,000 Programme for the Issuance of Loan Participation Notes

Part A—Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 28 November 2012 [and the supplemental Base Prospectus dated [•]] which [together] constitute[s] a base prospectus for the purposes of the Directive 2003/71/EC (the Prospectus Directive). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on Rosneft, the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [address].]

1.	(i)	Issuer:	Rosneft International Finance Limited
	(ii)	Borrower:	Rosneft Oil Company
2.	(i)	Series Number:	[●]
	(ii)	[Date on which the Notes will be consolidated and form a single series]:	[The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [●] on the [Issue Date] [●]].
3.	Specified Currency:		[●]
4.	Aggregate Principal Amount of Notes admitted to trading:		[●]
5.	Issue Price:		[●] per cent. of the Aggregate Principal Amount [plus accrued interest from [●]]
6.	(i)	Specified Denomination(s):	[●]
	(ii)	Calculation Amount:	[●]
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[●]
8.	Maturity Date:		[●] [The Interest Payment Date falling in or nearest to [●]]
9.	Interest Basis:		[●% Fixed Rate] [[●] +/−[●] percent [Floating Rate](further particulars specified in paragraph [17][18] below)
10.	Redemption/Payment Basis:		Redemption at par
11.	Change of Interest or Redemption/ Payment Basis:		[●][Not Applicable]
12.	(i)	Status and Form of the Notes:	Senior, Registered
	(ii)	[Date of [Board] approval of Issuer for issuance of Notes:	[●]

	(ii)	[Date of [Board] approval of Borrower for borrowing of Loan:	[●]
13.	Method of distribution:		[Syndicated] [Non Syndicated]
14.	Financial Centres (Condition 7.4):		[●]
15.	Specified Currency and Principal Amount of Loan:		
	(i)	Specified Currency	[●]
	(ii)	Principal Amount	[●]
16.	Put/Call Options:		[Put Option/Call Option/Not Applicable] [(further particulars specified in paragraph [21][22] below)]

PROVISIONS RELATING TO INTEREST PAYABLE UNDER THE LOAN

17.	Fixed Rate Note Provisions:		[Applicable/Not Applicable]
	(i)	Rate [(s)] of Interest:	[●] percent per annum payable [[annually/ semi-annually/ quarterly/monthly] in arrear]
	(ii)	Interest Payment Date(s):	[●] in each year [not adjusted] [adjusted in accordance with [the [Floating Rate Business Day Convention] [Following Business Day Convention] [Modified Following Business Day Convention] [Preceding Business Day Convention]]
	(iii)	Fixed Coupon Amount [(s)]:	[●] per Calculation Amount
	(iv)	Broken Amount:	per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
	(v)	Day Count Fraction:	[30/360] [30E/360] [Actual/Actual(ICMA/ISDA)]
	(vi)	Determination Date(s):	[●] in each year.
18.	Floating Rate Note Provisions:		[Applicable/Not Applicable]
	(i)	Interest Period(s):	[●]
	(ii)	Specified Interest Payment Dates:	[●]
	(iii)	First Interest Payment Date:	[●]
	(iv)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention]
	(v)	Business Centre(s):	[●]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vii)	Interest Period Date(s):	[Not Applicable]/[●]
	(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
	(ix)	Screen Rate Determination:	[Yes] [No]
	(x)	Reference Rate:	[LIBOR][EURIBOR]
	(xi)	ISDA Determination:	[Yes] [No]
	(xii)	Margin(s):	[+/−] [●] percent per annum

	(xiii)	Minimum Rate of Interest:	[●] percent per annum
	(xiv)	Maximum Rate of Interest:	[●] percent per annum
	(xv)	Day Count Fraction:	[Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]

PROVISIONS RELATING TO REDEMPTION

19.		Final Redemption Amount of each Note:	[●] per Calculation Amount
20.		Early Redemption Amount(s) per Calculation Amount payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date:	[●]
21.		Call Option:	[Applicable/Not Applicable]
	(i)	Early Redemption Amount:	[●]
	(ii)	Make Whole Amount:	[●]
22.		Put Option:	[Applicable/Not Applicable]
	(i)	Put Settlement Date(s):	[●]

DISTRIBUTION

23.	(i)	If syndicated, names of Managers:	[●] [Not Applicable]
	(ii)	Stabilising Manager(s) (if any):	[●] [Not Applicable]
24.		If non-syndicated, name of Dealer:	[●] [Not Applicable]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading on the Main Securities Market of the Irish Stock Exchange the issue of Notes described herein pursuant to the U.S.$10,000,000,000 Programme for the Issuance of Loan Participation Notes of [•].]

RESPONSIBILITY

The Issuer and Rosneft Oil Company accept responsibility for the information contained in these Final Terms. [[•] has been extracted from [•]. Each of the Issuer and Rosneft Oil Company confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed by a duly authorised attorney on behalf of the Issuer:

By: _____

Duly authorised

Signed on behalf of Rosneft Oil Company

By: _____

Duly authorised

By: _____

Duly authorised

Part B—Other Information

LISTING

(i)	Listing:	[Irish Stock Exchange] [●] [Not Applicable]
(ii)	Admission to trading:	[Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List (the ***Official List***) and trading on its regulated market (the ***Main Securities Market***) with effect from [●]] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [●] with effect from [●]][Not Applicable]
(iii)	Estimate of total expenses related to admission to trading	[●]

RATINGS

Ratings:	The Notes to be issued have been rated: [●] [●] [●] [[●] is established in the European Community and has applied for registration under Regulation (EC) No 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.] [●] is established in the European Community and registered under Regulation (EC) No. 1060/2009.] [[●] is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009.] [[●] is not established in the European Community and has not applied for registration under Regulation (EC) No 1060/2009 but is endorsed by [●] which is established in the European Union and registered under Regulation (EC) No 1060/2009.] [[●] is not established in the European Community and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.] A rating must be issued by a credit rating agency established in the European Community and registered under the Regulation (EC) No 1060/2009 (the ***CRA Regulation***) unless the rating is provided by a credit rating agency that operated in the European Community before 7 June 2010 and which has submitted an application for registration in accordance with the CRA Regulation and such application for registration has not been refused.

[NOTIFICATION

The Central Bank has provided the competent authority/ies of [insert details of relevant Host Member State(s)] with a certificate of approval attesting that the [Base Prospectus—insert details of relevant Base Prospectus] has been drawn up in accordance with the Prospectus Directive 2003/71/EC and Commission Regulation (EC) No809/2004.]

INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

If applicable a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest is to be included. This may be satisfied by the inclusion of the following statement:

"Save as discussed in "Subscription and Sale", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer".]

REASONS FOR THE OFFER

Reasons for the offer:	The gross proceeds from the offering of the Notes will be used by the Issuer for the sole purpose of financing the corresponding loan to the Company. [The proceeds of such loan, less any commissions or expenses payable by the Company in connection with the Notes and the corresponding loan, will be used for general corporate purposes.]

ESTIMATED TOTAL EXPENSES

Estimated total expenses:	[●]

[YIELD	[●]
Indication of yield:	The yield is calculated at the Issue Date basis of the Issue Price. It is not an indication of future yield.]

OPERATIONAL INFORMATION

ISIN Code (Reg S Notes):	[●]
ISIN Code (Rule 144A Notes):	[●]
Common Code (Reg S Notes):	[●]
Common Code (Rule 144A Notes):	[●]
Rule 144A CUSIP number:	[●]
Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme [or DTC] and the relevant identification number(s):	[Not Applicable/●])]
Delivery:	Delivery [against][free of] payment
Names and addresses of initial Paying Agent(s):	[●]
Names and addresses of additional Paying Agent(s) (if any):	[●]

THE LOAN

(i)	Terms of the Loan	
(ii)	Drawdown date of the Loan:	[●]
(iii)	Principal Amount of the Loan:	[●]
(iv)	Early Redemption Amount:	[●] per [●]
(v)	[Make Whole Premium:	[Not Applicable] [[●] basis points]
	Treasury Published:	[●]
	Reference Treasury:	[●]
	Redemption Date:	[●]
	Business Centre:	[●]
	Financial Advisor:	[●]]
(vi)	Put Settlement Date:	[Not Applicable]/[●]
(vii)	Repayment Date:	[●]

(viii)	Specified Currency:	[●]
(ix)	Put/Call Options:	[Put Option/Call Option/Not Applicable]
Interest		
Fixed Rate Loan Provisions		[Applicable/Not Applicable]
(i)	Interest Commencement Date:	[●]
(ii)	Rate[(s)] of Interest:	[●] per cent. per annum payable [annually/semi-annually] in arrear
(iii)	Interest Payment Date(s):	[●] in each year[, not adjusted] [adjusted in accordance with [the [Floating Rate Business Day Convention] [Following Business Day Convention] [Modified Following Business Day Convention] [Preceding Business Day Convention]]
(iv)	Fixed Amount[(s)]	[●] per [●] in principal amount
(v)	Broken Amount:	[●]
(vi)	Day Count Fraction:	[●]
(vii)	Determination Date(s):	[●] in each year.
Floating Rate Loan Provisions		[Applicable/Not Applicable]
(i)	Interest Commencement Date:	[●]
(ii)	Interest Period(s):	[●]
(iii)	Specified Interest Payment Dates:	[●]
(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention]
(v)	Business Centre(s):	[●]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii)	Interest Period Date(s):	[●]/[Not Applicable]
(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	
(ix)	Screen Rate Determination:	
—	Reference Rate:	[LIBOR][EURIBOR]
—	Interest Determination Date(s):	[●]
—	Relevant Screen Page:	[●]
—	Reference Banks (if Primary Source is "Reference Banks"):	[●]
—	Relevant Financial Centre:	[●]
—	Representative Amount:	[●]
—	Effective Date:	[●]
—	Specified Duration:	[●]

(x)	ISDA Determination:	
—	Floating Rate Option:	[●]
—	Designated Maturity:	[●]
—	Reset Date:	[●]
(xi)	Margin(s):	[●] per cent. per annum
(xii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiv)	Day Count Fraction:	[Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]

LEGAL MATTERS

Certain legal matters in connection with the establishment of the Programme and the issue of Notes thereunder will be passed upon for the Company with respect to the laws of the Russian Federation and the United States by Freshfields Bruckhaus Deringer LLP. Certain legal matters in connection with the establishment of the Programme and the issue of the Notes thereunder will be passed upon for the Arrangers and the Permanent Dealers with respect to the laws of the United Kingdom and the United States by Linklaters LLP, with respect to the laws of the Russian Federation by Linklaters CIS and with respect to the laws of Ireland by Arthur Cox.

GENERAL INFORMATION

(1) Transactions in the Notes will normally be effected for delivery on the third working day after the day of the transaction, but such date may be different for a specific issue of any Series of Notes. Notes may be issued pursuant to the Programme that will not be listed on any stock exchange. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List or trading on the Main Securities Market, which is a regulated market of the Irish Stock Exchange for the purposes of the Prospectus Directive.

(2) The establishment of the Programme was approved by a resolution of the Board of Directors of the Issuer on 20 November 2012. The Company and the Issuer will obtain all necessary consents, approvals and authorisations in the Russian Federation and Ireland in connection with any Loan and the issue and performance of the corresponding Series of Notes.

(3) The Company's date of incorporation was 7 December 1995. Its Main State Registration Number is 1027700043502. Its telephone number is +7 (495) 777 4422.

(4) Except as disclosed in this Base Prospectus, there has been no significant change in the financial or trading position of the Company or the Group since 30 September 2012 and no material adverse change in the prospects of the Company or the Group since the date of its most recent published audited financial statements.

(5) There has been no significant change in the financial or trading position of the Issuer and no material adverse change in its prospects since its incorporation on 5 October 2012. The Issuer has not commenced operations and no financial statements have been made up as at the date of this Base Prospectus.

(6) Except as disclosed in this Base Prospectus, neither the Company nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Base Prospectus that may have or have had in the recent past significant effects on the financial position or profitability of the Company or the Group.

(7) The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Issuer is aware) during the 12 months preceding the date of this Base Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.

(8) Ernst & Young LLC has rendered unqualified audit reports on the consolidated annual accounts of the Company prepared in accordance with IFRS as of and for the years ended 31 December 2011, 2010 and 2009. The Company has published unaudited consolidated interim condensed financial information prepared in accordance with IFRS for the nine-month period ended 30 September 2012. Ernst & Young LLC is a member of the Institute of Professional Accountants of Russia and the Audit Chamber of Russia.

(9) Certain information with respect to the Group's crude oil reserves is derived from a report of DeGolyer and MacNaughton, an internationally recognised firm of independent reservoir engineers, as of 31 December 2011, and an extract of this report has been included herein upon the authority of said firm as an expert with respect to the matters covered by such report and in giving such report.

(10) The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms or Series Prospectus, as the case may be.

(11) The issue price and the amount of the relevant Notes will be determined before filing of the relevant Final Terms or Series Prospectus of each Series, based on then prevailing market conditions. The Company and the Issuer do not intend to provide any post-issuance information in relation to any issues of Notes or the performance of any Loan.

(12) For so long as the Programme remains in effect or any Notes remain outstanding, the following documents in physical form will be available from the date hereof, during usual business hours on any

weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Principal and Transfer Paying Agent and the registered office of the Issuer:

- the articles of association of the Issuer and the charter of the Company;
- the Trust Deed (which includes the form of the Global Notes and the Definitive Notes);
- each Loan Agreement;
- the Paying Agency Agreement;
- the audited consolidated financial statements of the Company as of and for the years ended 31 December 2011, 2010 and 2009, in each case together with the audit reports thereon;
- the unaudited consolidated interim condensed financial statements of the Company as of and for the nine months ended 30 September 2012 and 2011;
- each Final Terms or Series Prospectus, as the case may be, for Notes which are listed on the Irish Stock Exchange or any other stock exchange (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, the Company and the Principal Paying Agent as to its holding of Notes and identity);
- the extract from the Reserves Reports from DeGolyer and MacNaughton; and
- a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus.

(13) Any website referred to in this document does not form part of this Base Prospectus and the websites of the Company and the members of the Group and the information posted thereon do not form any part of this Base Prospectus.

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Rosneft Oil Company

Interim Condensed Consolidated Financial Statements (unaudited)

Three and nine months ended September 30, 2012

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Report on review of interim condensed consolidated financial statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Open Joint Stock Company Rosneft Oil Company and its subsidiaries (collectively, "The Company"), comprising the interim consolidated balance sheet as at September 30, 2012, the related interim consolidated statements of comprehensive income for the three and nine-month periods ended September 30, 2012, the related interim consolidated statements of changes in shareholders' equity and cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

November 1, 2012

A member firm of Ernst & Young Global Limited

Rosneft Oil Company

Consolidated balance sheet

(in billions of Russian rubles)

	Notes	September 30, 2012 (unaudited)	December 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	9	240	166
Restricted cash		4	4
Financial assets	10	102	150
Accounts receivable, net of allowance of RUB 5 and RUB 5, respectively	11	251	217
Inventories	12	140	126
Prepayments and other current assets	13	164	152
Total current assets		901	815
Non-current assets:			
Property, plant and equipment	14	2,399	2,231
Intangible assets		21	22
Financial assets	16	29	34
Investments in associates and joint ventures	15	261	114
Bank loans granted, net of allowance of RUB 1 and RUB 1, respectively		14	13
Deferred tax assets		16	13
Goodwill		134	132
Other non-current non-financial assets		4	3
Total non-current assets		2,878	2,562
Assets held for sale	16	4	–
Total assets		3,783	3,377
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	17	228	181
Loans and borrowings		115	152
Finance lease liabilities		3	1
Liabilities related to derivative financial instruments		2	4
Income tax liabilities		14	3
Other tax liabilities	18	81	66
Provisions	19	4	6
Other current liabilities		1	1
Total current liabilities		448	414
Non-current liabilities:			
Loans and borrowings	20	769	596
Finance lease liabilities		9	5
Deferred tax liabilities		248	234
Provisions	19	52	57
Other non-current liabilities		1	2
Total non-current liabilities		1,079	894
Equity:			
Share capital	21	1	1
Treasury shares		(292)	(224)
Additional paid-in capital		385	386
Other funds and reserves		(3)	(5)
Retained earnings		2,129	1,877
Rosneft shareholders' equity		2,220	2,035
Non-controlling interest		36	34
Total equity		2,256	2,069
Total liabilities and equity		3,783	3,377

President I.I. Sechin November 1, 2012

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

Rosneft Oil Company

Consolidated statement of comprehensive income

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

	Notes	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Revenues					
Oil and gas sales	5	**393**	354	**1,141**	1,020
Petroleum products and petrochemicals sales	5	**398**	350	**1,096**	899
Support services and other revenues		**11**	11	**31**	35
Total revenues		**802**	715	**2,268**	1,954
Costs and expenses					
Production and operating expenses		**52**	56	**158**	140
Cost of purchased oil, gas, petroleum products and refining costs		**100**	88	**275**	189
General and administrative expenses		**15**	15	**48**	37
Pipeline tariffs and transportation costs		**61**	51	**179**	161
Exploration expenses		**6**	1	**15**	6
Depreciation, depletion and amortization	14	**59**	55	**166**	160
Taxes other than income tax	7	**165**	132	**484**	356
Export customs duty	6	**212**	220	**664**	567
Total costs and expenses		**670**	618	**1,989**	1,616
Operating income		**132**	97	**279**	338
Finance income		**6**	5	**15**	15
Finance expenses		**(5)**	(7)	**(12)**	(17)
Equity share in profits of associates and joint ventures		**7**	6	**20**	11
Other income	15	**84**	5	**85**	6
Other expenses	8	**(9)**	(11)	**(27)**	(29)
Result of operations with foreign currency, foreign exchange differences		**16**	(31)	**3**	(12)
Income before income tax		**231**	64	**363**	312
Income tax	7	**(50)**	(7)	**(78)**	(65)
Net income		**181**	57	**285**	247
Other comprehensive income					
Foreign exchange differences on translation of foreign operations		**5**	7	**4**	2
Gain/(loss) from changes in fair value of financial assets available-for-sale		**1**	(1)	**(2)**	–
Total other comprehensive income, net of tax		**6**	6	**2**	2
Total comprehensive income, net of tax		**187**	63	**287**	249
Net income					
attributable to Rosneft shareholders		**181**	56	**285**	244
attributable to non-controlling interests		**–**	1	**–**	3
Total comprehensive income, net of tax					
attributable to Rosneft shareholders		**187**	62	**287**	246
attributable to non-controlling interests		**–**	1	**–**	3
Net income attributable to Rosneft per common share (in RUB) – basic and diluted		**19.53**	5.84	**30.10**	25.44
Weighted average number of shares outstanding (millions)		**9,266**	9,588	**9,469**	9,592

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

Rosneft Oil Company

Consolidated statement of changes in shareholders' equity

(in billions of Russian rubles, except share amounts)

	Number of shares (millions)	Share capital	Additional paid-in capital	Treasury shares	Other funds and reserves	Retained earnings	Rosneft share-holders' equity	Non-controlling interests	Total equity
Balance at December 31, 2010	9,599	1	396	(221)	(5)	1,588	1,759	32	1,791
Net income	–	–	–	–	–	244	244	3	247
Other comprehensive loss	–	–	–	–	2	–	2	–	2
Total comprehensive income	–	–	–	–	2	244	246	3	249
Purchase of shares (Note 21)	(11)	–	–	(3)	–	–	(3)	–	(3)
Dividends declared on common stock	–	–	–	–	–	(26)	(26)	–	(26)
Change in ownership interest in subsidiaries	–	–	1	–	–	–	1	(3)	(2)
Balance at September 30, 2011	9,588	1	397	(224)	(3)	1,806	1,977	32	2,009
Balance at December 31, 2011	**9,588**	**1**	**386**	**(224)**	**(5)**	**1,877**	**2,035**	**34**	**2,069**
Net income	**–**	**–**	**–**	**–**	**–**	**285**	**285**	**–**	**285**
Other comprehensive loss	**–**	**–**	**–**	**–**	**2**	**–**	**2**	**–**	**2**
Total comprehensive income	**–**	**–**	**–**	**–**	**2**	**285**	**287**	**–**	**287**
Purchase of shares (Note 21)	**(322)**	**–**	**–**	**(68)**	**–**	**–**	**(68)**	**–**	**(68)**
Dividends declared on common stock	**–**	**–**	**–**	**–**	**–**	**(33)**	**(33)**	**–**	**(33)**
Change in ownership interest in subsidiaries	**–**	**–**	**(1)**	**–**	**–**	**–**	**(1)**	**2**	**1**
Balance at September 30, 2012	**9,266**	**1**	**385**	**(292)**	**(3)**	**2,129**	**2,220**	**36**	**2,256**

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

Rosneft Oil Company

Consolidated statement of cash flows

(in billions of Russian rubles)

	Notes	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Operating activities			
Net income		**285**	247
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	14	**166**	160
Loss on sale and disposal of non-current assets	8	**4**	9
Gain on disposal of subsidiaries	15	**(82)**	–
Asset impairment loss, net	14	**9**	2
Dry hole costs		**1**	1
Foreign exchange (gain)/loss		**(17)**	23
Equity share in profits of associates and joint ventures		**(20)**	(11)
Finance expenses		**12**	17
Finance income		**(15)**	(15)
Income tax expense	7	**78**	65
Changes in operating assets and liabilities:			
Increase in accounts receivable, gross		**(26)**	(88)
Increase in restricted cash		**–**	(3)
Increase in inventories		**(14)**	(52)
(Increase)/decrease in prepayments and other current assets		**(12)**	29
Increase in accounts payable and accrued liabilities		**48**	52
Increase in other tax liabilities		**17**	13
Decrease in current provisions		**(2)**	–
Decrease in other current liabilities		**(4)**	–
Decrease in other non-current liabilities		**–**	(8)
Long-term bank loans granted		**(26)**	(43)
Proceeds from long-term bank loans granted		**25**	39
Acquisition of trading securities		**(40)**	(28)
Proceeds from sale of trading securities		**43**	28
Net cash provided by operating activities before income tax and interest		**430**	437
Income tax payments		**(59)**	(77)
Interest received		**8**	9
Net cash provided by operating activities		**379**	369

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

Rosneft Oil Company

Consolidated statement of cash flows (continued)

(in billions of Russian rubles)

	Notes	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Investing activities			
Capital expenditures		**(344)**	(258)
Acquisition of licenses		**(2)**	(6)
Acquisition of short-term financial assets		**(45)**	(41)
Proceeds from sale of short-term financial assets		**72**	111
Acquisition of short-term notes receivable		**(48)**	(24)
Proceeds from sale of short-term notes receivable		**51**	7
Acquisition of long-term financial assets		**(2)**	(2)
Proceeds from sale of long-term financial assets		**5**	–
Acquisition of interest in associates and joint ventures	15	**(36)**	(47)
Acquisition of a subsidiary, net of cash acquired.	4	**(4)**	–
Sale of property, plant and equipment		**3**	1
Placements under reverse REPO agreements		**(14)**	(25)
Receipts under reverse REPO agreements		**33**	12
Net cash used in investing activities		**(331)**	(272)
Financing activities			
Proceeds from short-term loans and borrowings		**22**	17
Repayment of short-term loans and borrowings		**(31)**	(8)
Proceeds from long-term loans and borrowings	20	**229**	31
Repayment of long-term loans and borrowings		**(65)**	(92)
Cash paid for acquisition of treasury shares		**(68)**	(3)
Acquisition of non-controlling interests in subsidiaries		**(2)**	–
Dividends paid to shareholders		**(33)**	(26)
Interest paid		**(21)**	(18)
Net cash from/(used in) financing activities		**31**	(99)
Net increase/(decrease) in cash and cash equivalents		**79**	(2)
Cash and cash equivalents at beginning of period	9	**166**	127
Effect of foreign exchange on cash and cash equivalents		**(5)**	2
Cash and cash equivalents at end of period	9	**240**	127

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

1. General

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

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for 2011 prepared in accordance with International Financial Reporting Standards ("IFRS").

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Company omitted disclosures which would substantially duplicate the information contained in its 2011 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequent to the issuance of its 2011 audited consolidated financial statements. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the information presented not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company’s 2011 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present fairly the Company’s financial position, results of operations, statements of changes in shareholders' equity and cash flows for the interim reporting periods.

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by the Russian legislation. These interim condensed consolidated financial statements were derived from the Company’s Russian statutory books and records.

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

The interim condensed consolidated financial statements for the three and nine months ended September 30, 2012 were approved and authorized for issue by the President of the Company on November 1, 2012.

3. Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied and disclosed in the Company's IFRS annual consolidated financial statements for the year ended December 31, 2011.

Seasonality of operations

The Company's operations are not seasonal. Income and expenses are recognized on a straight-line basis throughout the year.

4. Business combinations

In February 2012, the Company acquired for RUB 4 billion 100% interest in Research and Development Center LLC which is engaged in developing advanced for oil and gas production and refining, and for petrochemical industry.

The following table summarizes the Company's purchase price allocation of Research and Development Center LLC to the fair value of assets acquired and liabilities assumed:

Property, plant and equipment	1
Intangible assets	2
Total non-current assets	**3**
Deferred tax liabilities	1
Total non-current liabilities	**1**
Total identifiable net assets at fair value	**2**
Goodwill	2
Purchase consideration transferred	**4**

In June 2012, the Company acquired for RUB 1 billion 100% interest in Polar Terminal LLC. Polar Terminal LLC is engaged in an investment project for construction of crude oil and petroleum products transshipment terminal. Allocation of purchase price to assets, liabilities and result of operations of Polar Terminal LLC are not significant to these interim condensed consolidated financial statements.

5. Segment information

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

Segment performance is evaluated based on both revenues and operating income which are measured on the same basis as in the consolidated financial statements, and of revaluation of intersegment transactions at market prices.

5. Segment information (continued)

Below is performance of the operating segments for the three months ended September 30, 2012 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues					
Revenues from external customers	**12**	**785**	**5**	**–**	**802**
Intersegment revenues	**323**	**–**	**–**	**(323)**	**–**
Total revenues	**335**	**785**	**5**	**(323)**	**802**
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	**164**	**754**	**16**	**(323)**	**611**
Depreciation, depletion and amortization	**50**	**8**	**1**	**–**	**59**
Total costs and expenses	**214**	**762**	**17**	**(323)**	**670**
Operating income	**121**	**23**	**(12)**	**–**	**132**
Finance income					**6**
Finance expenses					**(5)**
Total finance income					**1**
Equity share in profits of associates and joint ventures					**7**
Other income					**84**
Other expenses					**(9)**
Result of operations with foreign currency, foreign exchange differences					**16**
Income before income tax					**231**
Income tax					**(50)**
Net Income					**181**

Below is performance of the operating segments for the three months ended September 30, 2011 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues					
Revenues from external customers	12	697	6	–	715
Intersegment revenues	255	–	–	(255)	–
Total revenues	267	697	6	(255)	715
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	136	670	12	(255)	563
Depreciation, depletion and amortization	45	7	3	–	55
Total costs and expenses	181	677	15	(255)	618
Operating income	86	20	(9)	–	97
Finance income					5
Finance expenses					(7)
Total finance expenses					(2)
Equity share in profits of associates and joint ventures					6
Other income					5
Other expenses					(11)
Result of operations with foreign currency, foreign exchange differences					(31)
Income before income tax					64
Income tax					(7)
Net income					57

5. Segment information (continued)

Below is performance of the operating segments for the nine months ended September 30, 2012 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues					
Revenues from external customers	**35**	**2,214**	**19**	**–**	**2,268**
Intersegment revenues	**876**	**–**	**–**	**(876)**	**–**
Total revenues	**911**	**2,214**	**19**	**(876)**	**2,268**
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	**489**	**2,156**	**54**	**(876)**	**1,823**
Depreciation, depletion and amortization	**140**	**22**	**4**	**–**	**166**
Total costs and expenses	**629**	**2,178**	**58**	**(876)**	**1,989**
Operating income	**282**	**36**	**(39)**	**–**	**279**
Finance income					**15**
Finance expenses					**(12)**
Total finance income					**3**
Equity share in profits of associates and joint ventures					**20**
Other income					**85**
Other expenses					**(27)**
Result of operations with foreign currency, foreign exchange differences					**3**
Income before income tax					**363**
Income tax					**(78)**
Net income					**285**

Below is performance of the operating segments for the nine months ended September 30, 2011 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues					
Revenues from external customers	38	1,892	24	–	1,954
Intersegment revenues	790	–	–	(790)	–
Total revenues	828	1,892	24	(790)	1,954
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	370	1,835	41	(790)	1,456
Depreciation, depletion and amortization	137	19	4	–	160
Total costs and expenses	507	1,854	45	(790)	1,616
Operating income	321	38	(21)	–	338
Finance income					15
Finance expenses					(17)
Total finance expenses					(2)
Equity share in profits of associates and joint ventures					11
Other income					6
Other expenses					(29)
Result of operations with foreign currency, foreign exchange differences					(12)
Income before income tax					312
Income tax					(65)
Net income					247

5. Segment information (continued)

Oil and gas and petroleum products sales comprise the following (based on the country indicated in the bill of lading):

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Oil and gas sales				
Export sales of crude oil – Europe and other destinations	**265**	247	**772**	694
Export sales of crude oil – Asia	**98**	87	**290**	273
Export sales of crude oil – CIS, other than Russia	**22**	16	**58**	40
Domestic sales of crude oil	**1**	–	**5**	2
Domestic sales of gas	**7**	4	**16**	11
Total oil and gas sales	**393**	354	**1,141**	1,020

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Petroleum products and petrochemicals sales				
Export sales of petroleum products – Europe and other destinations	**171**	145	**467**	347
Export sales of petroleum products – Asia	**59**	50	**174**	162
Export sales of petroleum products – CIS, other than Russia	**3**	3	**7**	6
Domestic sales of petroleum products	**147**	133	**386**	345
Domestic sales of petrochemical products	**2**	1	**8**	7
Sales of petrochemical products – Europe	**16**	18	**54**	32
Total petroleum products and petrochemicals sales	**398**	350	**1,096**	899

6. Export customs duty

Export customs duty comprises the following:

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Export customs duty on oil and gas sales	**162**	176	**509**	444
Export customs duty on petroleum products and petrochemicals sales	**50**	44	**155**	123
Total export customs duty	**212**	220	**664**	567

7. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Current income tax	**37**	9	**67**	78
Deferred tax (benefit)/expense due to the origination and reversal of temporary differences	**13**	(2)	**11**	(13)
Total income tax	**50**	7	**78**	65

In addition to income tax, the Company accrued other taxes as follows:

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Mineral extraction tax	**133**	111	**395**	292
Excise tax	**23**	15	**59**	41
Property tax	**3**	3	**9**	9
Other	**6**	3	**21**	14
Total taxes other than income tax	**165**	132	**484**	356

8. Other expenses

Other expenses comprise the following:

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Sale and disposal of property, plant and equipment and intangible assets	**(4)**	(6)	**(4)**	(10)
Disposal of companies and non-production assets	**(2)**	(1)	**(10)**	(5)
Charity, sponsorship, financial aid, social payments	**(2)**	(2)	**(8)**	(9)
Other	**(1)**	(2)	**(5)**	(5)
Total other expenses	**(9)**	(11)	**(27)**	(29)

9. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	September 30, 2012 (unaudited)	December 31, 2011
Cash on hand and in bank accounts in RUB	**34**	22
Cash on hand and in bank accounts in foreign currencies	**132**	62
Deposits	**70**	80
Other	**4**	2
Total cash and cash equivalents	**240**	166

10. Short-term financial assets

Short-term financial assets comprise the following:

	September 30, 2012 (unaudited)	December 31, 2011
Financial assets available for sale:		
Bonds	**15**	13
Stocks and shares	**5**	2
Loans and receivables:		
Loans granted	**2**	2
Loans issued to associates and joint ventures	**15**	4
Notes receivable, net of allowance	**36**	36
Loans granted under reverse repurchase agreements	**3**	22
Deposits and deposit certificates	**2**	21
Structured deposits	**7**	31
Held-for-trading financial assets at fair value through profit or loss:		
Corporate bonds	**12**	16
Government bonds	**5**	3
Total short-term financial assets	**102**	150

11. Accounts receivable, net of allowance

Accounts receivable, net of allowance, include the following:

	September 30, 2012 (unaudited)	December 31, 2011
Trade receivables	**217**	183
Banking loans to customers	**25**	24
Other accounts receivable	**14**	15
Total	**256**	222
Valuation allowance for doubtful accounts	**(5)**	(5)
Total accounts receivable, net of allowance	**251**	217

As of September 30, 2012 and December 31, 2011, accounts receivable were not pledged as collateral for loans and borrowings provided to the Company.

12. Inventories

Inventories comprise the following:

	September 30, 2012 (unaudited)	December 31, 2011
Crude oil and associated gas	**49**	46
Petroleum products and petrochemicals	**57**	46
Materials and supplies	**20**	23
Work in progress	**14**	11
Total inventories	**140**	126

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

	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
The cost of inventories expensed during the period	**101**	82	**284**	185

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

13. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	September 30, 2012 (unaudited)	December 31, 2011
Value added tax and excise tax recoverable	**82**	62
Prepayments to suppliers	**23**	25
Prepaid customs duties	**40**	51
Other taxes	**15**	11
Other	**4**	3
Total prepayments and other current assets	**164**	152

14. Property, plant and equipment

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
Cost				
As of December 31, 2011	2,204	472	98	2,774
Additions and other movements	223	109	16	348
Disposals and other movements	(17)	(3)	(8)	(28)
Exchange differences	(4)	–	–	(4)
As of September 30, 2012	2,406	578	106	3,090
Depreciation, depletion and impairment losses				
As of December 31, 2011	(474)	(84)	(32)	(590)
Depreciation and depletion charge	(135)	(26)	(8)	(169)
Disposals and other movements	1	1	–	2
Impairment of assets	(6)	–	–	(6)
Exchange differences	3	–	–	3
As of September 30, 2012	(611)	(109)	(40)	(760)
Net book value				
As of December 31, 2011	1,730	388	66	2,184
As of September 30, 2012	1,795	469	66	2,330
Prepayments for property, plant and equipment				
As of December 31, 2011	11	29	7	47
As of September 30, 2012	6	51	12	69
Total as of December 31, 2011	**1,741**	**417**	**73**	**2,231**
Total as of September 30, 2012 (unaudited)	**1,801**	**520**	**78**	**2,399**

The Company capitalized RUB 17 billion and RUB 10 billion of interest expenses on loans and borrowings for the nine months ended September 30, 2012 and 2011, respectively.

Depreciation charge for the period includes RUB 3 billion of depreciation which was capitalized as part of the construction cost of property, plant and equipment and cost of inventory.

In the second quarter of 2012 the Company recognized an impairment of unproved property of RUB 6 billion. The corresponding expense was recorded in Disposal of companies and non-production assets in Other expenses in the consolidated statement of comprehensive income (Note 8).

15. Investments in joint ventures and associates

Taas-Yuryakh Neftegazodobycha LLC

In March 2012, the Company acquired 35.3% interest in Taas-Yuryakh Neftegazodobycha LLC from Sberbank Capital LLC for RUB 13 billion. Taas-Yuryakh Neftegazodobycha LLC holds licenses for oil production at the Srednebotuobinskoye oil, gas and condensate field located 160 km north of the Eastern Siberia – Pacific Ocean ("ESPO") oil pipeline. This acquisition was accounted for as an investment in associate using the equity method.

Shares of CJSC Arcticshelfneftegaz

In February 2012, the Company acquired 50% interest in CJSC Arcticshelfneftegaz ("ASNG") through acquisition of 100% interest in ArcticProminvest LLC for RUB 3 billion. ASNG was established for the purpose of raising private investments for the exploration and development of oil and gas resources of the Arctic shelf in the Barents Sea area. ASNG holds a license for the exploration and production of hydrocarbons at the Medyn-Varandei license area. The license is valid until 2025. Two oil fields (Varandei-sea and Medyn-sea) were discovered within the license area. This acquisition was accounted for as investment in jointly controlled entity using the equity method.

15. Investments in joint ventures and associates (continued)

Shares of Fueling Service Complex of International Airport Vnukovo

In April 2012, the Company acquired 50% interest in Fueling Service Complex of International Airport Vnukovo through acquisition of share in Lanard Holdings Ltd (Cyprus) for RUB 16 billion. International Airport Vnukovo is located in the Moscow Region and is one of the largest air transportation hubs in Russia. The acquisition was accounted for as an investment in jointly controlled entity using the equity method.

NGK ITERA LLC

In August 2012, the Company completed the acquisition of 51% of NGK ITERA LLC, one of the largest independent producers and traders of natural gas in Russia. 6% interest in equity of NGK ITERA LLC is to be paid in cash in the amount of US$ 173.4 million (RUB 6 billion at the CBR official exchange rate as of September 30, 2012). The Company also contributed its wholly owned subsidiary Kynsko-Chaselskoye neftegaz LLC for the increase in the equity interest of NGK ITERA LLC to 51%. The final settlement is subject to possible work capital and net debt adjustments as of the date of the transaction based on the financial results of NGK ITERA LLC and Kynsko-Chaselskoye neftegaz LLC. Acquisition of NGK ITERA LLC is accounted for provisionally in these interim consolidated financial statements as the Company did not finalize the valuation of the consideration transferred, which is expected to be finalized by the end of 2012. As a result the Company recognized gain in the amount of RUB 82 billion in Other income in the consolidated statement of comprehensive income before the income tax effect of RUB 17 billion. The acquisition of NGK ITERA LLC was accounted for as an investment in jointly controlled entity using the equity method.

RN Cardium Oil

In August 2012, the Company acquired 30 percent of ExxonMobil's stake in the Harmattan acreage in the Cardium project for RUB 2 billion. Cardium formation is located in the Western Canada Oil Basin in Alberta, Canada.

16. Assets held for sale

In March 2012, the Company entered into a sales-purchase agreement for investments in associates OJSC Kubanenergo and OJSC Tomsk Distribution Company with the subsequent purchase of additionally issued shares of OJSC IDGC Holding for the same amount. The Company recorded the disposal group at the fair value less costs to sell with recognition of RUB 1 billion gain in Other income in the consolidated statement of comprehensive income.

The shares of OJSC IDGC Holding were purchased in the second quarter of 2012 in the amount of RUB 5 billion and classified as available-for-sale securities in the Non-current financial assets. As of September 30, 2012 Company revaluated the shares and recognized RUB 1 billion loss in Other comprehensive income. The transaction of equity investments sale is planned to be completed by the end of March 2013.

17. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2012 (unaudited)	December 31, 2011
Accounts payable to suppliers and contractors	**126**	97
Advances received	**17**	18
Banking customer accounts	**43**	40
Salary and other benefits payable	**24**	17
Other accounts payable	**18**	9
Total accounts payable and accrued liabilities	**228**	181

Current accounts payable are normally settled within 34 days on average (2011: 32 days). Interest rates on banking customer accounts amount to 0.01%-2.5% p.a. Trade and other payables are non-interest bearing.

18. Other tax liabilities

Other tax liabilities comprise the following:

	September 30, 2012 (unaudited)	December 31, 2011
Mineral extraction tax	**45**	41
Value added tax	**21**	13
Excise tax	**10**	7
Personal income tax	**1**	–
Property tax	**3**	3
Other	**1**	2
Total other tax liabilities	**81**	66

19. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
Non-current	54	3	–	57
Current	–	1	5	6
As of December 31, 2011, including	**54**	**4**	**5**	**63**
Provisions charged during the year	4	1	–	5
Increase/ (decrease) in the liability resulting from:				
Changes in estimates	(2)	–	(1)	(3)
Change in discount rate	(9)	–	–	(9)
Unwinding of discount	3	–	–	3
Utilised	(1)	–	(2)	(3)
As of September 30, 2012 (unaudited), including	**49**	**5**	**2**	**56**
Non-current	49	3	–	52
Current	–	2	2	4

20. Long-term loans and borrowings

In April 2012, the Company received cash under two long-term unsecured loan agreements. One loan in the amount of US$ 1.05 billion (RUB 32.5 billion at the CBR official exchange rate as of September 30, 2012) and EUR 0.85 billion (RUB 33.8 billion at the CBR official exchange rate as of September 30, 2012) was received from a syndicate of foreign banks for 5 years at floating rates. Loans were raised for general corporate purposes. The second loan was received from a Russian bank at a fixed rate in the amount of US$ 1.0 billion (RUB 30.9 billion at the CBR official exchange rate as of September 30, 2012) repayable in 2015. These loans were raised to finance business activities.

During the third quarter 2012, the Company received cash under two long-term unsecured loan agreements. One loan in the amount of EUR 0.53 billion (RUB 21.2 billion at the CBR official exchange rate as of September 30, 2012) was received from a syndicate of foreign banks for 5 years at floating rates and RUB 100 billion from a Russian bank at a fixed rate repayable in 2015. These loans were raised for general corporate purposes.

As of September 30, 2012 the loans are fully drawn down.

21. Shareholders' equity

On June 20, 2012 the annual general shareholders' meeting approved dividends on the Company's common shares for 2011 in the amount of RUB 37 billion or RUB 3.45 per share. RUB 33 billion of the above are related to outstanding shares, including dividend withholding tax on treasury shares. In August 2012, the approved dividends were fully paid.

In June 2012, the Company purchased 321,963,949 of its own shares for RUB 68 billion or RUB 212 per share.

In August 2012, the Company paid 185,794 of treasury shares to compensate to independent members of the Company's Board of Directors for 2011 and 2012. Both fair and carrying value of the above shares approximated RUB 0.04 billion.

On September 17, 2012, Rosneft's Board of Directors recommended shareholders to approve additional dividends on the Rosneft's common shares for 2011 in the amount of RUB 4.08 per share, that is in total amount of RUB 38 billion relates to outstanding shares, including dividend withholding tax on treasury shares.

22. Related party transactions

For the purposes of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the normal course of business the Company enters into transactions with the following related parties: joint ventures and associates; joint operations; enterprises directly or indirectly controlled by the Russian Government; key management personnel; pension funds.

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

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

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

22. Related party transactions (continued)

Transactions with companies directly or indirectly controlled by the Russian Government

Revenues and income

	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Oil and gas sales	**82**	26
Petroleum products and petrochemicals sales	**21**	17
Finance income	**2**	7
	105	50

Costs and expenses

	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Production and operating expenses	**3**	6
Pipeline tariffs and transportation costs	**132**	130
Other expenses	**6**	6
	141	142

Other operations

	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Purchase of financial assets and investments in associates	**–**	(9)
Sale of financial assets and investments in associates	**–**	1
Loans received	**129**	–
Loans repaid	**–**	(3)
Repayment of loans and borrowings issued	**1**	–
Deposits placed	**1**	–
Deposits repaid	**39**	153
Purchase of shares	**1**	–

Settlement balances

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Cash and cash equivalents	**141**	55
Accounts receivable, net of allowance	**13**	11
Prepayments and other current assets	**13**	16
Financial assets	**8**	11
	175	93
Liabilities		
Accounts payable and accrued liabilities	**8**	2
Loans and borrowings	**96**	–
	104	2

22. Related party transactions (continued)

Transactions with joint ventures

Revenues and income

	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Finance income	**1**	4
	1	4

Costs and expenses

	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Cost of purchased oil, gas and petroleum products	**68**	49
Pipeline tariffs and transportation costs	**5**	4
Other expenses	**1**	4
	74	57

Other operations

	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Loans repaid	**(2)**	(2)
Repayment of loans and borrowings issued	**5**	1

Settlement balances

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Accounts receivable, net of allowance	**–**	1
Financial assets	**–**	6
	–	7
Liabilities		
Accounts payable and accrued liabilities	**4**	1
Loans and borrowings	**5**	7
	9	8

22. Related party transactions (continued)

Transactions with associates

Revenues and income

	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Oil and gas sales	**1**	1
Petroleum products and petrochemicals sales	**2**	4
Support services and other revenues	**3**	5
	6	10

Costs and expenses

	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Cost of purchased oil, gas and petroleum products	**12**	8
Production and operating expenses	**1**	3
Other expenses	**9**	2
	22	13

Other operations

	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Purchase of financial assets	**(3)**	(5)
Loans and borrowings issued	**1**	–
Repayment of loans and borrowings issued	**–**	4

Settlement balances

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Accounts receivable, net of allowance	**6**	8
Financial assets	**11**	10
	17	18
Liabilities		
Accounts payable and accrued liabilities	**15**	8
	15	8

22. Related party transactions (continued)

Transactions with non-state pension fund NPF Neftegarant

Costs and expenses

	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Other expenses	**2**	2

Other operations

	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Loans repaid	**–**	(1)

23. 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. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Company's future financial position, results of operations and business prospects.

Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Legal claims

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

23. Contingencies (continued)

Legal claims (continued)

In 2007, the Company successfully challenged the ICAC awards and the ICAC awards were set aside by the Russian courts, including the Supreme Arbitrazh Court of the Russian Federation. Yukos Capital S.a.r.l., nevertheless, sought to enforce the ICAC awards in the Netherlands. Although the district court in Amsterdam refused to enforce the ICAC awards on the ground that they were properly set aside by a competent court on April 28, 2009 the Amsterdam Court Appeal reversed the district court's judgment and allowed Yukos Capital S.a.r.l. to enforce the ICAC awards in the Netherlands. 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. Although the Company does not agree with the decisions of the Dutch courts above, on August 11, 2010 it complied with such decisions and arranged for relevant payments to be made with respect to the claim against the Company.

While the Dutch case was pending, 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.

Following the payments arranged by the Company noted above, Yukos Capital S.a.r.l. continues to seek statutory interest in the High Court of Justice in London in the amount of approximately RUB 4.6 billion as of the date of its Particulars of Claim. On June 14, 2011, the High Court issued an interim decision on two preliminary issues it had agreed to consider prior to reaching a decision on the merits of the claim. Although Yukos Capital S.a.r.l. prevailed on both issues, the court granted the Company leave to appeal, which it did. On June 27, 2012 the Court of Appeal of England handed down its judgment whereby the Company prevailed on one of these preliminary issues. No further appeals were requested by any party. The case will now return to the High Court of Justice to schedule the timetable for the next steps. The Company intends to defend its position vigorously in the remaining proceedings in England.

In 2007, lawsuits were filed in Russian arbitrazh courts in Moscow and Samara to nullify the loan agreements with Yukos Capital S.a.r.l. Court hearings in both cases were suspended for some time. However, February 1, 2012 the Arbitrazh Court of the Samara Region declared invalid the loan agreements between Yukos Capital S.a.r.l. and OJSC Samaraneftegaz. On July 17, 2012 the 11th Arbitrazh Appellate Court dismissed Yukos Capital S.a.r.l.'s appeal of that judgment. Yukos Capital S.a.r.l. filed a cassation appeal against both court decisions with the Federal Arbitrazh Court for Povolzhsky District.

On July 11, 2012 the Moscow Arbitrazh Court declared invalid the loan agreements between Yukos Capital S.a.r.l. and OJSC Yuganskneftegaz. On October 09, 2012 the 9th Arbitrazh Appellate Court dismissed Yukos Capital S.a.r.l.'s appeal of that judgment.

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 Samaraneftegaz 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 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. 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 Samaraneftegaz filed a motion for summary judgment on the issue of personal jurisdiction. Yukos Capital S.a.r.l. replied on February 17, 2012. OJSC Samaraneftegaz submitted its response on March 5, 2012. On July 24, 2012, the U.S. S.D.N.Y. granted summary judgment to Yukos Capital S.a.r.l. on the issue of personal jurisdiction over OJSC Samaraneftegaz in New York. On September 25, 2012, both Yukos Capital S.a.r.l. and OJSC Samaraneftegaz filed their memorandums of law in support of motion for summary judgment together with the statements of undisputed material facts with the U.S. S.D.N.Y. Whether to enforce the award will be the subject of future proceedings.

23. Contingencies (continued)

Legal claims (continued)

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

During 2009-2012, the Federal Antimonopoly Service ("FAS Russia") and its regional bodies claimed that the Company and some of its subsidiaries (associates) violated certain antimonopoly regulations in relation to petroleum products trading and passed respective decisions on administrative liability. As of September 30, 2012, the total amount of administrative fines levied by FAS Russia and its regional bodies against Rosneft and its subsidiaries amounts to RUB 0.4 billion.

Rosneft and its subsidiaries are involved in other litigations which arise from time to time in the course of their business activities. Management believes that the ultimate result of those litigations will not materially affect the performance or financial position of the Company.

Taxation

Legislation and regulations regarding taxation in Russia continue to evolve. Various legislative acts 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.

In Russia 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.

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 the absence of law enforcement precedents based on the new rules and certain contradictions in the provisions of the new law, such rules cannot be considered clear and precise. To eliminate influence of the significant risks associated with transfer pricing to the consolidated financial statements, the Company developed methods of pricing for all types of controlled transactions, a standard on preparation of reporting documentation, also the Company systematically researches databases to determine the market price level (ROI) of the controlled transactions.

According to additions to part one of the Tax code of the Russian Federation, brought by the Federal law of the Russian Federation from November 16, 2011 No. 321-FZ, the Company created the Consolidated group of taxpayers which included 22 of subsidiaries of the Company, including Rosneft. Rosneft became a responsible taxpayer of the group. The Company management believes that creation of the consolidated group of taxpayers does not lead to significant changes of tax burden of the Company for the purpose of these interim condensed consolidated financial statements.

During the reporting period, the tax authorities continued examinations of Rosneft and its certain subsidiaries for 2008-2011 fiscal years. Rosneft and its subsidiaries dispute a number of claims in pre-trial and trial appeal in federal tax service. The Company management does not expect results of the examinations to have a material impact on the Company's consolidated financial position or results of operations.

23. Contingencies (continued)

Taxation (continued)

As of September 30, 2012, the amount of VAT potentially unrecoverable from the tax authorities is immaterial. The Company currently reimburses the current VAT in full in a declarative manner.

Management believes that the above tax risks will not have any 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. Potential liabilities which were identified by management at the reporting date as those that can be subject to different interpretations of 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 differ from the budgeted amounts.

As of September 30, 2012, the Company's contractual commitments for capital construction and purchase of property, plant and equipment amount to RUB 346.5 billion.

Environmental liabilities

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

24. Events after the reporting period

On October 22, 2012, Rosneft announced that it has entered into an agreement in principle with BP to acquire its 50% interest in TNK-BP in exchange for US$ 17.1 billion (RUB 537 billion at the CBR official exchange rate as of November 1, 2012) in cash and 12.84% Rosneft shares currently held in treasury.

The execution of the final documentation is conditional on the approval by the Russian government and final board approvals by Rosneft and BP. In addition, completion of the transaction would be subject to customary conditions, including regulatory and other approvals, and is expected to occur in the first half of 2013.

In addition, Rosneft has agreed heads of terms with the AAR consortium (Alfa Group, Access Industries and Renova) («AAR») to acquire AAR's 50% interest in TNK-BP for cash consideration of US$ 28.0 billion (RUB 878 billion at the CBR official exchange rate as of November 1, 2012), subject to the negotiation of definitive agreements, corporate and regulatory approvals and certain other conditions.

On October 29, 2012, Rosneft sold certified interest-bearing non-convertible bonds with 10-year tenor totaling RUB 20 billion by public offering. The market price was equal to the nominal value and amounted to RUB 1 thousand per bond.

Rosneft Oil Company

Consolidated Financial Statements

December 31, 2011

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Independent auditors' report

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

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

A member firm of Ernst & Young Global Limited

Opinion

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

Other matters

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

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

Ernst & Young LLC

March 1, 2012

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

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

Rosneft Oil Company

Consolidated Statement of Comprehensive Income

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

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

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

Rosneft Oil Company

Consolidated Statement of Changes in Shareholders' Equity

(in billions of Russian rubles, except share amounts)

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

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

Rosneft Oil Company

Consolidated Statement of Cash Flows

(in billions of Russian rubles)

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

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

Rosneft Oil Company

Consolidated Statement of Cash Flows (continued)

(in billions of Russian rubles)

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

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

1. General

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

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

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

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

2. Basis of preparation

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

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

2. Basis of preparation (continued)

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

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

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

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

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

3. Significant accounting policies

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

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

Business combinations, goodwill and other intangible assets

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

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

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

3. Significant accounting policies (continued)

Business combinations, goodwill and other intangible assets (continued)

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

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

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

Associates

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

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

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

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

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

Joint ventures

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

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

3. Significant accounting policies (continued)

Joint ventures (continued)

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

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

Cash and cash equivalents

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

Financial assets

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

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

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

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

3. Significant accounting policies (continued)

Financial assets (continued)

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

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

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

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

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

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

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

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

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

Financial liabilities

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

3. Significant accounting policies (continued)

Financial liabilities (continued)

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

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

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

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

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

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

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

Earnings per share

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

Inventories

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

Repurchase and resale agreements

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

3. Significant accounting policies (continued)

Exploration and production assets

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

Exploration and evaluation costs

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

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

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

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

Development and production

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

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

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

3. Significant accounting policies (continued)

Other property, plant and equipment

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

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

Depreciation, depletion and amortization

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

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

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

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

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

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

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

Impairment of non-current assets

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

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

3. Significant accounting policies (continued)

Impairment of non-current assets (continued)

External sources of information:

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

Internal sources of information:

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

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

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

3. Significant accounting policies (continued)

Impairment of non-current assets (continued)

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

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

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

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

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

Impairment of financial assets

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

Capitalized interest

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

Leasing agreements

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

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

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

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

3. Significant accounting policies (continued)

Asset retirement (decommissioning) obligations

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

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

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

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

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

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

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

Income tax

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

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

3. Significant accounting policies (continued)

Income tax (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities are not discounted.

3. Significant accounting policies (continued)

Recognition of revenues

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

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

Transportation expenses

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

Refinery maintenance costs

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

Environmental liabilities

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

Accounting for contingencies

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

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

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

3. Significant accounting policies (continued)

Taxes collected from customers and remitted to governmental authorities

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

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

Functional and presentation currency

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

Transactions and balances

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

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

The Company's subsidiaries

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

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

4. Significant accounting judgments, estimates and assumptions

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

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

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

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

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

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

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

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

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

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

5. New standards and interpretations issued but not yet effective

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

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

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

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

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

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

6. Capital and financial risk management

Capital management

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

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

6. Capital and financial risk management (continued)

Capital management (continued)

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

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

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

Financial risk management

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

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

Foreign currency risk

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

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

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

6. Capital and financial risk management (continued)

Foreign currency risk (continued)

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

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

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

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

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

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

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

Interest rate risk

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

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

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

6. Capital and financial risk management (continued)

Interest rate risk (continued)

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

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

*Down to 0.0% on the variable element.

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

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

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

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

Commodity price risk

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

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

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

6. Capital and financial risk management (continued)

Commodity price risk (continued)

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

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

Credit risk

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

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

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

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

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

Liquidity risk

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

6. Capital and financial risk management (continued)

Liquidity risk (continued)

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

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

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

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

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

7. Segment information

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

7. Segment information (continued)

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

Operating segments in 2011:

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

7. Segment information (continued)

Operating segments in 2010:

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

7. Segment information (continued)

Operating segments in 2009:

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

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

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

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

8. Taxes other than income tax

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

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

9. Export customs duty

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

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

10. Finance income

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

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

11. Finance expenses

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

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

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

12. Other income and expenses

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

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

13. Personnel expenses

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

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

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

14. Operating leases

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

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

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

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

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

15. Income tax

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

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

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

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

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

15. Income tax (continued)

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

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

15. Income tax (continued)

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

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

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

16. Non-controlling interests

Non-controlling interests include:

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

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

17. Earnings per share

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

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

18. Cash and cash equivalents

Cash and cash equivalents consist of the following:

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

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

Deposits are interest bearing and denominated primarily in RUB.

Restricted cash as comprises the following:

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

19. Short-term financial assets

Short-term financial assets comprise the following:

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

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

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

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

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

19. Short-term financial assets (continued)

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

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

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

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

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

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

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

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

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

19. Short-term financial assets (continued)

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

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

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

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

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

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

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

20. Accounts receivable

Accounts receivable, net of allowance, include the following:

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

20. Accounts receivable (continued)

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

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

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

21. Inventories

Inventories comprise the following:

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

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

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

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

22. Prepayments and other current assets

Prepayments comprise the following:

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

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

23. Property, plant and equipment and construction in progress

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

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

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

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

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

Exploration and evaluation assets

Exploration and evaluation assets comprise the following:

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

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

Mineral rights

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

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

Provision for asset retirement (decommissioning) obligations

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

24. Intangible assets and goodwill

Intangible assets and goodwill comprise the following:

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

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

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

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

24. Intangible assets and goodwill (continued)

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

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

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

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

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

25. Long-term financial assets

Long-term financial assets comprise the following:

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

25. Long-term financial assets (continued)

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

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

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

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

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

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

Shares of OJSC TGK-11

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

Shares of OJSC INTER RAO UES

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

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

26. Investments in joint ventures and associates

Investments in joint ventures and associates comprise the following:

Name of an investee	Country	The Company's share, %	As of December31, 2011	2010	2009	As of January 1, 2009
Joint Ventures						
LLC Polar Lights Company	Russia	50.00	**2**	2	2	3
OJSC Tomskneft VNK	Russia	50.00	**34**	39	44	43
OJSC Verkhnechonskneftegaz	Russia	25.94	**16**	8	7	6
Rosneft Shell Caspian Vent.	Russia	51.00	**1**	1	1	1
Ruhr Oel GmbH	Germany	50.00	**46**	–	–	–
Taihu Ltd	Cyprus	51.00	**2**	–	–	–
Associates						
OJSC Kubanenergo	Russia	27.97	**2**	3	5	3
Other associates			**11**	10	9	8
Total joint ventures and associates			**114**	63	68	64

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

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

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

26. Investments in joint ventures and associates (continued)

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

The Company's share in net assets	OJSC Tomskneft VNK
Current assets	10
Non-current assets	53
Total assets	**63**
Current liabilities	(20)
Non-current liabilities	(12)
Total liabilities	**(32)**
Total Company's share in net assets	**31**

The Company's share in net profit	OJSC Tomskneft VNK
Sales revenue	40
Cost of sales	(41)
Gross profit	**(1)**
Other income	2
Profit before tax	**1**
Income tax	–
Total Company's share in net profit	**1**

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

The Company's share in net assets	OJSC Tomskneft VNK
Current assets	13
Non-current assets	55
Total assets	**68**
Current liabilities	(21)
Non-current liabilities	(12)
Total liabilities	**(33)**
Total Company's share in net assets	**35**

The Company's share in net profit	OJSC Tomskneft VNK
Sales revenue	36
Cost of sales	(34)
Gross profit	**2**
Other income	5
Profit before tax	**7**
Income tax	(2)
Total Company's share in net profit	**5**

26. Investments in joint ventures and associates (continued)

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

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

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

Unrecognized losses of associates comprise:

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

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

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

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

Ruhr Oel GmbH ("ROG")

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

OJSC Kubanenergo

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

OJSC Tomsk Distribution Company ("TDC")

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

26. Investments in joint ventures and associates (continued)

OJSC Tomskneft VNK

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

LLC Polar Lights Company ("PLC")

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

Rosneft-Shell Caspian Ventures Limited ("JV")

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

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

OJSC Verkhnechonskneftegaz

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

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

Taihu Ltd. / OJSC Udmurtneft

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

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

Other investments

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

27. Other non-current non-financial assets

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

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

28. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

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

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

29. Loans, borrowings and finance lease liabilities

Loans and borrowings comprise the following:

	Currency	As of December 31, 2011	2010	2009	As of January1, 2009
Long-term					
Bank loans	US$, Euro	**658**	629	565	339
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz	US$	**–**	3	43	77
Borrowings	RUB	**–**	–	1	1
Customer deposits	RUB	**5**	8	6	3
Customer deposits	US$, Euro	**2**	1	2	–
Promissory notes payable	RUB	**–**	2	2	29
Other loans proceeds	RUB	**4**	2	–	–
Less: Current portion of long-term loans and borrowings		**(73)**	(96)	(147)	(156)
Long-term loans and borrowings		**596**	549	472	293
Short-term					
Borrowings	RUB	**7**	8	11	9
Borrowings – Yukos related	RUB	**8**	8	20	19
Bank loans	RUB	**5**	–	–	78
Bank loans	US$	**–**	–	–	18
Customer deposits	RUB	**15**	8	8	7
Customer deposits	US$, Euro	**3**	3	5	4
Promissory notes payable	RUB	**1**	2	3	47
Promissory notes payable – Yukos related	RUB	**40**	40	43	20
Borrowings	US$	**–**	1	–	–
Obligations under a repurchase agreement		**–**	1	–	56
Current portion of long-term loans		**73**	96	147	156
Short-term loans and borrowings and current portion of long-term loans		**152**	167	237	414
Total loans and borrowings		**748**	716	709	707

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

Long-term bank loans comprise the following:

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

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

Long-term loans and borrowings

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

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

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

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

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

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

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

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

Short-term loans and borrowings

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

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

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

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

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

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

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

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

Finance lease

	As of December 31,			As of January1,
	2011	**2010**	**2009**	**2009**
Long-term finance lease liabilities	**6**	**4**	**4**	**4**
Including short-term financial lease liabilities	*1*	*1*	*1*	*1*

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

Finance lease (continued)

Repayments of finance lease obligations comprise the following:

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

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

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

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

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

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

Finance lease (continued)

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

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

30. Current liabilities related to derivative instruments

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

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

Derivative financial liabilities comprise:

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

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

31. Other taxes payable

Other taxes payable comprise the following:

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

32. Provisions

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

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

33. Pension benefit obligations

Defined contribution plans

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

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

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

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

34. Other non-current liabilities

Other non-current liabilities comprise the following:

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

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

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

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

35. Shareholders' equity

Common shares

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

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

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

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

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

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

Treasury shares

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

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

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

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

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

35. Shareholders' equity (continued)

Additional paid-in capital

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

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

36. Fair value of financial instruments

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

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

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

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

36. Fair value of financial instruments (continued)

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

	Fair value measurement as of December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Current assets				
Held-for-trading	13	2	–	15
Available-for-sale	1	5	–	6
Non-current assets				
Available-for-sale	1	–	–	1
Total assets measured at fair value	15	7	–	22
Current liabilities:				
Derivative financial instruments	–	(5)	–	(5)
Total liabilities measured at fair value	–	(5)	–	(5)

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

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

36. Fair value of financial instruments (continued)

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

	Carrying value				Fair value			
	As of December 31,			As of January1,	As of December 31,			As of January1,
	2011	2010	2009	2009	2011	2010	2009	2009
Financial assets								
Financial assets at fair value through profit or loss:								
Derivative financial instruments	**–**	2	–	–	**–**	2	–	–
Promissory notes	**–**	–	1	–	**–**	–	1	–
Corporate and state bonds	**19**	23	14	2	**19**	23	14	2
Loans issued:								
Bank deposits	**52**	157	76	3	**52**	157	76	3
Loans issued to associates	**17**	23	17	14	**17**	23	17	14
Other	**1**	1	26	27	**1**	1	26	27

	Carrying value				Fair value			
	As of December 31,			As of January1,	As of December 31,			As of January1,
	2011	2010	2009	2009	2011	2010	2009	2009
Financial liabilities								
Financial liabilities at amortized cost:								
Accounts payable	**(181)**	(113)	(104)	(89)	**(181)**	(113)	(104)	(89)
Loans and borrowings with variable interest rate	**(657)**	(634)	(610)	(419)	**(603)**	(566)	(542)	(416)
Loans and borrowings with fixed interest rate	**(91)**	(82)	(99)	(288)	**(91)**	(82)	(99)	(288)
Financial liabilities at fair value, through profit or loss:								
Derivative financial instruments	**(4)**	(6)	(5)	(6)	**(4)**	(6)	(5)	(6)
Financial lease liabilities	**(6)**	(4)	(4)	(4)	**(6)**	(4)	(4)	(4)

37. Related party transactions

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

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

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

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

37. Related party transactions (continued)

Transactions with companies directly or indirectly controlled by the Russian Government

Revenues and income

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

Costs and expenses

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

Other operations

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

Settlement balances

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

37. Related party transactions (continued)

Transactions with associates and other related parties

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

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

Revenues and income

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

Costs and expenses

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

Other operations

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

Settlement balances

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

37. Related party transactions (continued)

Compensation to key management personnel

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

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

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

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

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

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

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

38. Key subsidiaries

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

38. Key subsidiaries (continued)

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

38. Key subsidiaries (continued)

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

38. Key subsidiaries (continued)

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

39. Contingencies

Russian Business Environment

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

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

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

Legal claims

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

39. Contingencies (continued)

Legal claims (continued)

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

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

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

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

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

On July 2, 2010, Yukos Capital S.a.r.l. filed a petition with the U.S. District Court for the Southern District of New York (the "U.S. S.D.N.Y.") seeking confirmation of the ICC award against OJSC Samaraneftegaz 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 Samaraneftegaz 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.

39. Contingencies (continued)

Legal claims (continued)

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

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

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

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

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

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

Taxation

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

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

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

39. Contingencies (continued)

Taxation (continued)

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

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

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

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

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

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

Capital commitments

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

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

39. Contingencies (continued)

Environmental liabilities

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

Long-term contracts

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

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

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

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

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

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

40. Events after the reporting period

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

40. Events after the reporting period (continued)

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

41. First-time adoption of IFRS

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

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

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

The Company has taken the following voluntary exemptions:

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

41. First-time adoption of IFRS (continued)

	Exemption	Accounting policies
5.	Decommissioning liabilities included in the cost of property, plant and equipment	The Company has taken the exemption for liabilities to which IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities,* applies, specifically: - The Company has estimated the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to the date of transition using its best estimate of the historical discount rate that would have applied for that liability over the intervening period. - The Company has calculated the accumulated depreciation relating to such amount as at the transition date based on the current estimate of the asset's useful life using the depreciation method elected by the Company for IFRS purposes.
6.	Leases	The Company has analyzed all lease agreements (designated as finance or operating lease under US GAAP) to determine whether they should be designated differently at the date of transition to IFRS pursuant to IFRIC 4, *Determining Whether an Arrangement Contains a Lease.*

The Company has taken the following mandatory exemptions:

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

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

41. First-time adoption of IFRS (continued)

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

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

41. First-time adoption of IFRS (continued)

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

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

41. First-time adoption of IFRS (continued)

Reconciliation of consolidated balance sheet as at December 31, 2011

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

41. First-time adoption of IFRS (continued)

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

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

41. First-time adoption of IFRS (continued)

Reconciliation of 2011 consolidated statement of comprehensive income

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

41. First-time adoption of IFRS (continued)

Reconciliation of 2011 consolidated statement of comprehensive income (continued)

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

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

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

Decommissioning provision

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

41. First-time adoption of IFRS (continued)

Deferred tax recalculated under IFRS

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

Reclassification of current deferred tax assets and liabilities

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

Other adjustments

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

Functional currency

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

42. Supplementary oil and gas disclosure (unaudited)

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

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

Presented below are capitalized costs relating to oil and gas production

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

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

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

for the years ended December 31:

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

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

For the years ended December 31:

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

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

Reserve quantity information

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

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

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

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

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

Reserve quantity information

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

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

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

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

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

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

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

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

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

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

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

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

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

Rosneft Oil Company

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
ASSETS			
Current assets:			
Cash and cash equivalents	3	**5,172**	4,154
Restricted cash	3	**117**	30
Short-term investments	4	**4,655**	6,814
Accounts receivable, net	5	**9,036**	7,512
Inventories	6	**4,011**	2,111
Deferred tax assets	18	**216**	174
Prepayments and other current assets	7	**2,435**	2,156
Assets held for sale	8	**–**	92
Total current assets		**25,642**	23,043
Non-current assets:			
Long-term investments	8	**5,059**	2,936
Long-term bank loans granted, net of allowance of US$ 31 and US$ 16, respectively		**403**	304
Property, plant and equipment, net	9	**67,748**	61,190
Goodwill	11	**4,507**	4,507
Intangible assets, net	11	**702**	767
Deferred tax assets	18	**218**	125
Other non-current assets	12	**1,689**	957
Total non-current assets		**80,326**	70,786
Total assets		**105,968**	93,829
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	13	**5,821**	3,861
Short-term loans and current portion of long-term debt	14	**4,734**	5,498
Income and other tax liabilities	15	**2,146**	1,971
Deferred tax liabilities	18	**127**	86
Other current liabilities		**165**	240
Liabilities related to assets held for sale	8	**–**	37
Total current liabilities		**12,993**	11,693
Asset retirement obligations	19	**2,642**	2,328
Long-term debt	14	**18,557**	18,057
Deferred tax liabilities	18	**4,653**	4,908
Other non-current liabilities	20	**321**	1,339
Total non-current liabilities		**26,173**	26,632
Equity:			
Common stock, par value 0.01 RUB (shares outstanding: 9,588 million and 9,599 million as of December 31, 2011 and 2010, respectively)	16	**20**	20
Treasury shares (at acquisition cost: 1,010 million and 999 million shares as of December 31, 2011 and 2010, respectively)		**(7,615)**	(7,511)
Additional paid-in capital	16	**12,899**	13,110
Other comprehensive income/(loss)		**33**	(20)
Retained earnings		**60,424**	48,936
Total shareholders' equity		**65,761**	54,535
Noncontrolling interests		**1,041**	969
Total equity		**66,802**	55,504
Total liabilities and equity		**105,968**	93,829

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
Revenues				
Oil and gas sales	23	**47,417**	34,767	24,820
Petroleum products and petrochemicals sales	23	**43,020**	26,660	20,736
Support services and other revenues		**1,538**	1,620	1,270
Total		**91,975**	63,047	46,826
Costs and expenses				
Production and operating expenses		**6,540**	4,792	4,024
Cost of purchased oil, gas and petroleum products and refining costs		**10,058**	2,386	1,890
General and administrative expenses		**1,785**	1,584	1,416
Pipeline tariffs and transportation costs		**7,329**	6,980	5,414
Exploration expense		**448**	439	325
Depreciation, depletion and amortization		**5,996**	5,597	4,350
Accretion expense		**146**	107	87
Taxes other than income tax	18	**16,911**	10,920	8,061
Export customs duty	17	**26,882**	16,743	12,131
Total		**76,095**	49,548	37,698
Operating income		**15,880**	13,499	9,128
Other income/(expenses)				
Interest income		**658**	547	516
Interest expense		**(320)**	(580)	(605)
Loss on disposal of non-current assets		**(230)**	(156)	(350)
Gain on disposal of investments		**39**	23	5
Equity share in affiliates' profits	8	**577**	60	112
Dividends and income/(loss) from joint ventures		**11**	11	(8)
Other expenses, net	4, 8, 20, 22	**(260)**	(120)	(350)
Foreign exchange (loss)/gain		**(649)**	32	71
Total other expenses, net		**(174)**	(183)	(609)
Income before income tax		**15,706**	13,316	8,519
Income tax	18	**(3,117)**	(2,644)	(2,000)
Net income		**12,589**	10,672	6,519
Net income attributable to noncontrolling interests		**(137)**	(272)	(5)
Net income attributable to Rosneft		**12,452**	10,400	6,514
Other comprehensive income		**53**	2	18
Comprehensive income		**12,505**	10,402	6,532
Net income attributable to Rosneft per share (in US$) – basic and diluted		**1.30**	1.08	0.68
Weighted average number of shares outstanding (millions)		**9,591**	9,598	9,598

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 comprehen-sive income/(loss)	Retained earnings	Total shareholders' equity	Noncon-trolling interests	Total equity
Balance at December 31, 2008	**9,598**	**20**	**13,108**	**(7,521)**	**(40)**	**33,336**	**38,903**	**695**	**39,598**
Net income for the year	–	–	–	–	–	6,514	6,514	5	6,519
Purchase of shares	(1)	–	–	(4)	–	–	(4)	–	(4)
Unrealized gain on available-for-sale securities	–	–	–	–	18	–	18	–	18
Dividends declared on common stock	–	–	–	–	–	(600)	(600)	–	(600)
Dividends declared to minority shareholders in subsidiaries	–	–	–	–	–	–	–	(7)	(7)
Change in ownership interests in subsidiaries	–	–	–	–	–	–	–	13	13
Balance at December 31, 2009	**9,597**	**20**	**13,108**	**(7,525)**	**(22)**	**39,250**	**44,831**	**706**	**45,537**
Net income for the year	–	–	–	–	–	10,400	10,400	272	10,672
Sale of shares	2	–	(1)	14	–	–	13	–	13
Unrealized gain on available-for-sale securities	–	–	–	–	2	–	2	–	2
Dividends declared on common stock	–	–	–	–	–	(714)	(714)	–	(714)
Dividends declared to minority shareholders in subsidiaries	–	–	–	–	–	–	–	(6)	(6)
Change in ownership interests in subsidiaries	–	–	3	–	–	–	3	(3)	–
Balance at December 31, 2010	**9,599**	**20**	**13,110**	**(7,511)**	**(20)**	**48,936**	**54,535**	**969**	**55,504**
Net income for the year	–	–	–	–	–	12,452	12,452	137	12,589
Purchase of shares (Note 16)	(11)	–	–	(104)	–	–	(104)	–	(104)
Effect of a transaction with a related party under common control (Note 16)	–	–	89	–	–	–	89	–	89
Unrealized loss on available-for-sale securities	–	–	–	–	(24)	–	(24)	–	(24)
Foreign currency translation reserve	–	–	–	–	77	–	77	–	77
Dividends declared on common stock (Note 16)	–	–	–	–	–	(964)	(964)	–	(964)
Dividends declared to minority shareholders in subsidiaries	–	–	–	–	–	–	–	(4)	(4)
Change in ownership interests in subsidiaries (Note 16)	–	–	(300)	–	–	–	(300)	(61)	(361)
Balance at December 31, 2011	**9,588**	**20**	**12,899**	**(7,615)**	**33**	**60,424**	**65,761**	**1,041**	**66,802**

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
Operating activities				
Net income		**12,589**	10,672	6,519
Adjustments to reconcile net income to net cash provided by operating activities:				
Effect of foreign exchange		**(142)**	(21)	(454)
Depreciation, depletion and amortization		**5,996**	5,597	4,350
Dry hole costs		**154**	114	170
Loss on disposal of non-current assets		**230**	156	350
(Gain)/loss from assets and liabilities written off	4, 8, 20	**(321)**	31	–
Deferred income tax benefit	18	**(189)**	(253)	(106)
Accretion expense		**146**	107	87
Equity share in affiliates' profits	8	**(577)**	(60)	(112)
Gain on disposal of investments		**(39)**	(23)	(5)
Increase/(decrease) in allowance for doubtful accounts and bank loans granted		**22**	47	(41)
Gain on extinguishment of promissory notes	14	**(4)**	(178)	(207)
Changes in operating assets and liabilities net of acquisitions:				
Increase in accounts receivable		**(1,446)**	(964)	(287)
Increase in inventories		**(1,900)**	(232)	(459)
Increase in restricted cash		**(87)**	(10)	(16)
Increase in prepayments and other current assets		**(289)**	(97)	(280)
(Increase)/decrease in other non-current assets		**(4)**	14	117
(Increase)/decrease in long-term bank loans granted		**(114)**	23	(2)
(Decrease)/increase in interest payable		**(108)**	63	128
Increase in accounts payable and accrued liabilities		**1,915**	307	555
Increase in income and other tax liabilities		**213**	351	820
Decrease in other current and non-current liabilities		**(422)**	(239)	(365)
Acquisition of trading securities		**(2,183)**	(1,134)	(997)
Proceeds from sale of trading securities		**2,309**	901	554
Net cash provided by operating activities		**15,749**	15,172	10,319

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
Investment activities				
Capital expenditures		**(13,246)**	(8,931)	(7,252)
Acquisition of licences		**(254)**	(140)	(96)
Acquisition of rights to use trademarks "Sochi 2014"	11	**(18)**	(18)	(104)
Proceeds from disposals of property, plant and equipment		**58**	55	33
Acquisition of short-term investments, including				
Held-to-maturity securities, deposits and loans given		**(2,114)**	(4,190)	(2,911)
Available-for-sale securities		**(1,185)**	(692)	(225)
Proceeds from redemption/sale of short-term investments, including				
Held-to-maturity securities, deposits and loans given		**5,730**	1,636	2,534
Available-for-sale securities		**638**	665	66
Acquisition of short-term notes receivable		**(1,177)**	(251)	–
Proceeds from sale of short-term notes receivable		**354**	–	–
Acquisition of long-term investments, including				
Held-to-maturity securities and loans given		**(21)**	(193)	(628)
Available-for-sale securities		**(66)**	(10)	(1,035)
Proceeds from redemption/sale of long-term investments, including				
Held-to-maturity securities and loans given		**16**	15	1
Available-for-sale securities		**2**	1	3
Acquisition of entities, additional shares in subsidiaries and equity investees, net of cash acquired	8, 16	**(2,038)**	(5)	(67)
Margin call deposit placed		**–**	–	(293)
Margin call deposit returned		**–**	–	1,208
Placements under reverse REPO agreements		**(1,053)**	(403)	(22)
Receipts under reverse REPO agreements		**768**	22	–
Net cash used in investing activities		**(13,606)**	(12,439)	(8,788)
Financing activities				
Proceeds from short-term debt		**897**	274	1,029
Repayment of short-term debt		**(626)**	(779)	(7,180)
Proceeds from long-term debt		**3,842**	5,910	11,844
Repayment of long-term debt		**(4,044)**	(5,235)	(5,939)
Cash paid for acquisition of treasury shares		**(104)**	–	(5)
Proceeds from sale of treasury shares		**–**	13	–
Dividends paid to shareholders		**(949)**	(730)	(622)
Dividends paid to minority shareholders in subsidiaries		**(4)**	(11)	(4)
Net cash used in financing activities		**(988)**	(558)	(877)
Increase in cash and cash equivalents		**1,155**	2,175	654
Cash and cash equivalents at beginning of period		**4,154**	1,997	1,369
Effect of foreign exchange on cash and cash equivalents		**(137)**	(18)	(26)
Cash and cash equivalents at end of period		**5,172**	4,154	1,997
Supplementary disclosures of cash flow information				
Cash paid for interest		**805**	618	690
Cash paid for interest (net of amount capitalized)		**333**	271	336
Cash paid for income tax		**3,123**	2,891	1,561
Supplementary disclosure of non-cash activities				
Income tax offsets		**–**	–	289

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

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.

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 Common Shares	Voting Shares
		%	%
Exploration and production			
LLC RN-Yuganskneftegaz	Oil and gas production operator services	100.00	100.00
LLC RN-Purneftegaz	Oil and gas production operator services	100.00	100.00
LLC RN-Sakhalinmorneftegaz	Oil and gas production operator services	100.00	100.00
LLC RN-Krasnodarneftegaz	Oil and gas production operator services	100.00	100.00
LLC RN-Stavropolneftegaz	Oil and gas production operator services	100.00	100.00
LLC RN-Severnaya Neft (Northern Oil)	Oil and gas production operator services	100.00	100.00
CJSC RN-Astra	Oil and gas development and production	100.00	100.00
CJSC Sakhalinmorneftegaz Shelf	Oil and gas development and production	100.00	100.00
OJSC Dagneftegaz	Oil and gas development and production	81.22	81.22
OJSC Rosneft-Dagneft	Oil and gas development and production	68.70	68.70
CJSC Vankorneft	Oil and gas development and production	93.96	93.96
OJSC Grozneftegaz	Oil and gas production operator services	51.00	51.00
LLC RN-Exploration	Field survey and exploration	100.00	100.00
LLC RN-Kaiganneftegaz	Field survey and exploration	100.00	100.00
LLC Vostok-Smidt Invest	Investment activities	100.00	100.00
LLC Zapad-Smidt Invest	Investment activities	100.00	100.00
OJSC East-Siberian Oil and Gas Company	Oil and gas development and production	99.52	99.52
LLC Val Shatskogo	Oil and gas development	100.00	100.00
OJSC Samaraneftegaz	Oil and gas development and production	100.00	100.00
Refining, marketing and distribution			
LLC RN-Tuapse Refinery	Petroleum refining	100.00	100.00
LLC RN-Komsomolsky Refinery	Petroleum refining	100.00	100.00
OJSC Rosneft-MZ Nefteproduct	Petroleum refining	65.42	65.42
OJSC Angarsk Petrochemical Company	Petroleum refining	100.00	100.00
OJSC Achinsk Refinery	Petroleum refining	100.00	100.00
OJSC Angarsk Polymer Plant	Petroleum refining	100.00	100.00
OJSC Kuybyshev Refinery	Petroleum refining	100.00	100.00
OJSC Novokuybyshev Refinery	Petroleum refining	100.00	100.00
OJSC Syzran Refinery	Petroleum refining	100.00	100.00
CJSC Neftegorsk Gas-Processing Plant	Gas processing	100.00	100.00
CJSC Otradny Gas-Processing Plant	Gas processing	100.00	100.00
OJSC Rosneft-ARTAG	Marketing and distribution	38.00	50.67
OJSC Rosneft-Altainefteproduct	Marketing and distribution	64.18	78.59
LLC RN-Arkhangelsknefteproduct	Marketing and distribution	100.00	100.00
OJSC Rosneft-Kabardino-Balkarskaya Toplivnaya Company	Marketing and distribution	99.81	99.89
OJSC Rosneft-Kubannefteproduct	Marketing and distribution	89.50	96.61
OJSC Rosneft-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

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 Mytischi Fuel Company	Marketing and distribution	100.00	100.00
OJSC Stavropolnefteproduct	Marketing and distribution	100.00	100.00
LLC U-Kuban	Marketing and distribution	100.00	100.00
LLC RN-Ingushnefteproduct	Marketing and distribution	100.00	100.00
Rosneft Trading S.A.	Marketing and distribution	100.00	100.00
Trumpet Limited	Marketing and distribution	100.00	100.00
Other			
Rosneft International Ltd.	Holding company	100.00	100.00
CJSC Rosnefteflot	Transportation services	51.00	51.00
OJSC All-Russian Bank for Reconstruction and Development of Russian Regions (VBRR)	Banking	84.67	84.67
OJSC Dalnevostochniy Bank	Banking	82.06	82.62
CJSC RN-Shelf-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.

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.

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.

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.

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.

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.

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:

Asset Group	Average Useful Life
Buildings and constructions	30 - 45 years
Plant and machinery	5 - 25 years
Vehicles and other equipment	6 -10 years
Service vessels	20 years
Offshore drilling assets	20 years

Interests in Joint Operations

A joint operation is a contractual arrangement whereby two or more parties (participants) undertake an economic activity that is subject to joint control. Joint control is only exercised when strategic, financial and operating decisions relating to the joint activity are made unanimously by all the parties. A joint venture is a registered company, partnership or any other legal form for the purposes of handling joint operations.

Financial results, assets and liabilities arising from interests in incorporated joint ventures are recognized in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in joint ventures are recognized at the cost of financial investments increased by any change to the share of net assets from the date of inception of a joint venture, less distributed earnings and impairment of financial investments. The consolidated statements of income and comprehensive income include the Company’s share in gains and losses arising from joint ventures.

The Company discontinues the use of the equity method of accounting from the date on which it ceases to have joint control over, or have significant influence in, a jointly-controlled entity.

Undivided interests in unincorporated oil and gas joint ventures are consolidated on a proportionate basis.

A part of an interest in a jointly-controlled oil and gas exploration and production entity may be assigned to other participants or third parties. In which case, in accordance with FASB ASC 932, such assignment is performed and accounted for under an arrangement called a "carried interest" whereby the assignee agrees to carry all costs of drilling, developing, and operating the property. The assignee is also entitled to all of the revenue from hydrocarbon production from the property, excluding any third party interest, until all of the assignee's costs, including the contractual rate of return, have been recovered, at such time the assignor will resume its participation in operating expenses and income.

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.

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.

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.

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.

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.

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.

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.

3. Cash and Cash Equivalents

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

	2011	2010
Cash on hand and at bank accounts in RUB	**722**	671
Cash on hand and at bank accounts in currencies other than RUB	**1,914**	843
Deposits	**2,497**	2,625
Other	**39**	15
Total cash and cash equivalents	**5,172**	4,154

Restricted cash as of December 31 comprises the following:

	2011	2010
Obligatory reserve with the CBR	**34**	21
Offsetting account under joint venture agreement with BP Group in Euro (Note 8)	**83**	–
Other restricted cash	**–**	9
Total restricted cash	**117**	30

The obligatory reserve with the CBR represents the amount deposited by the Company's subsidiary bank, VBRR, with the CBR for securing the current operating activity of the bank. Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, which amount depends on the level of funds raised by the credit institution and this amount has certain restrictions for use.

Cash accounts denominated in currencies other than RUB are primarily in US$.

Deposits are interest bearing and denominated primarily in RUB.

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

4. Short-Term Investments

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

	2011	2010
Short-term loans granted	**48**	1
Loans to related parties	**117**	70
Reverse repurchase agreements	**687**	403
Structured deposits (Note 24)	**979**	3,791
Held-to-maturity state bonds	**4**	–
Notes receivable, net	**958**	227
Trading securities		
State and corporate bonds	**603**	727
Other	**–**	2
Available-for-sale securities	**618**	260
Bank deposits	**641**	1,333
Total short-term investments	**4,655**	6,814

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:

	2011			2010		
Type of security	**Balance**	**Interest rate**	**Date of maturity**	**Balance**	**Interest rate**	**Date of maturity**
State and municipal bonds	**98**	6.7% - 15.0%	December 2012 - February 2036	23	5.14% - 18.1%	April 2011 - February 2036
Corporate bonds	**505**	6.47% - 19.0%	February 2012 - October 2021	283	5.8% - 19.0%	February 2011 - June 2020
Bonds issued by CBR (with weighted average effective interest rate)	**–**	–	–	421	3.52%	February 2011 - March 2011
Total	**603**			727		

As of December 31 available-for-sale securities comprise the following:

	2011			2010		
Type of security	**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	**–**	–	–
Total	**618**			260		

As of December 31, 2010, the corporate bonds in the amount of US$ 31 million were pledged under repurchase agreements. As of December 31, 2011 the Company does not have liabilities under repurchase agreements. Amortized cost bases of available-for-sale securities approximate their fair values.

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:

	2011	2010
Trade receivables	**5,687**	4,077
Value-added tax and excise receivable (Note 22)	**1,937**	2,126
Other taxes	**345**	283
Banking loans to customers	**748**	789
Other	**464**	375
Less: allowance for doubtful accounts	**(145)**	(138)
Total accounts receivable, net	**9,036**	7,512

The Company's trade accounts receivable are denominated primarily in US$. Credit risk is managed through the use of letters of credit. Credit risk for domestic sales of petroleum products is managed through the use of bank guarantees for receivables repayment.

6. Inventories

Inventories as of December 31 comprise the following:

	2011	2010
Materials and supplies	**764**	451
Crude oil and associated gas	**1,469**	595
Petroleum products and petrochemicals	**1,778**	1,065
Total inventories	**4,011**	2,111

Materials and supplies mostly include spare parts. Petroleum products and petrochemicals include those designated for sale as well as for own use. As of December 31, 2011 crude oil and associated gas, petroleum products and petrochemicals included oil for processing at Ruhr Oel GmbH ("ROG") and oil products produced at ROG (see Note 8).

7. Prepayments and Other Current Assets

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

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

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

8. Long-Term Investments

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

	2011	2010
Equity method investments		
Ruhr Oel GmbH	**1,652**	–
OJSC Tomskneft VNK	**1,159**	1,334
LLC Polar Lights Company	**69**	70
JV Rosneft-Shell Caspian Ventures Ltd.	**21**	19
OJSC Verkhnechonskneftegaz	**540**	277
National Oil Consortium Ltd.	**124**	3
CJSC Vlakra	**110**	110
Taihu Ltd	**267**	–
Investments in power and utilities companies	**94**	190
Other	**174**	171
Total equity method investments	**4,210**	2,174
Available-for-sale securities		
INTER RAO UES	**146**	–
Other securities in Company's banks	**13**	17
Held-to-maturity securities		
Russian government bonds	**40**	49
Loans		
Long-term loans	**9**	–
Long-term loans to equity investees	**409**	679
Notes receivable, net (long-term portion)	**216**	–
Cost method investments	**16**	17
Total long-term investments	**5,059**	2,936

As of December 31, 2011 the long-term portion of notes receivable in the amount of US$ 299 million was considered as temporarily impaired, therefore an allowance in the amount of US$ 83 million was established.

Long-term loans to equity investees generally have contractual maturities from 3 to 8 years.

In March 2011, the registration of National Oil Consortium Ltd.'s ("NOC") equity capital increase was completed. The increase reflected a conversion of the Rosneft's earlier loan into contribution to NOC's equity. The Company's 20% ownership share in NOC did not change. NOC is involved in geological exploration of the Junin-6 block in Venezuela jointly with a subsidiary of Petróleos de Venezuela S.A., Venezuela's state oil company.

Equity share in profits/(losses) of material investments recorded using the equity method:

	Participation interest (percentage) as of December 31, 2011	Share in income/(loss) of equity investees		
		2011	2010	2009
Ruhr Oel GmbH	**50.00**	**18**	–	–
Taihu Ltd	**51.00**	**267**	–	–
LLC Polar Lights Company	**50.00**	**26**	16	26
OJSC Verkhnechonskneftegaz	**25.94**	**263**	43	5
JV Rosneft-Shell Caspian Ventures Ltd.	**51.00**	**2**	3	2
OJSC Kubanenergo	**27.97**	**(9)**	(45)	–
OJSC Tomskneft VNK	**50.00**	**12**	38	147
Other	**various**	**(2)**	5	(68)
Total equity share in profits		**577**	60	112

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.

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.

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
Total property, plant and equipment	**97,570**	85,361	**(29,822)**	(24,171)	**67,748**	61,190

During 2011, the Company purchased land plots that had previously been leased, and reclassified land leasehold rights in the amount of US$ 86 million from Intangible assets to Property, Plant and Equipment in the consolidated balance sheet as of December 31, 2011.

During 2011 there was a decrease of freight rates and tariffs on the global transport services market. In this regard, the Company identified impairment indicators for its three twin-hull shuttle oil tankers, included in Other activities category of Property, Plant and Equipment. According to ASC 360-10-35, *Property, Plant and Equipment: Subsequent Measurement,* the Company compared carrying and fair value of these fixed assets. To measure the fair value the Company used market information on similar oil tankers. The Company recognized impairment loss in the amount of US$ 127 million within Other expenses in the consolidated statements of income and comprehensive income.

Exploration and production assets include costs to acquire unproved properties in the amount of US$ 4,192 million and US$ 4,104 million as of December 31, 2011 and 2010, respectively. The Company plans to explore and develop the respective properties. The Company's management believes these costs are recoverable.

The Company used reserves data (see Supplementary oil and gas disclosure) to calculate depletion relating to oil and gas properties for 2011 and 2010 and for the assessment of impairment of oil and gas assets.

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):

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

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)**
Present value of capital lease payments	**184**

The charge to income resulting from amortization of leased property, plant and equipment is included with Depreciation, depletion and amortization in consolidated statements of income and comprehensive income for 2011, 2010 and 2009 in the amount of US$ 19 million, US$ 39 million and US$ 26 million, respectively.

Operating Leases

The total amount of operating lease expenses was as follows:

	2011	2010	2009
Total lease expenses	**(303)**	(233)	(240)
Total sublease revenues	**5**	1	2

11. Goodwill and Intangible Assets

As of December 31, 2011 and 2010, goodwill represents the excess of the purchase price of additional shares and interests in various entities in the refining, marketing and distribution segment and the exploration and production segment in the amounts of US$ 3,793 million and US$ 714 million, respectively, over the fair value of the corresponding acquired share in net assets.

In accordance with FASB ASC 350, *Intangibles—Goodwill and Other*, the Company performed its annual impairment test of goodwill as of October 1, 2011 based on the assumptions as of that date. As a result of this annual test, no impairment of goodwill was identified.

Goodwill acquired through business combinations has been allocated to the reporting units being operating segments – the exploration and production segment and refining, marketing and distribution segment. In assessing whether goodwill has been impaired, the carrying amount of the reporting unit (including goodwill) was compared with the estimated fair value of the reporting unit.

The Company estimated fair value of the reporting units using a discounted cash flow model. The future cash flows were adjusted for risks specific to the asset and discounted using a discount rate, which represented the Company's post-tax weighted average cost of capital.

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

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 trade-marks "Sochi 2014"	**172**	172	**(78)**	(47)	**94**	125
Rights to use technology in petrochemical production	**90**	–	**–**	–	**90**	–
Other	**62**	61	**(17)**	(12)	**45**	49
Total intangible assets	**954**	951	**(252)**	(184)	**702**	767

Land leasehold rights were purchased with the assets of the companies acquired in 2007 and are amortized on a straight line basis over an estimated average useful life of 20 years.

Rights to use "Sochi 2014" trademarks were acquired in the third quarter of 2009. The cost of these rights is amortized on a straight line basis over an estimated useful life of 5.5 years, which is the period the Company expects to benefit from these assets.

Rights to use technology in petrochemical production were acquired by the Company in 2011 in connection with the start of own petrochemical production construction in the Far East. Amortization of these rights is deferred through commencement of commercial operations.

Amortization of intangible assets charge is included with Depreciation, depletion and amortization in consolidated statements of income and comprehensive income for 2011, 2010 and 2009 in the amounts of US$ 71 million, US$ 81 million and US$ 61 million, respectively.

The following represents the estimated aggregate amortization expense for each of the five succeeding fiscal years for intangible assets subject to amortization:

2012	**72**
2013	**72**
2014	**69**
2015	**37**
2016	**37**
Total amortization expense for the five succeeding years	**287**

12. Other Non-Current Assets

Other non-current assets as of December 31 comprise the following:

	2011	**2010**
Advances paid for capital construction	**1,446**	752
Debt issue costs	**70**	60
Prepaid insurance	**48**	17
Other, net	**125**	128
Total other non-current assets	**1,689**	957

13. Accounts Payable and Accrued Liabilities

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

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

The Company's accounts payable are primarily denominated in RUB.

14. Short-Term Loans and Long-Term Debt

Short-term loans and borrowings as of December 31 comprise the following:

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

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks. Customer deposits denominated in RUB bear interest rates ranging from 0.01% to 9.25% and those denominated in other currencies bear an interest ranging from 0.01% to 6.90%.

As of December 31, 2011, weighted average interest rate on promissory notes was 3.13%. The promissory notes are recorded at amortized cost.

Promissory notes payable – Yukos related represent financing originally received from the entities that were related to Yukos Oil Company on the debt issue date. The promissory notes are primarily payable on demand and bear interest ranging from 0% to 18%. The promissory notes are recorded at amortized cost.

RUB denominated borrowings – Yukos related primarily include borrowings provided by Yukos Capital S.a.r.l., which bear interest of 9% and matured at the end of 2007. The Company partially repaid these liabilities following the court order (see Note 22).

In 2011, the Company received cash under the repurchase agreements and recorded these transactions as financing secured by the corporate bonds owned by the Company. As of December 31, 2011, the Company does not have liabilities under repurchase agreements.

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:

	2011	2010
Bank loans – currencies other than RUB	**20,502**	20,690
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US$ denominated	**–**	110
Customer deposits – currencies other than RUB	**68**	44
Customer deposits – RUB denominated	**165**	277
Promissory notes payable	**3**	69
Other borrowings	**88**	30
	20,826	21,220
Current portion of long-term debt	**(2,269)**	(3,163)
Total long-term debt	**18,557**	18,057

As of December 31, 2011, the interest rates on the Company's long-term bank loans denominated in currencies other than RUB ranged from LIBOR plus 0.58% to 4.35%. These bank loans are primarily secured by contracts for the export of crude oil.

In December 2011, Rosneft received cash under a syndicated long-term floating rate debt agreement with foreign banks in the amount of US$ 1.4 billion and EUR 0.47 billion. The debt is repayable within 5 years.

As of December 31, 2011, the bank loan raised for funding the acquisition of OJSC Yuganskneftegaz was fully repaid.

As of December 31, 2011, customer deposits represent fixed-term deposits placed by customers with the Company’s subsidiary banks. The RUB-denominated deposits bear interest ranging from 0.01% to 14.50%. Deposits denominated in currencies other than RUB bear interest of 0.75% to 14.00%.

As of December 31, 2011, weighted average interest rate on promissory notes payable was 13.07%. The promissory notes are recorded at amortized cost.

Generally, long-term loans are secured by oil export contracts. Typically, under the terms of such contracts, the lender is provided with a direct right to claim contractual revenue which must be remitted directly to a transit currency (US$ denominated) accounts with those banks, should the Company fail to make timely debt repayments.

The Company is obliged to comply with a number of restrictive financial and other covenants contained within its debt agreements. Restrictive covenants include maintaining certain financial ratios.

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

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**
Total long-term debt	**20,826**

15. Income and Other Tax Liabilities

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

	2011	2010
Mineral extraction tax	**1,285**	1,103
Value-added tax	**399**	347
Excise tax	**232**	135
Personal income tax	**15**	16
Property tax	**88**	66
Income tax	**79**	205
Other	**48**	99
Total income and other tax liabilities	**2,146**	1,971

Tax liabilities above include restructured tax liabilities (see Note 20).

16. Shareholders' Equity

In April 2011, the Company purchased 11,296,701 of its own shares for RUB 2.9 billion or RUB 258 per share, which corresponds to US$ 103.6 million or US$ 9.17 per share at the CBR official exchange rate on the transaction date.

On June 10, 2011, the annual general shareholders' meeting approved dividends on the Rosneft's common shares for 2010 in the amount of RUB 29.3 billion or RUB 2.76 per share, which corresponds to US$ 1.06 billion or US$ 0.1 per share at the CBR official exchange rate at the approval date. US$ 964 million of the above relate to outstanding shares, including tax on dividends on treasury shares of US$ 9 million.

Result of Transactions with Related Parties under Common Control

In July 2011, the Company completed the exchange of share in its subsidiary for shares in INTER RAO UES (see Note 8). The net result of the exchange amounted to US$ 89 million gain, net of income tax effect of US$ 22 million. The Company recorded this result, net of income tax effect, as a component of additional paid-in capital, as the transaction was with a related party under common control.

Change in Ownership Interests in Subsidiaries

In 2011 the Company acquired additional shares in its two subsidiaries. The effect of these transactions in the total amount of US$ 300 million was accounted for as a reduction of additional paid-in capital.

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
Total export customs duty	**26,882**	16,743	12,131

18. Income and Other Taxes

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

	2011	2010	2009
Current income tax expense	**3,306**	2,897	2,106
Deferred income tax benefit	**(189)**	(253)	(106)
Total income tax expense	**3,117**	2,644	2,000

The Company does not file a consolidated tax return, rather each legal entity files separate tax returns with various authorities, primarily in the Russian Federation.

Temporary differences between these consolidated financial statements and tax records gave rise to the following deferred income tax assets and liabilities as of December 31:

	2011	2010
Deferred income tax asset arising from tax effect of:		
Asset retirement obligations	**266**	209
Property, plant and equipment	**72**	54
Prepayments and other current assets	**26**	18
Accounts receivable	**20**	31
Accounts payable and accruals	**107**	82
Inventories	**7**	9
Investments	**65**	34
Interest swap contract	**34**	39
Tax loss carry forward	**44**	–
Other	**93**	96
Total deferred tax asset	**734**	572
Valuation allowance for deferred income tax asset	**(300)**	(273)
Deferred income tax asset, net	**434**	299
Deferred income tax liability arising from tax effect of:		
Mineral rights	**(2,209)**	(2,409)
Property, plant and equipment and other	**(2,571)**	(2,585)
Deferred income tax liability	**(4,780)**	(4,994)
Net deferred income tax liability	**(4,346)**	(4,695)

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
Income taxes	**3,117**	2,644	2,000

The effect of income tax relieves represents the impact of lower income tax rates for Rosneft and certain of its subsidiaries under applicable regional laws. These laws provide that the income tax exemptions, ranging from 4% to 4.5%, are granted to oil and gas producing companies which make capital investments, agreed with regional administrations, within the respective region and participate in various social projects, as well as to refining companies and to companies engaged in sale of petroleum products. These exemptions are granted in various regions on an annual or monthly basis.

As of December 31, 2011 and 2010, the Company analyzed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Company believes that it is more likely than not that the majority of deductible tax positions stated in the income tax return would be sustained upon the examination by the tax authorities. This is supported by the results of the examinations of the income tax returns which have been conducted to date.

In addition to income tax, the Company incurred other taxes as follows:

	2011	2010	2009
Mineral extraction tax	**14,022**	9,051	6,502
Excise tax	**1,873**	1,105	893
Property tax	**390**	284	236
Other	**626**	480	430
Total taxes other than income tax	**16,911**	10,920	8,061

19. Asset Retirement Obligations

The movement of asset retirement obligations is as follows:

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

Asset retirement obligations represent an estimate of costs of wells liquidation, recultivation of sand pits, slurry ponds, disturbed lands and dismantling pipelines and power transmission lines.

20. Other Non-Current Liabilities

Other non-current liabilities as of December 31 comprise the following:

	2011	2010
Restructured tax liabilities	**–**	1,020
Long-term lease obligations	**166**	97
Deferred income	**–**	20
Liabilities to municipalities under amicable agreements	**29**	51
Liabilities for rights to use trademarks "Sochi 2014" (Note 11)	**24**	38
Environmental remediation liability	**85**	111
Other	**17**	2
Total other non-current liabilities	**321**	1,339

Under the tax restructuring plan, the restructured tax liabilities should have been repaid quarterly within five years starting from March 2008. The Company's payments excluding interest amounted to RUB 15.9 billion and RUB 6.4 billion (US$ 512.2 million and US$ 210.4 million at the CBR official exchange rate as of the payment dates) for the years ended December 31, 2011 and 2010, respectively. In October 2011, the Company early repaid the principal amount of tax liabilities for a total amount of RUB 8.5 billion (US$ 259 million at the CBR official exchange rate as of the payment date), and in view of that the Company made a write-off of the major part of the restructured tax liabilities in the total amount of RUB 22.2 billion (US$ 718.1 million at the CBR official exchange rate as of the date of the write-off). The Company recognized income on the extinguishment of restructured tax liabilities within Other income in the consolidated statements of income and comprehensive income. As of December 31, 2011, remaining balance of the restructured tax liabilities is included in current liabilities in the amount of RUB 1.6 billion (US$ 49.0 million at the CBR official exchange rate as of December 31, 2011).

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.

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:

	2011	2010	2009
Revenues and income			
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
	2,113	1,170	655
Costs and expenses			
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
	6,750	4,345	3,436
Other operations			
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

	December 31, 2011	December 31, 2010
Assets		
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
	2,902	7,637
Liabilities		
Accounts payable	**48**	50
Short-term and long-term debt (including interest)	**4**	114
	52	164

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
Revenues and income			
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
Costs and expenses			
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
Other operations			
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
Assets		
Accounts receivable	**269**	247
Prepayments and other current assets	**9**	9
Short-term and long-term investments	**500**	460
	778	716
Liabilities		
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.

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.

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.

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.

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 Samaraneftegaz, 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 Samaraneftegaz 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 Samaraneftegaz. The Moscow Arbitrazh Court has recently scheduled a hearing for February 21, 2012 to consider whether it should reopen the relevant proceedings as well.

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 Samaraneftegaz 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 Samaraneftegaz 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 Samaraneftegaz 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.

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.

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:

	Exploration and production	**Refining, marketing and distribution**	**All other**	**Total elimination**	**Consolidated**
Revenues from external customers	**1,699**	**87,437**	**2,839**	**–**	**91,975**
Intersegmental revenues	**24,083**	**5,925**	**8,585**	**(38,593)**	**–**
Total revenues	**25,782**	**93,362**	**11,424**	**(38,593)**	**91,975**
Production and operating expenses and cost of purchased oil, gas and petroleum products and refining costs	**2,586**	**12,568**	**1,444**	**–**	**16,598**
Depreciation, depletion and amortization	**4,945**	**816**	**235**	**–**	**5,996**
Operating income	**11,218**	**35,484**	**7,771**	**(38,593)**	**15,880**
Total other expense, net					**(174)**
Income before tax					**15,706**
Total assets	**53,975**	**41,424**	**10,569**	**–**	**105,968**

Operating segments in 2010:

	Exploration and production	**Refining, marketing and distribution**	**All other**	**Total elimination**	**Consolidated**
Revenues from external customers	1,149	59,847	2,051	–	63,047
Intersegmental revenues	17,737	4,337	7,845	(29,919)	–
Total revenues	18,886	64,184	9,896	(29,919)	63,047
Production and operating expenses and cost of purchased oil, gas and petroleum products and refining costs	2,348	3,746	1,084	–	7,178
Depreciation, depletion and amortization	4,503	864	230	–	5,597
Operating income	10,111	28,167	5,140	(29,919)	13,499
Total other expense, net					(183)
Income before tax					13,316
Total assets	49,961	35,871	7,997	–	93,829

23. Segment Information (continued)

Operating segments in 2009:

	Exploration and production	Refining, marketing and distribution	All other	Total elimination	Consolidated
Revenues from external customers	981	44,358	1,487	–	46,826
Intersegmental revenues	9,723	2,876	5,490	(18,089)	–
Total revenues	10,704	47,234	6,977	(18,089)	46,826
Production and operating expenses and cost of purchased oil, gas and petroleum products and refining costs	1,935	3,239	740	–	5,914
Depreciation, depletion and amortization	3,405	755	190	–	4,350
Operating income	5,172	17,437	4,608	(18,089)	9,128
Total other expense, net					(609)
Income before tax					8,519
Total assets	47,531	28,522	7,179	–	83,232

Below is a breakdown of revenues by domestic and export sales.

	2011	2010	2009
Oil and gas sales			
International sales of crude oil – Europe and other directions	**32,496**	22,895	18,275
International sales of crude oil – Asia	**12,488**	9,824	4,744
International sales of crude oil – CIS	**1,847**	1,363	1,313
Domestic sales of crude oil	**100**	269	134
Domestic sales of gas	**486**	416	354
Total oil and gas sales	**47,417**	34,767	24,820
Petroleum products and petrochemicals sales			
International sales of petroleum products – Europe and other directions	**17,009**	8,401	6,827
International sales of petroleum products – Asia	**7,616**	5,985	4,895
International sales of petroleum products – CIS	**277**	172	144
Domestic sales of petroleum products	**16,093**	11,686	8,630
Domestic sales of petrochemicals	**332**	297	170
International sales of petrochemicals	**1,693**	119	70
Total petroleum products and petrochemicals sales	**43,020**	26,660	20,736

The Company had one major customer in 2011 and one such customer in 2010 and 2009 which accounted for 10% or more of total revenues in each respective year. These customers accounted for revenues of US$ 13,937 million, US$ 9,559 million, and US$ 5,332 million or 15%, 15% and 11% of total revenues, respectively. These revenues are recognized mainly under the refining, marketing and distribution segment. Management does not believe that the Company is dependent on any particular customer.

24. Fair Value of Financial Instruments and Risk Management

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

	Fair value measurement as of December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Current assets				
Trading securities	**277**	**326**	**–**	**603**
Available-for-sale securities	**259**	**359**	**–**	**618**
Derivatives	**–**	**3**	**–**	**3**
Non-current assets				
Available-for-sale securities	**146**	**13**	**–**	**159**
Total assets measured at fair value	**682**	**701**	**–**	**1,383**
Current liabilities:				
Derivatives	**–**	**(121)**	**–**	**(121)**
Total liabilities measured at fair value	**–**	**(121)**	**–**	**(121)**

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

The market for a number of financial assets and liabilities is not active. In accordance with requirements of FASB ASC 820-10-35-47 observable inputs of Level 2 were used to determine fair value of such financial assets and liabilities.

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

	Fair value measurement as of December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Non-current assets				
Property, plant and equipment	**92**	**–**	**–**	**92**
Equity method investments	**71**	**–**	**–**	**71**
Total assets measured at fair value	**163**	**–**	**–**	**163**

As of December 31, 2011 property, plant and equipment represent the fair value measurement of three twin-hull shuttle oil tankers (see Note 9). As of December 31, 2011, equity method investments represent the Company's investments in OJSC Kubanenergo and OJSC Tomsk Distribution Company measured at fair value (see Note 8).

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).

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

Structured deposit agreements and related gains and losses are as follows:

			Fair value		Foreign exchange gain/loss	
Issue date	Expiry date	Nominal amount	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.

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

	As of December 31,	
Consolidated entities:	**2011**	**2010**
Oil and gas properties:		
Proved	**71,115**	62,960
Unproved	**4,192**	4,104
Total capitalized costs	**75,307**	67,064
Accumulated depreciation, depletion and valuation allowances	**(22,952)**	(18,370)
Net capitalized costs	**52,355**	48,694

The share of the Company in the capitalized costs of equity investees on December 31, 2011 and 2010 was US$ 2,643 million and US$ 2,631 million, respectively.

Net book value of mineral rights on December 31, 2011 and 2010 was US$ 15.7 billion and US$ 16.2 billion, respectively.

Cost Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities

Consolidated entities:	**2011**	**2010**	**2009**
Acquisition of properties:			
Proved	**–**	–	–
Unproved	**254**	140	96
Exploration costs	**448**	439	325
Development costs	**7,989**	6,618	5,422

The share of the Company in acquisition, exploration and development expenditures of its equity investees was US$ 522 million, US$ 324 million and US$ 493 million in 2011, 2010 and 2009, respectively.

Supplementary Oil and Gas Disclosure (unaudited) (continued)

Results of Operations for Oil & Gas Producing Activities

Consolidated entities:	2011	2010	2009
Revenues:			
Sales	**26,237**	18,284	13,463
Transfers	**12,863**	12,902	10,056
Total	**39,100**	31,186	23,519
Production costs (excluding production taxes)	**2,445**	2,319	1,869
Selling, general and administrative expenses	**838**	740	630
Exploration expenses	**448**	439	325
Accretion expenses	**146**	107	87
Depreciation, depletion, and amortization, and valuation provisions	**4,943**	4,503	3,318
Taxes other than income tax	**14,564**	10,034	6,867
Income tax expenses	**2,110**	1,845	1,029
Results of operation for producing activities	**13,606**	11,199	9,394

Revenues are based on the market prices determined at the point of delivery from production units.

The Company's share in the operating results generated from oil and gas production of equity investees in 2011, 2010 and 2009 was US$ 594 million, US$ 234 million and US$ 229 million, respectively.

Reserve Quantity Information

The recording and reporting of proved reserves is governed by criteria established by regulations of the United States Securities and Exchange Commission. The Company's reserves as of December 31, 2011, 2010 and 2009 were appraised by outside unrelated third-party petroleum engineers.

The Company's proved oil and gas reserves are located entirely in the Russian Federation.

Proved reserves are those quantities of oil and gas which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward from known reservoirs, and under the existing economic conditions, operating methods, and government regulation. In certain cases, recovery of such reserves may require considerable investments in wells and related equipment. Proved reserves also include additional oil and gas reserves that will be extracted after the expiry date of licence agreements if the renewal of such agreements is reasonably certain. Proved developed reserves are the quantities of oil and gas expected to be recovered from existing wells using existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared with the cost of new well.

Proved undeveloped oil and gas reserves are proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled unless evidence using reliable technology exits 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 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.

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):

Consolidated entities:	**2011**		**2010**		**2009**	
Proved developed and undeveloped reserves:	**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	**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
Proved developed reserves						
Beginning of year	**9,769**	**984**	10,204	904	10,032	882
End of year	**10,514**	**1,273**	9,769	984	10,204	904
Proved undeveloped reserves						
Beginning of year	**4,201**	**373**	3,747	203	3,328	188
End of year	**5,838**	**1,963**	4,201	373	3,747	203
Noncontrolling interests in total proved reserves	**109**	**36**	122	15	103	9
Noncontrolling interests in proved developed reserves	**71**	**25**	44	5	37	7

Supplementary Oil and Gas Disclosure (unaudited) (continued)

Reserve Quantity Information (continued)

Entity's share of proved developed and undeveloped reserves of investees accounted for by the equity method:	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	**1,265**	**95**	1,228	94	1,195	108
Proved developed reserves						
Beginning of year	**760**	**87**	769	101	763	97
End of year	**777**	**90**	760	87	769	101
Proved undeveloped reserves						
Beginning of year	**468**	**7**	426	7	323	5
End of year	**488**	**5**	468	7	426	7

The Company's share in the proved developed reserves of equity investees in 2011, 2010 and 2009 was 777 million barrels of oil equivalent, 760 million barrels of oil equivalent and 769 million barrels of oil equivalent, respectively.

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

The standardized measure of discounted future net cash flows related to the above oil and gas reserves is calculated in accordance with the requirements of FASB ASC 932-235. Estimated future cash inflows from oil and gas production are computed by applying average of the first-day-of-the-month price for each month within 12-month period before the balance sheet date for oil and gas to year-end quantities of estimated net proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce estimated proved reserves as of year-end based on year-end cost indices and assuming continuation of year end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future net pre-tax cash flows, net of the tax bases of related assets.

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

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.

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

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)

Consolidated entities:	2011	2010	2009
Sales and transfers of oil and gas produced during the period	**(21,253)**	(18,093)	(14,153)
Net changes in sales and transfer prices and in production (lifting) costs related to future production	**11,625**	12,145	35,895
Changes in estimated future development costs	**2,495**	(8,895)	(8,155)
Previously estimated development costs incurred during the period	**7,989**	6,618	5,426
Net changes due to revisions in quantity estimates	**7,622**	1,720	2,510
Net change due to extensions, discoveries, and improved recovery	**7,539**	3,479	8,800
Net change in income taxes	**(4,859)**	(1,667)	(6,059)
Accretion of discount	**7,475**	6,955	3,550
Net change due to purchases and sales of minerals in place	–	–	–
Other	**(651)**	2,938	6,231
Aggregated change in the standardized measure of discounted future net cash flows for the year	**17,982**	5,200	34,045

The discounted value of future cash flows as of December 31, 2011, 2010 and 2009 includes the interest of other noncontrolling shareholders in the amount of US$ 1,083 million, US$ 685 million and US$ 892 million, respectively.

TNK-BP INTERNATIONAL LIMITED
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2012
(UNAUDITED)

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Report of Independent Accountants

To the Board of Directors and Shareholders of
TNK-BP International Limited:

We have reviewed the accompanying interim condensed consolidated statement of financial position of TNK-BP International Limited and its subsidiaries (the "Group") as of September 30, 2012, and the related interim condensed consolidated income statement, statement of comprehensive income for the three and nine months ended September 30, 2012, statements of changes in equity and cash flows for the nine month period ended September 30, 2012. This interim condensed financial information is the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial information for it to be in conformity with the basis of presentation as described in Note 2 of the accompanying interim condensed consolidated financial information.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
6 November 2012

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Interim Condensed Consolidated Income Statement

Three months ended 30 September 2012	Three months ended 30 September 2011		Note	Nine months ended 30 September 2012	Nine months ended 30 September 2011
15,723	15,299	Gross Proceeds	6	46,067	44,502
(3,934)	(4,621)	Less: export duties		(13,245)	(12,216)
11,789	**10,678**	**Sales and other operating revenues**	**6**	**32,822**	**32,286**
204	13	Earnings/(loss) from equity-accounted investments	10	308	62
128	145	Gain on disposals of businesses	5	128	308
(3,063)	(3,049)	Taxes other than income tax	17	(9,352)	(8,845)
(1,468)	(1,526)	Operating expenses		(4,130)	(4,253)
(1,579)	(1,303)	Purchases of oil, oil products and other products		(4,537)	(4,275)
(1,010)	(1,010)	Transportation expenses		(3,111)	(3,064)
(576)	(522)	Depreciation, depletion and amortisation	11, 12	(1,699)	(1,485)
(444)	(411)	Selling, distribution and administrative expenses		(1,270)	(1,154)
(57)	(31)	Loss on disposals and impairment of assets	11	(380)	(99)
(126)	(68)	Exploration expenses		(227)	(125)
3,798	**2,916**	**Operating profit**		**8,552**	**9,356**
(72)	77	Exchange (loss)/gain, net		(74)	(8)
(34)	(77)	Finance cost		(158)	(229)
(39)	52	Interest income and net other financial (expense)/income		(38)	86
3,653	**2,968**	**Profit before income taxes**		**8,282**	**9,205**
(634)	(979)	Income tax expense	15	(1,890)	(2,071)
3,019	**1,989**	**Profit for the period**		**6,392**	**7,134**
(285)	(203)	Less: profit attributable to noncontrolling interest		(674)	(540)
2,734	**1,786**	**Profit attributable to Group shareholders**		**5,718**	**6,594**

Interim Condensed Consolidated Statement of Comprehensive Income

Three months ended 30 September 2012	Three months ended 30 September 2011		Note	Nine months ended 30 September 2012	Nine months ended 30 September 2011
3,019	**1,989**	**Profit for the period**		**6,392**	**7,134**
		Other comprehensive income/(loss):			
108	(85)	Currency translation differences in relation to Group subsidiaries		73	(85)
140	(306)	Currency translation differences in relation to equity-accounted investments	10	90	(104)
248	**(391)**	**Other comprehensive income/(loss)**		**163**	**(189)**
(6)	5	Other comprehensive income/(loss) attributable to noncontrolling interest		(5)	**5**
242	**(386)**	**Other comprehensive income/(loss) attributable to Group shareholders**		158	(184)
3,267	**1,598**	**Total comprehensive income**		**6,555**	**6,945**
(291)	(198)	Less: total comprehensive income attributable to noncontrolling interest		(679)	(535)
2,976	**1,400**	**Total comprehensive income attributable to Group shareholders**		**5,876**	**6,410**

The accompanying notes are an integral part of these interim condensed consolidated financial statements

TNK-BP INTERNATIONAL LIMITED

Interim Condensed Consolidated Statement of Financial Position (Unaudited)

(expressed in millions of USD)

	Note	30 September 2012	31 December 2011	1 January 2011
Assets				
Current assets				
Cash and cash equivalents	7	3,468	1,164	1,844
Restricted cash	7	4	48	8
Bank deposits with maturity more than 3 months	7	500	100	600
Trade and other receivables, net	8	4,921	5,276	3,464
Inventories	9	1,403	1,623	1,295
Other current assets		211	187	702
		10,507	**8,398**	**7,913**
Non-current assets				
Loans and advances issued	10	559	490	1,171
Equity-accounted investments	10	3,469	3,237	2,545
Property, plant and equipment	11	25,053	22,348	19,402
Intangible assets	12	1,085	970	818
Deferred income tax assets	15	330	440	291
Other long-term assets		174	121	268
		30,670	**27,606**	**24,495**
Total assets		**41,177**	**36,004**	**32,408**
Liabilities and equity				
Current liabilities				
Current portion of long-term debt	13	1,242	991	1,047
Accounts payable and accrued liabilities	14	3,658	3,558	3,171
Taxes payable	17	1,730	1,468	1,255
		6,630	**6,017**	**5,473**
Non-current liabilities				
Long-term debt	13	6,470	7,037	6,072
Decommissioning, environmental and other provisions	16	882	734	614
Deferred income tax liabilities	15	3,001	2,904	2,389
Other non-current liabilities		201	35	70
		10,554	**10,710**	**9,145**
Total liabilities		**17,184**	**16,727**	**14,618**
Equity				
Ordinary share capital (authorised, issued and fully paid – 54,000 shares, USD 1.0 par value)	18	-	-	-
Additional paid-in capital		2,850	2,978	2,973
Retained earnings		19,154	14,816	13,614
Cumulative currency translation adjustment		(73)	(231)	-
Total Group shareholders' equity		**21,931**	**17,563**	**16,587**
Noncontrolling interest		2,062	1,714	1,203
Total equity		**23,993**	**19,277**	**17,790**
Total liabilities and equity		**41,177**	**36,004**	**32,408**

Approved for issue and signed on behalf of the Group Management Board:

Jonathan Muir
Chief Financial Officer
6 November 2012

The accompanying notes are an integral part of these interim condensed consolidated financial statements

TNK-BP INTERNATIONAL LIMITED

Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

(expressed in millions of USD)

	Equity attributable to Group shareholders						
	Ordinary share capital	Additional paid-in capital	Retained earnings	Cumulative currency translation adjustment	**Total**	Non-controlling interest	**Total equity**
At 1 January 2011	-	2,973	13,614	-	**16,587**	1,203	**17,790**
Total comprehensive income	-	-	6,594	(184)	**6,410**	535	**6,945**
Dividends	-	(7)	(5,368)	-	**(5,375)**	(210)	**(5,585)**
Transactions with non-controlling interest shareholders	-	5	-	-	**5**	(8)	**(3)**
At 30 September 2011	**-**	**2,971**	**14,840**	**(184)**	**17,627**	**1,520**	**19,147**
At 1 January 2012	-	2,978	14,816	(231)	**17,563**	1,714	**19,277**
Total comprehensive income	-	-	5,718	158	**5,876**	679	**6,555**
Dividends	-	-	(1,380)	-	**(1,380)**	(257)	**(1,637)**
Transactions with non-controlling interest shareholders	-	(128)	-	-	**(128)**	(74)	**(202)**
At 30 September 2012	**-**	**2,850**	**19,154**	**(73)**	**21,931**	**2,062**	**23,993**

The accompanying notes are an integral part of these interim condensed consolidated financial statements

TNK-BP INTERNATIONAL LIMITED

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

(expressed in millions of USD)

	Note	Nine months ended 30 September 2012	Nine months ended 30 September 2011
Operating activities			
Profit before income taxes		8,282	9,205
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortisation		1,699	1,485
Finance cost		158	229
Interest income		(47)	(83)
Loss on disposals and impairment of assets	11	380	99
Gain on disposals of businesses	5	(128)	(308)
Earnings from equity-accounted investments	10	(308)	(62)
Dry hole expenses		47	45
Exchange loss from investing and financing activities		49	14
Other non-cash adjustments, net		110	52
Changes in operational working capital, excluding cash and cash equivalents:			
Restricted cash		44	-
Trade and other receivables		434	(827)
Inventories		188	(418)
Accounts payable and accrued liabilities		(82)	(71)
Taxes payable		273	300
Provisions		148	185
Other		(55)	(156)
Dividends received from equity-accounted investments		11	152
Interest received		3	9
Income taxes paid		(1,734)	(1,688)
Net cash provided by operating activities		**9,472**	**8,162**
Investing activities			
Capital expenditures		(3,858)	(3,238)
Interest capitalised paid		(225)	(202)
Grants used for capital expenditures		(91)	(255)
Grants received		91	255
Purchase of intangible assets	12	(47)	(47)
Acquisitions of and contributions to equity-accounted investments	5	-	(245)
Acquisitions of subsidiaries, net of cash acquired	5	(186)	10
Acquisitions of jointly controlled assets	5	(356)	(340)
Cash flows from sales of subsidiaries, net of cash disposed	5	310	444
Net change in bank deposits with maturity more than 3 months		(400)	300
Loans issued	10	(73)	(336)
Loans collected		12	35
Net cash used for investing activities		**(4,823)**	**(3,619)**
Financing activities			
Proceeds from issuance of long-term debt		675	1,500
Cost associated with the issuance of debt		-	(11)
Repayment of long-term debt	13	(997)	(844)
Interest paid net of the amounts capitalised		(211)	(198)
Dividends paid to noncontrolling interest shareholders		(258)	(278)
Dividends paid to Group shareholders		(1,380)	(4,118)
Acquisition of non-controlling interest	5	(188)	-
Net cash used for financing activities		**(2,359)**	**(3,949)**
Effect of exchange rate changes on cash and cash equivalents		14	(42)
Net change in cash and cash equivalents		**2,304**	**552**
Cash and cash equivalents at the beginning of period	7	1,164	1,844
Cash and cash equivalents at the end of period	7	**3,468**	**2,396**

The accompanying notes are an integral part of these interim condensed consolidated financial statements

Note 1. Organisation

TNK-BP International Limited ("TNK-BP International" or the "Company") and its subsidiaries (jointly referred to as "the Group") conduct exploration and development activities and produce oil and gas, operate petroleum refineries and market oil and petroleum products in the Russian Federation and a number of other countries including Brazil, Venezuela, Vietnam and Ukraine.

Effective 29 August 2003, Alfa Group, Access Industries, and Renova Group (jointly referred to as "AAR") and BP plc. ("BP") formed TNK-BP Limited ("TNK-BP" or the "Parent"), a British Virgin Islands company, to hold their respective interests in their Russian and Ukrainian oil and gas assets. TNK-BP International is a wholly owned subsidiary of TNK-BP Limited.

TNK-BP International Ltd is a limited liability company registered and domiciled in the British Virgin Islands. The address of its registered office is Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands.

Note 2. Basis of Presentation

In conjunction with the Group's consolidated financial statements to be issued under International Financial Reporting Standards ("IFRS") for the year ended 31 December 2012, these interim condensed consolidated financial statements present the Group's financial results of operations under IFRS for the three and nine month periods ended 30 September 2012 and 2011 and financial position under IFRS as of 30 September 2012, 31 December 2011 and 1 January 2011.

These interim condensed consolidated financial statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements do not include all the disclosures required by IFRS for a complete set of financial statements. Previously, the Company prepared its interim condensed and annual consolidated financial statements in accordance with the Generally Accepted Accounting Principles of the United States of America ("US GAAP"). These interim condensed consolidated financial statements should be read in conjunction with the Company's 2011 annual consolidated financial statements, which were prepared in accordance with US GAAP, and in consideration of the IFRS disclosures included in Note 2a to these interim condensed consolidated financial statements.

The policies applied in these interim condensed consolidated financial statements are based on IFRS as issued by the IASB as of 6 November 2012, the date these interim condensed consolidated financial statements were issued. Any subsequent changes to IFRS that are issued and effective as at 31 December 2012 could result in a restatement of these interim condensed consolidated financial statements, including the adjustments recognised on transition to IFRS.

The preparation of these interim condensed consolidated financial statements resulted in selected changes to the Group's accounting policies as compared to those disclosed in the Group's consolidated financial statements for the 12 months ended 31 December 2011 issued under US GAAP. A summary of the significant changes to the Group's accounting policies is disclosed in Note 2a along with reconciliations of the Group's selected consolidated financial statements data prepared under US GAAP to IFRS; of the equity as of 1 January 2011, 30 September 2011 and 31 December 2011, and of the total comprehensive income for the nine months ended 30 September 2011 and the year ended 31 December 2011.

A summary of the Group's significant accounting policies under IFRS is presented in Note 3. These policies have been retrospectively and consistently applied except where specific exceptions required and exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in Note 2a.

These interim condensed consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

The Group's subsidiaries registered in the Russian Federation maintain their accounting records in accordance with the Regulations on Accounting and Reporting in the Russian Federation. Subsidiaries outside the Russian Federation maintain their accounting records in accordance with local regulations. The accompanying interim condensed consolidated financial statements have been prepared from these accounting records and adjusted as necessary in order to comply with IFRS.

The interim condensed consolidated financial statements are presented in United States dollars ("US dollars" or "USD") and all values are rounded to the nearest million (USD million) except when otherwise indicated.

Note 2a. Transition to IFRS

As discussed above, starting in 2012 the Group prepares interim condensed consolidated financial statements in accordance with IFRS. The accounting policies set out in Note 3 have been applied in preparing the interim condensed consolidated financial statements as of and for the three and nine months ended 30 September 2012, the comparative information presented in these interim condensed consolidated financial statements as of 31 December 2011 and for the three and nine months ended 30 September 2011, and in the preparation of an opening IFRS consolidated statement of financial position as of 1 January 2011 (the Group's date of transition to IFRS).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in its consolidated financial statements prepared in accordance with US GAAP. The Group has applied IFRS 1 "First time adoption of International Financial Reporting Standards", in preparing these interim condensed consolidated financial statements. An explanation of how the transition from US GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the tables and notes that accompany the tables in the following pages.

Subject to certain exceptions, IFRS 1 requires retrospective application of the version of standards and interpretations effective as of 31 December 2012, the date of the Group's first annual IFRS consolidated financial statements.

In preparing these interim condensed consolidated financial statements, the Group has applied the relevant mandatory exceptions and certain optional exemptions from full retrospective application of IFRS, as detailed below.

Exceptions from retrospective application, which are mandatory under IFRS 1, are:

- Estimates under IFRS at 1 January 2011 are consistent with estimates made for the same date under US GAAP.
- Hedge accounting exception. The Group does not apply hedge accounting.
- Other exceptions were not applicable because there were no significant differences as to management application of US GAAP in these areas.

The Group has applied the following optional exemptions:

- IFRS 3, Business Combinations, has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 January 2011, the Group's date of transition.
- The Group has elected to set the previously accumulated currency translation adjustments to zero at 1 January 2011.
- The Group has elected to apply the exemption from full retrospective application of decommissioning provisions as allowed under IFRS 1. As such, the Group has remeasured the provisions as of 1 January 2011 under IAS 37 "Provisions, contingent liabilities and contingent assets", estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose using best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation, depletion and amortisation under IFRS.

The following reconciliations provide a quantification of the effect of the transition to IFRS.

Total Equity Reconciliation

	Ref	31 December 2011	30 September 2011	1 January 2011
Total equity under US GAAP		**20,755**	**20,535**	**18,863**
Effects of transition to IFRS:				
Impairment of assets	(i)	(261)	(203)	(216)
Replacement accounting	(ii)	(534)	(513)	(456)
IFRS transition of equity-accounted investees	(iii)	(278)	(241)	(81)
Interest capitalisation	(iv)	(18)	(18)	(18)
Measurement of long-term provisions	(v)	22	26	26
Deferred taxes	(vi)	(409)	(439)	(328)
Total equity under IFRS		**19,277**	**19,147**	**17,790**

Total Comprehensive Income Reconciliation

	Ref	Year ended 31 December 2011	Nine months ended 30 September 2011
Total comprehensive income under US GAAP		**9,608**	**7,260**
Effects of transition to IFRS:			
Impairment of assets	(i)	(45)	13
Replacement accounting	(ii)	(78)	(57)
IFRS transition of equity-accounted investees	(iii)	(197)	(160)
Measurement of long-term provisions	(v)	(5)	-
Deferred taxes	(vi)	(81)	(111)
Total comprehensive income under IFRS		**9,202**	**6,945**

Consolidated Statement of Financial Position Reconciliation as of 1 January 2011

	US GAAP	Impairment	Replacement accounting	Equity-accounted investees	Deferred Taxes	Reclasses and other adjustments	IFRS
Current assets							
Cash and cash equivalents	1,844	-	-	-	-	-	1,844
Restricted cash	8	-	-	-	-	-	8
Bank deposits with maturity more than 3 months	600	-	-	-	-	-	600
Trade and other receivables, net	3,464	-	-	-	-	-	3,464
Inventories	1,295	-	-	-	-	-	1,295
Other current assets	790	-	-	-	-	(88)	702
	8,001	**-**	**-**	**-**	**-**	**(88)**	**7,913**
Non-current assets							
Loans and advances issued	29	-	-	-	-	1,142	1,171
Equity-accounted investments	3,665	-	-	(81)	-	(1,039)	2,545
Property, plant and equipment	19,712	(138)	(456)	-	-	284	19,402
Intangible assets	896	(78)	-	-	-	-	818
Deferred income tax assets	163	-	-	-	-	128	291
Other long-term assets	660	-	-	-	-	(392)	268
	25,125	**(216)**	**(456)**	**(81)**	**-**	**123**	**24,495**
Total assets	**33,126**	**(216)**	**(456)**	**(81)**	**-**	**35**	**32,408**
Liabilities and equity							
Current liabilities							
Current portion of long-term debt	1,051	-	-	-	-	(4)	1,047
Accounts payable and accrued liabilities	3,171	-	-	-	-	-	3,171
Taxes payable	1,228	-	-	-	-	27	1,255
	5,450	**-**	**-**	**-**	**-**	**23**	**5,473**
Non-current liabilities							
Long-term debt	6,078	-	-	-	-	(6)	6,072
Decommissioning, environmental and other provisions	374	-	-	-	-	240	614
Deferred income tax liabilities	2,049	-	-	-	328	12	2,389
Other non-current liabilities	312	-	-	-	-	(242)	70
	8,813	**-**	**-**	**-**	**328**	**4**	**9,145**
Total liabilities	**14,263**	**-**	**-**	**-**	**328**	**27**	**14,618**
Equity							
Ordinary share capital	-	-	-	-	-	-	-
Additional paid-in capital	2,940	-	-	-	-	33	2,973
Retained earnings	14,747	(216)	(456)	(81)	(328)	(52)	13,614
Cumulative currency translation adjustment	(82)	-	-	-	-	82	-
Total Group shareholders' equity	**17,605**	**(216)**	**(456)**	**(81)**	**(328)**	**63**	**16,587**
Noncontrolling interest	1,258	-	-	-	-	(55)	1,203
Total equity	**18,863**	**(216)**	**(456)**	**(81)**	**(328)**	**8**	**17,790**
Total liabilities and equity	**33,126**	**(216)**	**(456)**	**(81)**	**-**	**35**	**32,408**

Consolidated Statement of Financial Position Reconciliation as of 31 December 2011

	US GAAP	Impairment	Replacement accounting	Equity-accounted investees	Deferred Taxes	Reclasses and other adjustments	IFRS
Current assets							
Cash and cash equivalents	1,164	-	-	-	-	-	1,164
Restricted cash	48	-	-	-	-	-	48
Bank deposits with maturity more than 3 months	100	-	-	-	-	-	100
Trade and other receivables, net	5,276	-	-	-	-	-	5,276
Inventories	1,623	-	-	-	-	-	1,623
Other current assets	289	-	-	-	-	(102)	187
	8,500	-	-	-	-	**(102)**	**8,398**
Non-current assets							
Loans and advances issued	24	-	-	-	-	466	490
Equity-accounted investments	3,715	-	-	(278)	-	(200)	3,237
Property, plant and equipment	22,731	(183)	(534)	-	-	334	22,348
Intangible assets	1,095	(78)	-	-	-	(47)	970
Deferred income tax assets	272	-	-	-	-	168	440
Other long-term assets	735	-	-	-	-	(614)	121
	28,572	**(261)**	**(534)**	**(278)**	**-**	**107**	**27,606**
Total assets	**37,072**	**(261)**	**(534)**	**(278)**	**-**	**5**	**36,004**
Liabilities and equity							
Current liabilities							
Current portion of long-term debt	998	-	-	-	-	(7)	991
Accounts payable and accrued liabilities	3,558	-	-	-	-	-	3,558
Taxes payable	1,471	-	-	-	-	(3)	1,468
	6,027	-	-	-	-	**(10)**	**6,017**
Non-current liabilities							
Long-term debt	7,049	-	-	-	-	(12)	7,037
Decommissioning, environmental and other provisions	370	-	-	-	-	364	734
Deferred income tax liabilities	2,475	-	-	-	409	20	2,904
Other non-current liabilities	396	-	-	-		(361)	35
	10,290	-	-	-	**409**	**11**	**10,710**
Total liabilities	**16,317**	-	-	-	**409**	**1**	**16,727**
Equity							
Ordinary share capital	-	-	-	-	-	-	-
Additional paid-in capital	2,945	-	-	-	-	33	2,978
Retained earnings	16,235	(261)	(534)	(167)	(409)	(48)	14,816
Cumulative currency translation adjustment	(202)	-	-	(111)	-	82	(231)
Total Group shareholders' equity	**18,978**	**(261)**	**(534)**	**(278)**	**(409)**	**67**	**17,563**
Noncontrolling interest	1,777	-	-	-	-	(63)	1,714
Total equity	**20,755**	**(261)**	**(534)**	**(278)**	**(409)**	**4**	**19,277**
Total liabilities and equity	**37,072**	**(261)**	**(534)**	**(278)**	**-**	**5**	**36,004**

Consolidated Income Statement Reconciliation for the nine months ended 30 September 2011

	US GAAP	Impairment	Replacement accounting	Equity-accounted investees	Deferred Taxes	Reclasses and other adjustments	IFRS
Gross Proceeds	44,502	-	-	-	-	-	44,502
Less: export duties	-	-	-	-	-	(12,216)	(12,216)
Sales and other operating revenues	**44,502**	-	-	-	-	**(12,216)**	**32,286**
Earnings from equity-accounted investments	131	-	-	(69)	-	-	62
Gain on disposals of businesses	308	-	-	-	-	-	308
	(12,216)	-	-	-	-	12,216	-
Export duties							
Taxes other than income tax	(8,845)	-	-	-	-	-	(8,845)
Operating expenses	(4,268)	-	-	-	-	15	(4,253)
Purchases of oil, oil products and other products	(4,275)	-	-	-	-	-	(4,275)
Transportation expenses	(3,064)	-	-	-	-	-	(3,064)
Depreciation, depletion and amortisation	(1,553)	13	36	-	-	19	(1,485)
Selling, distribution and administrative expenses	(1,154)	-	-	-	-	-	(1,154)
Loss on disposal and impairment of assets	(6)	-	(93)	-	-	-	(99)
Exploration expenses	(125)	-	-	-	-	-	(125)
Operating profit	**9,435**	**13**	**(57)**	**(69)**	**-**	**34**	**9,356**
Exchange loss, net	46	-	-	-	(54)	-	(8)
Finance costs	(197)	-	-	-	-	(32)	(229)
Interest income and net other financial income/(expense)	85	-	-	-	-	1	86
Profit before income taxes	**9,369**	**13**	**(57)**	**(69)**	**(54)**	**3**	**9,205**
Income tax expense	(2,011)	(1)	11	-	(70)	-	(2,071)
Profit for the period	**7,358**	**12**	**(46)**	**(69)**	**(124)**	**3**	**7,134**
Less: profit attributable to noncontrolling interest	(547)	-	-	-	-	7	(540)
Profit attributable to Group shareholders	**6,811**	**12**	**(46)**	**(69)**	**(124)**	**10**	**6,594**

Consolidated Income Statement Reconciliation for the year ended 31 December 2011

	US GAAP	Impairment	Replacement accounting	Equity-accounted investees	Deferred Taxes	Reclasses and other adjustments	IFRS
Gross Proceeds	60,199	-	-	-	-	-	60,199
Less: export duties		-	-	-	-	(16,951)	(16,951)
Sales and other operating revenues	**60,199**	**-**	**-**	**-**	**-**	**(16,951)**	**43,248**
Earnings from equity-accounted investments	175	-		(86)	-	-	89
Gain on disposals of businesses	341	-	-	-	-	-	341
Export duties	(16,951)	-	-	-	-	16,951	-
Taxes other than income tax	(11,849)	-	-	-	-	-	(11,849)
Operating expenses	(5,710)	-	-	-	-	14	(5,696)
Purchases of oil, oil products and other products	(5,674)	-	-	-	-	-	(5,674)
Transportation expenses	(4,090)	-	-	-	-	-	(4,090)
Depreciation, depletion and amortisation	(2,085)	18	51	-	-	27	(1,989)
Selling, distribution and administrative expenses	(1,625)	-	-	-	-	-	(1,625)
Loss on disposal and impairment of assets	(69)	(63)	(128)	-	-	-	(260)
Exploration expenses	(145)	-	-	-	-	-	(145)
Operating profit	**12,517**	**(45)**	**(77)**	**(86)**	**-**	**41**	**12,350**
Exchange gain/(loss), net	63	-	-	-	(67)	-	(4)
Finance costs	(242)	-	-	-	-	(47)	(289)
Interest income and net other financial income/(expense)	65	-	-	-	-	-	65
Profit before income taxes	**12,403**	**(45)**	**(77)**	**(86)**	**(67)**	**(6)**	**12,122**
Income tax expense	(2,675)	10	16	-	(40)	-	(2,689)
Profit for the period	**9,728**	**(35)**	**(61)**	**(86)**	**(107)**	**(6)**	**9,433**
Less: profit attributable to noncontrolling interest	(747)	(3)	-	-	-	10	(740)
Profit attributable to Group shareholders	**8,981**	**(38)**	**(61)**	**(86)**	**(107)**	**4**	**8,693**

Cash Flow Data Reconciliation

	Year ended 31 December 2011		
	US GAAP	IFRS adjustment (ref (viii))	IFRS
Net cash provided by operating activities(viii)	10,525	249	10,774
Net cash used for investing activities	(4,198)	-	(4,198)
Net cash used for financing activities(viii)	(6,952)	(249)	(7,201)

	Nine months ended 30 September 2011		
	US GAAP	IFRS adjustment (ref (viii))	IFRS
Net cash provided by operating activities (viii)	7,964	198	8,162
Net cash used for investing activities	(3,619)	-	(3,619)
Net cash used for financing activities (viii)	(3,751)	(198)	(3,949)

The following discussion explains significant differences between the Group's previous US GAAP accounting policies and those applied by the Group under IFRS. The IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional exemptions and mandatory exceptions permitted an alternative treatment upon transition to IFRS for first-time adopters. The descriptive note captions below correspond to the adjustments presented in the preceding reconciliations.

(i) Impairment of assets

Under US GAAP, impairment was recognised if the carrying amount of a cash generating unit ("CGU") exceeded the undiscounted cash flows expected to be generated by that CGU. Impairment was measured as the amount by which the carrying value exceeded the fair value of the CGU. Fair value was determined based on the discounted cash flows expected to be generated by the CGUs. Impairments recognised previously were never reversed.

Under IFRS, impairment is recognised if the carrying value exceeds the recoverable amount for a CGU which is determined based on the discounted cash flows expected to be generated by the CGU. If the carrying value of the CGU exceeds the recoverable amount, the cash-generating unit is written down with an impairment recognised in the consolidated Income Statement. Impairments recognised under IFRS are reversed when and to the extent there has been a subsequent increase in the recoverable amount. Impairment reversals are recognised in the consolidated Income Statement and the carrying amount of the cash-generating unit is increased to its revised recoverable amount.

As of 1 January 2011, the Group recognised a pre-tax impairment of USD 216 million for the Ukrainian downstream business. The impairment recognised was based on the difference between the net book value of the assets and their recoverable amount at 1 January 2011. The recoverable amount was determined based on discounted future cash flows using forecast prices and costs expected to be generated by the retail and refining CGU's of the Ukrainian business unit. As of 31 December 2011, the Group recognised a pre-tax impairment of USD 63 million related to a greenfield project of Vanyoganneft, a Group upstream subsidiary. The impairment recognised was based on the difference between the net book value of the assets and their recoverable amount at 31 December 2011. The recoverable amount was determined based on discounted future cash flows of proved and probable reserves using forecast prices and costs expected to be generated by the project.

Under US GAAP, the above assets were included in "Refining, Marketing and Distribution", and "Exploration and Production" segments, respectively, and were not impaired as of 1 January 2011 and 31 December 2011.

(ii) Replacement accounting

Under US GAAP, oil and gas assets were accounted for and depleted on a field-by-field basis (or for group of fields) using the unit of production ("UOP") method. No gain or loss was recognised on retirement or disposal

of an individual well or an item of equipment. When the last well on an individual property (group of properties) ceased to produce, the entire property (group of properties) was abandoned and the resulting gain or loss was recognised. Under IFRS, if a part of an item is replaced and the new part is capitalised, then the replaced part should be written-off with the resulting gain or loss recognised in the consolidated income statement. This requirement should be complied with irrespective of whether the replaced part was depreciated separately. The application of this requirement resulted in a USD 456 million decrease to property, plant and equipment and a corresponding pre-tax decrease to retained earnings in the consolidated statements of financial position as of 1 January 2011, and a pre-tax charge to the 2011 consolidated income statement of USD 77 million. Subsequent IFRS replacement accounting effects are recognised in loss on disposals and impairment of assets in the consolidated income statement for the relevant period.

(iii) IFRS transition of equity-accounted investees

Under US GAAP, the Group accounted for its equity investees based on their US GAAP financial statements. Upon transition to IFRS, the financial information of the equity-accounted investees was also restated under IFRS. As a result, the Group recognised a USD 81 million and USD 278 million reduction in the carrying value of investments with a corresponding decrease to the Group's equity under IFRS as of 1 January 2011 and 31 December 2011, respectively.

Under IFRS, the Group separately presents loans and advances issued to equity-accounted investees or in relation to the acquisition of equity-accounted investees, which were included in the carrying value of equity-accounted investments under US GAAP. As a result, the Group reclassified USD 1,000 million and USD 158 million from equity-accounted investments to loans and advances issued as of 1 January 2011 and 31 December 2011, respectively.

(iv) Interest capitalisation

Under US GAAP, the Group capitalised interest paid in respect of its equity investee NVGRES, which, under IFRS, should be expensed as incurred. As a result of applying the guidance of IAS 23, "Borrowing Costs", the Group recorded a USD 18 million reduction in the carrying value of investments with a corresponding decrease in the Group's retained earnings under IFRS as of 1 January 2011 and 31 December 2011.

(v) Measurement of long-term provisions

Under US GAAP, environmental provisions were not discounted unless the timing and settlement amounts were fixed or determinable with certainty. Under IFRS, environmental remediation liabilities are recorded on a discounted basis considering the expected amount and timing of the cash payments. Further, different discount rates are applied under IFRS and US GAAP for asset retirement obligations ("ARO"). According to US GAAP, these liabilities are not remeasured to reflect current discount rates. Under IFRS, the asset retirement obligations are measured as the best estimate of the expenditure to be incurred using the period end discount rate. The Group was required to remeasure its asset retirement obligations and environmental provisions upon transition to IFRS and recognise the differences in Retained earnings. The application of this requirement resulted in a USD 26 million and USD 22 million decrease in Decommissioning and environmental provisions as of 1 January and 31 December 2011, respectively, and a corresponding pre-tax adjustment to Retained earnings. Subsequent IFRS remeasurements of decommissioning liabilities are recorded with a corresponding adjustment to Property, plant and equipment.

(vi) Deferred taxes

IFRS transition differences in the area of deferred taxes relate primarily to the different treatment of the impact of changes in exchange rates on long-term assets with tax values denominated in currencies different from the functional currency. In addition, there are tax effects in respect of US GAAP versus IFRS differences arising on transition as discussed above. Upon transition to IFRS, the Group recognised a USD 328 million and USD 409 million increase in Deferred income tax liabilities with a corresponding reduction in Retained earnings in the interim condensed consolidated statements of financial position as of 1 January 2011 and 31 December 2011, respectively.

(vii) Revenues

According to the Group's accounting policy under US GAAP, duties remitted to governmental authorities on export from Russia of crude oil and petroleum products sold internationally were accounted for on a gross basis (included in revenues and costs). Under IFRS, taxes and duties arising on the sale of goods to third parties do not form part of revenue. Accordingly, export duties are presented netting the Group's Sales and other operating revenues under IFRS.

(viii) Adjustments to the statement of cash flows

The transition from US GAAP to IFRS had no significant impact on the Group's cash flows except that, under IFRS, the amounts of interest paid net of interest capitalised are classified as financing cash flows. Under US GAAP, these payments were classified as operating cash flows.

Note 3. Summary of significant accounting policies

Foreign currency translation

The Company has determined that the US dollar is the presentation currency for the purposes of financial reporting under IFRS. For the majority of subsidiaries of the Group, the functional currency is the USD as it is the currency of the primary economic environment of these subsidiaries.

The local currencies of certain subsidiaries of the Group are: the Russian Rouble ("RUR"), the Ukrainian Hryvna, the Vietnamese dong and the Brazilian real. For the purposes of financial reporting under IFRS, transactions and balances have been remeasured into the functional currency of the subsidiary which, in the majority of cases, is the USD.

Monetary assets and liabilities are remeasured at closing exchange rates and non-monetary items are measured at historic exchange rates and adjusted for any impairment. The interim condensed consolidated statements of income and of cash flows have been remeasured at the average exchange rates during the period or the actual rate on the transaction date. Exchange differences resulting from the use of these exchange rates have been included in the determination of profit for the period and are included in Exchange gain/(loss), net in the accompanying interim condensed consolidated income statement.

The results and financial position of all the Group entities that have a functional currency other than USD are translated into USD as follows: (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement; (b) income and expenses for each income statement are translated at rates prevailing on the transaction dates; and (c) all resulting exchange differences are recognised as currency translation differences in Other comprehensive income.

As of 30 September 2012, 31 December 2011 and 1 January 2011, exchange rates were 30.92, 32.20 and 30.35 RUR to the USD, respectively. Average exchange rates for the nine months periods ended 30 September 2012 and 2011 were 31.10 and 28.77 RUR to the USD, respectively.

Marketing business subsidiaries functional currency change

Pursuant to an updated assessment of economic and regulatory matters affecting the Group's Russian Marketing business, effective January 2011, management has changed the functional currency of the subsidiaries included in this business from the US dollar to the Russian rouble.

Resulting from this change, as of 31 December 2011, the Group recorded a currency translation loss of USD 103 million in the consolidated statement of comprehensive income.

Principles of consolidation

The interim condensed consolidated financial statements include the operations of the Group's subsidiaries which are entities in which the Group, directly or indirectly, has an interest of more than one half of the voting

rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in the Group's interim condensed consolidated income statement, after a management reassessment whether all the assets acquired and all liabilities and contingent liabilities assumed are identified and a review of the appropriateness of their measurement.

Non-controlling interests

Non-controlling interest is the part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of Group's equity. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

In acquisitions of subsidiaries, the Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Transactions under common control

Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in the consolidated financial statements of the combined entity. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these interim condensed consolidated financial statements as an adjustment to Additional Paid-in Capital within equity.

Associates

Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the interim condensed consolidated income statement for the year as Earnings from equity-accounted investments, (ii) the Group's share of other comprehensive income

is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in the interim condensed consolidated income statement within Earnings from equity-accounted investments.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint Ventures

IFRS defines joint control as contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

A jointly controlled asset involves the joint control by the ventures of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated for the purpose of the joint venture. These joint ventures do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits through its share of the jointly controlled asset. The Group recognises in its interim condensed consolidated financial statements its share of the jointly controlled assets, any liabilities that it has incurred, the expenses it incurs and the income that it earns from the sale or use of its share of the output from the joint venture.

A jointly controlled operation involves the use of assets and other resources of the Group and other venturers rather than the establishment of a corporation, partnership or other entity. The Group recognises in its interim condensed consolidated financial statements the assets that it controls and the liabilities that it incurs, the expenses it incurs and the share of income that it earns from the sale of goods or services by the joint venture.

A jointly controlled entity is a corporation, partnership or other entity in which each participant holds an interest. A jointly controlled entity operates in the same way as other entities, controlling the assets of the joint venture, earning its own income and incurring its own liabilities and expenses. Interests in jointly controlled entities are accounted for using the equity method described above for associates.

Disposals of subsidiaries, associates or joint ventures

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the interim condensed consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the interim condensed consolidated income statement.

If the ownership interest in an associate / joint venture is reduced but significant influence / joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the interim condensed consolidated income statement where appropriate.

Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for

immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated. The Group ceases to use the equity method of accounting on the date from which an interest in a jointly controlled entity or an interest in an associate becomes held for sale.

Property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion, amortisation and impairment.

The Group follows the successful efforts method of accounting for its oil and gas properties and equipment whereby property acquisitions, successful exploratory wells, all development costs and support equipment and facilities are capitalised. The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expense. Production costs, overheads and all exploration costs other than exploratory drilling and license acquisition costs are charged to expense as incurred. Acquisition costs of unproved properties are evaluated periodically and any impairment assessed is charged to expense.

Depreciation, depletion and amortisation of capitalised costs of proved oil and gas properties and equipment is calculated using the unit-of-production method for each field based upon proved reserves for property acquisitions and proved developed reserves for other development costs, except in the case of significant asset components whose useful life differs from the lifetime of the field, in which case the straight-line method is applied. The proved reserves data used are estimated in accordance with the standards of reserves measurement applied by the U.S. Securities and Exchange Commission (the "SEC"), on a "life of field" basis as management believes it will continue to be successful in the renewal of its oil and gas licenses.

Property, plant and equipment which are not associated with exploration and production activities are carried at cost less accumulated depreciation. Depreciation of these assets is calculated on a straight-line basis as follows:

Buildings and installations	5 - 33	years
Machinery and equipment	5 - 15	years

The Group capitalises borrowing costs necessarily incurred to finance expenditures for non-current assets during the construction and development period as part of the historical cost of acquiring the constructed assets. Capitalised interest costs are included in property, plant and equipment and are depreciated over the useful life of the related assets.

Capital grants

The Group recognises capital grants from local governments when there is reasonable assurance that the Group will comply with the conditions attached and that the grant will be received. The capital grants are accounted for as a reduction of the cost of the asset for which the grant is received.

Intangible assets

The Group's intangible assets primarily include intangible assets associated with land rights and permits, software licenses and road-use rights, and goodwill. The intangible assets associated with land rights and permits are amortised on a straight-line basis over 20 years. Software licenses are amortised on a straight-line basis over the related license period. The road-use rights are amortised on a straight-line basis over the expected lives of the related contracts. In 2011, the Group recognised an intangible asset associated with the rights and permits to construct and operate a pipeline transportation system in Vietnam. This asset will be amortised over 12 years in accordance with the period covered by the contract signed with the Vietnamese government. Amortised intangible assets are reviewed for impairment whenever events or changes in circumstances indicate

that the carrying amount of an asset may not be recoverable. The Group does not have intangible assets with indefinite lives other than goodwill.

Impairment of non-financial assets other than goodwill

Intangible assets and property, plant and equipment other than exploration and evaluation assets are assessed for possible impairment in accordance with IAS 36, "Impairment of assets", which requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to their recoverable amount which is the higher of fair value less costs to sell and value-in-use.

Value-in-use is determined as the amount of estimated risk-adjusted discounted future cash flows. For this purpose, assets are grouped into cash generating units based on separately identifiable and largely independent cash inflows. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices, market supply, demand and product margins and, in the case of oil and gas properties, expected production volumes. The latter takes into account assessments of field and reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilising geological, production, recovery and economic projections. Cash flow estimates are risk-adjusted to reflect local conditions as appropriate and discounted at a rate based on the Group's weighted average cost of capital.

Impairments are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed.

Impairment of Goodwill

Goodwill is tested for impairment annually (as at 30 November) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Financial assets

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group's financial assets include cash and cash equivalents and short-term deposits, trade and other receivables, loans issued and derivative financial instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. The accrued interest is included in interest income in the interim condensed consolidated income statement. The losses arising from impairment are recognised as finance costs in the interim condensed consolidated income statement.

Cash and cash equivalents in the interim condensed consolidated statement of financial position comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

The Group recognises *derivatives* as either assets or liabilities in the interim condensed consolidated statement of financial position and measures those instruments at fair value. Changes in fair value are recorded as a gain or a loss through the Group's interim condensed consolidated income statement of the current period.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that the loss event has an impact on the

estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. The impairment loss of financial assets is recorded in interest income and net other financial income/(expense) in the interim condensed consolidated income statement.

Financial liabilities

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs. The Group's financial liabilities include trade and other financial payables, loans and borrowings and derivative financial instruments.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the interim condensed consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the interim condensed consolidated income statement over the period of the borrowings using the effective interest method. The interest accrued is included in finance cost in the interim condensed consolidated income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the interim condensed consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of producing and refining crude oil is accounted on a weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil and refined products is the purchase cost, cost of refining, including the appropriate proportion of depreciation, depletion and amortisation (DD&A) and overheads based on normal capacity. Net realisable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to completion and disposal.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the interim condensed consolidated income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Decommissioning liabilities

The Group recognises decommissioning obligations for its upstream assets. The fair values of these obligations are recorded as liabilities on a discounted basis, which is typically at the time the assets are installed. The costs

associated with these liabilities are capitalised as part of the related assets and depleted as the reserves are produced. Over time, the liabilities are accreted for the change in present value. Decommissioning liabilities are not recorded for downstream facilities, because such potential obligations cannot be measured since it is not possible to estimate the settlement dates.

Environmental liabilities

Liabilities for environmental remediation are recorded when it is probable that obligations have been incurred and the amounts can be reliably estimated. Environmental remediation liabilities are recorded on a discounted basis based on the amount and timing of the cash payments. Environmental expenditures that have future benefit are capitalised.

Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss;

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and

- Where it is not probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Income tax expense is recognised in the interim condensed consolidated financial statements based on management's best estimate of the weighted average annual income tax rate expected for the full financial year subject to adjustments for the tax effects of one-time events and other events which are difficult to anticipate, such as foreign exchange rate movements.

Revenue recognition

Revenues from the production and sale of crude oil and petroleum products are recognised when title has transferred and collectability is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any discounts and other incentives. Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other in the interim condensed consolidated income statement. Revenue includes only economic benefits which flow to the Group. Taxes and duties arising on the sale of goods to third parties do not form part of revenue.

Dividends

Dividends are recognised as a liability and deducted from shareholders' equity at the reporting date only if they are declared before or on the reporting date. Dividends declared after the reporting date but before the interim condensed consolidated financial statements are authorised for issue are disclosed. Also disclosed are dividends proposed before the reporting date.

Comprehensive income

The Group's comprehensive income consists of profit for the period and other comprehensive income represented by currency translation adjustments related to those subsidiaries and affiliates, whose functional currency is different from the reporting currency of the Group.

Pension and post-employment benefits

The Group's mandatory contributions to the governmental pension plan are expensed when incurred. Discretionary pensions and other post-employment benefits are not material.

Standards issued but not yet effective

The Group has reviewed new and revised accounting pronouncements that have been issued but are not yet effective for the Group and determined that the following may have an impact on the Group.

In November 2009, the IASB issued IFRS 9, "Financial instruments: classification and measurement", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortised cost and fair value. While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is currently considering the impact of adopting the standard and the timing of its adoption by the Group.

In May 2011, the IASB issued IFRS 10, "Consolidated financial statements", IFRS 11, "Joint arrangements", IFRS 12, "Disclosure of interests in other entities", IAS 27, "Separate financial statements", and consequential amendments to IAS 28, "Investments in associates and joint ventures". These standards will become effective for the Group as of 1 January 2013.

IFRS 10 replaces all of the guidance on control and consolidation of IAS 27, "Consolidated and separate financial statements", and SIC-12, "Consolidation - special purpose entities". The standard changes the definition of control so that the same criteria are applied to all entities to determine control.

IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

The adoption of IFRS 10 and IFRS 12 is not expected to have a material impact on the Group's financial position or operations but will require additional disclosures to be presented in the consolidated financial statements.

IFRS 11 replaces IAS 31, "Interests in joint ventures", and SIC-13, "Jointly controlled entities —Non-monetary contributions by ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of IFRS 11 on its consolidated financial statements.

In May 2011, the IASB issued IFRS 13, "Fair value measurement", which aims to improve consistency and reduce complexity by providing a revised definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard will become effective for the Group as of 1 January 2013. The Group is currently assessing the impact of the standard on its consolidated financial statements.

Note 4. Significant accounting judgements, estimates and assumptions

The Group makes estimates and assumptions concerning the future that affect the amounts recognised in the interim condensed consolidated financial statements and the carrying amounts of assets and liabilities. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods. Significant estimates and judgments made by management in the preparation of these interim condensed consolidated financial statements are outlined below.

Estimation of oil and gas reserves

Oil and gas development and production assets are depreciated on a unit-of-production (UOP) basis for each field at a rate calculated by reference to proved or proved developed reserves. Estimates of proved reserves are also used in the determination of whether impairments have arisen or should be reversed. Also, exploration drilling costs are capitalised pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

Proved and proved developed reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans.

Changes to the Group's estimates of proved and proved developed reserves affect prospectively the amounts of depreciation, depletion and amortisation charged and, consequently, the carrying amounts of oil and gas properties. It is expected, however, that in the normal course of business the diversity of the Group's portfolio will limit the effect of such revisions. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalised exploration drilling costs being recorded in the interim condensed consolidated income statement in that period.

The price assumptions used for the estimation of the Group's reserves for the purpose of UOP depreciation of the oil and gas development and production assets are based on a 12-month average price calculated as the unweighted arithmetic average of the first-day-of-the-month price of the previous fiscal year, unless prices are defined by contractual arrangements. Information about the carrying amounts of oil and gas properties and the amounts charged to the interim condensed consolidated income statement, including depreciation, depletion and amortisation, is presented in Note 11.

Impairments

The Group assesses its non-current assets for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to sustained unprofitable performance, an increase in the discount rate, low plant utilisation, evidence of physical damage and, for oil and natural gas properties, significant downward revisions of estimated hydrocarbon volumes or increases in estimated future development expenditure. The assessment for impairment entails comparing the carrying value of the asset or cash-generating unit with its recoverable amount, that is, the higher of fair value less costs to sell and value in use. These calculations require the use of estimates and assumptions, including future oil prices, expected production volumes and refining margins. It is reasonably possible that these assumptions may change and may then require a material adjustment to the carrying value of the Group's assets.

Irrespective of whether there is any indication of impairment, the Group is required to test annually for impairment of goodwill acquired in a business combination. As of 30 September 2012, the Group carries goodwill of USD 276 million which relates to acquisitions of retail assets in Russia. In testing goodwill for impairment, the Group uses a similar approach to that described above for asset impairment. If there are low retail margins for an extended period, the Group may need to recognise goodwill impairment charges.

Information about impairments recognised is presented in Notes 11 and 12.

Decommissioning and restoration costs

Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Information about decommissioning and environmental provisions is presented in Note 16.

Taxation

Tax provisions are recognised when it is considered probable (more likely than not) that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgement as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognised in the interim condensed consolidated income statement for the period in which the change occurs.

The Group recognises the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognised in the interim condensed consolidated income statement both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Information about the Group's contingencies is presented in Note 21.

Note 5. Business combinations and acquisition of interests in joint arrangements

Acquisition of investments in Venezuela and Vietnam

In October 2010, the Group entered into agreements with BP to acquire certain of BP's interests in upstream and pipeline operations in Vietnam and upstream operations in Venezuela for an estimated overall consideration of USD 1.8 billion. During the year ended 31 December 2010, the Group made a deposit of USD 1 billion for the acquisition, which was included in Loans and advances issued in the interim condensed consolidated statement of financial position as of 1 January 2011. Total consideration paid by the Group amounted to USD 1.7 billion.

The acquisition of interests in the operations in Venezuela was completed in June 2011. Pursuant to the acquisition, the Group holds minority equity interests in three upstream producing entities, majority ownership and control in each case is held by Petroleos de Venezuela S.A. ("PDVSA"), a state-owned oil company. The most significant of these interests is in PetroMonagas S.A. in which the Group holds a 16.7% equity share. PetroMonagas produces and processes heavy crude oil into synthetic crude ("syncrude") for sale. The Group's share in PetroMonagas's total crude oil production averaged 21 thousand barrels of oil equivalent per day through both the three and nine months ended 30 September 2012. The Group's net share in total production of Venezuelan equity affiliates acquired amounted to 27 and 26 thousand barrels of oil equivalent per day through the three and nine months ended 30 September 2012, respectively.

In Vietnam, the Group acquired interests in gas producing fields and the related pipeline infrastructure. In particular, the Group acquired a 35% share in the offshore gas condensate production Block 06.1 containing the Lan Tay and Lan Do gas condensate fields. The Group's net share of gas production from these fields amounted to 14 and 18 thousand of barrels of oil equivalent per day through the three and nine months ended 30 September 2012, respectively. The transaction was completed in October 2011 upon obtaining necessary government approval.

The fair value of the interests acquired in Venezuela is estimated at USD 900 million before working capital and completion adjustments and the fair value of interests acquired in Vietnam is estimated at USD 716 million before working capital and completion adjustments. The respective fair value was allocated to the following assets and liabilities:

	Venezuela	Vietnam	Total
Goodwill	288	-	288
Government contract	-	191	191
Property, plant and equipment	858	544	1,402
Long-term deferred income tax asset	75	-	75
Other assets	303	73	376
Long-term deferred income tax liability	(197)	-	(197)
Other liabilities	(427)	(92)	(519)
Total allocated	**900**	**716**	**1,616**
Deposit for remaining Vietnamese Interest*	-	30	30
Cash and working capital	35	90	125
Total consideration	**935**	**836**	**1,771**

*The transaction in respect of the remaining Vietnamese Interest was cancelled and the deposit was returned by BP in October 2012.

As of 30 September 2012 and 31 December 2011, the interests in Venezuela are accounted for as associates using the equity method and are included in Equity-accounted investments in the interim condensed consolidated statement of financial position – see Note 10.

The interests acquired in Vietnam are accounted for as jointly controlled assets as the Group has acquired undivided interests in the respective assets and liabilities. The Group's share of these assets and liabilities are included in the interim condensed consolidated statement of financial position as of 30 September 2012 and 31 December 2011.

Acquisition of interest in exploratory blocks in Brazil

On 28 March 2012, the Group completed the acquisition from HRT O&G of a 45% interest in concession agreements for 21 exploratory blocks in the Brazilian Solimoes Basin. Under the farm-in agreement between the Group and HRT, the consideration to be paid amounts to USD 1 billion payable in five semi-annual instalments plus interest at Libor rate starting from April 2012. The Agreement also envisages additional payments subject to achieving certain milestones and exceeding certain hydrocarbon reserve targets. Milestone payments will not exceed a further USD 250 million while payments related to exceeding target reserves will depend on the amount of reserve additions. Furthermore, the parties also concluded an agreement which provides the Group with a call option to acquire an additional 10% interest and become the operator, while HRT has a put option to sell a 10% interest to the Group. The options will become exercisable in 910 days from the date of the acquisition of the initial 45% interest. The Group recognised these options as financial instruments at fair value through profit or loss with a zero value at both the acquisition and reporting dates.

Pursuant to the Farm-In Agreement, the seller also agreed to fund ("to carry") the Group's share of exploration costs and expenses up to USD 175 million in expenditures incurred commencing 1 January 2012.

The interests acquired in Brazil are accounted for as jointly controlled assets as the Group has acquired undivided interests in the respective assets and liabilities. The cost of acquisition was allocated to exploration and evaluation assets (with USD 871 million allocated to unproved properties in Property, plant and equipment, see Note 11, and USD 129 million of the carry included in Other long-term assets). As of 30 September 2012, pursuant to the terms of the Agreement, the Group had paid USD 400 million in cash for the acquisition of the interest. The remaining consideration payable at 30 September 2012 is reflected in Accounts payable and accrued liabilities for the part of consideration payable within one year amounting to USD 400 million (see Note 14) and in Other non-current liabilities for the part of consideration payable after one year amounting to USD 200 million.

Other acquisitions

In the first quarter of 2011, OOO TNK-Sheremetyevo, a joint venture, acquired a majority interest in CJSC "Toplivozapravochny kompleks Sheremetyevo", the operator of jet fuel storage and into-wing fuelling services at Sheremetyevo International Airport. This was financed by a USD 212 million loan provided by the Group. This amount is included in Loans and advances issued in the interim condensed consolidated statement of financial position and in Loans issued in the interim condensed consolidated statement of cash flows.

In March 2012, the Group completed the acquisition of a 100% interest in ZAO "TZK "Koltsovo", the operator of a jet fuel storage and into-wing fuelling services business at Yekaterinburg Airport, and OOO "TZK-Aktiv", the owner of the assets of the fuelling complex, for a total consideration of USD 112 million. The acquisition was accounted for as a business combination and the purchase price was preliminarily allocated primarily to Intangible assets and related deferred tax liabilities.

In February and March 2012, the Group acquired a 100% interest in a number of retail assets in the Tver and Orel regions of Russia for a consideration of USD 32 million. The acquisition was accounted for as a business combination and the purchase price was preliminarily allocated to Property, plant and equipment and related deferred tax liabilities.

In March 2012, the Group acquired for a consideration of USD 18 million a 100% interest in OOO "Abeks", a company holding a land plot with a license for construction of a product terminal near St. Petersburg in Russia. The purchase price was allocated to tangible and intangible assets.

Disposal of interests in the Kovykta field development

In April 2010, the Company transferred its interests in OAO Rusia Petroleum holding the exploration and production license for the Kovykta field and OAO East Siberian Gas Company ("ESGC") to its Parent. This transfer was recognised as a transaction under common control. Also, the loans issued by the Company and its subsidiaries to Rusia Petroleum and ESGC were assigned to the Parent. Due to uncertainties over the amount of proceeds ultimately receivable by the Group from the intended sale of the Kovykta related assets to a third party by the Parent, the consideration was recognised initially at the book value of the assets transferred in the amount of USD 674 million, which was included in Other current assets in the consolidated statement of financial position as of 1 January 2011.

During the first and the fourth quarters of 2011, the assets of Rusia Petroleum and ESGC were sold to an external party. As a result of the transaction, the Group recognised a gain on disposal of subsidiaries of USD 152 million and USD 34 million respectively, with a corresponding increase in receivables from the Parent. As of 30 September 2012, the amount outstanding from the Parent related to the Kovykta transaction which is included in Other current assets is USD 173 million. This includes USD 26 million booked in the third quarter of 2012 following a reassessment of the amounts receivable from the parent with a corresponding gain recognised in the Group's statement of income for the three and nine months ended 30 September 2012.

Other disposals

In April 2011, the Group completed the disposal of OOO "Orenburgenergoneft" and OOO "Nizhnevartovskenergoneft", energy services companies, related to the upstream segment, for a total consideration of USD 14 million. As a result of this transaction, a disposal gain of USD 11 million was recognised.

In July 2011, the Group completed the disposal of a subsidiary holding an office building in Moscow, Russian Federation, for a total consideration of USD 238 million. As a result of this transaction, a disposal gain of USD 143 million was recognised.

In August 2012, the Group completed the disposal of OAO "Novosibirskneftegas" and OAO "Severnoeneftegas", producing companies in the West Siberia region (part of the Exploration and Production segment), for a total consideration of USD 290 million. As a result of this transaction, a disposal gain of USD 102 million was recognised. As of 1 August 2012 the major classes of assets and liabilities were:

Trade and other receivables, net	6
Inventories	7
Property, plant and equipment, net	211
Total assets	**224**
Accounts payable and accrued liabilities	11
Taxes payable	18
Decommissioning, environmental and other provisions	5
Deferred income tax liability	6
Total liabilities	**40**

Transactions with Noncontrolling Interest Shareholders

In February 2011, the Group transferred a 100% interest in ZAO Radonezh Petroleum and a 33% interest in SaratovNefteProduct to OAO TNK-BP Holding ("TBH"), a subsidiary of the Group. As a result, the Group

recognised a decrease in Noncontrolling interest with a corresponding increase in Additional paid-in capital in the amount of USD 5 million.

In August 2012, the Group acquired the noncontrolling interest in several marketing subsidiaries for a total consideration of USD 188 million in cash. As a result, the Group recognised a decrease in Additional paid-in capital in the amount of USD 128 million and a reduction of noncontrolling interest by USD 60 million.

Note 6: Sales and other operating revenues

Revenues for the three and nine months ended 30 September 2012 and 2011 comprise the following:

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
6,535	6,649	Crude oil – export	20,119	18,988
1,405	895	Crude oil – domestic	3,904	2,619
4,314	4,133	Petroleum products – export	12,586	13,551
2,884	3,144	Petroleum products – domestic	7,701	7,820
585	478	Other proceeds	1,757	1,524
15,723	**15,299**	**Gross proceeds**	**46,067**	**44,502**
(3,934)	(4,621)	Less: export duties	(13,245)	(12,216)
11,789	**10,678**	**Sales and other operating revenues**	**32,822**	**32,286**

Note 7: Cash and Cash Equivalents, Restricted cash and Short-term deposits

	30 September 2012	31 December 2011	1 January 2011
Cash and cash equivalents	3,468	1,164	1,844
Restricted cash	4	48	8
Bank deposits with maturity more than 3 months	500	100	600
	3,972	**1,312**	**2,452**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits, included in cash and cash equivalents, are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The fair value of cash and short-term deposits approximates their carrying value. The Group only deposits cash surpluses with major banks of high quality credit standing. Restricted cash balances include cash deposits used to secure open letters of credit and security deposits.

Note 8: Trade and Other Receivables, net

	30 September 2012	31 December 2011	1 January 2011
Trade accounts and notes receivable (net of allowance for doubtful accounts of USD 3 million, USD 4 million and USD 5 million as of 30 September 2012, 31 December 2011 and 1 January 2011, respectively)	2,354	2,083	1,313
Dividends receivable	180	23	118
Other receivables (net of allowance for doubtful accounts of USD 22 million, USD 18 million and USD 6 million as of 30 September 2012, 31 December 2011 and 1 January 2011, respectively)	91	127	56
Trade and other financial receivables, net	**2,625**	**2,233**	**1,487**
Recoverable value-added tax	1,348	1,095	828
Advances issued	442	934	364
Export duty prepayments	305	808	595
Income tax receivable	85	90	111
Other taxes prepayments	116	116	79
Tax prepayments and advances issued	**2,296**	**3,043**	**1,977**
Total trade and other receivables, net	**4,921**	**5,276**	**3,464**

Note 9: Inventories

	30 September 2012	31 December 2011	1 January 2011
Crude oil inventories	334	414	295
Petroleum products	621	733	662
Materials and supplies	422	448	321
Other inventories	26	28	17
Total inventories	**1,403**	**1,623**	**1,295**

Note 10: Long-Term Investments

Investments in affiliates and joint ventures:	30 September 2012	31 December 2011	1 January 2011
OAO NGK Slavneft and its subsidiaries ("Slavneft")	2,055	1,827	2,117
Investments in Venezuela	953	951	-
NVGRES Holding Limited ("NVGRES")	302	291	298
OOO National Petroleum Consortium ("NPC")	102	120	120
OOO TNK Sheremetyevo	48	28	-
OAO Messoyakhaneftegaz ("Messoyakha")	-	3	-
Other	9	17	10
Total equity-accounted investments	**3,469**	**3,237**	**2,545**

Loans and advances issued:	30 September 2012	31 December 2011	1 January 2011
OAO Messoyakhaneftegaz ("Messoyakha")	162	114	-
OOO Yugragazpererabotka	153	145	121
OOO TNK Sheremetyevo	152	155	-
Advances for the acquisition of investments in Vietnam	30	30	1,000
OOO National Petroleum Consortium ("NPC")	15	6	3
Other	47	40	47
Total loans and advances issued	**559**	**490**	**1,171**

Slavneft

In December 2002, the Group joined OAO Gazpromneft (formerly known as OAO Sibneft) to obtain a 99.6% interest in Slavneft as a result of the Russian and Belorussian Governments privatisation auctions. The ownership and the control over Slavneft is divided equally between the Group and companies affiliated with OAO Gazpromneft. The Group currently owns approximately 49.9% of Slavneft and accounts for this investment as an investment in a joint venture using the equity method of accounting.

As of 1 January 2011, Slavneft adopted International Financial Reporting Standards. Also on January 1, 2011, Slavneft changed its functional currency from USD to RUR. For the three and nine months ended 30 September 2012, the Group recognised a gain from its equity investment in Slavneft of USD 197 million and USD 316 million, respectively (for the three and nine months ended 30 September 2011 - a loss of USD 55 million and a gain of USD 13 million, respectively). The Group's share of currency translation effect amounted to a gain of USD 121 million and USD 78 million for the three and nine months ended 30 September 2012, respectively (for the three and nine months ended 30 September 2011 - a loss of USD 269 million and USD 91 million, respectively) which was included in currency translation differences in the interim condensed consolidated statement of comprehensive income for the three and nine months ended 30 September 2012 and 2011, respectively. During the nine months ended 30 September 2012, Slavneft and its subsidiaries declared dividends amounting to USD 166 million (during the nine months ended 30 September 2011 - USD 169 million), which were recognised as a reduction of the investment in Slavneft. There were no dividends declared during the three months ended 30 September 2012 and 30 September 2011.

Slavneft's interim consolidated income statement information for the three and nine months ended 30 September 2012 and 2011 is as follows:

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
1,768	1,314	Revenues	4,821	4,023
399	**(170)**	**Profit/(Loss) for the period**	**643**	**(66)**

Slavneft's consolidated statement of financial position information at 30 September 2012, 31 December 2011 and 1 January 2011 is as follows:

	30 September 2012	31 December 2011	1January 2011
Current assets	1,688	940	1,186
Property, plant and equipment	6,414	6,318	6,498
Other non-current assets	190	183	86
Total Assets	**8,292**	**7,441**	**7,770**
Current liabilities	2,126	1,267	1,311
Long-term debt	708	1,173	753
Other long-term liabilities	707	668	671
Total Liabilities	**3,541**	**3,108**	**2,735**

The Group's investment in Slavneft as presented within long-term investments above differs from its share in the equity of Slavneft primarily due to adjustments for depreciation, depletion and amortisation to align with the Group's accounting policy and the cost of share purchases in Slavneft.

NVGRES

In August 2008, pursuant to an agreement with OAO OGK-1 ("OGK-1"), a Russian power generating company, the Group entered into a venture in the Nizhnevartovsk region (NVGRES Holding Limited). Under the Agreement, OGK-1 contributed the two existing power units of the Nizhnevartovsk Power Plant and the Group invested Euro 230 million in the newly established venture in exchange for a 25% plus 1 share in the venture.

The full purchase price of Euro 230 million (equivalent to USD 358 million) was paid in August 2008. The investment in NVGRES is accounted for as an investment in a joint venture using the equity method.

The goodwill of USD 47 million recognised on the acquisition of this investment relates to the value for the Group of a higher rate of utilisation of associated gas as a by-product of crude oil production as a result of the expansion of the power plant and is included in the carrying value of the investment.

The Agreement also provides an option for the Group to increase its share up to 50% less one share after the construction of the third power unit is completed which is planned for 2013. The Group recognised the embedded option as a financial asset at fair value through profit or loss with a zero value at both the acquisition and reporting dates.

In 2009, the Group entered into long-term agreements with NVGRES for the sale of gas and purchase of electric power. According to the agreements, the prices for gas and electric power as well as other terms of agreements are determined based on current market conditions.

NVGRES income statement information for the three and nine months periods ended 30 September 2012 and 2011 is as follows:

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
81	110	Revenues	264	324
(7)	**35**	**(Loss)/Profit for the period**	**(5)**	**43**

NVGRES statement of financial position information as of 30 September 2012, 31 December 2011 and 1 January 2011 is as follows:

	30 September 2012	31 December 2011	1 January 2011
Current assets	280	373	389
Property, plant and equipment	917	781	776
Total assets	**1,197**	**1,154**	**1,165**
Total liabilities	**153**	**143**	**153**

For the three and nine months ended 30 September 2012, the Group recognised a loss from its equity investment in NVGRES of USD 2 million and USD 1 million, respectively (for the three and nine months ended 30 September 2011 - a gain of USD 9 million and USD 11 million respectively). For the three and nine months ended 30 September 2012, the Group recognised a currency translation gain of USD 19 million and USD 12 million, respectively (for the three and nine months ended 30 September 2011 - a loss of USD 37 million and USD 13 million, respectively) which was included in currency translation differences in the interim condensed consolidated statement of comprehensive income for the three and nine months ended 30 September 2012 and 2011, respectively.

National Petroleum Consortium ("NPC")

In 2008, the Group and four other major Russian oil and gas companies formed the NPC, with each party receiving a 20% interest. In April 2010, a venture between NPC and PDVSA, a Venezuelan State owned oil company, was established in order to develop and operate an integrated heavy oil project at the JUNIN 6 oil field in Venezuela. NPC paid USD 600 million for a 40% interest in the venture to the Government of Venezuela and the Group loaned USD 120 million to NPC in respect of its 20% share of this payment. The loan was subsequently converted into an interest in the share capital of NPC. For the three and nine months ended 30 September 2012, the Group recognised a loss from its equity investment in NPC in the amount of USD 1 million and USD 18 million, respectively. The investment in NPC is accounted for as an investment in an associate using the equity method.

TNK-Sheremetyevo

In the first quarter of 2011, the Group issued a USD 212 million loan to OOO TNK-Sheremetyevo, a joint venture, to acquire a majority interest in ZAO "Toplivozapravochny Kompleks Sheremetyevo", the operator of jet fuel storage and into-wing fuelling services at Sheremetyevo International Airport in Moscow.

The Group accounts for this investment as an investment in a joint venture using the equity method. For the three and nine months ended 30 September 2012, the Group recognised a gain from its investment in TNK-Sheremetyevo of USD 5 million and USD 20 million, respectively (for the three and nine months ended 30 September 2011 - a gain of USD 27 million and USD 22 million, respectively). As of 30 September and 31 December 2011, the outstanding loan from TNK-Sheremetyevo amounted to USD 152 million and USD 155 million, respectively.

Investments in Venezuela

The acquisition of interests in the operations in Venezuela was completed in June 2011. Pursuant to the acquisition, the Group holds minority equity interests in three upstream producing entities, majority ownership and control in each case is held by PDVSA (for further details see Note 5). The most significant of these interests is in PetroMonagas S.A. in which the Group holds a 16.7% equity share.

The interests in Venezuela are accounted for as Group's associates using the equity method. Although the Group's ownership interest in Petromonagas constitutes less than 20 percent, the Group is able to exercise significant influence over this entity through representation on the board of directors and participation in policy-making processes. For the three and nine months ended 30 September 2012, the Group recognised a gain from its equity investments in Venezuela of USD 9 million and USD 2 million, respectively (for the three and nine months ended 30 September 2011 - a gain of USD 22 million respectively). During the three and nine months ended 30 September 2011, PetroMonagas S.A. declared dividends amounting to USD 25 million, which were recognised as a reduction of the investment in Venezuela. There were no dividends declared during the three and nine months ended 30 September 2012.

Messoyakha

In December 2010, the Group and OAO "Gazpromneft" entered into agreements with Slavneft to each acquire a 50% interest in OAO "Messoyakhaneftegaz", owner of development licenses for the group of Messoyakha oil and gas fields in the north of Yamal region. This acquisition was accounted for as a transaction under common control and no change in the carrying value of the Group's share in the Messoyakha net assets was recognised. For the three and nine months ended 30 September 2012, the Group recognised a loss from its investment in Messoyakha of USD 4 million and USD 15 million, respectively (for the three and nine months ended 30 September 2011, a gain of USD 6 million and a loss of USD 11 million, respectively). As of 30 September 2012, the loss from investments in Messoyakha was recorded as a decrease in the carrying amount of investments of USD 3 million, and a further USD 12 million was recorded as a decrease in the amount of loans issued to Messoyakha. The Group accounts for this investment as an investment in a joint venture using the equity method. Loans issued to Messoyaka are accounted for as net investment and the losses from the Group's investment in Messoyakha are deducted from the amount of loans outstanding as of the balance sheet date.

OOO Yugragazpererabotka

The Group holds a 49% interest in this venture which controls three gas processing plants in Western Siberia. The Group uses these plants to process associated gas produced at its neighbouring oil fields.

Note 11. Property, plant and equipment

	Oil and gas	Refining, marketing and distribution	Corporate and other	Total
Cost				
At 1 January 2011	**23,003**	**4,546**	**341**	**27,890**
Capital expenditures	2,832	502	13	3,347
Translation adjustments	-	(69)	-	(69)
Disposals, retirements and other movements	(620)	(53)	(162)	(835)
At 30 September 2011	**25,215**	**4,926**	**192**	**30,333**
At 1 January 2012	**26,517**	**5,276**	**295**	**32,088**
Capital expenditures	3,517	485	13	4,015
Acquisitions of subsidiaries and interests in joint arrangements (Note 5)	871	31	-	907
Translation adjustments	-	74	-	74
Disposals, retirements and other movements	(1,159)	(202)	(147)	(1,513)
At 30 September 2012	**29,746**	**5,664**	**161**	**35,571**
Depletion, depreciation and amortisation, including impairments				
At 1 January 2011	**(6,676)**	**(1,671)**	**(141)**	**(8,488)**
Charge for the period	(1,185)	(240)	(23)	(1,448)
Translation adjustments	-	35	-	35
Disposals, retirements and other movements	373	58	56	487
At 30 September 2011	**(7,488)**	**(1,818)**	**(108)**	**(9,414)**
At 1 January 2012	**(7,761)**	**(1,864)**	**(115)**	**(9,740)**
Charge for the period	(1,365)	(250)	(8)	(1,623)
Impairment losses	-	(162)	-	(162)
Translation adjustments	-	(5)	-	(5)
Disposals, retirements and other movements	1,001	(43)	54	1,012
At 30 September 2012	**(8,125)**	**(2,324)**	**(69)**	**(10,518)**
Net book value				
At 1 January 2011	**16,327**	**2,875**	**200**	**19,402**
At 30 September 2011	**17,727**	**3,108**	**84**	**20,919**
At 1 January 2012	**18,756**	**3,412**	**180**	**22,348**
At 30 September 2012	**21,621**	**3,340**	**92**	**25,053**

Assets under construction included above:

	Oil and gas	Refining, marketing and distribution	Corporate and other	Total
At 1 January 2011	2,060	570	2	**2,632**
At 30 September 2011	2,915	776	2	**3,693**
At 1 January 2012	2,852	913	2	**3,767**
At 30 September 2012	4,093	816	3	**4,912**

Decommissioning assets included above, net book value:

	Oil and gas	Refining, marketing and distribution	Corporate and other	Total
At 1 January 2011	154	-	-	**154**
At 30 September 2011	143	-	-	**143**
At 1 January 2012	139	-	-	**139**
At 30 September 2012	128	-	-	**128**

Exploration and evaluation assets included in Oil and Gas assets above, net book value:

	Unproved properties	Capitalised exploratory well costs	Other assets	Total Exploration and Evaluation assets
At 1 January 2011	1,303	251	117	**1,671**
At 30 September 2011	1,304	224	264	**1,792**
At 1 January 2012	1,302	231	264	**1,797**
At 30 September 2012	2,146	248	336	**2,730**

For the nine months ended 30 September 2012, operating and investing cash flows used for exploration and evaluation activities amounted to USD 180 million and USD 479 million (for the nine months ended 30 September 2011 - USD 80 million and USD 153 million, respectively).

The amount of interest capitalised during the three and nine months ended 30 September 2012 was USD 75 million and USD 175 million, respectively (during the three and nine months ended 30 September 2011 - USD 35 million and USD 129 million, respectively). The capitalisation rate used to determine the amount of interest capitalised was 5.2% and 5.4% for the three and nine months ended 30 September 2012 and 2011, respectively.

Due to economic and industry conditions currently prevailing in the Ukraine, management has decided to temporarily halt crude deliveries to the LINIK refinery from 1 March 2012. The Group is currently exploring several alternatives for LINIK, including mothballing. In view of the uncertainties over the recoverable value of LINIK, its property, plant and equipment were written down to zero, with an impairment loss of USD 162 million recognised during the nine months ended 30 September 2012. Additionally, other current and non-current assets of LINIK in the amount of USD 68 million were written down to zero and recognised as impairment loss in the Group's interim condensed consolidated income statement for the nine months ended 30 September 2012.

Note 12: Intangible assets

Cost	Intangible assets associated with land rights and permits	Other intangible assets	Goodwill	Total
At 1 January 2011	**451**	**347**	**443**	**1,241**
Additions	1	47	-	48
Disposals	-	(5)	-	(5)
Translation adjustments	(12)	-	(12)	(24)
At 30 September 2011	**440**	**389**	**431**	**1,260**
At 1 January 2012	**633**	**429**	**428**	**1,490**
Additions	-	38	-	38
Acquisitions of subsidiaries and interest in joint arrangements (Note 5)	119	-	-	119
Disposals	-	(15)	-	(15)
Translation adjustments	28	-	11	39
At 30 September 2012	**780**	**452**	**439**	**1,671**
Amortisation and impairment:				
At 1 January 2011	**(128)**	**(168)**	**(127)**	**(423)**
Depreciation charge for the period	(19)	(31)	-	(50)
Disposals	-	3	-	3
Translation adjustments	1	-	-	1
At 30 September 2011	**(146)**	**(196)**	**(127)**	**(469)**
At 1 January 2012	**(149)**	**(208)**	**(163)**	**(520)**
Depreciation charge for the period	(35)	(34)	-	(69)
Disposals	-	6	-	6
Translation adjustments	(3)	-	-	(3)
At 30 September 2012	**(187)**	**(236)**	**(163)**	**(586)**
Net book value:				
At 1 January 2011	**323**	**179**	**316**	**818**
At 30 September 2011	**294**	**193**	**304**	**791**
At 1 January 2012	**484**	**221**	**265**	**970**
At 30 September 2012	**593**	**216**	**276**	**1,085**

The Group's intangible assets associated with land rights relate to the acquisitions of gasoline filling stations and other retail assets in Moscow and the Moscow region. These intangible assets are amortized on a straight-line basis over a weighted average period of 20 years.

In 2011, the Group recognized as intangible assets USD 191 million associated with the rights and permits to construct and operate a pipeline transportation system in Vietnam. This asset will be amortized over 12 years in accordance with the period covered by the contract signed with the Vietnamese government.

In March 2012, the Group completed the acquisition of a 100% interest in ZAO "TZK "Koltsovo", the operator of a jet fuel storage and into-wing fuelling services business at Yekaterinburg Airport, and OOO "TZK-Aktiv", the owner of the assets of the fuelling complex. The purchase consideration of USD 112 million was preliminarily allocated to intangible assets in the amount of USD 119 million and related deferred tax liabilities.

Other intangible assets include mainly software licenses used in subsidiaries and road-use rights which are being amortized on a straight-line basis over average periods of 3 years and 48 years, respectively.

As of 1 January 2011, goodwill relates primarily to the acquisitions of retail assets allocated to Marketing (USD 280 million) and TNK-BP Ukraine (USD 36 million) units, which are components of the Refining, Marketing and Distribution segment. In 2011, the Group tested goodwill for impairment. The fair value of the above units was estimated using the expected present value of future cash flows (Level 3 in the fair value measurement hierarchy). The cash flows were developed based on the annually updated plan evaluation assumptions for sales volumes, retail and refining margins and foreign currency exchange rates. The discount rate was derived from the Group's weighted-cost of capital and adjusted for risks specific to the reporting unit. Due to lower than expected operating profits and cash flows of the TNK-BP Ukraine unit, an impairment loss of USD 36 million was recognized in the interim condensed consolidated income statement for the year ended 31 December 2010 within Loss on disposals and impairment of assets.

Note 13: Debt

Long-term debt is as follows:

	30 September 2012	31 December 2011	1 January 2011
Obligations to banks, US dollar denominated:			
Medium-term unsecured finance - variable interest debt (composite variable interest: as of 30 September 2012- Libor plus 1.71 %; as of 31 December 2011 - Libor plus 1.48 %, as of 1 January 2011 – Libor plus 1.43%)	3,235	2,895	1,391
Corporate bonds:			
Eurobond TNK-BP 2018 – fixed interest debt (coupon interest rate – 7.875%, effective interest rate – 8.06%)	1,091	1,090	1,089
Eurobond TNK-BP 2016 – fixed interest debt (coupon interest rate – 7.50%, effective interest rate – 7.55%)	998	998	998
Eurobond TNK-BP 2017 – fixed interest debt (coupon interest rate – 6.625%, effective interest rate – 6.74%)	797	796	796
Eurobond TNK-BP 2013 – fixed interest debt (coupon interest rate – 7.50%, effective interest rate – 7.69%)	600	599	598
Eurobond TNK-BP 2015 – fixed interest debt (coupon interest rate – 6.25%, effective interest rate – 6.45%)	498	497	496
Eurobond TNK-BP 2020 – fixed interest debt (coupon interest rate – 7.25%, effective interest rate – 7.50%)	493	494	492
Eurobond TNK-BP 2012 – fixed interest debt (coupon interest rate – 6.125%, effective interest rate – 6.15%)	-	500	500
Eurobond TNK-BP 2011 – fixed interest debt (coupon interest rate – 6.875%, effective interest rate – 6.98%)	-	-	500
Other	-	159	259
Less: Current portion of long-term debt	(1,242)	(991)	(1,047)
Total long-term debt	**6,470**	**7,037**	**6,072**

In October 2010, the Group signed a USD 2.0 billion unsecured medium-term loan facility with a consortium of international banks of which USD 1.0 billion was drawn down in November 2010. The second USD 1.0 billion tranche was made available to the Group in the form of a committed line, which was subsequently cancelled upon the Group's request. The loan bears interest at 1.75% over LIBOR with a one year grace period and is repayable in nine equal instalments on a quarterly basis starting from November 2011. In November 2011, February 2012, May 2012 and August 2012, there were four repayments in the amount of USD 111 million each in accordance with the schedule. The loan amount outstanding under this facility, net of debt issue costs, as of 30 September 2012, as of 31 December 2011 and as of 1 January 2011 was USD 554 million, USD 886 million and USD 992 million, respectively.

In August 2011, the Group entered into and drew down a USD 1,500 million unsecured loan facility with a consortium of international banks. The loan matures in August 2015 and is repayable in seven equal instalments on a quarterly basis starting from February 2014. The facility bears interest at LIBOR plus 1.30% per annum. As of 30 September 2012 and 31 December 2011, the total outstanding amount under this loan facility, net of debt issue costs, was USD 1,493 million and USD 1,489 million respectively.

In October 2011, the Group entered into a USD 200 million unsecured loan facility with Sumitomo Mitsui Banking Corporation. The loan matures in October 2014 and is repayable on maturity. The facility bears interest at LIBOR plus 1.50% per annum. As of 30 September 2012 and 31 December 2011, the total outstanding amount under this loan facility, net of debt issue costs, was USD 199 million and USD 198 million respectively.

In November 2011, the Group entered into a USD 125 million unsecured loan facility with HSBC Bank PLC. The loan matures in November 2014 and is repayable in seven equal instalments on a quarterly basis starting from May 2013. The facility bears interest at LIBOR plus 1.60% per annum. As of 30 September 2012 and 31 December 2011, the total outstanding amount under this loan facility, net of debt issue costs, was USD 125 million and USD 124 million respectively.

In November 2011, the Group entered into two unsecured loan facilities with Merrill Lynch International Bank Limited and Mizuho Corporate Bank for USD 100 million each. Both loans mature in November 2014 and are repayable in nine equal instalments on a quarterly basis starting from November 2012. The loan facilities bear interest at LIBOR plus 1.60% and 1.50% per annum, respectively. As of 30 September 2012 and 31 December 2011, the total outstanding amounts under these loan facilities, net of debt issue costs, were USD 99 million each.

In September 2012, the Group entered into and drew down a USD 675 million unsecured loan facility with a consortium of international banks. The loan matures in September 2015 and is repayable in nine equal instalments on a quarterly basis starting from September 2013. The facility bears interest at LIBOR plus 2.70% per annum. As of 30 September 2012, the total outstanding amount under this loan facility, net of debt issue costs, was USD 666 million.

In 2007-2009, the Group entered into a number of loan agreements with OJSC Rosneft and its affiliates. The loans bore interest at the refinancing rate of Central Bank of Russian Federation per annum. The loans were prepaid in full during 2012 with a final repayment made in August 2012. As of 31 December 2011 and 1 January 2011, the total outstanding amount under these loan facilities was USD 159 million and USD 259 million respectively.

Eurobonds. As of 30 September 2012, 31 December 2011 and as of 1 January 2011, the Group had USD 4.5 billion, USD 5.0 billion and USD 5.5 billion of Eurobonds outstanding respectively.

In July 2006, the Group placed USD 1.5 billion Eurobonds split into 5 and 10-year tranches maturing in 2011 and 2016, respectively. The 5-year USD 0.5 billion issue bore interest of 6.875% per annum payable semi-annually and had been issued at a discount of 0.441% to the nominal value. In July 2011, this issue was repaid on maturity. The 10-year USD 1.0 billion issue bears interest of 7.5% per annum payable semi-annually and has been issued at a discount of 0.374% to the nominal value.

In March 2007, the Group placed USD 1.3 billion Eurobonds split into 5 and 10-year tranches maturing in 2012 and 2017, respectively. The 5-year USD 0.5 billion issue bore interest of 6.125% per annum payable semi-annually and had been issued at a discount of 0.124% to the nominal value. In March 2012, this issue was repaid on maturity. The 10-year USD 0.8 billion issue bears interest of 6.625% per annum payable semi-annually and has been issued at a discount of 0.799% to the nominal value.

In October 2007, the Group placed USD 1.7 billion Eurobonds split into two tranches of USD 0.6 billion and USD 1.1 billion maturing in March 2013 and March 2018, respectively. The USD 0.6 billion issue bears interest of 7.5% per annum payable semi-annually and has been issued at a discount of 0.834% to the nominal value. The USD 1.1 billion issue bears interest of 7.875% per annum payable semi-annually and has been issued at a discount of 1.272% to the nominal value.

In February 2010, the Group placed USD 1.0 billion Eurobonds split into 5 and 10-year tranches maturing in 2015 and 2020, respectively. The 5-year USD 0.5 billion issue bears interest of 6.250% per annum payable semi-annually and has been issued at a discount of 0.840% to the nominal value. The 10-year USD 0.5 billion issue bears interest of 7.250% per annum payable semi-annually and has been issued at a discount of 1.740% to the nominal value.

The proceeds from the Eurobond issues described above have been used for general corporate purposes.

The outstanding long-term debt is subject to certain covenants as stipulated by the relevant borrowing agreement or the terms of the relevant Eurobond. The above agreements for the loan facilities include financial covenants which require the Group to maintain certain financial ratios, which are calculated in accordance with the interim condensed consolidated financial statements. The bank loan facilities also include events of default in circumstances including where (i) there is a transfer of shares in the Parent, the Company or certain subsidiaries of the Group resulting in any person other than the current shareholders of the Parent becoming directly or indirectly a beneficial owner of more than 25% of the issued voting shares of the Parent, the Company or certain subsidiaries of the Group (other than pursuant to (or as a result of) a public offering meeting certain requirements), or (ii) BP ceases to own or control directly or indirectly at least 50% of the Parent or 45% of TBH (other than pursuant to (or as a result of) a public offering meeting certain requirements). Upon the occurrence of circumstances constituting an event of default, the lender(s) under the relevant facility may take steps, including declaring the relevant loan(s) to be immediately due and payable or cancelling the relevant facilities. The terms of the borrowing agreements and the terms of the Eurobonds include cross default or cross acceleration provisions which could be triggered by a change of ownership as contemplated in the events of default in the loan facilities.

In relation to circumstances relating to a change of ownership that could constitute an event of default, Management intends to endeavour to obtain consents or waivers from the lender(s) at an appropriate time in order to avoid the occurrence of such an event of default. Also, in order to avoid an event of default due to change of ownership, Management may choose to prepay the outstanding loans and cancel the relevant loan agreements any time at its discretion before the change of ownership has occurred, subject to providing notice to the lenders sufficiently in advance and to the payment of accrued interest and break fees (if any), as generally allowed under the terms of the loan facilities.

Note 14: Accounts payable and accrued liabilities

	30 September 2012	31 December 2011	1 January 2011
Trade payables	2,216	2,264	1,956
Current portion of deferred consideration for acquisition of interests in Brazil	400	-	-
Contingent consideration for acquisition of interests in Venezuela and Vietnam	80	90	-
Interest accrued	39	129	142
Dividends payable to noncontrolling interest shareholders	2	3	151
Other accrued liabilities	115	182	125
Trade and other financial payables	**2,852**	**2,668**	**2,374**
Advances from customers	444	635	430
Salaries payable and other related costs	309	194	347
Provisions (current portion)	53	61	20
Non-financial payables	**806**	**890**	**797**
Total accounts payable and accrued liabilities	**3,658**	**3,558**	**3,171**

Note 15: Income Taxes

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
812	742	Current tax expense	1,722	1,762
(178)	237	Deferred tax (benefit)/expense	168	309
634	**979**	**Total income tax expense**	**1,890**	**2,071**

The Group is not subject to a corporate income tax on a consolidated basis, rather the Group entities are assessed for corporate income taxes on an individual basis. The statutory corporate income tax rate in the Russian Federation is 20 percent, which is the rate applicable to the majority of the Group subsidiaries. Income taxes also include withholding tax on earnings to be distributed to foreign subsidiaries at 5 percent.

The Group is a party to agreements with the Tyumen, Orenburg and Irkutsk regional authorities which granted certain subsidiaries of the Group a tax concession by way of a four percent relief to the statutory corporate income tax rate subject to those subsidiaries making qualified capital investments in their respective regions.

The effective tax rates for the nine months ended 30 September 2012 and 2011 were 22.9% and 22.5%, respectively.

Deferred income tax reflects the impact of temporary differences between the carrying values of assets and liabilities recognised for financial reporting purposes and such amounts recognised for statutory tax purposes. Deferred income tax assets and liabilities primarily result from temporary differences related to property, plant and equipment, working capital and liabilities associated with undistributed earnings of subsidiaries.

Note 16: Decommissioning and environmental provisions

Decommissioning liabilities. The Group makes full provision for the future cost of decommissioning oil production facilities and pipelines on a discounted basis on the installation of those facilities. The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred up to 2065. These provisions have been created based on the Group's internal estimates. The underlying assumptions have been made based on the current economic environment and management believes that they form a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain. Decommissioning liabilities are not recorded for downstream facilities given that such potential obligations cannot be measured since it is not possible to estimate their settlement dates.

As of 30 September 2012, 31 December 2011 and 1 January 2011, the Group has recorded decommissioning liabilities in the amount of USD 401 million, USD 392 million and USD 396 million, respectively.

Environmental liabilities. Environmental regulation in the Russian Federation is evolving as is the enforcement posture of the government authorities. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which may arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material.

The Group's estimated environmental liability was USD 512 million, USD 384 million and USD 221 million as of 30 September 2012, 31 December 2011 and 1 January 2011, respectively (including current portion of environmental liability of USD 53 million, USD 61 million and USD 20 million at 30 September 2012, 31 December 2011 and 1 January 2011, respectively). The estimates used by management include uncertainties about a number of factors including the extent of necessary remediation, the technology to be used for remediation, and the standards that will constitute an acceptable remediation. As additional information becomes available, management will continue to assess, as necessary, its estimated provision, and estimates the maximum potential exposure to be USD 850 million.

Pursuant to Russian Federation legislation, Upstream companies are required to utilise 95% of associated gas produced by 2012. The Group continues to undertake appropriate actions to meet this requirement and does not believe that the compliance efforts will have a material impact on its financial position or results of operations.

Note 17: Taxes Other Than Income Tax and Taxes Payable

Taxes other than income tax expense for the three and nine months ended 30 September 2012 and 2011 include:

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
2,525	2,480	Unified production tax	7,644	7,154
377	448	Excise taxes	1,202	1,258
70	69	Property tax	223	213
62	46	Pension fund and other social taxes	209	175
2	(2)	Non-recoverable VAT expense/(income)	10	8
2	(2)	Tax penalties and interest	2	9
25	10	Other taxes	62	28
3,063	**3,049**	**Total taxes other than income tax**	**9,352**	**8,845**

Unified production tax is levied based on the quantities of hydrocarbon extracted. The rate of this tax in relation to crude oil produced is adjusted on a monthly basis depending on the market price of the Urals blend and the RUR/USD exchange rate. Average tax rates for the three and nine months ended 30 September 2012 were USD 22.05 per barrel and USD 22.48 per barrel, respectively (for the three and nine months ended 30 September 2011 were USD 21.44 per barrel and USD 20.82 per barrel, respectively).

Current and long-term taxes payable as of 30 September 2012, 31 December 2011 and 1 January 2011 are as follows:

	30 September 2012	31 December 2011	1 January 2011
Unified production tax	841	792	683
Value-added tax	505	339	229
Income taxes	129	142	157
Excise taxes	96	59	62
Property tax	72	74	62
Pension fund and other social taxes	53	36	35
Tax penalties and interest	1	13	13
Other taxes	33	13	14
Taxes payable	**1,730**	**1,468**	**1,255**

Note 18: Group Shareholders' Equity

The share capital of TNK-BP International comprises 54,000 authorised, issued and outstanding ordinary shares of USD 1 par value.

During the nine months ended 30 September 2012 the Company declared dividends of USD 1,380 million (during the nine months ended 30 September 2011 – USD 5,375 million). No dividends were declared during the three months ended 30 September 2012.

Note 19: Employee compensations

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
		Employee remuneration		
129	118	Included in operating expenses	363	344
267	230	Included in administrative expenses	783	695
396	**348**		**1,146**	**1,039**
62	47	Related social taxes	208	176
458	**395**	**Total employee compensations**	**1,354**	**1,215**

Note 20: Related Party Transactions

The Group has the following transactions and balances in the ordinary course of business with affiliates of Alfa Group, a major shareholder of the Parent:

	30 September 2012	31 December 2011	1 January 2011
Cash and cash equivalents held at Alfa Bank	186	121	97
Restricted cash	-	48	-
Bank deposits with maturity more than 3 months in Alfa Bank	-	-	150
Trade and other receivables, net	12	10	12

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
(7)	(4)	Insurance expenses	(11)	(6)

In the ordinary course of business the Group receives guarantees from Alfa Bank among other banks. According to Russian legislation, the Group is entitled to provide such guarantees to the customs authorities as security for its obligations for custom payments. There were no guarantees received from Alfa Bank as of 30 September 2012. The guarantees received from Alfa Bank amounted to USD 26 million and USD 28 million in effect as of 31 December 2011 and 1 January 2011, respectively.

The Group has the following transactions and balances in the ordinary course of business with BP, a major shareholder of the Parent:

	30 September 2012	31 December 2011	1 January 2011
Trade and other receivables, net	148	127	-
Loans and advances issued	30	30	1,000
Accounts payable and accrued liabilities	81	92	-

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
		Sales of crude oil export and		
1,170	667	petroleum products export	2,339	1,724
1.4	*1.0*	*Volumes (millions of tons)*	*2.8*	*2.8*

The Group has the following transactions and balances in the ordinary course of business with affiliates of Renova Group, a major shareholder of the Parent:

	30 September 2012	31 December 2011	1 January 2011
Trade and other receivables, net	20	30	2

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
71	69	Sales of gas	165	162
0.7	*0.8*	*Volumes (billions of cubic*	*1.8*	*1.8*
-	-	Acquisition of retail assets	(100)	-

The balances with the Parent and its subsidiaries are as follows:

	30 September 2012	31 December 2011	1 January 2011
Accounts receivable and loans issued	201	187	703

The Group has the following transactions and balances in the ordinary course of business with the Slavneft Group:

	30 September 2012	31 December 2011	1 January 2011
Trade and other receivables, net	41	26	29
Dividends receivable	174	23	118
Accounts payable and accrued liabilities	56	60	63

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
(793)	(552)	Purchases of crude oil and petroleum products	(2,150)	(1,745)
2.3	*2.2*	*Volumes (millions of tons)*	*6.7*	*6.7*
(70)	(74)	Crude oil refining fee	(199)	(202)
2.0	*2.0*	*Volumes (millions of tons)*	*5.6*	*5.4*
(30)	(28)	Other services	(85)	(85)

The Group has the following transactions and balances in the ordinary course of business with NVGRES and TNK-Sheremetyevo:

NVGRES

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
39	54	Sales of gas	146	174
0.6	*0.8*	*Volumes (billions of cubic meters)*	*2.1*	*2.4*

TNK-Sheremetyevo

	30 September 2012	31 December 2011	1 January 2011
Trade and other receivables, net	110	86	-
Loans and advances issued	152	155	-

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
152	155	Sales of petroleum products	472	328
0.2	*0.2*	*Volumes (millions of tons)*	*0.6*	*0.5*

The Group has the following balances in the ordinary course of business with other equity-accounted investees:

	30 September 2012	31 December 2011	1 January 2011
Loans and advances issued	177	120	3

The balances and transactions with other related parties are as follows:

	30 September 2012	31 December 2011	1 January 2011
Trade and other receivables, net	42	43	53
Loans and advances issued	170	161	139
Accounts payable and accrued liabilities	15	13	23

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
76	64	Sales of gas	215	202
0.9	*0.8*	*Volumes (billions of cubic meters)*	*2.6*	*2.4*
(42)	(21)	Gas processing fee	(120)	(106)
1.5	*0.8*	*Volumes (billions of cubic meters)*	*4.5*	*3.1*
(10)	(36)	Other services	(35)	(66)

Remuneration of key management personnel of the Group (members of the Company's Board of Directors and the Group Management Board):

Three months ended 30 September 2012	Three months ended 30 September 2011		Nine months ended 30 September 2012	Nine months ended 30 September 2011
2	2	Short-term employee benefits	10	11
1	3	Long-term bonus scheme and other long-term employee benefits	5	7
-	-	Termination payments	-	3
3	**5**	**Total**	**15**	**21**

In addition to fees paid to the non-executive chairman and non-executive directors, short-term employee benefits comprise salary and benefits earned during the relevant period, plus bonuses accrued for that period. Short-term bonuses fall due wholly within the year after the end of the period in which management rendered the related services. Long-term bonus scheme represents bonuses awarded over a three-year service period. The agreements with key managerial personnel also provide for the payment of certain benefits which could range up to USD 9 million in the event of forced termination of employment after a new shareholder replaces an existing shareholder by acquiring at least 50% ownership in the Group.

Note 21: Capital commitments and other contingencies

Operating lease commitments

In May 2010, the Group entered into a lease contract for its office building in Moscow. The lease has an average life of 15 years. There are no restrictions placed upon the lessee by entering into this lease.

The future minimum lease payments under the lease are as follows:

	30 September 2012	31 December 2011	1 January 2011
Not later than 1 year	30	30	28
Later than 1 year and not later than 5 years	135	131	126
Later than 5 years	404	431	466
Total operating lease commitments	**569**	**592**	**620**

Capital and other commitments

The Group has contractual capital expenditure commitments in respect of property, plant and equipment in the amount of USD 160 million, USD 1,291 million and USD 272 million as of 30 September 2012, 31 December and 1 January 2011, respectively.

The Group's share in capital commitments of equity-accounted investees amounted to USD 79 million, USD 110 million and USD 39 million as of 30 September 2012, 31 December 2011 and 1 January 2011, respectively.

As part of the development of the Yamal group of fields, in order to secure the building of and access to a trunk oil pipeline for the crude oil to be produced in that region, TBH and Messoyakha have concluded contracts with OAO "Transneft" for the transportation during the period 2016-2025 of 109 million tons and 30 million tons (the Group's share) respectively. The transportation tariffs are regulated by the Government and have not yet been set for these periods.

Contingencies

Gas production and marketing activities. Russian independent gas producers are currently only able to access the domestic gas transmission system upon agreement with Gazprom, which owns and operates the system. In September 2010, the Group concluded a long-term gas transportation agreement with Gazprom, which grants Rospan, a gas subsidiary, a 6-year access to the pipeline system gradually increasing that access to an annual amount of 13.2 billion cubic meters of gas by 2016. As of 30 September 2012 the Group has reached an agreement with Gazprom to extend the access to the pipeline system to 2019.

As of 30 September 2012, 31 December 2011 and 1 January 2011, the Group's capitalised costs related to its gas assets amounted to USD 1,294 million, USD 1,157 million and USD 1,773 million, respectively.

Taxation. The Russian tax and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. Recent developments suggest that the authorities are becoming more active in seeking to enforce, through the Russian court system, interpretations of tax legislation which may be selective for particular taxpayers and different to the authorities' previous interpretations or practices. Different and selective interpretations of tax regulations by various government authorities and inconsistent enforcement create further uncertainties in the taxation environment in the Russian Federation.

Tax declarations, together with related documentation, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Fiscal periods remain open to review by the authorities for the three calendar years preceding the year of review (one year in the case of

customs). Under certain circumstances reviews may cover longer periods. In addition, in some instances new tax regulations have taken retroactive effect. Additional taxes, penalties and interest which may be material to the financial position of the taxpayer may be assessed in the Russian Federation as a result of such reviews.

Tax audits. Pursuant to tax audits conducted in 2006 and 2007, the Russian tax authorities have presented a number of tax acts and decisions relating to 2004 and 2005 in respect of income tax and other taxes of Group subsidiaries. Currently, the Group is appealing, either with the higher tax authorities or in the courts, tax decisions with a total amount of claims of USD 6 million (RUR 0.2 billion).

Pursuant to tax audits conducted in 2008, the Russian tax authorities have presented a number of tax acts and decisions relating to 2006 and 2007 in respect of income tax and other taxes of a number of Group subsidiaries. Currently, the Group is appealing, either with the higher tax authorities or in the courts, tax decisions with a total amount of claims of USD 4 million (RUR 0.1 billion).

Pursuant to tax audits conducted in 2010, the Russian tax authorities have presented a number of tax acts and decisions relating to 2008 and 2009 in respect of income tax and other taxes of a number of Group subsidiaries. Currently, the Group is appealing, either with the higher tax authorities or in the courts, tax decisions with a total amount of claims of USD 63 million (RUR 1.9 billion).

The Group believes that it has made adequate provision for the outcome of the matters raised or expected to be raised by the tax authorities. As of 30 September 2012, 31 December 2011, and 1 January 2011, the Group recorded a provision in Accounts payable and accrued liabilities in the interim condensed consolidated statements of financial position in the amount of USD 7 million (RUR 0.2 billion), USD 8 million (RUR 0.3 billion) and USD 22 million (RUR 0.7 billion), respectively, related to the matters discussed above.

Oilfield and gasfield licences. The Group is subject to periodic reviews of its activities by government authorities with respect to the requirements of its licences. Where appropriate, management of the Group liaise with government authorities to agree on remedial actions and resolve any findings resulting from these reviews. Failure to comply with the terms of a licence could result in fines, penalties or licence limitation, suspension or revocation by the Government of the Russian Federation.

Legal contingencies. The Group is a named defendant in a number of lawsuits as well as a named party in numerous other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a materially adverse effect on the financial position or the operating results of the Group.

In February 2002, Norex Petroleum Limited filed a lawsuit against OAO Tyumen Oil Company ("TNK"), a predecessor company to TBH, and certain other defendants in the United States District Court for the Southern District of New York over the ownership of a company, which was owned by an affiliate of the Alfa Group, Access Industries, and Renova Group. In 2002, this company was acquired by TNK. In February 2004, the case was dismissed based on jurisdiction and venue. In July 2005, the Court of Appeals reversed the decision of the District Court and returned the case to the lower court where in September 2007 the case was dismissed. In October 2007, Norex Petroleum Limited petitioned the Court of Appeals for reconsideration of this decision. In September 2010, the Court of Appeals dismissed the case. On 28 September 2011, Norex withdrew a previously filed Petition for a hearing on this matter with the US Supreme Court, after which, on 19 July 2011, the Court of Appeals officially ended Norex's action in the federal court. On 7 March 2011, Norex filed a new claim in a New York state court under different statutes based on the same facts. On 16 September 2011, the Group filed a petition to dismiss Norex's amended complaint. In September 2012, the New York state court dismissed the claim.

In December 2011, the Russian Federal Antimonopoly Service ("FAS") found TBH, a subsidiary of the Group, in violation of Russian antimonopoly legislation in respect of gasoline retail pricing. A provision of USD 40 million (RUR 1.3 billion) was recorded in Accounts payable and accrued liabilities in the consolidated statement of financial position as of 31 December 2011. On 13 January 2012, FAS issued a decision against TBH and on 6 March 2012 issued a fine in the amount of USD 47 million (RUR 1.4 billion) which was settled in April 2012.

Other Matters

In December 2011, two of the three independent directors on the Board of TNK-BP Limited resigned. One of these directors has since been replaced on 21 May 2012. The absence of the remaining independent director has consequent limitations as to what the Board can deliberate and vote on.

Effective 29 June 2012, the Chief Executive Officer of the Group resigned and has not been replaced as of the date of these interim financial statements. Management of the Group is exercised by a committee of the Senior Executives whose authorities include all authorities previously held by the Chief Executive Officer.

On 22 October 2012, both BP and AAR announced that they each have signed Heads of Terms with Rosneft, a major Russian integrated oil and gas company, to sell their shareholdings in the Group. Under these Heads of Terms Rosneft has agreed in principle to buy BP's and AAR's shares in TNK-BP. The transactions are subject to finalisation of definitive and fully-termed sale and purchase agreements and other customary closing conditions.

Note 22: Financial risk management

The accounting policies for financial instruments, as described in Note 3, have been applied to the interim condensed consolidated financial statements line items below:

Financial assets

	30 September 2012	31 December 2011	1 January 2011
Loans and receivables			
Non-current			
Loans issued	529	460	171
Current			
Trade and other financial receivables, excluding commodity contracts	2,620	2,225	1,487
Bank deposits with maturity more than 3 months	500	100	600
Cash and cash equivalents and Restricted cash	3,472	1,212	1,852
Other current financial assets	173	162	674
At fair value through profit and loss			
Current			
Commodity contracts (Note 23)	5	8	-
Total carrying amount	**7,299**	**4,167**	**4,784**

Financial liabilities

	30 September 2012	31 December 2011	1 January 2011
At amortised cost			
Non-current			
Long-term debt	6,470	7,037	6,072
Deferred consideration for acquisition of interests in Brazil	200	-	-
Current			
Current portion of long-term debt	1,242	991	1,047
Trade and other financial payables, excluding commodity contracts	2,852	2,668	2,367
At fair value through profit and loss			
Current			
Commodity contracts (Note 23)	-	-	7
Total carrying amount	**10,764**	**10,696**	**9,493**

Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage certain risk exposures (mostly short-term oil and oil product price movements).

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and manages financial risks in close co-operation with the group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices will affect the Group's financial results or the value of its holdings of financial instruments. The primary objective of mitigating these market risks is to manage and control market risk exposures, while optimising the return on risk.

The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, gas condensate, liquefied petroleum products and natural gas (commodity price risk), foreign currency exchange rates, interest rates and other indices that could adversely affect the value of the Group's financial assets, liabilities or expected future cash flows.

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to the Russian Rouble and Ukrainian Hryvna. Foreign exchange risk arises primarily from future commercial transactions and recognised assets and liabilities.

The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble or the US dollar. Foreign currency derivative instruments may be utilised to manage the risk exposures associated with fluctuations on certain firm commitments for sales and purchases, debt instruments and other transactions that are denominated in currencies other than the Russian Rouble, and certain non-Russian Rouble assets and liabilities.

The carrying amounts of the Group's financial instruments are denominated in the following currencies:

At 30 September 2012	Russian Rouble	US Dollar	Other	Total
Financial assets				
Non-current				
Loans issued	529	-	-	**529**
Current				
Trade and other financial receivables	669	1,898	58	**2,625**
Bank deposits with maturity more than 3 months	-	500	-	**500**
Cash and cash equivalents and Restricted cash	544	2,733	195	**3,472**
Other current financial assets	173	-	-	**173**
Financial liabilities				
Non-current				
Long-term debt	-	(6,453)	(17)	**(6,470)**
Deferred consideration for acquisition of interests in Brazil	-	(200)	-	**(200)**
Current				
Current portion of long-term debt	-	(1,242)	-	**(1,242)**
Trade and other financial payables	(2,001)	(776)	(75)	**(2,852)**
Net exposure at 30 September 2012	**(86)**	**(3,540)**	**161**	**(3,465)**

At 31 December 2011	Russian Rouble	US Dollar	Other	Total
Financial assets				
Non-current				
Loans issued	460	-	-	**460**
Current				
Trade and other financial receivables	418	1,608	207	**2,233**
Bank deposits with maturity more than 3 months	-	100	-	**100**
Cash and cash equivalents and Restricted cash	471	661	80	**1,212**
Other current financial assets	162	-	-	**162**
Financial liabilities				
Non-current				
Long-term debt	(129)	(6,908)	-	**(7,037)**
Current				
Current portion of long-term debt	(31)	(960)	-	**(991)**
Trade and other financial payables	(2,016)	(524)	(128)	**(2,668)**
Net exposure at 31 December 2011	**(665)**	**(6,023)**	**159**	**(6,529)**

At 1 January 2011	Russian Rouble	US Dollar	Other	Total
Financial assets				
Non-current				
Loans issued	171	-	-	**171**
Current				
Trade and other financial receivables	555	826	106	**1,487**
Bank deposits with maturity more than 3 months	-	600	-	**600**
Cash and cash equivalents and Restricted cash	407	1,408	37	**1,852**
Other current financial assets	674			**674**
Financial liabilities				
Non-current				
Long-term debt	(230)	(5,842)	-	**(6,072)**
Current				
Current portion of long-term debt	(40)	(1,007)	-	**(1,047)**
Trade and other financial payables	(1,894)	(373)	(107)	**(2,374)**
Net exposure at 1 January 2011	**(357)**	**(4,388)**	**36**	**(4,709)**

The Group has chosen to provide information about market risk and potential exposure to hypothetical loss from its use of financial instruments through sensitivity analysis disclosures in accordance with IFRS requirements.

The sensitivity analysis depicted in the table below reflects the hypothetical effect on the Group's financial instruments and the resulting hypothetical gains/losses that would occur assuming a 10 percent change in closing exchange rates and no changes in the portfolio of instruments and other variables at the reporting date.

Three months ended 30 September 2012	Three months ended 30 September 2011	***Effect on pre-tax profit***	Increase/decrease in exchange rate	Nine months ended 30 September 2012	Nine months ended 30 September 2011
74	82	*USD/RUR (gain)/loss*	+10%	(8)	(21)
(90)	(99)	*USD/RUR loss/(gain)*	-10%	10	26

Commodity price risk

The Group's overall commercial trading strategy in crude oil, natural gas and related products is centrally managed. Changes in commodity prices could negatively or positively affect the Group's results of operations. The Group sells all its crude oil and related products and gas condensate under spot contracts.

Crude oil sold internationally is based on benchmark reference crude oil prices of Brent or Dubai dated, plus a discount and on a transaction-by-transaction basis for volumes sold domestically. As a result, the Group's revenues from the sales of hydrocarbons are subject to commodity price volatility based on fluctuations or changes in the crude oil benchmark reference prices.

Cash flow and fair value interest rate risk

The Group is subject to interest rate risk on financial liabilities with variable interest rates. To mitigate this risk, the Group's treasury function performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In cases where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favourable interest rate terms.

Changes in interest rates primarily impact debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the

Group's exposure should be to fixed or variable rates. However, at the time of raising new debts management uses its judgment to decide on its tenor and whether it believes that a fixed or variable rate would be more favourable over the expected period until maturity.

The interest rate profiles of the Group are listed in Note 13.

The Group centralises the cash requirements and surpluses of controlled subsidiaries and the majority of their external financing requirements, and applies, on its consolidated net debt position, a funding policy to optimize its financing costs and manage the impact of interest rate changes on its financial results in line with market conditions. In this way, the Group is able to ensure that the balance between the floating rate portion of its debt and its cash surpluses has a low level of exposure to any change in interest rates over the short term. This policy makes it possible to significantly limit the Group's sensitivity to interest rate volatility.

The Group's financial results are sensitive to changes in interest rates on the floating rate portion of the Group's debt portfolio. If the interest rates applicable to floating rate debt were to increase by 100 basis points at the reporting dates, assuming all other variables remain constant, it is estimated that the Group's profit before taxation would decrease/(increase) by the amounts shown below:

Three months ended 30 September 2012	Three months ended 30 September 2011	***Effect on pre-tax profit***	Nine months ended 30 September 2012	Nine months ended 30 September 2011
(6.8)	(7.5)	Increase by 100 base points	(21.4)	15.4
3.0	0.7	Decrease by 100 base points*	10.4	3.9

*floating rate decrease capped at zero

The Group is examining various ways to manage its cash flow interest rate risk by using a combination of floating and fixed interest rates. No swaps or other similar instruments were in place as of 30 September 2012, 31 December 2011 and 1 January 2011, or during the three and nine months ended 30 September 2012 and 30 September 2011.

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations.

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and are subject to a regular review.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group. The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

The Group is exposed to concentrations of credit risk. Management monitors concentrations of credit risk by obtaining reports listing balances with counterparties with the highest exposure (top 15 trading counterparties and top 10 financial institution counterparties). The Group's customers are represented by diverse international oil traders with no, or, a limited history of defaults.

As of 30 September 2012, 31 December 2011 and 1 January 2011, the analysis of trade and other financial receivables, net is as follows:

	Total	Neither past due nor impaired (< 30 days)	Past due but not impaired			
			30-60 days	60-90 days	90-120 days	> 120 days
At 30 September 2012	**2,625**	2,608	14	3	-	-
At 31 December 2011	**2,233**	2,176	49	6	-	2
At 1 January 2011	**1,487**	1,434	51	1	-	1

In determining the recoverability of a trade or other receivable, the Group performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparties. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities and opens letters of credit, choosing instruments with appropriate maturities or sufficient liquidity which are provided by financial institutions with reliable credit ratings.

The table below highlights the Group's cash and cash equivalent balances to published credit ratings of its banks.

Moody's and/or Fitch	30 September 2012	31 December 2011	1 January 2011
Investment grade rating	3,722	1,145	2,149
Non-investment grade rating	201	105	235
No external rating	49	62	68
Total cash and cash equivalents, restricted cash and bank deposits	**3,972**	**1,312**	**2,452**

Investment grade ratings classification referred to as Aa3 to Baa3 for Moody's Investment Services and as AA to BBB- for Fitch Rating, respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the interim condensed consolidated statement of financial position.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. The Group has entered into a number of short-term credit facilities. The Group had five undrawn committed lines in the total amount of USD 420 million, USD 410 million and USD 510 million at 30 September 2012, 31 December 2011 and 1 January 2011, respectively. Such credit lines and overdraft facilities can be drawn down to meet short-term financing needs. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

At 30 September 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal	600	-	2,300	1,600	4,500
Interest	305	282	667	91	1,345
Debt at variable rate					
Principal	644	1,214	1,397	-	3,255
Interest	47	31	10	-	88
Deferred consideration for acquisition of interests in Brazil					
Principal	400	200	-	-	600
Interest	2	2	-	-	4
Trade and other financial payables	2,452	-	-	-	2,452
Total financial liabilities	**4,450**	**1,729**	**4,374**	**1,691**	**12,244**

At 31 December 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal	500	600	1,500	2,400	5,000
Interest	335	291	691	231	1,548
Debt at variable rate					
Principal	498	682	1,893	-	3,073
Interest	76	76	66	-	218
Trade and other financial payables	2,668	-	-	-	2,668
Total financial liabilities	**4,077**	**1,649**	**4,150**	**2,631**	**12,507**

At 1 January 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal	500	500	1,100	3,400	5,500
Interest	378	334	764	449	1,925
Debt at variable rate					
Principal	551	531	578	-	1,660
Interest	47	30	19	-	96
Trade and other financial payables	2,374	-	-	-	2,374
Total financial liabilities	**3,850**	**1,395**	**2,461**	**3,849**	**11,555**

The Group manages its liquidity on a corporate-wide basis to ensure adequate funding to sufficiently meet Group operational requirements. All external debts are centralized at the parent level, and all financing to Group entities is facilitated through inter-company loan arrangements.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and increase shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the three and nine months ended 30 September 2012 and 2011.

Consistent with others in the industry, the Group monitors capital on the basis of a gearing ratio. This ratio is calculated as Net debt divided by the Total Group shareholders' equity plus Net debt. Net debt is calculated as total interest bearing loans and borrowings, deferred consideration for acquisition of interests, less cash and cash equivalents, restricted cash and short-term deposits. Total capital is determined as Total Group shareholders' equity as shown in the interim condensed consolidated statement of financial position. The Group's policy is to keep the gearing ratio below 35%.

	30 September 2012	31 December 2011	1 January 2011
Interest bearing loans and borrowings	7,712	8,028	7,119
Deferred consideration for acquisition of interests in Brazil	600	-	-
Less cash and cash equivalents, restricted cash and short-term deposits	(3,972)	(1,312)	(2,452)
Net debt	4,340	6,716	4,667
Total Group shareholders' equity	21,931	17,563	16,587
Total Group shareholders' equity and Net debt	26,271	24,279	21,254
Gearing ratio	**16.5%**	**27.7%**	**22.0%**

At the date of issue of the financial statements, the Group had investment grade credit ratings of Baa2 (negative outlook) by Moody's Investor Services, BBB- (negative outlook) by Fitch Ratings, and a credit rating of BBB- (positive outlook) by Standard &Poor's. To maintain its credit ratings, the Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis.

Note 23: Fair value measurements

Fair values. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate. IFRS 7, "Financial Instruments: Disclosures", requires an entity to maximise its use of observable inputs when measuring fair value. In the absence of observable inputs, considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise or settle in a market transaction. Certain of these financial instruments are with major financial institutions and expose the Group to market and credit risk. The creditworthiness of these institutions is routinely reviewed and full performance is anticipated. The Group is also exposed to a credit risk in the event of non-payment by counterparties. The creditworthiness of customers and other counterparties is continually reviewed.

IFRS 7 prioritises the inputs to valuation techniques into three levels as follows:

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.
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
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.

Cash and cash equivalents, short-term bank deposits, accounts receivable and accounts payable excluding commodity contracts. The carrying amounts of these items are a reasonable approximation of their fair value.

Derivative instruments – commodity price swaps. The strategy of the Group is to obtain competitive prices for its hydrocarbons and allow operating results to reflect market price movements dictated by supply and demand. The Group seeks, however, to minimise the distorting effects of individual markets where, for example, it has to negotiate fixed prices within a narrow trading window. To mitigate the price risks of these markets, the Group employs derivative instruments – short-term price swaps.

For the derivative instruments entered into during the three and nine month periods ended 30 September 2012 and 2011, the Group did not apply hedge accounting under the provisions of IFRS 7. Gains and losses related to changes in the fair value of derivatives were recognised in the interim condensed consolidated income statement within Interest income and net other financial income. The Group maintains a system of controls that includes the authorisation, reporting and monitoring of derivative activity. The limited derivative activities of the Group pose no material credit or market risks to its operations, financial condition or liquidity.

Derivatives are included at fair value in Trade and other receivables or Accounts payable and accrued liabilities in the interim condensed consolidated statement of financial position. Fair values are calculated by the Group based on quoted market prices for hydrocarbon futures (Level 2 in the Fair Value Measurement Hierarchy).

The transactions and balances for derivatives are as follows:

Three months ended 30 September 2012	Three months ended 30 September 2011	(Losses)/gains from derivatives	Nine months ended 30 September 2012	Nine months ended 30 September 2011
(62)	18	Commodity contracts – crude oil and oil products swaps	(87)	(4)

Fair value	30 September 2012	31 December 2011	1 January 2011
Commodity contracts – crude oil and oil products swaps	5	8	(7)

The volumes for the above mentioned swap transactions where the Group was the fixed price payer were 2.6 million tonnes (14.7% of the total crude oil production) and 9.6 million tonnes (17.0% of the total crude oil production) for the three and nine months ended 30 September 2012, respectively. For the three and nine months ended 30 September 2011 – 4.4 million tonnes (23.6% of the total crude oil production) and 10 million tonnes (18.6% of the total crude oil production). The volumes for the above mentioned swap transactions where the Group was the fixed price seller were 0.7 million tonnes (4.1% of the total crude oil production) and 1.2 million tonnes (2.1% of the total crude oil production) for the three and nine months ended 30 September 2012, respectively. For the three and nine months ended 30 September 2011 – 1.6 million tonnes (8.5% of the total crude oil production) and 2.2 million tonnes (4.2% of the total crude oil production). There were no derivative liability positions as of 30 September 2012 and 31 December 2011 and there were no derivative asset positions as of 1 January 2011.

Short-term debt. Loan arrangements have variable interest rates that reflect the currently available terms for a similar debt. The carrying value of this debt is a reasonable approximation of its fair value.

Long-term debt. Loans under bank arrangements have variable interest rates that reflect currently available terms and conditions for a similar debt. The carrying value of this debt is a reasonable approximation of its fair value. Fair value of the corporate bonds was determined based on market quote prices (Level 1 in the Fair Value Measurement Hierarchy). As of 30 September 2012, 31 December 2011 and 1 January 2011, these bonds have a fair value of approximately USD 5,174 million, USD 5,239 million and USD 5,970 million, while the carrying values are USD 4,477 million, USD 4,974 million and USD 5,469 million, respectively. The bonds are carried at amortised cost therefore changes in the fair value of the bonds have no accounting impact on the Group – see Note 13.

Note 24: Segment Information

Presented below is information about the Group's operations for the nine months ended 30 September 2012 and 2011 in accordance with IFRS 8 "Operating Segments".

For management purposes, the Group is organised into business units based on the main types of activities and has two reportable operating segments as follows: exploration and production ("E&P") and refining, marketing, and distribution ("RM&D").

The E&P segment explores for, develops and produces crude oil and gas reserves. The E&P segment results include earnings/(losses) from Venezuela, Messoyakha and NPC equity investments.

The RM&D segment processes crude oil into refined products and also purchases, sells and transports crude oil and refined petroleum products. The RM&D segment results include earnings/(losses) from TNK-Sheremetyevo.

"Other" primarily includes corporate activities as well as gains on disposals of subsidiaries and earnings from Slavneft and NVGRES.

The Group's management reviews financial information prepared based on International Financial Reporting Standards adjusted to meet the requirements of internal reporting. As discussed in Note 2, previously the Company prepared its consolidated financial statements in accordance with the US GAAP and financial information reviewed by the Group's management in 2011 was based on US GAAP. An effect of transition to IFRS on measures reviewed by the Group's management in 2011 is disclosed in the reconciliation of EBITDA to profit before tax further in this note.

The Group's management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment information is prepared using estimates of market prices and other forecasted factors and does not necessarily reflect the legal structure of the Group as well as the actual terms of the intragroup transactions entered into by the Group entities. Segment performance is evaluated based on EBITDA. Group financing (including finance costs, finance income and capitalised interest) and income taxes are managed on a Group basis and are not allocated to operating segments.

For the purpose of the segment information, all crude and condensate volumes are assumed to be transferred from E&P to RM&D as intersegment sales at the marginal market netback for each particular product and blend. The E&P third parties revenue includes primarily sales of gas and gas products. RM&D external revenue primarily represents total Group consolidated revenue excluding gas sales. RM&D EBITDA includes full margin on petroleum products refining and marketing and performance-related margin on crude, i.e. channel optimisations. Distribution-related expenses (export duties, excises and transportation) are fully allocated to RM&D. Operating expenses, taxes other than income tax, and directly attributable administrative expenses, including segment head office costs are allocated as incurred to the respective segment. General and administrative expenses related to business support functions are not allocated to segments and presented within "Other".

For the nine months ended 30 September 2012	Exploration and Production	Refining, Marketing and Distribution	Other	Elimination	Consolidated
Segment revenue					
Third parties	1,003	45,061	3	-	46,067
Inter-segment	18,659	122	-	(18,781)	-
Total Segment revenue	**19,662**	**45,183**	**3**	**(18,781)**	**46,067**
Less: export duties					(13,245)
Sales and other operating revenues under IFRS					**32,822**
Segment earnings from equity investments	(32)	20	320	-	308
Segment impairment losses	(38)	(230)	-	-	(268)
EBITDA	**8,049**	**2,120**	**(5)**	**-**	**10,164**
Segment capital expenditures	**3,302**	**475**	**205**	**-**	**3,982**

For the nine months ended 30 September 2011	Exploration and Production	Refining, Marketing and Distribution	Other	Elimination	Consolidated
Segment revenue					
Third parties	1,536	42,959	7	-	44,502
Inter-segment	17,024	16	-	(17,040)	-
Total Segment revenue	**18,560**	**42,975**	**7**	**(17,040)**	**44,502**
Less: export duties					(12,216)
Sales and other operating revenues under IFRS					**32,286**
Segment earnings from equity investments	22	22	18	-	62
Segment impairment losses	-	(68)	-	-	(68)
EBITDA	**7,248**	**3,407**	**332**	**-**	**10,987**
Segment capital expenditure	**2,923**	**413**	**168**	**-**	**3,504**

The reconciliation of Segment capital expenditure to the total Group's capital expenditure is presented below:

	For the nine months ended 30 September 2012	For the nine months ended 30 September 2011
Segment capital expenditure	3,982	3,504
Government grants used for construction	(91)	(255)
Inventory used for construction	162	146
Total Group's capital expenditure	**4,053**	**3,395**
Group's capital expenditure for acquisition of PPE (Note 11)	4,015	3,347
Group's capital expenditure for acquisition of Intangible assets (Note 12)	38	48
Total Group's capital expenditure	**4,053**	**3,395**

EBITDA, a non-IFRS measure, is reconciled to profit before income taxes for the nine months ended 30 September 2012 and 2011 as follows:

	For the nine months ended 30 September 2012	For the nine months ended 30 September 2011
EBITDA	10,164	10,987
Effect of transition to IFRS *	-	(150)
EBITDA (adjusted for effect of transition to IFRS)	10,164	10,837
Depreciation, depletion and amortisation	(1,699)	(1,485)
Finance cost	(158)	(229)
Exchange loss, net	(74)	(8)
Interest income and net other financial (expense)/income, excl. losses from derivatives	49	90
Profit before income taxes	**8,282**	**9,205**

* Details of the effect of transition to IFRS are presented in Note 2a**.**

Segment Information by Geographical Areas

The Group's two segments operate in the Russian Federation (considered the Group's home country), where the Group is mainly engaged in the exploration, development, production and sales of crude oil, gas condensate and related products, Ukraine and Belorussia (refining and sales of petroleum products) and a number of other countries including Brazil, Venezuela and Vietnam (exploration, development, production and sales of crude oil and gas). Revenues from third parties are assigned to the countries of operation from which the revenues are derived.

	For the nine months ended 30 September 2012		For the nine months ended 30 September 2011	
	Gross proceeds	Sales and other operating revenues	Gross proceeds	Sales and other operating revenues
Russian Federation	44,441	31,230	42,717	30,501
Ukraine	1,349	1,349	1,703	1,703
Vietnam	163	163	-	-
Venezuela	2	2	-	-
Brazil	-	-	-	-
Belorussia	112	78	82	82
Consolidated	**46,067**	**32,822**	**44,502**	**32,286**

	Long-lived assets excluding deferred tax assets		
	As of 30 September 2012	As of 31 December 2011	As of 1 January 2011
Russian Federation	27,454	24,995	23,810
Brazil	968	-	-
Venezuela	953	951	-
Vietnam	711	790	-
Ukraine	241	415	377
Belorussia	13	15	17
Consolidated	**30,340**	**27,166**	**24,204**

For the nine months ended 30 September 2012, revenues of USD 4,631 million or 10% of Group's total sales and operating revenues (for the nine months ended 30 September 2011 - USD 4,832 million, or 11% of the Group's revenue) are derived from one single external customer.

These revenues include sales of crude oil and are attributable to the exploration and production segment and refining, marketing and distribution segment. Management does not believe that the Group is dependent on any particular customer.

Note 25: Events after the reporting date

Events after the reporting date were evaluated by the Group for the period from 1 October 2012 up to 6 November 2012 which is the date when these interim condensed consolidated financial statements were issued.

TNK-BP INTERNATIONAL LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
TNK-BP International Limited:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in equity and cash flows present fairly, in all material respects, the financial position of TNK-BP International Limited and its subsidiaries at 31 December 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
29 February 2012

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TNK-BP INTERNATIONAL LIMITED

Consolidated Balance Sheets

(expressed in millions of USD, except as indicated)

	Note	31 December 2011	31 December 2010
Assets			
Cash and cash equivalents	8	1,164	1,844
Restricted cash	8	48	8
Bank deposits with maturity more than 3 months		100	600
Trade and other receivables, net	9	5,276	3,464
Inventories	10	1,623	1,295
Other current assets	6	289	790
Total current assets		**8,500**	**8,001**
Long-term investments	11	3,715	3,665
Property, plant and equipment, net	12	22,731	19,712
Goodwill and intangible assets	13	1,095	896
Other long-term assets	14	1,031	852
Total assets		**37,072**	**33,126**
Liabilities and Equity			
Short-term debt and current portion of long-term debt	15	998	1,051
Trade accounts and notes payable		2,264	1,956
Other accounts payable and accrued expenses	16	1,294	1,215
Taxes payable	19	1,471	1,228
Total current liabilities		**6,027**	**5,450**
Long-term debt	15	7,049	6,078
Asset retirement obligations	12	370	374
Deferred income tax liabilities	18	2,475	2,049
Other long-term liabilities		396	312
Total liabilities		**16,317**	**14,263**
Commitments and contingencies	22		
Ordinary share capital (authorised and issued – 54,000 shares, USD 1.0 par value)	17		
Additional paid-in capital	7	2,945	2,940
Retained earnings		16,235	14,747
Accumulated other comprehensive loss		(202)	(82)
Total Group shareholders' equity		**18,978**	**17,605**
Noncontrolling interest		1,777	1,258
Total equity		**20,755**	**18,863**
Total liabilities and equity		**37,072**	**33,126**

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

TNK-BP INTERNATIONAL LIMITED

Consolidated Statements of Income

(expressed in millions of USD)

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Revenues			
Sales and other operating revenues	20	60,199	44,646
Costs and other deductions			
Export duties		16,951	12,236
Taxes other than income tax	19	11,849	8,169
Operating expenses		5,710	4,774
Cost of purchased products		5,674	3,955
Transportation expenses		4,090	3,672
Depreciation, depletion and amortization	12,13	2,085	1,891
Selling, general and administrative expenses		1,625	1,364
Exploration expenses		145	77
Loss on disposals and impairment of assets	12	69	244
Total costs and other deductions		**48,198**	**36,382**
Other income and expenses			
Earnings / (loss) from equity investments	11	175	(12)
Gain on disposals of subsidiaries	6	341	21
Interest income and net other income	4	65	199
Exchange gain / (loss), net		63	(44)
Interest expense	15,16	(242)	(241)
Total other income and expenses		**402**	**(77)**
Income before income taxes		**12,403**	**8,187**
Income taxes			
Current tax expense		2,313	1,644
Deferred tax expense		362	274
Total income tax expense	18	**2,675**	**1,918**
Net income		**9,728**	**6,269**
Less: net income attributable to noncontrolling interest		747	454
Net income attributable to Group shareholders		**8,981**	**5,815**

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

TNK-BP INTERNATIONAL LIMITED

Consolidated Statements of Cash Flows

(expressed in millions of USD)

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities			
Net income		9,728	6,269
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization		2,085	1,891
Deferred tax expense		362	274
Loss on disposals and impairment of assets	12	69	244
Gain on disposals of subsidiaries	6	(341)	(21)
Loss from equity investments adjusted for dividends received		116	144
Dry hole expenses		67	13
Other non-cash adjustments, net		204	24
Exchange loss from investing and financing activities		-	3
Changes in operational working capital, excluding cash and cash equivalents:			
Restricted cash		(41)	3
Trade and other receivables, net		(1,698)	605
Inventories		(339)	(342)
Accounts and notes payable and accrued expenses		152	171
Taxes payable		199	392
Other		(38)	12
Net cash provided by operating activities		**10,525**	**9,682**
Investing activities			
Capital expenditures		(4,604)	(3,529)
Grants used for capital expenditures		(515)	(357)
Grants received		515	357
Purchase of intangible assets		(90)	(70)
Proceeds from disposals of non-current assets		1	12
Acquisition of subsidiaries and affiliates, net of cash received	5,11	(774)	(1,418)
Cash flows from sales of subsidiaries and affiliates	6	955	119
Proceeds from sales of short-term investments	4,6	-	450
Net change in bank deposits with maturity more than 3 months		500	(450)
Loans issued		(236)	(51)
Loans repaid		50	19
Net cash used for investing activities		**(4,198)**	**(4,918)**
Financing activities			
Proceeds from issuance of long-term debt		2,025	1,987
Cost associated with the issuance of debt		(11)	(11)
Repayment of long-term debt		(1,104)	(1,554)
Proceeds from issuance of short-term debt		260	235
Repayment of short-term debt		(260)	(559)
Issue of shares in subsidiaries to noncontrolling interest shareholders		-	-
Dividends paid to noncontrolling interest shareholders		(369)	(338)
Dividends paid to Group shareholders		(7,493)	(3,560)
Net cash used for financing activities		**(6,952)**	**(3,800)**
Effect of exchange rate changes on cash and cash equivalents		(55)	(10)
Cash and cash equivalents reclassified to assets held for sale		-	-
Net change in cash and cash equivalents		**(680)**	**954**
Cash and cash equivalents at beginning of period		1,844	890
Cash and cash equivalents at end of period	8	**1,164**	**1,844**

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

TNK-BP INTERNATIONAL LIMITED

Consolidated Statements of Changes in Equity

(expressed in millions of USD, except as indicated)

	Note	Year ended 31 December 2011 Equity	Year ended 31 December 2011 Comprehensive income	Year ended 31 December 2010 Equity	Year ended 31 December 2010 Comprehensive income
Common stock					
Balance as of 1 January	17			-	-
Balance as of 31 December	17			-	-
Additional paid-in capital					
Balance as of 1 January		2,940		2,901	
Transactions with noncontrolling interest shareholders	7	5		39	
Balance as of 31 December		2,945		2,940	
Retained earnings					
Balance as of 1 January		14,747		12,492	
Net income attributable to Group shareholders		8,981	8,981	5,815	5,815
Dividends to Group shareholders	17	(7,493)		(3,560)	
Balance as of 31 December		16,235		14,747	
Accumulated other comprehensive loss					
Currency translation adjustment					
Balance as of 1 January		(82)		(80)	
Translation adjustment attributable to Group shareholders for the year		(120)	(120)	(2)	(2)
Balance as of 31 December		(202)		(82)	
Total comprehensive income attributable to Group shareholders for the year			8,861		5,813
Total Group shareholders' equity as of 31 December		18,978		17,605	
Noncontrolling interest					
Balance as of 1 January		1,258		1,118	
Net income attributable to noncontrolling interest		747	747	454	454
Dividends to noncontrolling interest shareholders		(212)		(278)	
Transactions with noncontrolling interest shareholders and other movements	7	(16)		(36)	
Total comprehensive income attributable to noncontrolling interest for the year			747		454
Total noncontrolling interest as of 31 December		1,777		1,258	
Total comprehensive income for the year			9,608		6,267
Total equity as of 31 December		20,755		18,863	

Number of Ordinary shares issued (thousands of shares)	
As of 31 December 2010	54
As of 31 December 2011	54

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

Note 1: Organization

TNK-BP International Limited ("TNK-BP International" or the "Company") and its subsidiaries (jointly referred to as "the Group") conduct exploration and development activities and produce oil and gas, operate petroleum refineries and market oil and petroleum products in the Russian Federation, Ukraine and internationally.

Effective 29 August 2003, Alfa Group, Access Industries, and Renova Group (jointly referred to as "AAR") and BP plc. ("BP") formed TNK-BP Limited ("TNK-BP" or the "Parent"), a British Virgin Islands company, to hold their respective interests in their Russian and Ukrainian oil and gas assets. TNK-BP International is a wholly owned subsidiary of TNK-BP Limited.

Note 2: Basis of Presentation

The consolidated financial statements of the Group are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Subsidiaries registered in the Russian Federation maintain their accounting records in accordance with the Regulations on Accounting and Reporting in the Russian Federation. Subsidiaries outside the Russian Federation maintain their accounting records in accordance with local regulations. The accompanying consolidated financial statements have been prepared from these accounting records and adjusted as necessary in order to comply with US GAAP.

In preparing the consolidated financial statements in conformity with US GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from such estimates.

Transition to IFRS

Following the increasing role of International Financial Reporting Statements ("IFRS") in the international business environment and in line with the standards used by major TNK-BP shareholders and peers, the Group made a decision to adopt IFRS effective January 1, 2011 with first reporting under IFRS for the three months ended 31 March 2012. In addition, in July 2010 the Russian Federation took a formal step towards official adoption of IFRS by passing the Law on Consolidated Accounts. As a result of this legislation update, OAO TNK-BP Holding, the Russian holding Company of the Group, will be required to report under IFRS by 2015.

Reporting and functional currency

The Company has determined that the United States dollar ("USD") is the reporting currency for the purposes of financial reporting under US GAAP.

For the majority of subsidiaries of the Group, the functional currency is the USD as it is the currency of the primary economic environment of the subsidiaries.

The local currencies of certain subsidiaries of the Group are: the Russian Rouble ("RUR"), the Ukrainian Hryvnia and the Vietnamese dong. For the purposes of financial reporting under US GAAP, transactions and balances have been remeasured into the functional currency of the subsidiary which, in the majority of cases, is the USD. Monetary assets and liabilities are remeasured at closing exchange rates and non-monetary items are measured at historic exchange rates and adjusted for any impairment. The consolidated statements of income and of cash flows have been remeasured at the average exchange rates during the period or the actual rate on the transaction date. Exchange differences resulting from the use of these exchange rates have been included in the determination of net income and are included in Exchange gain / (loss), net in the accompanying consolidated statements of income.

As of 31 December 2011 and 31 December 2010, exchange rates were 32.20 and 30.48 RUR to the USD, respectively. Average exchange rates for the years ended 31 December 2011 and 31 December 2010 were 29.39 and 30.37 RUR to the USD, respectively.

Any remeasurement of RUR amounts to USD should not be construed as a representation that such RUR amounts have been, could be, or will in the future be converted into USD at the exchange rate shown or at any other exchange rate.

Marketing business unit functional currency change

Pursuant to an updated assessment of economic and regulatory matters affecting the Group's Russian Marketing business effective January 2011, management has changed the functional currency of this business from the US dollar to the Russian rouble.

Resulting from this change, as of 31 December 2011, the Group recorded a currency translation loss of USD 103 million in Other comprehensive loss as follows:

	Year ended 31 December 2011
Property, plant and equipment	50
Goodwill and other intangible assets	29
Other assets and liabilities	24
Total currency translation effect	**103**

Note 3: Summary of Significant Accounting Policies

***Principles of consolidation*.** The consolidated financial statements include the operations of all entities in which the Group directly or indirectly controls more than 50 percent of the voting stock and variable interest entities in which the Group is the primary beneficiary. Joint ventures and investments in which the Group has voting ownership interests between 20 and 50 percent and where the Group exerts significant influence are accounted for using the equity method. Investments in other companies are accounted for at cost and adjusted for estimated impairment.

Cash equivalents. Cash equivalents include all liquid securities with original maturities of three months or less when acquired.

Accounts receivable. Accounts receivable are presented at net realisable value and include value-added and excise taxes.

Short-term investments. Short-term investments are trading securities acquired and held principally with a view to sale in the nearest future. The Group carries short-term investments at fair value with the gains or loss on change in the fair value recognized in Interest income and net other income in the consolidated statements of income.

Long-term investments. Included in long-term investments are advances to and investments in affiliates and joint ventures as well as advances made for acquisitions not completed at the balance sheet date.

Inventories. Inventories are valued at the lower of cost, using the average method, or net realisable value. Costs include applicable purchase costs and production costs.

Property, plant and equipment. The Group follows the successful efforts method of accounting for its oil and gas properties whereby property acquisitions, successful exploratory wells, all development costs (including development dry holes), and support equipment and facilities are capitalized. Under this method, costs are accumulated with certain exploratory expenditures and exploratory dry holes being expensed as incurred. The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expense. Production costs, overheads, and all exploration costs other than exploratory drilling are charged to expense as incurred. Acquisition costs of unproved properties are evaluated periodically and any impairment assessed is charged to expense.

Proved oil and gas properties and other long-lived assets are assessed for possible impairment in accordance with ASC 360, *Property, Plant and Equipment*, which requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to current fair value. Fair value is generally determined by estimating discounted future net cash flows to be generated by the assets.

Depreciation, depletion and amortization of capitalized costs of proved oil and gas properties and equipment is calculated using the unit-of-production method for each field based upon proved reserves for property acquisitions and proved developed reserves for exploration and development costs. In both cases the proved reserves data used is estimated on a "life of field" basis as management believes it will continue to be successful in the renewal of its oil and gas licences.

Property, plant and equipment which are not associated with exploration and production activities are carried at cost less accumulated depreciation. Depreciation of these assets is calculated on a straight-line basis as follows:

Buildings and constructions	5 - 33 years
Machinery and equipment	5 - 15 years

Maintenance and repairs and minor renewals are expensed as incurred. Major renewals and improvements which extend the useful lives of the assets are capitalized.

Capitalization of interest. The Group capitalizes interest costs necessarily incurred to finance expenditures for long-lived assets during the construction and development period as part of the historical cost of acquiring the constructed assets. Capitalized interest costs are included in property, plant and equipment and are depreciated over the useful life of the related assets.

Capital grants. The Group recognises capital grants from local governments when there is a reasonable assurance that the Group will comply with the conditions attached and that the grant will be received. The capital grants are accounted for as a reduction of the cost of the asset for which the grant is received.

Goodwill. The Group recognizes goodwill as the excess of the purchase price over the estimated fair value of assets acquired and liabilities incurred in a business combination. The goodwill is not amortized, but rather is tested for impairment annually and when events or changes in circumstances indicate that the fair value of a reporting unit with goodwill has been reduced below carrying value.

Intangible assets. The Group's intangible assets primarily include intangible assets associated with land rights and permits, software licenses and road-use rights. The intangible assets associated with land rights and permits are amortized on a straight-line basis over 20 years. Software licenses are amortised on a straight-line basis over the related license period. The road-use rights are amortised on a straight-line basis over the expected lives of the related contracts. In 2011, the Group recognized an intangible asset associated with the rights and permits to construct and operate a pipeline transportation system in Vietnam. This asset will be amortized over 12 years in accordance with the period covered by the contract signed with the Vietnamese government. Amortized intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future cash flows from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized based on the fair value of the asset. The Group does not have intangible assets with indefinite lives.

Asset retirement obligations. The Group incurs retirement obligations for its upstream assets. The fair values of these obligations are recorded as liabilities on a discounted basis, which is typically at the time the assets are installed. The costs associated with these liabilities are capitalized as part of the related assets and depleted as the reserves are produced. Over time, the liabilities are accreted for the change in present value. Asset retirement obligations are not recorded for downstream facilities, because such potential obligations cannot be measured since it is not possible to estimate the settlement dates.

Environmental liabilities. Liabilities for environmental remediation are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated. Environmental remediation liabilities 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. Environmental expenditures that have future benefit are capitalized.

Derivative instruments. The Group recognises all derivatives as either assets or liabilities in the balance sheet and measures those instruments at fair value. Changes in fair value are recorded as gain or loss through earnings of the current period.

Pension and post-employment benefits. The Group's mandatory contributions to the governmental pension plan are expensed when incurred. Discretionary pensions and other post-employment benefits are not material.

Revenue recognition. Revenues from the production and sale of crude oil and petroleum products are recognised when title has transferred and collectability is reasonably assured. Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other in the consolidated statements of income. When the Group companies act as an agent for purchases and sales of inventory, they are also reported on a net basis.

Income taxes. Deferred income tax assets and liabilities are recognised for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, in accordance with ASC 740, *Income Taxes*. Deferred income tax assets and liabilities are measured using enacted tax rates for the years in which these temporary differences are expected to reverse. Included in this calculation are deferred income taxes for unremitted earnings of equity affiliates and subsidiaries on basis differences between the relevant parent company financial statement carrying amounts and the respective tax basis of its investments in subsidiaries and equity affiliates. Management periodically assesses possible methods of remitting the earnings to the parent and adjusts the liability to the amount calculated at enacted rates corresponding to the expected method of distribution. Valuation allowances are provided for deferred income tax assets when management believes it is more likely than not that the assets will not be realised.

The Group applies ASC 740 with regard to uncertain tax positions. The guidance prescribes a comprehensive model for the recognition and measurement of the uncertain tax positions that the Company or its subsidiaries have taken or expect to take in their income tax returns. Income tax penalties expense and payable are included in Taxes other than income tax in the consolidated statements of income and Taxes payable in the consolidated balance sheets, respectively. Income tax interest expense and payable are included in Interest expense in the consolidated statements of income and Other accounts payable and accrued expenses in the consolidated balance sheets, respectively.

Comprehensive income. The Group's comprehensive income consists of net income and other comprehensive income represented by currency translation adjustments related to those subsidiaries and affiliates, the functional currency of which is different from the reporting currency of the Group.

New accounting standards adopted. In January 2010, ASU No. 2010-6, *Fair Value Measurements and Disclosures*, was issued. The provisions of this ASU became effective for the Group on 1 January 2010 with the exception of disclosure of activity in Level 3 fair value measurements which became effective on 1 January 2011. As of 31 December 2011 and 31 December 2010, the Group had no material amounts to be disclosed under this ASU.

In July 2010, ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, was issued. The disclosures became effective on 1 January 2011. As of 31 December 2011 and 31 December 2010, the Group had no material amounts to be disclosed under this ASU.

In December 2010, ASU No. 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations* was issued and became effective for the Group on 1 January 2011. The amendments affect any public entity as defined by Topic 805 that enters into business combinations that are material on an individual or aggregate basis. As of 31 December 2011 and 31 December 2010, the Group had no material amounts to be disclosed under this ASU.

In September 2011, ASU No. 2011-08, *Intangibles - Goodwill and Other (Topic 350)* was issued and adopted by the Group for the period ended 31 December 2011. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The adoption of this ASU did not have a material effect on the Group's results of operations, financial position or liquidity.

Recent accounting pronouncements

As discussed in Note 2, effective for periods beginning on or after 1 January 2012, the Group will issue Financial Statements prepared in accordance with IFRS. As such, US GAAP pronouncements effective after 31 December 2011are not addressed here.

Note 4: Financial and Derivative Instruments

Fair values. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate. ASC 820, *Fair Value Measurements and Disclosures*, requires an entity to maximize its use of observable inputs when measuring fair value. In the absence of observable inputs, considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realize or settle in a market transaction. Certain of these financial instruments are with major financial institutions and expose the Group to market and credit risk. The creditworthiness of these institutions is routinely reviewed and full performance is anticipated. The Group is also exposed to a credit risk in the event of non-payment by counterparties. The creditworthiness of customers and other counterparties is continually reviewed.

ASC 820, *Fair Value Measurements and Disclosures,* prioritises the inputs to valuation techniques into three levels as follows:

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.
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
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.

Lever 3 inputs were used for the fair value measurement of the goodwill allocated to the TNK-BP Ukraine reporting unit. As discussed in Note 13, following an impairment test at 31 December 2011, the carrying value of the goodwill was written off in the amount of USD 36 million. The methods and assumptions used to estimate fair value of each class of financial instruments are summarized below.

Cash and cash equivalents, short-term bank deposits, accounts receivable and accounts payable. The carrying amounts of these items are a reasonable approximation of their fair value.

Derivative instruments – commodity price swaps. The strategy of the Group is to obtain competitive prices for its hydrocarbons and allow operating results to reflect market price movements dictated by supply and demand. The Group seeks, however, to minimize the distorting effects of individual markets where, for example, it has to negotiate fixed prices within a narrow trading window. To mitigate the price risks of these markets, the Group employs derivative instruments – short-term price swaps.

For the derivative instruments entered into during the years ended 31 December 2011 and 31 December 2010, the Group did not apply hedge accounting under the provisions of ASC 815, *Derivatives and Hedging*. Gains and losses related to changes in the fair value of derivatives were recognized in the consolidated statements of income within Interest income and net other income. The Group maintains a system of controls that includes the authorization, reporting and monitoring of derivative activity. The limited derivative activities of the Group pose no material credit or market risks to its operations, financial condition or liquidity.

Derivatives are included at fair value in Other current assets or Other accounts payable and accrued expenses in the consolidated balance sheets. Fair values are calculated by the Group based on quoted market prices for hydrocarbons futures (Level 2 in the Fair Value Measurement Hierarchy).

The transactions and balances for derivatives are as follows:

Gains/ (losses) from derivatives	For the year ended 31 December 2011	For the year ended 31 December 2010
Commodity contracts – crude oil and oil products swaps	(7)	(58)

Fair value	31 December 2011	31 December 2010
Commodity contracts – crude oil and oil products swaps	8	(7)

The volumes for the above mentioned swap transactions where the Group was the fixed price payer were 16.1 million tonnes (22.2% of the total crude oil production) and 4.7 million tonnes (6.5% of the total crude oil production) for the years ended 31 December 2011 and 31 December 2010, respectively. The volumes for the above mentioned swap transactions where the Group was the fixed price seller were 2.5 million tonnes (3.4% of the total crude oil production) and 4.2 million tonnes (5.9% of the total crude oil production) for the years ended 31 December 2011 and 31 December 2010, respectively. There were no derivative liability positions as of 31 December 2011 and there were no derivative asset positions as of 31 December 2010.

Short-term debt. Loan arrangements have variable interest rates that reflect the currently available terms for a similar debt. The carrying value of this debt is a reasonable approximation of its fair value.

Long-term debt. Loans under bank arrangements have variable interest rates that reflect currently available terms and conditions for a similar debt. The carrying value of this debt is a reasonable approximation of its fair value. Fair value of the corporate bonds was determined based on market quote prices (Level 1 in the Fair Value Measurement Hierarchy). As of 31 December 2011 and 31 December 2010, these bonds have a fair value of approximately USD 5,239 million and USD 5,970 million, while the carrying values are USD 4,973 million and USD 5,469 million, respectively. The bonds are carried at amortized cost therefore changes in the fair value of the bonds have no accounting impact on the Group.

Note 5: Acquisition of Subsidiaries

In March 2010, a Group subsidiary acquired a 100% interest in OOO Universitet-Nedra and OOO Klyuchi holding oil and gas exploration and production licences in Orenburg region for USD 50 million, which was paid in April 2010. The acquisition was accounted for using the purchase method and the purchase price was allocated to unproved properties.

In December 2011, the Group acquired a 100% interest in a number of retail assets in Tver region in Russia for USD 22 million. The acquisition was accounted for using the purchase method and the purchase price was allocated to property, plant and equipment and related deferred tax liability.

Note 6: Disposal of Subsidiaries

Interests in the Kovykta field development

In April 2010, the Company transferred its interest related to the Kovykta field development to its Parent. This transfer was recognized as a transaction under common control. Also, the loans issued by the Company and its subsidiaries to Rusia Petroleum and OAO East Siberian Gas Company ("ESGC") were assigned to the Parent. Due to uncertainties over the amount of proceeds ultimately receivable by the Group from the intended sale of the Kovykta related assets to a third party by the Parent, the consideration was recognized at the book value of the assets transferred in the amount of USD 674 million, which was included in Other current assets in the consolidated balance sheet as of 31 December 2010.

During first and fourth quarters of 2011, the assets of Russia Petroleum and ESGC were sold to an external party. As a result of the transaction, the Group recognized a gain on disposal of subsidiaries of USD 152 million and USD 34 million respectively, with a corresponding increase in receivable from the Parent. As of 31

December 2011, the amount outstanding from the Parent related to the Kovykta transaction which is included in Other current assets is USD 164 million.

Other disposals

In November 2010, the Group completed the disposal of OOO "Tarkhovskoe", a mature production asset in Tyumen region for a total consideration of USD 33 million. As a result of this transaction a disposal gain of USD 23 million was recognized within Gain on disposals of subsidiaries in the consolidated statement of income for the year ended 31 December 2010.

In April 2011, the Group completed the disposal of OOO "Orenburgenergoneft" and OOO "Nizhnevartovskenergoneft", energy services companies related to the upstream segment, for a total consideration of USD 14 million. As a result of this transaction, a disposal gain of USD 11 million was recognised.

In July 2011, the Group completed the disposal of a subsidiary holding an office building in Moscow, Russian Federation, for a total consideration of USD 238 million. As a result of this transaction, a disposal gain of USD 143 million was recognised.

Note 7: Transactions with Noncontrolling Interest Shareholders

In September 2010, the Group completed a legal reorganization by way of transferring 100% interest in BP-branded Retail assets to OAO TNK-BP Holding ("TBH") and its subsidiaries, which resulted in TBH noncontrolling interest shareholders acquiring an interest in the transferred assets. Resulting from this transaction, the Group recognized a reduction in noncontrolling interest with the corresponding increase in the additional paid-in capital in the amount of USD 37 million.

In February 2011, the Group transferred a 100% interest in ZAO Radonez Petroleum and a 33% interest in SaratovNefteProduct to OAO TNK-BP Holding ("TBH"). As a result, the Group recognized a decrease in noncontrolling interest with a corresponding increase in additional paid-in capital in the amount of USD 5 million.

Note 8: Cash and Cash Equivalents and Supplemental Cash Flow Information

As of 31 December 2011 and 31 December 2010, restricted cash included cash deposits used to secure open letters of credit and security deposits.

As of 31 December 2011 and 31 December 2010, cash balances included accounts denominated in Russian Roubles of USD 409 million and USD 395 million, respectively.

During the years ended 31 December 2011 and 31 December 2010, cash payments for interest (net of capitalized interest) totalled USD 249 million and USD 219 million, respectively. Payments for income tax excluding withholding tax on intragroup dividends totalled USD 2,142 million and USD 1,361 million, respectively, and payments for withholding tax on intragroup dividends totalled USD 213 million and USD 257 million, respectively.

Note 9: Trade and Other Receivables, Net

	31 December 2011	31 December 2010
Trade accounts and notes receivable (net of allowance for doubtful accounts of USD 4 million and USD 5 million as of 31 December 2011 and 31 December 2010, respectively)	2,083	1,313
Advances issued (net of allowance for doubtful accounts of USD 1 million and USD 1 million as of 31 December 2011 and 31 December 2010, respectively)	1,742	959
Recoverable value-added tax	1,095	828
Taxes receivable	209	190
Other receivables (net of allowance for doubtful accounts of USD 18 million and USD 6 million as of 31 December 2011 and 31 December 2010, respectively)	147	174
Total trade and other receivables, net	**5,276**	**3,464**

Advances issued mainly relate to prepayments of customs duties and transportation services.

Note 10: Inventories

	31 December 2011	31 December 2010
Crude oil and petroleum products	1,175	974
Materials and supplies	448	321
Total inventories	**1,623**	**1,295**

Note 11: Long-Term Investments

	31 December 2011	31 December 2010
Advances to and investments in affiliates and joint ventures:		
OAO NGK Slavneft and its subsidiaries ("Slavneft")	2,105	2,198
Investments in Venezuela	951	-
NVGRES Holding Limited ("NVGRES")	309	316
OOO National Petroleum Consortium ("NPC")	120	120
OAO Messoyakhaneftegas (Messoyakha)	131	-
OOO TNK Sheremetyevo	28	-
OOO Novo-Urengoiskaya Gazovaya Kompaniya ("NUGK")	17	10
Total advances to and investments in affiliates and joint ventures	3,661	2,644
Advances for acquisition of investments in Venezuela and Vietnam	30	1,000
Other long-term investments, at cost	24	21
Total long-term investments	**3,715**	**3,665**

Slavneft. In December 2002, the Group joined OAO Gazpromneft (formerly known as OAO Sibneft) to obtain a 99.6% interest in Slavneft as a result of the Russian and Belorussian Governments privatization auctions. The ownership is divided equally between the Group and companies affiliated with OAO Gazpromneft. The Group currently owns approximately 49.9% of Slavneft and accounts for this investment using the equity method of accounting.

The Group's earnings from its equity investment in Slavneft amounted to USD 76 million for the year ended 31 December 2011 and the Group's loss for the year ended 31 December 2010 amounted to USD 19 million. During the year ended 31 December 2011, Slavneft and its subsidiaries declared dividends in the amount of USD 169 million (the Group's share), which were recognized as a reduction of the investment in Slavneft. During the year ended 31 December 2010, Slavneft and its subsidiaries declared dividends in the amount of

USD 205 million (the Group's share) and provided loans to a Group subsidiary in the amount of USD 49 million, which were recognized as a reduction of the investment in Slavneft.

Slavneft consolidated balance sheet and statement of income information as of and for the years ended 31 December 2011 and 31 December 2010 is as follows:

	As of 31 December 2011 and for the year ended 31 December 2011	As of 31 December 2010 and for the year ended 31 December 2010
Revenues	5,427	4,311
Net Income	**12**	**195**
Current assets	998	1,158
Property, plant and equipment	6,942	6,700
Other non-current assets	183	107
Total Assets	**8,123**	**7,965**
Current liabilities	1,333	1,316
Long-term debt	1,135	750
Other long-term liabilities	570	523
Total Liabilities	**3,038**	**2,589**

The Group's investment in Slavneft as presented within long-term investments above differs from its share in the equity of Slavneft primarily due to adjustments for depreciation, depletion and amortization to align with the Group's accounting policy and the cost of share purchases in Slavneft.

NVGRES. In August 2008, pursuant to an agreement with OAO OGK-1 ("OGK-1"), a Russian power generating company, the Group entered into a venture in the Nizhnevartovsk region (NVGRES Holding Limited). Under the Agreement, OGK-1 contributed the two existing power units of the Nizhnevartovsk Power Plant and the Group invested Euro 230 million in the newly established venture in exchange for a 25% plus 1 share in the venture. The full purchase price of Euro 230 million (equivalent to USD 358 million) was paid in August 2008.

The agreement also provides an option for the Group to increase its share up to 50% less one share after the construction of the third power unit is completed which is planned for 2012. The goodwill arising on this acquisition relates to the value for the Group of a higher rate of utilisation of associated gas as a by-product of crude oil production as a result of the expansion of the power plant.

NVGRES balance sheet and statement of income information as of and for the years ended 31 December 2011 and 31 December 2010 are as follows:

	As of 31 December 2011 and for the year ended 31 December 2011	As of 31 December 2010 and for the year ended 31 December 2010
Revenues	422	337
Net Income	42	1
Current assets	373	386
Property, plant and equipment	781	787
Total assets	1,154	1,173
Total liabilities	143	150

The Group's investment in NVGRES as presented in long-term investments above differs from its share in the equity of NVGRES as of 31 December 2011 and 31 December 2010 in the amount of USD 56 million and USD 60 million respectively, resulting from goodwill and capitalised interest.

For the years ended 31 December 2011 and 31 December 2010, the Group recognized earnings from its equity investment in NVGRES of USD 10 million and a loss of USD 1 million, respectively, and a currency translation loss of USD 17 million and USD 2 million, respectively.

In 2009, the Group entered into long-term agreements with NVGRES for the sale of gas and purchase of electric power. According to the agreements, the prices for gas and electric power as well as other terms of agreements are determined based on current market conditions. The transactions and balances with NVGRES are disclosed in Note 21.

NPC. In 2008, TNK-BP and four other major Russian oil and gas companies formed the NPC, with each party receiving a 20% interest. In April 2010, a venture between NPC and Petróleos de Venezuela, S.A was established in order to develop and operate an integrated heavy oil project at the JUNIN 6 oil field in Venezuela. NPC paid USD 600 million for a 40% interest in the venture to the Government of Venezuela and the Group loaned USD 120 million to NPC in respect of its 20% share of this payment.

TNK-Sheremetyevo. In the first quarter of 2011, the Group issued a USD 212 million loan to OOO TNK-Sheremetyevo, a joint venture, to acquire a majority interest in ZAO "Toplivozapravochny Kompleks Sheremetyevo", the operator of jet fuel storage and into-wing fueling services at Sheremetyevo International Airport in Moscow. As of 31 December 2011, the outstanding loan amounted to USD 155 million and is included as a long-term loan issued in Other non-current assets in the consolidated financial statements.

For the year ended 31 December 2011 the Group recognized earnings from its investment in TNK-Sheremetyevo of USD 28 million.

Investments in Venezuela and Vietnam. In October 2010, the Group entered into agreements with BP to acquire certain of BP's interests in upstream and pipeline operations in Vietnam and Venezuela for an estimated overall consideration of USD 1.8 billion. During the year ended 31 December 2010, the Group made a deposit of USD 1 billion for the acquisition, which was included in Long-term investments in the consolidated balance sheet and in Acquisition of subsidiaries and affiliates in the consolidated statement of cash flows for the year ended 31 December 2010.

As of 31 December 2011, total consideration paid by the Group amounted to USD 1.7 billion.

The acquisition of interests in the operations in Venezuela was completed in June 2011. Pursuant to the acquisition, the Group holds minority equity interests in three upstream producing entities, majority ownership and control in each case is held by Petroleos de Venezuela S.A ("PDVSA"), a state owned oil company. The most significant of these interests is in PetroMonagas S.A. in which the Group holds a 16.7% equity share. PetroMonagas produces and processes heavy crude oil into synthetic crude ("syncrude") for sale. PetroMonagas's total crude oil production averaged 20 thousand barrels of oil equivalent per day through 2011. The Group's net share in total production of Venezuelan equity affiliates acquired amounted to 25 thousand barrels of oil equivalent per day.

In respect of Vietnam, acquisition of the interests in gas producing fields and the related pipeline infrastructure was completed in October 2011 upon obtaining necessary government approval. The Group's net share of gas production from the field amounted to 14 thousand of barrels of oil equivalent per day. Acquisition of the remaining Vietnamese interests is expected in the first half of 2012.

The fair value of the interests acquired in Venezuela is preliminarily estimated at USD 900 million before working capital and completion adjustments and the fair value of interests acquired in Vietnam is preliminarily estimated at USD 716 million before working capital and completion adjustments. The respective fair value was preliminarily allocated to the following assets and liabilities:

	Venezuela	Vietnam	Total
Goodwill	216	66	282
Government contract	-	172	172
Property, plant and equipment	876	544	1,420
Long-term deferred income tax asset	75	-	75
Other assets	358	73	431
Long-term deferred income tax liability	(197)	(47)	(244)
Other liabilities	(428)	(92)	(520)
Total allocated	**900**	**716**	**1,616**
Deposit for remaining Vietnamese Interest	-	30	30
Cash and working capital	35	90	125
Total consideration	**935**	**836**	**1,771**

As of 31 December 2011, the interests in Venezuela were accounted for as equity investment and are included in Long-term investments in the consolidated balance sheet.

For the year ended 31 December 2011 the Group recognized earnings from its investment in Venezuela of USD 76 million. Prepaid dividends in the amount of USD 25 million were recognised as a reduction of the investment.

The interests acquired in Vietnam are accounted for using proportional consolidation as the Group has acquired undivided interests in the respective assets and liabilities. The Group's share of these assets and liabilities are included in the consolidated balance sheet as of 31 December 2011.

Messoyakha. In December 2010, the Group and OAO "Gazpromneft" entered into agreements with Slavneft to each acquire a 50% interest in OAO "Messoyakhaneftegaz", owner of development licenses for the group of Messoyakha oil and gas fields in the north of Yamal region. This acquisition is accounted for as a transaction under common control and no change in the carrying value of TNK-BP's share in the Messoyakha net assets was recognized. As of 31 December 2011, as part of the transaction arrangements, the Group provided a loan to Messoyakha in the amount of USD 154 million, accounted for as Long-term investments as of 31 December 2011. For the year ended 31 December 2011, the Group recognized a loss from its investment in Messoyakha of USD 23 million.

Note 12: Property, Plant and Equipment and Asset Retirement Obligations

	Cost	Accumulated DD&A	Net book value
Oil and gas, including:	21,401	(6,883)	14,518
Unproved properties	*1,303*	-	*1,303*
Refining, marketing and distribution	3,900	(1,533)	2,367
Other	337	(142)	195
Assets under construction, including:	2,632	-	2,632
Capitalized exploratory well costs pending the determination of proved reserves	*251*	-	*251*
Balance as of 31 December 2010	28,270	(8,558)	19,712
Oil and gas, including:	24,382	(8,002)	16,380
Unproved properties	*1,366*	-	*1,366*
Refining, marketing and distribution	4,271	(1,783)	2,488
Other	195	(99)	96
Assets under construction, including:	3,767	-	3,767
Capitalized exploratory well costs pending the determination of proved reserves	*231*	-	*231*
Balance as of 31 December 2011	32,615	(9,884)	22,731

During the year ended 31 December 2010, unproved properties with a carrying value of USD 55 million were written down to zero. The impairment charge of USD 55 million was recorded in Loss on disposals and impairment of assets in the consolidated statement of income.

Fair value of the impaired assets is determined using discounted cash flow approach (Level 3 in the fair value measurement hierarchy). The cash flows are developed based on the annually prepared corporate plan updated for crude oil commodity prices and current foreign currency exchange rates. Annual production volumes are based on individual field production profiles, which are also updated annually. Income tax and other taxes rates are based on enacted rates and anticipated future rate changes. The discount rate is derived from the Group's weighted-cost of capital and adjusted for risks specific to the asset.

The amount of interest capitalised during the years ended 31 December 2011 and 31 December 2010 was USD 201 million and USD 199 million respectively.

During the year ended 31 December 2011, the functional currency of Group's Russian Marketing business was changed from the US dollar to the Russian rouble, resulting in currency exchange effects being recognised in cost, accumulated depreciation and net book values of Refining, marketing and distribution assets respectively – see Note 2.

The Group's oil and gas fields are situated on land belonging to government authorities. The Group obtains licenses from such authorities and pays exploration and production taxes to explore and produce oil and gas from these fields. These licenses may be extended provided the Group is in compliance with the license terms and approval is obtained from the appropriate regulatory authorities. Management expects to extend such licenses for properties expected to have production subsequent to their license expiry dates.

The following tables provide details of the changes in the balance of capitalized exploratory well costs pending the determination of proved reserves as well as an ageing summary of those costs.

Balance as of 31 December 2009	**176**
Additions to capitalized exploratory well costs pending the determination of proved reserves	154
Reclassifications to wells, facilities, and equipment based on the determination of proved reserves	(66)
Capitalized exploratory well costs charged to expense	(13)
Balance as of 31 December 2010	**251**
Additions to capitalized exploratory well costs pending the determination of proved reserves	162
Reclassifications to wells, facilities, and equipment based on the determination of proved reserves	(115)
Capitalized exploratory well costs charged to expense	(67)
Balance as of 31 December 2011	**231**

The following table provides an ageing of capitalized exploratory well costs based on the date the drilling was completed:

	31 December 2011	31 December 2010
Capitalized exploratory well costs that have been capitalized for a period of one year or less	143	136
Capitalized exploratory well costs that have been capitalized for a period greater than one year	88	115
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	4	5

Exploratory well costs that have been capitalized for a period of greater than one year since the completion of drilling consist of costs in the amount of USD 88 million incurred in 2005-2010 in relation to the projects described below, including the Yamal project (USD 68 million) and the Rospan project (USD 11 million). For each of these projects exploratory wells have also been drilled in the preceding 12 months and further exploration drilling is planned in the next year.

The following table provides details of such projects:

Projects	Cost as of 31 December 2011	Comment
Yamal project	104	Exploration prospects obtained in 2006-2010 are located north-east and south-west of Suzun and bear moderate geological risk. A number of wildcats and new exploration wells are planned as part of a program aimed at resource base expansion, general project economics improvement and license obligations compliance. The commissioning schedule depends on the availability of pipeline infrastructure. A number of transportation options are under consideration. Exploration and further development in the region is a strategic objective for the Group. Capitalized costs, other than capitalized exploratory well costs, relating to Yamal project amounted to USD 264 million.
Orenburg project	78	The project covers exploration and development activities in the Orenburg region. The largest fields have already been developed. Marginal areas of reservoirs are being appraised or new areas are being studied which have been prepared for drilling through seismic works shot. A high success rate of exploration drilling has been achieved over the last three years, with reserves being brought into development within one year. Further exploration activity is planned. The Group also commenced exploration in 9 new licence areas acquired for appraisal and development.
Rospan project	35	The Rospan project refers to the large gas and condensate field in the Yamalo-Nenets Autonomous District. While the reserves already developed cover many years of production at current levels, there is potential for a significant increase with access to gas pipeline infrastructure.
Other projects	14	Exploration and appraisal work is being carried out on potentially commercial hydrocarbon quantities in a number of areas; assessments have been completed in a number of cases; certain development options have been identified and are either under evaluation or in the process of execution.
Total capitalized exploratory well costs	**231**	

Asset retirement obligations are as follows:

Balance as of 31 December 2009	**347**
Accretion expense	25
Liabilities incurred in the current period	32
Liabilities settled in the current period	(13)
Change in estimated costs and timing	(17)
Balance as of 31 December 2010	**374**
Accretion expense	25
Liabilities incurred in the current period	38
Liabilities settled in the current period	(23)
Change in estimated costs and timing	(44)
Balance as of 31 December 2011	**370**

Note 13: Goodwill and Intangible Assets

	Cost	Accumulated amortization	Accumulated impairment losses	Net book value
Intangible assets				
Intangible assets associated with land rights and permits	451	(50)	-	401
Other intangible assets	347	(168)	-	179
Total intangible assets	798	(218)	-	580
Goodwill related to the acquisition of subsidiaries	443	-	(127)	316
Balance as of 31 December 2010	**1,241**	**(218)**	**(127)**	**896**

	Cost	Accumulated amortization	Accumulated impairment losses	Net book value
Intangible assets				
Intangible assets associated with land rights and permits	614	(73)		541
Other intangible assets	429	(206)		223
Total intangible assets	1,043	(279)		764
Goodwill related to the acquisition of subsidiaries	494	-	(163)	331
Balance as of 31 December 2011	**1,537**	**(279)**	**(163)**	**1,095**

As of 31 December 2011 and 31 December 2010, the Group's intangible assets associated with land rights and permits include USD 272 million and USD 284 million (net of accumulated amortization), respectively, relating to the acquisitions of gasoline filling stations and other retail assets in Moscow, the Moscow region and Ukraine. These intangible assets are amortized on a straight-line basis over a weighted average period of 20 years.

In 2011, the Group recognized as intangible assets USD 172 million associated with the rights and permits to construct and operate a pipeline transportation system in Vietnam. This asset will be amortized over 12 years in accordance with the period covered by the contract signed with the Vietnamese government.

Other intangible assets include mainly software licenses used in subsidiaries and road-use rights which are being amortized on a straight-line basis over average periods of 3 years and 48 years, respectively.

During the year ended 31 December 2011, the functional currency of Group's Russian Marketing business was changed from the US dollar to the Russian rouble, resulting in currency exchange effects being recognised in

cost, accumulated amortization and net book values of Refining, marketing and distribution assets respectively – see Note 2.

Total amortization expense for intangible assets amounted to USD 67 million and USD 61 million for the years ended 31 December 2011 and 31 December 2010, respectively. The estimated aggregate amortization expense for each of the five succeeding fiscal years is USD 65 million.

As of 31 December 2011, goodwill at cost of USD 494 million related to the acquisition of interests in Vietnam (USD 66 million – see Note 11), which is a component of the Exploration and Production segment, and the acquisitions of retail assets allocated to the reporting units Marketing (USD 265 million) and TNK-BP Ukraine (USD 163 million), which are components of the Refining, Marketing and Distribution segment. As of 31 December 2010, goodwill at cost of USD 443 million related to the acquisitions of retail assets and allocated to the reporting units Marketing (USD 280 million) and TNK-BP Ukraine (USD 163 million).

During the years ended 31 December 2011 and 31 December 2010, the Group tested goodwill related to Ukrainian reporting unit (USD 36 million and USD 163 million, respectively) for impairment. The fair value of the reporting unit was estimated using the expected present value of future cash flows (Level 3 in the fair value measurement hierarchy). The cash flows were developed based on the annually updated plan evaluation assumptions for sales volumes, retail and refining margins and foreign currency exchange rates. The discount rate was derived from the Group's weighted-cost of capital and adjusted for risks specific to the reporting unit. Due to lower than expected operating profits and cash flows of the TNK-BP Ukraine reporting unit, an impairment loss of USD 36 million and USD 127 million was recognized in the consolidated statement of income within Loss on disposals and impairment of assets for the years ended 31 December 2011 and 31 December 2010, respectively.

Note 14: Other Long-Term Assets

	31 December 2011	31 December 2010
Inventory for capital expenditures	312	262
Long-term loans issued	331	171
Long-term deferred tax asset	272	163
Advances issued for capital expenditures	38	122
Deferred expenses	29	26
Long-term value-added tax	17	79
Other long-term assets	32	29
Total other long-term assets	**1,031**	**852**

Note 15: Debt

Short-term debt and current portion of long-term debt are as follows:

	31 December 2011	31 December 2010
Current portion of long-term debt	998	1,051
Total short-term debt and the current portion of long-term debt	**998**	**1,051**

Long-term debt is as follows:

	31 December 2011	31 December 2010
Obligations to banks, US dollar denominated:		
Medium-term unsecured finance - variable interest debt (composite variable interest: as of 31 December 2011- Libor plus 1.48%; as of 31 December 2010 - Libor plus 1.43%)	2,914	1,400
Corporate bonds:		
Eurobond TNK-BP 2011 – fixed interest debt (coupon interest rate – 6.875%, effective interest rate – 6.98%)	-	500
Eurobond TNK-BP 2016 – fixed interest debt (coupon interest rate – 7.50%, effective interest rate – 7.55%)	998	998
Eurobond TNK-BP 2012 – fixed interest debt (coupon interest rate – 6.125%, effective interest rate – 6.15%)	500	500
Eurobond TNK-BP 2017 – fixed interest debt (coupon interest rate – 6.625%, effective interest rate – 6.74%)	796	795
Eurobond TNK-BP 2013 – fixed interest debt (coupon interest rate – 7.50%, effective interest rate – 7.69%)	599	598
Eurobond TNK-BP 2018 – fixed interest debt (coupon interest rate – 7.875%, effective interest rate – 8.06%)	1, 090	1,089
Eurobond TNK-BP 2015 – fixed interest debt (coupon interest rate – 6.25%, effective interest rate – 6.45%)	497	496
Eurobond TNK-BP 2020 – fixed interest debt (coupon interest rate – 7.25%, effective interest rate – 7.50%)	494	493
Other	159	260
Less: Current portion of long-term debt	(998)	(1,051)
Total long-term debt	**7, 049**	**6,078**

In November 2006, the Group entered into an agreement for a USD 1 billion syndicated unsecured loan facility arranged by a consortium of international banks. The facility bore interest at LIBOR plus 0.575% per annum for the first three years and LIBOR plus 0.625% per annum starting from November 2009. The loan matured in November 2011 and was fully repaid on schedule. The loan amount outstanding as of 31 December 2010 was USD 400 million.

In October 2010, the Group signed a USD 2.0 billion unsecured medium-term loan facility with a consortium of international banks of which USD 1.0 billion was drawn down in November 2010. The second USD 1.0 billion tranche was made available to the Group in a form of a committed line, which was subsequently cancelled upon the Group's request. The loan bears interest at 1.75% over LIBOR with one year grace period and is repayable in nine equal instalments on a quarterly basis starting from November 2011. In November 2011, USD 0.1 billion under this facility was repaid in accordance with schedule. The loan amount outstanding under this facility as of 31 December 2011 and as of 31 December 2010 was USD 0.9 billion and USD 1.0 billion, respectively.

In August 2011, the Group entered and drew down a USD 1.5 billion unsecured loan facility with a consortium of international banks. The loan matures in August 2015 and is repayable in seven equal installments on a quarterly basis starting from February 2014. The facility bears interest at LIBOR plus 1.30% per annum. As of 31 December 2011, the total outstanding amount under this loan facility was USD 1.5 billion.

In October 2011, the Group entered into a USD 200 million unsecured loan facility with Sumitomo bank. The loan matures in October 2014 and is repayable on maturity. The facility bears interest at LIBOR plus 1.50% per annum. As of 31 December 2011, the total outstanding amount under this loan facility was USD 200 million.

In November 2011, the Group entered into a USD 125 million unsecured loan facility with HSBC bank. The loan matures in November 2014 and is repayable in seven equal installments on a quarterly basis starting from May 2013. The facility bears interest at LIBOR plus 1.60% per annum. As of 31 December 2011, the total outstanding amount under this loan facility was USD 125 million.

In November 2011, the Group entered into two unsecured loan facilities with Bank of America Merrill Lynch and Mizuho bank for USD 100 million each. Both loans mature in November 2014 and are repayable in nine equal installments on a quarterly basis starting from November 2012. The loan facilities bear interest at LIBOR plus 1.60 and 1.50% per annum, respectively. As of 31 December 2011, the total outstanding amounts under these loan facilities were USD 100 million each.

Eurobonds. As of 31 December 2011 and 31 December 2010, the Group had USD 5.0 billion and USD 5.5 billion of Eurobonds outstanding.

In July 2006, the Group placed USD 1.5 billion Eurobonds split into 5 and 10-year tranches maturing in 2011 and 2016, respectively. The 5-year USD 0.5 billion issue bore interest of 6.875% per annum payable semi-annually and had been issued at a discount of 0.441% to the nominal value. In July 2011, this issue was repaid on maturity. The 10-year USD 1.0 billion issue bears interest of 7.5% per annum payable semi-annually and has been issued at a discount of 0.374% to the nominal value.

In March 2007, the Group placed USD 1.3 billion Eurobonds split into 5 and 10-year tranches maturing in 2012 and 2017, respectively. The 5-year USD 0.5 billion issue bears interest of 6.125% per annum payable semi-annually and has been issued at a discount of 0.124% to the nominal value. The 10-year USD 0.8 billion issue bears interest of 6.625% per annum payable semi-annually and has been issued at a discount of 0.799% to the nominal value.

In October 2007, the Group placed USD 1.7 billion Eurobonds split into two tranches of USD 0.6 billion and USD 1.1 billion maturing in March 2013 and March 2018, respectively. The USD 0.6 billion issue bears interest of 7.5% per annum payable semi-annually and has been issued at a discount of 0.834% to the nominal value. The USD 1.1 billion issue bears interest of 7.875% per annum payable semi-annually and has been issued at a discount of 1.272% to the nominal value.

In February 2010, the Group placed USD 1.0 billion Eurobonds split into 5 and 10-year tranches maturing in 2015 and 2020, respectively. The 5-year USD 0.5 billion issue bears interest of 6.250% per annum payable semi-annually and has been issued at a discount of 0.840% to the nominal value. The 10-year USD 0.5 billion issue bears interest of 7.250% per annum payable semi-annually and has been issued at a discount of 1.740% to the nominal value.

The proceeds from the Eurobond issues described above have been used for general corporate purposes.

The outstanding long-term debt is subject to certain financial and non-financial covenants as stipulated by the corresponding borrowing agreements. Among other things, these covenants require the Group to maintain certain financial ratios calculated in accordance with the US GAAP financial statements. In addition, long-term debt is subject to cross default provisions.

Aggregate maturities of long-term debt outstanding as of 31 December 2011 are as follows:

	31 December 2011
2012	998
2013	1, 282
2014	1, 249
2015	1, 143
2016-2018	3, 400
Less: Eurobond discount	(25)
Total long-term debt	**8, 047**

Note 16: Other Accounts Payable and Accrued Expenses

	31 December 2011	31 December 2010
Advances from customers	635	430
Salaries payable and other related costs	194	347
Interest accrued	129	142
Dividends payable to noncontrolling interest shareholders	3	151
Contingent consideration relating to acquisition of interests in Venezuela and Vietnam (see Note11)	90	-
Other	243	145
Total other accounts payable and accrued expenses	**1,294**	**1,215**

Note 17: Group Shareholders' Equity

The share capital of TNK-BP International comprises 54,000 authorised, issued and outstanding ordinary shares of USD 1 par value.

During the years ended 31 December 2011 and 31 December 2010, the Company declared dividends of USD 7,493 million and USD 3,560 million, respectively.

Note 18: Income Taxes

	Year ended 31 December 2011	Year ended 31 December 2010
Current tax expense	2,313	1,644
Deferred tax expense	362	274
Total income tax expense	2,675	1,918

The Group is not subject to a corporate income tax on a consolidated basis, rather Group entities are assessed for corporate income taxes on an individual basis. The statutory corporate income tax rate in the Russian Federation is 20%.

The Group calculates deferred income taxes in accordance with ASC 740, *Income Taxes*. For an entity using the US dollar as a functional currency, ASC 740 requires deferred income taxes to be computed on non-current assets in local currencies by comparing the historical book and tax basis in local currency after the respective depreciation but before any indexing for either book or tax purposes. The local currency deferred income tax is then remeasured into US dollars using the prevailing year-end exchange rate.

Deferred income tax reflects the impact of temporary differences between the carrying values of assets and liabilities recognised for financial reporting purposes and such amounts recognised for statutory tax purposes. Deferred income tax assets and liabilities primarily result from the difference between the carrying value of property, plant and equipment, working capital and liabilities associated with undistributed earnings of subsidiaries.

Deferred income taxes are included in the consolidated balance sheet as follows:

	31 December 2011	31 December 2010
Assets		
Other current assets	102	90
Other long-term assets	272	163
Liabilities		
Taxes payable	56	12
Deferred income tax liability –non-current	2,475	2,049
Net deferred income tax liabilities	2,157	1,808

The following table sets out the tax effects of each type of temporary difference which gives rise to deferred income tax assets and liabilities:

	31 December 2011	31 December 2010
Property, plant and equipment	220	103
Accounts payable	177	160
Long-term liabilities	150	110
Operating loss carry forward	106	63
Other	56	46
Total deferred income tax assets	709	482
Property, plant and equipment	1,338	1,094
Unremitted earnings of subsidiaries and equity affiliates	1,266	1,060
Intangible assets	156	85
Inventories	36	21
Other	70	30
Total deferred income tax liability	2,866	2,290
Net deferred income tax liability	2,157	1,808

In 2004, the Group entered into an agreement with the Tyumen regional authorities which granted certain subsidiaries of the Group a tax concession by way of a 4% relief to the statutory corporate income tax rate subject to certain subsidiaries of the Group making qualified capital investments in the region. In 2006, the Group entered into a similar type agreement with the Orenburg regional authorities. For the years ended 31 December 2011 and 31 December 2010, the Group's income tax expense in the accompanying financial statements includes a tax benefit relating to these tax concessions of USD 394 million and USD 294 million, respectively.

	Year ended 31 December 2011	Year ended 31 December 2010
Income before income taxes	12,403	8,187
Notional income tax at Russian statutory rate (20%)	2,481	1,637
Increase (reduction) in income tax due to:		
Unremitted earnings of subsidiaries and equity affiliates and withholding tax on intragroup dividends	410	340
Domestic tax rate differences	(394)	(294)
Foreign income tax rate differences	46	74
Foreign exchange differences	99	29
Income tax of prior years, tax penalties and interest	-	(2)
Share in equity affiliates	(27)	2
Other permanent differences	60	132
Total income taxes expense	2,675	1,918
Effective tax rate	21.6%	23.4%

Uncertain tax positions. A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ending 31 December 2011 and 31 December 2010 is as follows:

Balance as of 31 December 2009	10
Settlements	11
Additions for tax positions of prior years	-
Reductions for tax positions of prior years	(21)
Exchange gain	-
Balance as of 31 December 2010	-
Settlements (refund from tax authorities)	2
Additions for tax positions of prior years	8
Reductions for tax positions of prior years	(7)
Exchange gain	-
Balance as of 31 December 2011	3

As of 31 December 2011 the amount of the unrecognized tax benefit which, if recognized in the future, would have favourably impacted the effective tax rate is USD 3 million.

The tax returns of the Russian subsidiary companies in respect of the years ended 31 December 2011, 2010 and 2009 remain subject to examination by the Russian Tax Authorities. Based on management's interpretation of current legislation, there are no uncertain tax positions which are reasonably possible to change significantly during the next twelve months although, as discussed in Note 22, such legislation is subject to varying interpretations by the tax authorities.

Note 19: Taxes Other Than Income Tax and Taxes Payable

Taxes other than income tax for the years ended 31 December 2011 and 31 December 2010 include:

	Year ended 31 December 2011	Year ended 31 December 2010
Unified production tax	9,657	6,753
Excise taxes	1,633	1,012
Property tax	288	233
Pension fund and other social taxes	211	127
Non-recoverable VAT expense	11	28
Tax penalties and interest	10	(3)
Other taxes	39	19
Total taxes other than income tax	**11,849**	**8,169**

Unified production tax. The rate of this tax is adjusted depending on the market price of the Urals blend and the RUR/USD exchange rate. Average tax rates for the years ended 31 December 2011 and 31 December 2010 were USD 20.79 per barrel and USD 13.87 per barrel, respectively.

Current and long-term taxes payable as of 31 December 2011 and 31 December 2010 are as follows:

	31 December 2011	31 December 2010
Unified production tax	792	683
Value-added tax	339	229
Income taxes	89	118
Property tax	74	62
Excise taxes	59	62
Current deferred income tax liability	56	12
Pension fund and other social taxes	36	35
Tax penalties and interest	13	13
Other taxes	13	14
Total taxes payable	1,471	1,228
Less: long-term taxes payable	-	-
Current taxes payable	**1,471**	**1,228**

Note 20: Revenues

Revenues for the years ended 31 December 2011 and 31 December 2010 comprise the following:

	Year ended 31 December 2011	Year ended 31 December 2010
Crude oil – export	26,337	19,948
Crude oil – domestic	3,523	2,528
Petroleum products – export	17,491	13,210
Petroleum products – domestic	10,768	7,385
Other revenues	2,080	1,575
Sales and other operating revenues	**60,199**	**44,646**

Note 21: Related Party Transactions

The Group has the following transactions and balances in the ordinary course of business with affiliates of Alfa Group, a major shareholder of the Parent:

	As of 31 December 2011 and for the year ended 31 December 2011	As of 31 December 2010 and for the year ended 31 December 2010
Cash and cash equivalents held at Alfa Bank	121	97
Restricted cash	48	-
Deposits with maturity more than 3 months in Alfa Bank	-	150
Trade and other receivables, net	10	12
Insurance expenses	12	15

In the ordinary course of business the Group receives guarantees from Alfa Bank among other banks. According to Russian legislation, the Group is entitled to provide such guarantees to the customs authorities as a security of its obligations for custom payments. The guarantees received from Alfa Bank amounted to USD 26 million and USD 28 million in effect as of 31 December 2011 and 31 December 2010, respectively.

The Group has the following transactions and balances in the ordinary course of business with BP, a major shareholder of the Parent:

	As of 31 December 2011 and for the year ended 31 December 2011	As of 31 December 2010 and for the year ended 31 December 2010
Trade and other receivables, net	127	-
Accounts and notes payable	92	-
Sales of crude oil export	244	317
Volumes (millions of tons)	*0.3*	*0.6*
Sales of petroleum products export	1,933	145
Volumes (millions of tons)	*3.2*	*0.2*
Loss on derivative contracts	-	5

The Group has the following transactions and balances in the ordinary course of business with affiliates of Renova Group, a major shareholder of the Parent:

	As of 31 December 2011 and for the year ended 31 December 2011	As of 31 December 2010 and for the year ended 31 December 2010
Trade and other receivables	30	2
Sales of gas	194	121
Volumes (billions of cubic meters)	*2.1*	*1.6*
Sales of petroleum products	8	-
Volumes (millions of tons)	*0.03*	-

The Group has the following transactions and balances in the ordinary course of business with Slavneft Group:

	As of 31 December 2011 and for the year ended 31 December 2011	As of 31 December 2010 and for the year ended 31 December 2010
Trade and other receivables, net	26	29
Dividends receivable	23	118
Accounts and notes payable	60	63
Purchases of crude oil and petroleum products	2,325	1,744
Volumes (millions of tons)	*9.0*	*9.1*
Crude oil refining fee	265	257
Volumes (millions of tons)	*7.4*	*7.2*
Other services	112	-

The balances with the Parent and its subsidiaries are as follows:

	As of 31 December 2011	As of 31 December 2010
Accounts receivable and loans issued	187	703

The Group has the following transactions and balances in the ordinary course of business with investments in affiliates and joint ventures.

NVGRES	As of 31 December 2011 and for the year ended 31 December 2011	As of 31 December 2010 and for the year ended 31 December 2010
Sales of gas	231	180
Volumes (billions of cubic meters)	*3.2*	*2.9*
TNK-Sheremetyevo		
Trade and other receivables	86	-
Loans issued	155	-
Sales of petroleum products	481	66
Volumes (millions of tons)	*0.7*	*0.1*

The balances and transactions with other related parties are as follows:

	As of 31 December 2011 and for the year ended 31 December 2011	As of 31 December 2010 and for the year ended 31 December 2010
Trade receivables	43	53
Long-term loans	152	118
Accounts payable	13	23
Sales of gas	273	54
Volumes (billions of cubic meters)	*3.2*	*1.5*
Purchases of gas	27	-
Volumes (billions of cubic meters)	*0.24*	-
Gas processing fee	167	129
Volumes (billions of cubic meters)	*5.6*	*3.9*
Other purchases	57	-

Note 22: Commitments and Contingencies

Economic and operating environment in the Russian Federation and Ukraine. The Russian Federation and Ukraine continue to display certain characteristics of emerging markets. These characteristics include, but are not limited to, the existence of a currency that is in practice not convertible in most countries and relatively high inflation. Furthermore, the tax, currency, and customs legislation within these countries is subject to varying interpretations and changes which can occur frequently.

Gas production and marketing activities. As of 31 December 2011 and 31 December 2010, the Group's capitalized costs related to its gas subsidiaries amounted to USD 849 million and USD 739 million, respectively.

Russian independent gas producers are currently only able to access the domestic gas transmission system upon agreement with Gazprom, which owns and operates the system. In September 2010, the Group concluded a long-term gas transportation agreement with Gazprom, which grants Rospan, a gas subsidiary, a 6-year access to the pipeline system gradually increasing that access to an annual amount of 13.2 billion cubic meters of gas by 2016.

Taxation. The Russian tax and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. Recent developments suggest that the authorities are becoming more active in seeking to enforce, through the Russian court system, interpretations of tax legislation which may be selective for particular taxpayers and different to the authorities' previous interpretations or practices. Different and selective interpretations of tax regulations by various government authorities and inconsistent enforcement create further uncertainties in the taxation environment in the Russian Federation.

Tax declarations, together with related documentation, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Fiscal periods remain open to review by the authorities for the three calendar years preceding the year of review (one year in the case of customs). Under certain circumstances reviews may cover longer periods. In addition, in some instances new tax regulations have taken retroactive effect. Additional taxes, penalties and interest which may be material to the financial position of the taxpayers may be assessed in the Russian Federation as a result of such reviews.

Tax audits. Pursuant to tax audits conducted in 2006 and 2007, the Russian tax authorities have presented a number of tax acts and decisions relating to 2004 and 2005 in respect of income tax and other taxes of Group subsidiaries. Currently, the Group is appealing, either with the higher tax authorities or in the courts, tax decisions with a total amount of claims of USD 6 million (RUR 0.2 billion).

Pursuant to tax audits conducted in 2008, the Russian tax authorities have presented a number of tax acts and decisions relating to 2006 and 2007 in respect of income tax and other taxes of a number of Group subsidiaries. Currently, the Group is appealing, either with the higher tax authorities or in the courts, tax decisions with a total amount of claims of USD 12 million (RUR 0.4 billion).

Pursuant to tax audits conducted in 2010, the Russian tax authorities have presented a number of tax acts and decisions relating to 2008 and 2009 in respect of income tax and other taxes of a number of Group subsidiaries. Currently, the Group is appealing, either with the higher tax authorities or in the courts, tax decisions with a total amount of claims of USD 63 million (RUR 2 billion).

The Group believes that it has made adequate provision for the outcome of the matters raised or expected to be raised by the tax authorities. As of 31 December 2011 and 31 December 2010, the Group recorded a liability in the amount of USD 8 million (RUR 0.3 billion) and USD 22 million (RUR 0.7 billion), respectively, related to the matters discussed above.

Oilfield and gasfield licenses. The Group is subject to periodic reviews of its activities by government authorities with respect to the requirements of its licenses. Where appropriate, management of the Group liaise with government authorities to agree on remedial actions and resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation.

In February 2010, Rosprirodnadzor, Russia's federal service for supervising natural resources, completed a license compliance audit at Rusia Petroleum, a Group subsidiary and holder of the Kovykta field license. The issues raised included, inter alia, alleged non-compliance with required production levels, a repeated claim from a previous audit. Since 2007, the Group has had discussions with Russia state-owned concerns as to the future development of the Kovykta field. In October 2010, Rusia Petroleum was declared bankrupt and put into liquidation – see Note 6.

Environmental liabilities. Environmental regulation in the Russian Federation is evolving as is the enforcement posture of the government authorities. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which may arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material.

The Group's estimated environmental liability was USD 403 million and USD 246 million as of 31 December 2011 and 31 December 2010, respectively. During the year 2011, as a result of ongoing evaluations, the Group recorded provisions totalling USD 176 million related to expected costs of environmental remediation in respect of legacy activities in West Siberia oil fields as well as Group refineries. The estimates used by management include uncertainties about a number of factors including the extent of necessary remediation, the technology to be used for remediation, and the standards that will constitute an acceptable remediation. As additional information becomes available, management will continue to assess, as necessary, its estimated provision, and at this stage estimate the maximum potential exposure to be USD 750 million.

Pursuant to Russian Federation legislation, Upstream companies are required to utilize 95% of associated gas produced by 2012. The Group continues to undertake appropriate actions to meet this requirement and does not believe that the compliance efforts will have a material impact on its financial position or results of operations.

Legal contingencies. The Group is a named defendant in a number of lawsuits as well as a named party in numerous other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a materially adverse effect on the financial position or the operating results of the Group.

In February 2002, Norex Petroleum Limited filed a lawsuit against TNK and certain other defendants in the United States District Court for the Southern District of New York over the ownership of a company, which was owned by an affiliate of the Alfa Group, Access Industries, and Renova Group. In 2002, this company was acquired by TNK. In February 2004, the case was dismissed based on jurisdiction and venue. In July 2005, the Court of Appeals reversed the decision of the District Court and returned the case to the lower court where in September 2007 the case was dismissed. In October 2007, Norex Petroleum Limited petitioned the Court of Appeals for reconsideration of this decision. In September 2010, the Court of Appeals dismissed the case. On 28 June 2011, Norex withdrew a previously filed Petition for a hearing on this matter with the US Supreme Court, after which, on 19 July 2011, the Court of Appeals officially ended Norex's action in the federal court. On 7 March 2011, Norex filed a new claim in a New York state court under different statutes based on the same facts. On 16 September 2011, the Group filed a petition to dismiss Norex's amended complaint and on 15 December the Court heard oral argument. Management believes that the resolution of the matter will not have a material adverse impact on the financial position of the Group.

In September 2008, the Russian Federal Antimonopoly Service ("FAS") issued a decision whereby it found TBH, a subsidiary of the Group, in violation of Russian antimonopoly legislation in respect of jet fuel and gasoline pricing on the wholesale markets. In November 2008, the FAS issued a fine in the amount of USD 44 million (RUR 1.1 billion). In May 2010, the Supreme Arbitration Court upheld the FAS position. On 30 June 2010, the full amount of the claim was paid by the Group.

On 31 July 2009, the FAS issued a further decision against TBH and on 25 September 2009 issued a fine in the amount of USD 139 million (RUR 4.2 billion). In October 2010, the Group concluded an amicable agreement with the FAS in respect of the settlement of the second case resulting in a reduction of the claim to USD 39 million (RUR 1.2 billion), which was paid to the FAS in November 2010.

In December 2011, FAS found TBH, a subsidiary of the Group, in violation of Russian antimonopoly legislation in respect of gasoline pricing on the retail markets. Management believes that the resolution of the matter will not have a material adverse impact on the financial position of the Group.

In December 2007, the Group filed a lawsuit against the Russian Federal Customs Service ("FCS") to claim a return of excess customs duties paid in 2007. During the year ended 31 December 2010, the Group obtained favourable rulings in all court instances, received a refund payment of USD 146 million (RR 4.2 billion) and recognized a gain for the same amount, recorded in Interest income and net other income for the year ended 31 December 2010.

In August 2009, the Group filed a further lawsuit against the FCS to claim a return of excess customs duties in the amount of USD 198 million (RUR 6.2 billion). In June 2010, pursuant to Court ruling, the Group recognized a gain for the full amount of the claim, which was included in Interest income and net other income in the consolidated statement of income for the year ended 31 December 2010.

Commitments. On 31 October 2011, the Group entered into an agreement with Brazilian company HRT Oil and Gas Limited for the acquisition of a 45% stake in 21 blocks in the Brazilian Solimoes Basin. The consideration includes USD 1 billion payable over a two year period from closing and additional payments dependent on the future performance of the asset. The closing of the transaction is subject to approval from the Brazilian federal regulators.

Note 23: Segment Information

Presented below is information about the Group's operations for the years ended 31 December 2011 and 31 December 2010 in accordance with ASC 280, *Segment Reporting.*

During the year ended 31 December 2011 and the year ended 31 December 2010, the Group had two operating segments – exploration and production ("E&P") and refining, marketing, and distribution ("RM&D"). Management assesses the performance of these operating segments on a regular basis. The E&P segment explores for, develops and produces crude oil and gas reserves. The RM&D segment processes crude oil into refined products and also purchases, sells and transports crude oil and refined petroleum products.

The Other segment primarily includes corporate activities. In addition, the Other segment includes gains on disposals of subsidiaries and earnings from equity investments.

The significant accounting policies applied to each operating segment are consistent with those applied to the consolidated financial statements. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

As of 31 December 2011 and for the year ended 31 December 2011	Exploration and Production	Refining, Marketing and Distribution	Other	Elimination	Total
Revenues					
Third parties	1,305	58,888	6	-	60,199
Intersegment	23,629	58	-	(23,687)	-
Segment revenues	**24,934**	**58,946**	**6**	**(23,687)**	**60,199**
EBITDA	**9,820**	**4,141**	**640**	**-**	**14,601**
Segment assets	**21,482**	**11,867**	**4,376**	**(653)**	**37,072**
Capital expenditures	**4,021**	**825**	**54**	**-**	**4,900**

As of 31 December 2010 and for the year ended 31 December 2010	Exploration and Production	Refining, Marketing and Distribution	Other	Elimination	Total
Revenues					
Third parties	1,046	43,590	10	-	44,646
Intersegment	17,250	33	-	(17,283)	-
Segment revenues	**18,296**	**43,623**	**10**	**(17,283)**	**44,646**
EBITDA	**6,676**	**3,409**	**306**	**-**	**10,391**
Segment assets	**18,152**	**10,576**	**4,829**	**(431)**	**33,126**
Capital expenditures	**3,116**	**549**	**29**	**-**	**3,694**

EBITDA, a non-GAAP measure, is reconciled to income before income taxes for the years ended 31 December 2011 and 31 December 2010 as follows:

	For the year ended 31 December 2011	For the year ended 31 December 2010
EBITDA	14,601	10,391
Depreciation, depletion and amortization	(2,085)	(1,891)
Interest expense	(242)	(241)
Exchange loss, net	63	(44)
Other differences	66	(28)
Income before income taxes	**12,403**	**8,187**

Segment Information by Geographical Areas

	As of and for the year ended 31 December 2011		As of and for the year ended 31 December 2010	
	Revenues	**Long-lived assets excluding deferred tax assets**	**Revenues**	**Long-lived assets excluding deferred tax assets**
Russian Federation	57,971	26,034	42,418	24,404
Ukraine	2,083	509	2,228	558
Vietnam	37	790	-	-
Venezuela	-	951	-	-
Other	108	16	-	-
Consolidated	60,199	28,300	44,646	24,962

For the year ended 31 December 2011, revenues of USD 6,593 million or 11% of Group's total revenue (for the year ended 31 December 2010 - USD 5,105 million, or 11% of the Group's revenue) are derived from a single external customer. These revenues include sales of crude oil and petroleum products and are attributable to the exploration and production segment and refining, marketing and distribution segment. Management does not believe that the Group is dependent on any particular customer. Revenues from third parties are assigned to the countries of operation from which the revenues are derived.

Note 24: Subsequent Events

Subsequent events were evaluated by the Group from the period from 1 January 2012 up to 29 February 2012 which is the date when these financial statements were issued.

Due to economic and industry conditions currently prevailing in the Ukraine, subsequent to year end, management has decided to temporarily halt crude deliveries to the Linik refinery from 1 March 2012. This will be in effect until such time as management believes that conditions allow for an appropriate economic return on operating the refinery. As at December 31, 2011, capitalized costs related to the Linik refinery amount to USD 206 million, these amounts are included in property, plant and equipment in the accompanying balance sheet.

Supplemental information on Oil and Gas Exploration and Production Activities (Unaudited)

This section provides unaudited supplemental information on oil and gas exploration and production activities in accordance with ASC 932, *Extractive Industry – Oil and Gas*, in six separate sections:

I. Capitalized costs relating to oil and gas producing activities
II. Costs incurred in oil and gas property acquisition, exploration and development activities
III. Results of operations for oil and gas producing activities
IV. Reserve quantity information
V. Standardized measure of discounted future net cash flows
VI. Principal sources of changes in the standardized measure of discounted future net cash flows

During the second half of 2011, the Group acquired interests in upstream operations in Venezuela and Vietnam. The Venezuelan interests are accounted under the equity method. The Group's share in the related proved oil reserves amounts to 185 million barrels and 57 billion of cubic feet of natural gas at December 31, 2011 and the related standardized measure of discounted future net cash flows amount to USD 1,017 million. The Vietnam interests are proportionately consolidated. The Group's share of related proved reserves amounts to 171 billion cubic feet of gas at December 31, 2011 and the related standardized measure of discounted future net cash flows amounts to USD 280 million. Supplemental information on these interests has not been provided separately due to immateriality.

I. Capitalized Costs Relating to Oil and Gas Producing Activities

Consolidated subsidiaries	31 December 2011	31 December 2010
Oil and gas properties and equipment,	24,382	21,401
including unproved oil and gas properties	*1,366*	*1,303*
Assets under construction related to oil and gas properties	2,956	2,119
Accumulated depreciation, depletion, and amortization	(8,002)	(6,883)
Net capitalized costs for consolidated subsidiaries	19,336	16,637

Group's share in the equity affiliates	31 December 2011	31 December 2010
Oil and gas properties and equipment	3,892	2,756
Oil field services properties and equipment and other property, plant and equipment	-	336
Assets under construction related to oil and gas properties	528	547
Accumulated depreciation, depletion, and amortization	(1,574)	(1,429)
Group's share in the net capitalized costs relating to oil and gas producing activities of the equity affiliates	2,846	2,210

II. Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities

	Year ended 31 December 2011	Year ended 31 December 2010
Consolidated subsidiaries		
Acquisition of properties - proved	546	-
Acquisition of properties - unproved	73	131
Exploration costs capitalized	189	203
Exploration costs expensed	145	77
Development costs	3,726	2,816
Total costs incurred in consolidated subsidiaries	4,679	3,227

	Year ended 31 December 2011	Year ended 31 December 2010
Group's share in the equity affiliates		
Exploration costs capitalized	39	17
Exploration costs expensed	21	34
Development costs	538	498
Group's share in the costs incurred in oil and gas property acquisition, exploration and development activities of the equity affiliates	598	549

III. Results of Operations for Oil and Gas Producing Activities

The Group's results of operations for oil and gas producing activities are presented below. In accordance with ASC 932, *Extractive Industry – Oil and Gas*, transfers to Group companies are based on market prices. Income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

	Year ended 31 December 2011	Year ended 31 December 2010
Consolidated subsidiaries		
Revenue		
Sales	28,046	21,156
Transfers	10,297	6,863
Export duties and transportation expenses	(13,493)	(9,936)
Total net revenues	24,850	18,083
Production costs (excluding production taxes)	3,532	3,204
Exploration expense	145	77
Depreciation, depletion and amortization	1,669	1,514
Taxes other than income taxes	9,997	7,136
Related income taxes	1,591	1,020
Total results of operations of consolidated subsidiaries	7,916	5,132

	Year ended 31 December 2011	Year ended 31 December 2010
Group's share in the equity affiliates		
Revenue		
Sales	2,708	1,750
Total net revenues	2,708	1,750
Production costs (excluding production taxes)	498	393
Exploration expense	21	34
Depreciation, depletion and amortization	330	304
Taxes other than income taxes	1,637	974
Related income taxes	68	27
Group's share in the total results of operations of equity affiliates	154	18

IV. Reserve Quantity Information

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2011 and 31 December 2010.

The definitions used are in accordance with United States Securities and Exchange Commission ("SEC") regulations.

Proved reserves are defined as those quantities of oil and gas, which, by analysis of geoscience and engineering data can be estimated with reasonable certainty to be economically producible from a given date forward from known reservoirs, and under existing economic conditions, operating methods and government regulation. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined, which are average, first-day-of-the-month prices during the reporting period and year-end costs. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are inherently imprecise, require the application of judgment and are subject to change over time as additional information becomes available.

Proved developed reserves are those proved reserves which are expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared with the costs of a new well.

The Group's and its equity affiliate's proved reserves are located in the Russian Federation, Venezuela and Vietnam. Management has included within proved reserves significant reserves quantities which the Group expects to extract after the expiry dates of certain of its current production licenses. Management believes these licenses may be extended provided the Group is in compliance with the license terms and approval is obtained from the appropriate regulatory authority; management intends to extend such licenses for properties expected to have production subsequent to their license expiry dates. The Group has already extended a number of these licenses and to date there have been no unsuccessful license renewal applications.

Estimated net proved oil and gas reserves and changes thereto for the years ended 31 December 2011 and 31 December 2010 are shown in the tables set out below.

Crude oil, gas condensate and natural gas liquids, Million barrels	Year ended 31 December 2011	Year ended 31 December 2010
Consolidated subsidiaries		
Net proved reserves as of beginning of year	7,886	7,735
Revisions of previous estimates	550	527
Purchase of hydrocarbons in place	1	
Extensions and discoveries	33	192
Production	(564)	(558)
Sales of hydrocarbons in place	-	(10)
Net proved reserves of consolidated subsidiaries as of end of year	7,906	7,886
Net proved developed reserves of consolidated subsidiaries as of end of year	4,842	4,785

Crude oil, gas condensate and natural gas liquids, Million barrels	Year ended 31 December 2011	Year ended 31 December 2010
Group's share in the equity affiliates		
Net proved reserves as of beginning of year	817	738
Revisions of previous estimates, extensions and discoveries	70	147
Purchase of hydrocarbons in place	190	-
Production	(68)	(68)
Group's share in Net proved reserves of equity affiliates as of end of year	1,009	817
Group's share in Net proved developed reserves of equity affiliates as of end of year	513	456

Gas, Billion cubic feet	Year ended 31 December 2011	Year ended 31 December 2010
Consolidated subsidiaries		
Net proved reserves as of beginning of year	5,266	4,933
Revisions of previous estimates	2,065	788
Purchase of hydrocarbons in place	171	-
Production	(498)	(455)
Net proved reserves of consolidated subsidiaries as of end of year	7,004	5,266
Net proved developed reserves of consolidated subsidiaries as of end of year	4,680	3,998

Gas, Billion cubic feet	Year ended 31 December 2011	Year ended 31 December 2010
Group's share in the equity affiliates		
Net proved reserves as of beginning of year	137	101
Revisions of previous estimates	(5)	48
Purchase of hydrocarbons in place	59	-
Production	(11)	(12)
Group's share in Net proved reserves of equity affiliates as of end of year	180	137
Group's share in Net proved developed reserves of equity affiliates as of end of year	90	84

V. Standardized Measure of Discounted Future Net Cash Flows

The standardized measure of discounted future net cash flows is calculated in accordance with ASC 932, which requires measurement of future net cash flows by applying average, first-day-of-the-month prices during the reporting period and year-end costs and an annual discount factor of ten percent to year-end quantities of estimated net proved reserves using a standardized formula. The calculation requires extensive judgment in estimating the timing of future production of reserves. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculation. As a result, future cash flows calculated under ASC 932 are not necessarily indicative of the Group's future cash flows, nor the fair value of its oil and gas reserves; other assumptions of equal validity could give rise to materially different results.

	31 December 2011	31 December 2010
Consolidated subsidiaries		
Future cash inflows	359,635	249,096
Future production and development costs	(258,129)	(195,459)
Future income tax expenses	(17,760)	(9,558)
Future net cash flows	83,746	44,079
Discount for estimated timing of cash flows (10% p.a.)	(41,850)	(21,649)
Standardized measure of discounted future net cash flows of consolidated subsidiaries	41,896	22,430

	31 December 2011	31 December 2010
Group's share in the equity affiliates		
Future cash inflows	54,703	28,566
Future production and development costs	(38,816)	(23,271)
Future income tax expenses	(3,172)	(932)
Group's share in Future net cash flows	12,715	4,363
Discount for estimated timing of cash flows (10% p.a.)	(8,485)	(2,052)
Group's share in Standardized measure of discounted future net cash flows of equity affiliates	4,230	2,311

Future dismantlement, abandonment and rehabilitation costs are included as a part of future production and development costs.

VI. Principal Sources of Changes in the Standardized Measure of Discounted Future Net Cash Flows

	Year ended 31 December 2011	Year ended 31 December 2010
Consolidated subsidiaries		
Standardized measure of discounted future net cash flows as of the beginning of year	22,430	22,715
Sales and transfers of oil and gas produced, net of production costs	(11,321)	(7,744)
Net changes in prices and production costs, including production taxes	27,912	2,295
Extensions and discoveries, less related costs	298	982
Development costs incurred during the year	2,592	1,495
Changes in estimated future development costs	(2,020)	(3,465)
Revisions of previous quantity estimates	2,935	2,556
Net changes due to purchases and sales of minerals in place	-	(5)
Accretion of discount	2,660	2,794
Purchase of hydrocarbons in place	280	-
Net change in income taxes	(3,870)	807
Standardized measure of discounted future net cash flows of consolidated subsidiaries as of the end of year	41,896	22,430

APPENDIX I:

CLASSIFICATION OF RESERVES AND RESOURCES

The estimation of reserves of natural gas, gas condensate and crude oil can be determined based on the estimate of two components: (i) geological quantities, or those quantities of natural gas, gas condensate and crude oil contained in the subsoil and (ii) recoverable quantities, or the portion of geological quantities whose extraction from the subsoil as of the date the reserves are calculated is economically efficient given market conditions and rational use of modern extraction equipment and technologies and taking into account compliance with the requirements of subsoil and environmental protection.

The Russian reserves system differs significantly from the SEC and PRMS reserve methodologies, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. Reserves that are calculated using different methods cannot be accurately reconciled. The following is a description of principal differences (although the description does not include all of the differences and some differences not described may be material).

Russian Reserves System

The Russian reserves system is based solely on the analysis of geological characteristics. Under the Russian system, explored reserves are represented by categories A, B, and C_1; preliminary estimated reserves are represented by category C_2; potential resources are represented by category C_3; and forecasted resources are represented by categories D_1 (forecasted localised) and D_2. Natural gas reserves in categories A, B and C_1 are considered to be fully extractable. For reserves of oil and gas condensate, a predicated coefficient of extraction is calculated based on geological and technical factors. Rosneft has included in this Base Prospectus only information on the basis of its explored reserves, or reserves in categories A, B, C_1 and C_2.

Category A reserves are calculated on the part of a deposit that has been drilled in accordance with an approved development project for the oil or natural gas field. They represent reserves that have been analysed in sufficient detail to define comprehensively the type, shape and size of the deposit; the level of hydrocarbon saturation; the depth and reservoir type; the nature of changes in the reservoir characteristics; the hydrocarbon saturation of the productive strata of the deposit; the content and characteristics of the hydrocarbons; and the major features of the deposit that determine the conditions of its development (mode of operations, well productivity, strata pressure, natural gas, gas condensate and crude oil balance, hydro and piezo-conductivity and other features).

Category B represents the reserves of a deposit (or portion thereof), the oil or natural gas content of which has been determined on the basis of commercial flows of oil or natural gas obtained in wells at various hypsometric depths. The type, shape and size of the deposit, the effective oil and natural gas saturation; depth and type of the reservoir; the nature of changes in the reservoir characteristics, the oil and natural gas saturation of the productive strata of the deposit; the composition and characteristics of crude oil, natural gas and gas condensate under in-situ and standard conditions and other parameters; and the major features of the deposit that determine the conditions of its development have been studied in sufficient detail to draw up a project to develop the deposit. Category B reserves are calculated for a deposit (or a portion thereof) that has been drilled in accordance with either a trial industrial development project in the case of a natural gas field or an approved technological development scheme in the case of an oil field.

Category C_1 represents the reserves of a deposit (or of a portion thereof) for which the oil or natural gas content has been determined on the basis of commercial flows of oil or natural gas obtained in wells (with some of the wells having been probed by a formation tester) and positive results of geological and geophysical exploration of non-probed wells.

The type, shape and size of the deposit and the formation structure of the oil and gas bearing reservoirs are determined from the results of drilling exploration and production wells and by the geological and geophysical exploration techniques that have been field-tested for the applicable area. The lithological content, reservoir type and characteristics, oil and natural gas saturation, oil displacement ratio and effective oil and natural gas saturation depth of the productive strata have been studied based on drill cores and geophysical well exploration materials. The composition and characteristics of crude oil, natural gas and gas condensate under in-situ and standard conditions have been studied on the basis of well testing data. For an oil and natural gas deposit, the commercial potential of its oil-bearing fringe is determined. Well productivity, hydro- and piezo-conductivity of the stratum, stratum pressures and crude oil, natural gas and gas condensate temperatures and yields are studied on the basis of well testing and well exploration results. The hydro-geological and

geocryological conditions are determined on the basis of well drilling results and comparisons with neighbouring explored fields.

Category C_1 reserves are calculated on the basis of results of geological exploration work and production drilling and must have been studied in sufficient detail to yield data from which to draw up either a trial industrial development project in the case of a natural gas field or a technological development scheme in the case of an oil field.

Category C_2 reserves are preliminary estimated reserves of a deposit calculated on the basis of geological and geophysical research of unexplored sections of deposits adjoining sections of a field containing reserves of higher categories and of untested deposits of explored fields. The shape, size, structure, level, reservoir types, content and characteristics of the hydrocarbon deposit are determined in general terms based on the results of the geological and geophysical exploration and information on the more fully explored portions of a deposit. Category C_2 reserves are used to determine the development potential of a field and to plan geological, exploration and production activities.

The evaluation of natural gas reserves in newly discovered natural gas or oil-and-gas deposits is carried out under the Russian reserves system using the volume method. The volume method determines the volume of reserves by examining the filtration and capacitive parameters of the deposit based on (i) the area of the deposit; (ii) the effective depth of hydrocarbon saturation; and (iii) the porosity of the deposit and the level of saturation of the hydrocarbons, taking into account thermobaric conditions.

The evaluation of natural gas reserves in deposits already under development is carried out under the Russian reserves system using both the volume method and the material balance method. The material balance method takes into account temporal changes in the effective reservoir pressure as a result of the extraction of the hydrocarbons and the resultant influx of water.

In accordance with the Russian Federal Law on Subsoil, mineral reserves in Russia are subject to mandatory state examination, and subsoil users cannot be granted a production licence with respect to a field that was not examined. The state examination of reserves is conducted by subsidiary organisations of the Russian Federal Agency On Subsoil Use, including the Russian State Reserve Commission, the Central Reserve Commission and its regional departments. If the commercial feasibility of certain reserves is approved by any such organisation, the reserves are included into the State Balance of Mineral Products. Once a subsoil user is granted an exploration, development or production licence, it is required to file annual statistical reports reflecting changes in reserves. In addition, subsoil users' reserve reports are submitted annually for examination and approval by the Central Reserve Commission or its regional departments or, if there has been a substantial change in reserves, by the State Reserve Commission.

In addition to providing annual reports, Rosneft's licences may require it to estimate its reserves in certain years or upon completion of certain phases of field development. Such estimations are submitted for examination and approval by the State Reserve Commission.

Estimations of reserves, as examined by the state expert organisations and reflected in subsoil users' annual statistical reports, are accumulated in the State Balance of Mineral Products.

PRMS Standards

While the Russian reserves system focuses on the actual physical presence of hydrocarbons in geological formations, and reserves are estimated based on the probability of such physical presence, PRMS standards take into account not only the probability that hydrocarbons are physically present in a given geological formation but also the economic viability of recovering the reserves (including such factors as exploration and drilling costs, ongoing production costs, transportation costs, taxes, prevailing prices for the products, and other factors that influence the economic viability of a given deposit).

Reserves

Under PRMS standards, reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised by development and production

status. Rosneft has included in this Base Prospectus information about its proved, probable and possible reserves under PRMS standards based on the evaluations of its fields by D&M.

Proved Reserves are those quantities of petroleum which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Probable Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (***2P***). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible Reserves (***3P***), which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

An evaluation of proved, probable and possible reserves naturally involves multiple uncertainties. The accuracy of any reserves evaluation depends on the quality of available information and engineering and geological interpretation. Based on the results of drilling, testing and production after the appraisal date, reserves may be significantly restated upwards or downwards. Changes in the price of natural gas, gas condensate or crude oil may also affect the proved, probable and possible reserves estimates, as well as estimates of its future net revenues and net present worth, because the reserves are evaluated, and the future net revenues and net present worth are estimated, based on prices and costs as of the appraisal date.

Reserves status categories define the development and producing status of wells and reservoirs. By this measure, the reserves are classified as

- developed and further sub-classified as producing or non-producing developed reserves; and
- undeveloped reserves.

Developed Reserves are expected quantities to be recovered from existing wells and facilities. Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped.

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate. Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing Reserves include shut-in and behind-pipe reserves. Shut-in reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe reserves are expected to be recovered from zones in existing wells which will require additional completion work or future recompletion prior to the start. of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

Undeveloped Reserves are quantities expected to be recovered through future investments: (1) from new wells on undrilled acreage in known accumulations, (2) from deepening existing wells to a different (but known) reservoir, (3) from infill wells that will increase recovery, or (4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to (a) recomplete an existing well or (b) install production or transportation facilities for primary or improved recovery projects.

The extent to which probable and possible reserves ultimately may be reclassified as proved reserves is dependent on future drilling testing and well performance.

Resources

In accordance with PRMS, petroleum resources can be classified as contingent or prospective resources. Resource estimates should not be confused with those quantities that are associated with reserves due to the additional risks involved.

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.

The estimation of resources quantities for an accumulation is subject to both technical and commercial uncertainties and, in general, may be quoted as a range. The range of uncertainty reflects a reasonable range of estimated potentially recoverable volumes. In all cases, the range of uncertainty is dependent on the amount and quality of both technical and commercial data that are available and may change as more data become available. Depending on the range of such uncertainty, estimates of contingent petroleum resources are expressed using the terms in ***1C (Low)*** estimate, ***2C (Best)*** estimate, and ***3C (High)***.

Estimates of oil, condensate, and gas contingent resources should be regarded only as estimates that may change as further production history and additional information become available. Not only are such contingent resources estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information. The quantities that might actually be recovered should they be developed may differ significantly from the estimates of oil, condensate, and gas contingent resources. There is no certainty that it will be commercially viable to produce any portion of the estimates of oil, condensate, and gas contingent resources.

Prospective Resources are those quantities of petroleum that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects.

Prospective resources cannot be classified as contingent resources or reserves because of uncertainty of commerciality and the lack of sufficient exploration drilling. Estimates of prospective resources should be regarded only as estimates that may change as additional information becomes available. Not only are such prospective resources estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information. The quantities that might actually be recovered, should they be discovered and developed, may differ significantly from the estimates of Prospective resources.

SEC Standards

SEC standards differ in certain material respects from PRMS and Russian standards. The principal differences include the following:

Duration of Licence. Under PRMS standards, proved reserves are projected to the economic production life of the evaluated fields. Under the SEC standards in effect as of the date of the 2011 Reserves Reports and guidance issued by the SEC staff in respect thereof, quantities of oil and gas deposits may be required to be limited to quantities expected to be produced during the term of the licences with respect thereto (***SEC-LE basis***). In this regard, the guidance is that renewals of licences should not be assumed unless the licence holder has the right to renew the licence and a demonstrated track record exists in respect of obtaining renewals. Rosneft believes it is currently in material compliance with its licences, and intends to request to extend them to the full economic lives of the associated fields upon the expiration of their primary terms.

For purposes of the 2011 Reserves Reports, D&M accepted Rosneft's representations that, upon completion of the primary term of its current licences, Rosneft intends to extend the licences to the end of the economic life of the associated fields and that Rosneft intends to proceed accordingly with the development and operations of those fields. Based upon Rosneft's representations, D&M included as proved reserves, using SEC standards, those volumes that are estimated to be economically producible from the fields after the expiration of the primary term of the licences (the ***SEC-LOF basis***).

Accordingly, information relating to Rosneft's estimated proved natural gas, gas condensate and crude oil reserves is not necessarily indicative of information that would be reported under SEC standards in an offering document registered with the SEC.

SEC Regulation S-X Rule 4-10 paragraph (a) defines proved reserves as follows:

Proved oil and gas reserves. Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(a) The area of the reservoir considered as proved includes:

  (i) the area identified by drilling and limited by fluid contacts, if any; and

  (ii) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(b) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establish a lower contact with reasonable certainty.

(c) Where direct observation from well penetrations has defined a highest known oil elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(d) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

  (i) successful testing by a pilot project in an area of the reservoir with properties no more favourable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and

  (ii) the project has been approved for development by all necessary parties and entities, including governmental entities.

(e) Existing economic conditions include prices and costs at which economic production capability from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Probable reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

  (i) When deterministic methods are used, it is as likely as not that actual remaining quantities recovered will exceed the sum of estimated proved plus probable reserves. When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the proved plus probable reserves estimates.

  (ii) Probable reserves may be assigned to areas of a reservoir adjacent to proved reserves where data control or interpretations of available data are less certain, even if the interpreted reservoir continuity of structure or productivity does not meet the reasonable certainty criterion. Probable reserves may be assigned to areas that are structurally higher than the proved area if these areas are in communication with the proved reservoir.

  (iii) Probable reserves estimates also include potential incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than assumed for proved reserves.

Possible reserves. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves.

(i) When deterministic methods are used, the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves. When probabilistic methods are used, there should be at least a 10% probability that the total quantities ultimately recovered will equal or exceed the proved plus probable plus possible reserves estimates.

(ii) Possible reserves may be assigned to areas of a reservoir adjacent to probable reserves where data control and interpretations of available data are progressively less certain Frequently, this will be in areas where geoscience and engineering data are unable to define clearly the area and vertical limits of commercial production from the reservoir by a defined project.

(iii) Possible reserves also include incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than the recovery quantities assumed for probable reserves.

(iv) The proved plus probable and proved plus probable plus possible reserves estimates must be based on reasonable alternative technical and commercial interpretations within the reservoir or subject project that are clearly documented, including comparisons to results in successful similar projects.

(v) Possible reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from proved areas by faults with displacement less than formation thickness or other geological discontinuities and that have not been penetrated by a wellbore, and the registrant believes that such adjacent portions are in communication with the known (proved) reservoir. Possible reserves may be assigned to areas that are structurally higher or lower than the proved area if these areas are in communication with the proved reservoir.

(vi) Pursuant to paragraph (c) of the proved oil and gas definition, where direct observation has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves should be assigned in the structurally higher portions of the reservoir above the HKO only if the higher contact can be established with reasonable certainty through reliable technology. Portions of the reservoir that do not meet this reasonable certainty criterion may be assigned as probable and possible oil or gas based on reservoir fluid properties and pressure gradient interpretations.

Developed oil and gas reserves. Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

(a) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(b) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Undeveloped oil and gas reserves. Undeveloped oil and gas reserves are reserves of any category 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.

(i) Reserves on undrilled acreage shall be 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 production capability at greater distances.

(ii) 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.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in section 210.4-10 (a) Definitions of Rule 4-10 of Regulation S-X promulgated under the Securities Act, or by other evidence using reliable technology establishing reasonable certainty.

APPENDIX II:

GLOSSARY

Certain Conversion Ratios

One tonne (crude oil)	7.315 barrels, reflecting the weighted average density of Rosneft's crude oil reserves.
One bcm	Gas volumes have been converted from cubic metres to cubic feet at a rate of 35.315 cubic feet per cubic metre, except where D&M has originally reported volumes in cubic feet. Certain amounts of gas volumes have been converted from cubic feet to barrels of oil equivalent at a rate of 6,000 cubic feet per barrel of oil equivalent.

Certain Terminology

2-D seismic	Geophysical data that depict the subsurface strata in two dimensions.
3-D seismic	Geophysical data that depict the subsurface strata in three dimensions. 3-D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2-D seismic.
Associated gas	Gas initially held in solution in the reservoir crude oil which is released from solution when the extracted reservoir crude oil is processed at the extraction stage.
Barrel	A stock tank barrel, a standard measure of volume for oil, condensate and natural gas liquids, which equals 42 U.S. gallons.
Best estimate	A statistical estimate of expected value.
Catalytic reforming	A refining process using controlled heat and pressure with catalysts to rearrange certain hydrocarbon molecules, thereby converting low-octane gasoline boiling range fractions into petrochemical feedstocks and higher octane stocks suitable for blending into finished gasoline.
Conversion ratio (depth of refining)	The volume of all light petroleum products (gasoline, diesel, naphta and kerosene), lubricants and petrochemicals produced divided by the volume of all petroleum products produced. The conversion ratio is expressed as a percentage.
Development well	A well drilled to obtain production from a proven oil or gas field. Development wells may be used either to extract hydrocarbons from a field or to inject water or gas into a reservoir in order to improve production.
Downstream	Activities that take place after the extraction of crude oil and gas, including the transportation of such crude oil and gas, the refining of crude oil and the marketing of petroleum products.
Enhanced oil recovery	A generic term for several techniques, such as water flooding, that are applied to a reservoir to increase total recovery.
Exploratory well	A well drilled to find hydrocarbons in an unproved area or to extend significantly a known oil or natural gas reservoir.
Field	An area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

Finding and development costs	Capital costs incurred in the acquisition, exploitation and exploration of proved oil and natural gas reserves divided by proved reserve additions and revisions to proved reserves.
Gas condensate	The heavier hydrocarbon fractions in a natural gas reservoir that condense into a liquid as they are produced. They are used as a chemical feedstock or for blending into gasoline.
Gas utilisation rate	
Hydraulic fracturing	A treatment to increase production from a well by using a fluid to fracture or split the reservoir formation.
Hydrocarbons	Compounds formed from the elements hydrogen (H) and carbon (C) and existing in solid, liquid or gaseous forms.
Isomerisation	A refining process that alters the fundamental arrangement of atoms in the molecule without adding or removing anything from the original material.
Licence area	The particular subsoil plot specified in the subsoil licence issued by the applicable Russian federal authority, which the licence holder has the right to use for the purpose and on the terms specified in the subsoil licence. A licence area may contain one or more fields or may encompass only a portion of a field.
Mazut	A term used in Russia to denote fuel oil.
Natural gas	Hydrocarbons that are gaseous at one atmosphere of pressure at 20° C. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas) and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure.
Netback	A netback is the crude oil distribution price (i.e., the price excluding VAT, export duty, excise duty and commercial expenses) calculated at the enterprise's metering station. With respect to the following methods of distribution, "netback" means: • *Exports of crude oil outside the CIS*. Sales proceeds minus export duty and transportation costs from the metering station to the distribution point (including railway and pipeline transit, dispatching, transshipment, customs procedures, interest accrued in the period between billing and receipt of payment, demurrage, etc.); • *Sales of crude oil in Russia.* Sales proceeds minus VAT and transportation costs from the metering station to the distribution point; • *Sales of crude oil in CIS (excluding Russia)*. Sales proceeds minus export duty (except in the case of sales to members of the Customs Union) and transportation costs from the metering station to the distribution point (including railway and pipeline transit, dispatching, transshipment, customs procedures, interest accrued in the period between billing and receipt of payment, demurrage, etc.);

- *Sales of petroleum products produced by refineries controlled by the Company.* Sales proceeds minus export duty on petroleum products, domestic excise duty on petroleum products, costs of transportation associated with the sale of petroleum products (including railway and pipeline transit, dispatching, transshipment, customs procedures, interest accrued in the period between billing and receipt of payment, demurrage, etc.), transportation costs from the metering station to refineries and processing costs; and
- *Sales of petroleum products produced by refineries controlled by third parties.* Sales proceeds minus export duty on petroleum products, domestic excise duty on petroleum products, costs of transportation associated with the sale of petroleum products (including railway and pipeline transit, dispatching, transshipment, customs procedures, interest accrued in the period between billing and receipt of payment, demurrage, etc.), transportation costs from the metering station to refineries and processing fees.

Quality bank	An arrangement whereby oil companies that supply lower-quality (heavy and sour) crude oil to a pipeline system pay more for the use of pipelines than those who supply higher-quality crude oil. (Alternatively, suppliers of lower-quality crude oil might directly compensate suppliers of higher-quality crude oil for the deterioration in crude quality due to blending.)
Recovery efficiency	The ratio of reserves extracted as of a certain date to total initial reserves as of such date.
Reserves life	The number of years an oil and gas company can sustain production at the same rate as during the current year, assuming the size of proved reserves in the current year stays constant. Reserves life is calculated by dividing proved reserves as of the end of a year by production in that year.
Reserves replacement ratio	The ratio of net additions of new proved reserves to yearly production. The Company calculates its reserves replacement ratio for crude oil by comparing net new proved reserves additions in tonnes to yearly production in tonnes as well as by comparing net new proved reserves additions in barrels to yearly production in barrels. The reserves replacement ratio for crude oil varies when calculated in tonnes or in barrels, depending, among other things, on the specific density of the crude oil added compared to that of the crude oil produced.
Reservoir	A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water-filled rock layers.
Seismic survey	A method by which an image of the earth's subsurface is created through the generation of shockwaves and analysis of their reflection from rock strata. Such surveys can be done in two- or three-dimensional form.
Throughput	Amount of crude oil processed by a refinery in a given period.
Upstream	Activities related to the exploration, appraisal, development and extraction of crude oil, condensate and gas.

Upstream operating expenses	Upstream operating expenses are costs incurred to operate and maintain wells and related equipment and facilities. Upstream operating expenses include: • lifting costs; • the cost of gathering, treatment, processing and storage of crude oil and gas in the fields; • the cost of delivering the crude oil and gas to a main pipeline, such as a Transneft trunk pipeline checkpoint; • the cost of labour to operate the wells and related equipment and facilities; • the cost of repairs and maintenance; and • the cost of materials, supplies, fuel consumed and service utilised in operating the wells and related equipment and facilities.
Vacuum distillation	Distillation under reduced pressure (less than atmospheric), which lowers the boiling temperature of the liquid being distilled. This technique with its relatively low temperatures prevents cracking or decomposition of the charge stock.
Watercut	The proportion of water produced, along with crude oil, from extracted reservoir liquids, usually expressed as a percentage.
Workover	A maintenance or repair operation on a well after it has commenced production. Usually undertaken to maintain or increase production from the well.

ANNEX A:

EXTRACT FROM DEGOLYER AND MACNAUGHTON RESERVES REPORTS

DATED 31 DECEMBER 2011

TABLE 1

ROSNEFT HOLDINGS EVALUATED

as of

DECEMBER 31, 2011

for

CERTAIN ASSETS

OAO MC ROSNEFT

PRMS CASE

Rosneft Holdings	Rosneft Ownership	Reported Net Interest
	(%)	(%)
Algeria	30.00	30.00
Chechnya	100.00	100.00
Dagneft	68.70	100.00
Dagneftegaz	81.22	100.00
Ingneft	100.00	100.00
Inzemeft	75.00	100.00
Krasnodameftegaz	100.00	100.00
NK Rosneft	100.00	100.00
Polar Light	50.00	50.00
Purneftegaz	100.00	100.00
Sakhalin-1	20.00	20.00
Sakhalinmomeftegaz	100.00	100.00
Samaraneftegaz	100.00	100.00
Severnaya Neft	100.00	100.00
Stavropolneftegaz	100.00	100.00
Tomskneft	50.00	50.00
Udmurtneft	49.51	49.51
Vankorneft	93.96	100.00
Verkhnechonskneftegaz	25.94	25.94
VSNK	99.52	100.00
Yuganskneftegaz	100.00	100.00

Notes:

(1) Rosneft has represented that it controls the management of the Rosneft Holdings listed above, except for Algeria, Polar Light, Tomskneft, Udmurtneft, Verhnechonskneftegaz, and Sakhalin-1. For those Rosneft Holdings controlled by Rosneft, 100 percent of the reserves associated with the subsidiary enterprise are reported here in as Rosneft Net Reserves. Rosneft future net revenue and Rosneft present worth are attributed to Rosneft Net Reserves.

(2) Rosneft net reserves reported herein for Algeria represent 30 percent of the contractor's entitlement which varies depending on the contractor's share of cost oil and profit oil.

(3) Rosneft net reserves reported herein for Sakhalin-1 represent 20 percent of the contractor's entitlement which varies depending on the contractor's share of cost oil and profit oil.

CONCLUSION

Rosneft owns interests in certain fields located in the Russian Federation and Algeria through its Dagneft, Dagneftegaz, Inzerneft, Polar Light, Samaraneftegaz, Tomskneft, Udmurtneft, Verkhnechonskneftegaz, VSNK, and Vankorneft subsidiary enterprises, through its direct ownership of fields in Russia operated by Ingneft, Krasnodarneftegaz, Purneftegaz, Sakhalinmorneftegaz, Severnaya Neft, Stavropolneftegaz, Yuganskneftegaz, and fields in the Tomsk Region and the Chechen Republic, and through its participation in the Sakhalin-1 Project and Algerian Block 245 PSA. The estimated reserves and associated values are reported herein at 100 percent for those subsidiaries of which Rosneft has majority control, either through direct ownership or through voting rights. The estimated Rosneft net total proved, probable, and possible oil, condensate, and gas reserves, as of December 31, 2011, have been estimated in accordance with definitions consistent with those established by the PRMS and are summarized as follows, expressed in English and metric units. Oil and condensate volumes are expressed in thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt). Gas volumes are expressed in millions of cubic feet (10^6ft^3) and millions of cubic metres (10^6m^3):

		Rosneft Net Reserves			
		English Units		Metric Units	
Rosneft Holdings	Reserves Category	Oil and Condensate (10^3bbl)	Sales Gas (10^6ft^3)	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)
Algeria[1]	Proved Developed	0	0	0	0
	Proved Undeveloped	0	0	0	0
	Total Proved	**0**	**0**	**0**	**0**
	Probable	13,701	0	1,789	0
	Possible	20,490	0	2,677	0
Russia Chechnya	Proved Developed	51,931	71,751	6,824	2,032
	Proved Undeveloped	0	0	0	0
	Total Proved	**51,931**	**71,751**	**6,824**	**2,032**
	Probable	50,476	79,014	6,628	2,236
	Possible	53,320	82,304	7,003	2,328
Dagneft[2]	Proved Developed	4,109	0	549	0
	Proved Undeveloped	0	0	0	0
	Total Proved	**4,109**	**0**	**549**	**0**
	Probable	3,858	0	512	0
	Possible	2,692	0	353	0
Dagneftegaz[3]	Proved Developed	1,504	164,535	202	4,660
	Proved Undeveloped	36	26,442	5	749
	Total Proved	**1,540**	**190,977**	**207**	**5,409**
	Probable	711	91,840	95	2,600
	Possible	990	152,126	132	4,307
Ingneft	Proved Developed	2,328	0	398	0
	Proved Undeveloped	0	0	0	0
	Total Proved	**2,328**	**0**	**398**	**0**
	Probable	0	0	0	0
	Possible	0	0	0	0
Inzerneft[4]	Proved Developed	193	0	24	0
	Proved Undeveloped	0	0	0	0
	Total Proved	**193**	**0**	**24**	**0**
	Probable	450	0	56	0
	Possible	1,441	0	188	0

Rosneft Holdings	Reserves Category	Rosneft Net Reserves			
		English Units		Metric Units	
		Oil and Condensate (10^3bbl)	Sales Gas (10^6ft^3)	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)
Krasnodarneftegaz	Proved Developed	61,658	938,248	8,607	26,569
	Proved Undeveloped	9,570	13,252	1,348	376
	Total Proved	**71,228**	**951,500**	**9,955**	**26,945**
	Probable	68,375	541,134	9,594	15,326
	Possible	26,465	540,679	3,621	15,308
NK Rosneft	Proved Developed	0	0	0	0
	Proved Undeveloped	0	0	0	0
	Total Proved	**0**	**0**	**0**	**0**
	Probable	19,503	5,929	2,609	168
	Possible	64,052	17,723	8,527	502
Polar Lights[5]	Proved Developed	8,943	0	1,228	0
	Proved Undeveloped	1,253	0	169	0
	Total Proved	**10,196**	**0**	**1,397**	**0**
	Probable	28	0	4	0
	Possible	10,773	0	1,464	0
Purneftegaz	Proved Developed	787,954	2,330,793	107,782	66,002
	Proved Undeveloped	657,619	18,400,131	90,947	521,029
	Total Proved	**1,445,573**	**20,730,924**	**198,729**	**587,031**
	Probable	1,066,726	8,464,716	147,028	239,692
	Possible	1,180,251	7,806,052	163,346	221,041
Sakhalin-1[6]	Proved Developed	23,390	60,617	3,065	1,716
	Proved Undeveloped	81,268	1,063,256	10,651	30,108
	Total Proved	**104,658**	**1,123,873**	**13,716**	**31,824**
	Probable	87,370	183,487	11,451	5,196
	Possible	83,864	356,429	10,989	10,093
Sakhalinmorneftegaz	Proved Developed	106,630	163,050	14,639	4,615
	Proved Undeveloped	29,364	25,974	4,072	736
	Total Proved	**135,994**	**189,024**	**18,711**	**5,351**
	Probable	219,742	279,557	29,772	7,919
	Possible	46,963	72,491	6,568	2,050
Samaraneftegaz	Proved Developed	759,203	146,324	102,426	4,130
	Proved Undeveloped	487,553	72,799	66,468	2,048
	Total Proved	**1,246,756**	**219,123**	**168,894**	**6,178**
	Probable	718,318	187,872	97,456	5,291
	Possible	498,812	107,461	68,063	3,034
Severnaya Neft	Proved Developed	183,910	0	25,717	0
	Proved Undeveloped	267,160	0	37,391	0
	Total Proved	**451,070**	**0**	**63,108**	**0**
	Probable	338,712	0	45,884	0
	Possible	344,966	0	47,477	0
Stavropolneftegaz	Proved Developed	71,805	17,795	9,488	502
	Proved Undeveloped	50,231	6,392	6,959	181
	Total Proved	**122,036**	**24,187**	**16,447**	**683**
	Probable	97,603	47,315	12,953	1,338
	Possible	31,319	10,067	4,147	285

Rosneft Holdings	Reserves Category	Rosneft Net Reserves			
		English Units		Metric Units	
		Oil and Condensate (10^3bbl)	Sales Gas (10^6ft^3)	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)
Tomsknef[7]	Proved Developed	286,013	537,641	38,305	15,221
	Proved Undeveloped	281,917	34,277	37,769	968
	Total Proved	**567,930**	**571,918**	**76,074**	**16,189**
	Probable	367,248	184,247	49,397	5,214
	Possible	310,919	246,542	42,209	6,981
Udmurtneft[8]	Proved Developed	347,545	0	49,311	0
	Proved Undeveloped	77,840	0	10,969	0
	Total Proved	**425,385**	**0**	**60,280**	**0**
	Probable	171,126	11	24,071	0
	Possible	114,763	30	16,127	1
	Proved Developed	737,689	1,952,907	102,365	55,301
Vankorneft[9]	Proved Undeveloped	578,100	1,121,149	79,388	31,748
	Total Proved	**1,315,789**	**3,074,056**	**181,753**	**87,049**
	Probable	1,220,302	1,562,797	169,454	44,252
	Possible	688,163	720,113	95,724	20,392
Verkhnechonskneftegaz[10]	Proved Developed	42,400	0	5,737	0
	Proved Undeveloped	287,011	0	38,832	0
	Total Proved	**329,411**	**0**	**44,569**	**0**
	Probable	160,846	0	21,762	0
	Possible	121,403	0	16,426	0
VSNK[11]	Proved Developed	3,559	158	465	4
	Proved Undeveloped	288,771	1,419	37,624	39
	Total Proved	**292,330**	**1,577**	**38,089**	**43**
	Probable	696,333	51,780	90,455	1,467
	Possible	1,207,664	43,311	156,385	1,223
Yuganskneftegaz	Proved Developed	6,482,501	1,850,006	892,316	52,385
	Proved Undeveloped	5,289,850	1,005,581	726,595	28,475
	Total Proved	**11,772,351**	**2,855,587**	**1,618,911**	**80,860**
	Probable	4,152,249	2,029,263	570,512	57,460
	Possible	3,107,305	782,253	424,909	22,153
Total Russia	**Proved Developed**	**9,963,265**	**8,233,825**	**1,369,488**	**233,137**
	Proved Undeveloped	**8,387,543**	**21,770,672**	**1,149,187**	**616,457**
	Total Proved	**18,350,808**	**30,004,497**	**2,518,635**	**849,594**
	Probable	**9,439,976**	**13,708,962**	**1,289,693**	**388,159**
	Possible	**7,896,125**	**10,937,581**	**1,073,658**	**309,698**
Total	**Proved Developed**	**9,963,265**	**8,233,825**	**1,369,448**	**233,137**
	Proved Undeveloped	**8,387,543**	**21,770,672**	**1,149,187**	**616,457**
	Total Proved	**18,350,808**	**30,004,497**	**2,518,635**	**849,594**
	Probable	**9,453,677**	**13,708,962**	**1,291,482**	**388,159**
	Possible	**7,916,615**	**10,937,581**	**1,076,335**	**309,698**

Notes:

(1) Rosneft's net interest for Algeria, reported herein as 30 percent of the contractor's entitlement, which varies depending on the contractor's share of cost oil and profit oil.

(2) Includes those reserves attributable to the 31.3-percent interest in Dagneft not owned by Rosneft.

(3) Includes those reserves attributable to the 18.78-percent interest in Dagneftegaz not owned by Rosneft.

(4) Includes those reserves attributable to the 25-percent interest in Inzerneft not owned by Rosneft.

(5) Represents Rosneft's 50-percent ownership in Polar Light.

(6) Rosneft's net interest for Sakhalin-1, reported herein as 20 percent of the contractor's entitlement, which varies depending on the contractor's share of cost oil and profit oil.

(7) Represents Rosneft's 50-percent ownership in Tomskneft.

(8) Represents Rosneft's 49.51-percent ownership of Udmurtneft.

(9) Includes those reserves attributable to the 6.04-percent interest in Vankorskoye field not owned by Rosneft.

(10) Represents Rosneft's 25.94-percent ownership of Verkhnechonskneftegaz.

(11) Includes those reserves attributable to the 0.48-percent interest in VSNK not owned by Rosneft.

(12) Probable and Possible reserves have not been risk adjusted to make them comparable to proved reserves.

The Rosneft future net revenue and Rosneft present worth to be derived from the production and sale of the estimated Total Proved, proved-plus-Probable, and proved-plus-Probable-plus-Possible Rosneft net reserves, as of December 31, 2011, under the aforementioned assumptions concerning future prices and costs are summarized as follows, expressed in thousands of U.S. dollars (10^3U.S.$):

Rosneft Holdings	Reserves Category	Oil and Condensate (10^3bbl)	Sales Gas (10^6ft^3)
Algeria[1]	Proved Developed	0	0
	Proved Undeveloped	0	0
	Total Proved	**0**	**0**
	Proved plus Probable	764,240	193,219
	Proved plus Probably plus Possible	1,978,966	572,894

TABLE 3

NET PROVED, PROBABLE, and POSSIBLE RESERVES

as of

DECEMBER 31, 2011

for

CERTAIN ASSETS

OAO NK ROSNEFT

PRMS CASE

	English Units		Metric Units	
Reserves	**Oil and Condensate (10^3bb1)**	**Sales Gas (10^6ft^3)**	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**
Proved Developed Producing	9,227,078	6,500,874	1,269,083	184,065
Proved Developed Nonproducing	736,187	1,732,951	100,365	49,072
Proved Undeveloped	8,387,643	21,770,672	1,149,187	616,457
Total Proved	**18,350,808**	**30,004,497**	**2,518,635**	**849,594**
Probable	**9,453,677**	**13,708,952**	**1,291,482**	**388,159**
Possible	**7,916,615**	**10,937,581**	**1,076,335**	**309,698**

Note: Probable and Possible reserves have not been risk adjusted to make them comparable to proved reserves.

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