Rosneft Oil Company

Consolidated Financial Statements

December 31, 2012

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Contents

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Independent auditor's report

To the Shareholders and the Board of Directors
of Open Joint Stock Company Rosneft Oil Company

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Rosneft Oil Company and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2012, 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.

Audited entity's responsibility for the consolidated financial statements

Management of the audited entity 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.

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Federal Standards on Auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit 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 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 of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Open Joint Stock Company Rosneft Oil Company and its subsidiaries as at December 31, 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

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 70 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 consolidated financial statements and, accordingly, we express no opinion on it.

R.G. Romanenko
Partner
Ernst & Young LLC

February 1, 2013

Details of the audited entity

Name: Open Joint Stock Company Rosneft Oil Company

Information about the State Register of Legal Entities Concerning a Legal Entity: 77№004856711 dated August 12, 2002.

Address: Russia, 115035, Moscow, Sofiyskaya Embankment, 26/1.

Details of the auditor

Name: Ernst & Young LLC

Main State Registration Number 1027739707203.

Address: Russia, 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

Ernst & Young LLC is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR"). Ernst & Young LLC is registered in the register of auditors and audit organizations of NP APR, number 3028, and also included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

Rosneft Oil Company

Consolidated Balance Sheet

(in billions of Russian rubles)

	Notes	As of December 31, 2012	2011
ASSETS			
Current assets:			
Cash and cash equivalents	19	**296**	166
Restricted cash	19	**4**	4
Other financial assets	20	**86**	150
Accounts receivable	21	**227**	217
Inventories	22	**132**	126
Prepayments and other current assets	23	**175**	152
Total current assets		**920**	815
Non-current assets:			
Property, plant and equipment	24	**2,461**	2,231
Intangible assets	25	**19**	22
Other financial assets	26	**24**	34
Investments in associates and joint ventures	27	**269**	114
Bank loans granted		**13**	13
Deferred tax assets	16	**15**	13
Goodwill	25	**134**	132
Other non-current non-financial assets	28	**3**	3
Total non-current assets		**2,938**	2,562
Total assets		**3,858**	3,377
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	29	**208**	181
Loans and borrowings	30	**126**	152
Finance lease liabilities	30	**3**	1
Liabilities related to derivative instruments	31	**–**	4
Income tax liabilities	16	**7**	3
Other tax liabilities	32	**77**	66
Provisions	33	**5**	6
Other current liabilities		**1**	1
Total current liabilities		**427**	414
Non-current liabilities:			
Loans and borrowings	30	**837**	596
Finance lease liabilities	30	**8**	5
Deferred tax liabilities	16	**252**	234
Provisions	33	**67**	57
Other non-current liabilities		**1**	2
Total non-current liabilities		**1,165**	894
Equity:			
Share capital	35	**1**	1
Treasury shares	35	**(299)**	(224)
Additional paid-in capital	35	**385**	386
Other reserves		**(4)**	(5)
Retained earnings		**2,147**	1,877
Total shareholders' equity		**2,230**	2,035
Non-controlling interests	17	**36**	34
Total equity		**2,266**	2,069
Total liabilities and equity		**3,858**	3,377

President I.I. Sechin February 1, 2013

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

Rosneft Oil Company

Consolidated Statement of Comprehensive Income

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

	Notes	For the years ended December 31, 2012	2011 *(reclassified)*[1]	2010 *(reclassified)*[1]
Revenues and equity share in profits of joint ventures and associates				
Oil and gas sales	8	**1,526**	1,392	1,056
Petroleum products and petrochemicals sales	8	**1,479**	1,265	810
Support services and other revenues		**42**	45	49
Equity share in profits of associates and joint ventures	27	**31**	16	4
Total revenues and equity share in profits of joint ventures and associates		**3,078**	2,718	1,919
Costs and expenses				
Production and operating expenses		**220**	189	144
Cost of purchased oil, gas and petroleum products and refining costs		**371**	298	72
General and administrative expenses		**68**	52	51
Pipeline tariffs and transportation costs		**241**	216	212
Exploration expenses		**23**	13	14
Depreciation, depletion and amortization	24, 25	**227**	213	202
Taxes other than income tax	9	**645**	498	331
Export customs duty	10	**901**	790	509
Total costs and expenses		**2,696**	2,269	1,535
Operating income		**382**	449	384
Finance income	11	**24**	20	20
Finance expenses	12	**(15)**	(19)	(21)
Other income	13, 27	**85**	25	27
Other expenses	13	**(50)**	(48)	(49)
Foreign exchange differences		**11**	(22)	(2)
Income before income tax		**437**	405	359
Income tax expense	16	**(95)**	(86)	(58)
Net income		**342**	319	301
Other comprehensive income				
Foreign exchange differences on translation of foreign operations		**4**	(1)	(3)
(Loss)/gain from changes in fair value of financial assets available-for-sale, net of tax		**(3)**	1	–
Total other comprehensive income/(loss), net of tax		1	–	(3)
Total comprehensive income, net of tax		**343**	319	298
Net income				
attributable to Rosneft shareholders		**341**	316	293
attributable to non-controlling interests		**1**	3	8
Total comprehensive income, net of tax				
attributable to Rosneft shareholders		**342**	316	290
attributable to non-controlling interests		**1**	3	8
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	18	**36.21**	32.95	30.53
Weighted average number of shares outstanding (millions)		**9,416**	9,591	9,598

[1] See Note 3

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 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**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**316**	**316**	**3**	**319**
Purchase of treasury shares (Note 35)	(11)	–	–	(3)	–	–	**(3)**	–	**(3)**
Dividends declared on common stock (Note 35)	–	–	–	–	–	(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**
Net income for the year	–	–	–	–	–	341	**341**	**1**	**342**
Other comprehensive income	–	–	–	–	1	–	**1**	–	**1**
Total comprehensive income	**–**	**–**	**–**	**–**	**1**	**341**	**342**	**1**	**343**
Purchase of treasury shares (Note 35)	(350)	–	–	(75)	–	–	**(75)**	–	**(75)**
Dividends declared on common stock (Note 35)	–	–	–	–	–	(71)	**(71)**	–	**(71)**
Change in ownership interests in subsidiaries (Note 35)	–	–	(1)	–	–	–	**(1)**	1	–
Balance at December 31, 2012	**9,238**	**1**	**385**	**(299)**	**(4)**	**2,147**	**2,230**	**36**	**2,266**

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, 2012	2011	2010
Operating activities				
Net income		**342**	319	301
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion and amortization	24	**227**	213	202
Loss on disposal of non-current assets		**9**	19	15
Gain on disposal of subsidiaries	27	**(82)**	–	–
Loss/(gain) from assets and liabilities write-off, net		**10**	(10)	–
Loss from impairment of unproved properties		**10**	–	–
Gain on extinguishment of promissory notes		**–**	–	(5)
Dry hole costs		**3**	4	4
Foreign exchange (gain)/loss		**(30)**	31	–
Equity share in profits of associates and joint ventures	27	**(31)**	(16)	(4)
Finance expenses	12	**15**	19	21
Finance income	11	**(24)**	(20)	(20)
Income tax expense	16	**95**	86	58
Loss on bad debt allowance		**3**	2	1
Changes in operating assets and liabilities:				
Increase in accounts receivable, gross		**(6)**	(88)	(22)
Increase in restricted cash		**–**	(3)	–
Increase in inventories		**(6)**	(61)	(9)
Increase in prepayments and other current assets		**(23)**	(15)	–
Increase in accounts payable and accrued liabilities		**61**	82	13
Increase in other tax liabilities		**11**	20	11
(Decrease)/increase in current provisions		**(1)**	1	–
(Decrease)/increase in other current liabilities		**(6)**	(4)	1
Decrease in other non-current liabilities		**–**	(10)	(9)
Long-term bank loans granted		**(33)**	(53)	(105)
Repayment of long-term bank loans granted		**33**	48	106
Acquisition of trading securities		**(53)**	(64)	(34)
Proceeds from sale of trading securities		**57**	68	27
Net cash provided by operating activities before income tax and interest		**581**	568	552
Income tax payments		**(76)**	(102)	(86)
Interest received		**10**	13	5
Dividends received		**1**	8	7
Net cash provided by operating activities		**516**	487	478

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, 2012	2011	2010
Investing activities				
Capital expenditures		**(466)**	(391)	(264)
Acquisition of licenses		**(4)**	(7)	(4)
Acquisition of rights to use trademarks "Sochi 2014"		**(1)**	(1)	(1)
Acquisition of short-term financial assets		**(118)**	(134)	(160)
Proceeds from sale of short-term financial assets		**162**	197	64
Acquisition of long-term financial assets		**(3)**	(5)	(9)
Proceeds from sale of long-term financial assets		**6**	–	5
Acquisition of associates and joint ventures	27	**(43)**	(47)	–
Acquisition of a subsidiary, net of cash acquired	7	**(4)**	–	–
Sale of property, plant and equipment		**4**	2	1
Placements under reverse REPO agreements		**(15)**	(31)	(12)
Receipts under reverse REPO agreements		**37**	23	1
Net cash used in investing activities		**(445)**	(394)	(379)
Financing activities				
Proceeds from short-term loans and borrowings		**50**	25	5
Repayment of short-term loans and borrowings		**(39)**	(17)	(20)
Proceeds from long-term loans and borrowings	30	**371**	124	187
Repayment of long-term loans and borrowings		**(137)**	(123)	(163)
Cash paid for acquisition of treasury shares		**(75)**	(3)	–
Acquisition of non-controlling interests in subsidiaries		**(2)**	(11)	–
Dividends paid to shareholders		**(71)**	(27)	(22)
Interest paid		**(29)**	(24)	(19)
Net cash provided by/(used in) financing activities		**68**	(56)	(32)
Net increase in cash and cash equivalents		**139**	37	67
Cash and cash equivalents at beginning of period	19	**166**	127	60
Effect of foreign exchange on cash and cash equivalents		**(9)**	2	–
Cash and cash equivalents at end of period	19	**296**	166	127

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, 2012 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 AK Transneft. The Company exports certain quantities of crude oil bypassing OJSC AK Transneft system thus achieving higher export capacity. In 2012, 2011 and 2010, the Company's export sales were approximately 60%, 58% 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.

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 February 1, 2013.

Subsequent events have been evaluated through February 1, 2013, 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 or cost adjusted for impairment, if any.

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.

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.

3. Significant accounting policies (continued)

Business combinations, goodwill and other intangible assets (continued)

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 profit or loss.

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 net investment in 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.

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 operation involves 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.

3. Significant accounting policies (continued)

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.

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.

3. Significant accounting policies (continued)

Financial assets (continued)

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.

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.

3. Significant accounting policies (continued)

Financial liabilities (continued)

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 writes off 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.

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.

3. Significant accounting policies (continued)

Exploration and evaluation costs (continued)

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, impairment test is performed.

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).

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 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.

3. Significant accounting policies (continued)

Depreciation, depletion and amortization (continued)

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:

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.

3. Significant accounting policies (continued)

Impairment of non-current assets (continued)

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.

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. When the fair value is less than the carrying value 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. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that 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 (but not limited to) indications that the debtors or a group of debtors is experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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.

3. Significant accounting policies (continued)

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 commencement 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.

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. 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 decommissioning period for such assets are not determinable.

3. Significant accounting policies (continued)

Asset retirement (decommissioning) obligations (continued)

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

From 2012 Russian tax legislation permits to calculate income taxes on a consolidated basis. Therefore the main subsidiaries of the Company which do not have non-controlling interest were combined into the Consolidated group of taxpayers (Note 39). For subsidiaries which are not included to the Consolidated group of taxpayers income taxes were calculated on an individual subsidiary basis. 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.

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.

3. Significant accounting policies (continued)

Income tax (continued)

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.

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.

3. Significant accounting policies (continued)

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.

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 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.

3. Significant accounting policies (continued)

Functional and presentation currency (continued)

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 balance sheet 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.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year. New and amended standards did not have a material impact on the Company's consolidated balance sheet and results of operations.

During 2012 the Company acquired a number of significant investments in joint ventures and associates (Note 27). Starting from 2012 the Company retrospectively changed presentation of Equity share in profits of joint ventures and associates in consolidated statement of comprehensive income. Equity share in profits of joint ventures and associates amounted to RUB 31 billion, RUB 16 billion and RUB 4 billion in 2012, 2011 and 2010, respectively, was reclassified to Revenues and equity share in profits of joint ventures and associates and was included in Operating 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.

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 25 "Intangible assets and goodwill");
- allowances for doubtful accounts receivable and obsolete and slow-moving inventories (Note 21 "Accounts receivable" and Note 22 "Inventories");
- assessment of asset retirement (decommissioning) obligations (Note 3 "Significant accounting policies", Topic "Asset retirement (decommissioning) obligations" and Note 33 "Provisions");
- assessment of legal and tax contingencies, recognition and disclosure of contingent liabilities (Note 39 "Contingencies");
- assessment of deferred income tax assets and liabilities (Note 3 "Significant accounting policies", Topic "Income tax" and Note 16 "Income tax");
- assessment of environmental remediation obligations (Note 33 "Provisions" and Note 39 "Contingencies");
- fair value measurements (Note 36 "Fair value of financial instruments");
- assessment of ability to renew operating leases and to enter into new lease agreements.

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

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 and are made in accordance with the requirements adopted by U.S. Securities and Exchange Commission (SEC). Estimates are reassessed on an annual basis.

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. As a result of the application of the package the Company expects a change from the equity method of accounting to accounting for the assets, liabilities, revenues and expenses relating to the Company's interest in certain joint arrangements in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses. The Company does not expect this change of the accounting method to have a material impact on the Company's consolidated balance sheet 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 balance sheet 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 adopted revised IFRS 7 from January 1, 2013 and will adopt revised IAS 32 from January 1, 2014. The Company does not expect the amendments to have a material impact on the Company's consolidated balance sheet and results of operations.

5. New standards and interpretations issued but not yet effective (continued)

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, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

In May 2012, as a result of Annual Improvements 2009-2011 cycle the IASB issued a number of amendments to various standards. The following standards were primarily affected by the amendments: IAS 1, Presentation of Financial Statements; IAS 16, *Property, Plant and Equipment*; IAS 32, *Financial Instruments: Presentation*; IAS 34, *Interim Financial Reporting*. The amendments introduced a relatively minor changes to clarify guidance in existing standards. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company will adopt the amended standards from January 1, 2013. The Company does not expect these amendments to have a material impact on the Company's consolidated balance sheet and results of operations.

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.

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 short-term financial assets. Net debt to capital employed ratio enables the users to see how significant net debt is relative to capital employed.

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

	As of December 31,		
	2012	**2011**	**2010**
Total debt	**963**	748	716
Cash and cash equivalents	**(296)**	(166)	(127)
Other short-term financial assets	**(86)**	(150)	(211)
Net debt	**581**	432	378
Total equity	**2,266**	2,069	1,791
Total capital employed	**2,847**	2,501	2,169
Net debt to capital employed ratio, %	**20.4%**	17.3%	17.4%

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.

6. Capital and financial risk management (continued)

Foreign currency risk

The Group undertakes transactions denominated in foreign currencies and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US$ and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

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 December 31,		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
US$	**451**	291	278	**(711)**	(675)	(637)
Euro	**54**	41	1	**(97)**	(32)	(14)
Total	**505**	**332**	**279**	**(808)**	**(707)**	**(651)**

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		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Currency rate change in %	**10.72%**	12.50%	8.90%	**9.49%**	11.77%	11.05%
Gain/(loss)	**28/(28)**	48/(48)	32/(32)	**4/(4)**	(1)/1	1/(1)

The financial exposure to foreign currency risk of forecasted operating expense is 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 (Note 20, Note 26). These instruments are not accounted for as accounting hedges pursuant to IAS 39, *Financial Instruments: Recognition and Measurement*.

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 hedged by the Company.

As of December 31, 2012, the Company's variable rate liability (based on LIBOR, EURIBOR or MOSPRIME), net of interest payable, totaled RUB 632 billion. In 2012 and 2011, 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**
2012	**+5**	–
	-5	–
2011	+15	(1)
	-15	1
2010	+100	(6)
	-30*	2

*Down to 0.0% on the variable element.

Potential change in EURIBOR and MOSPRIME is insignificant.

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 20, Note 31).

Credit risk

The Company controls own exposure to credit risk. All external customers and their financial guarantors, other than related parties, undergo a creditworthiness check (including sellers, which act on prepayment basis). The Company performs an ongoing assessment and monitoring of financial position and the risk of default. 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, 2012, management assessed such risk as remote.

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 and performs trade finance operations. Banking relationships are primarily with Russian subsidiaries of large international banking institutions and certain large Russian banks.

The Company had one major customer in 2012, 2011 and 2010 being an international oil trader and accounting for at least 10% of total sales. Revenues generated from sales to this oil trader totaled RUB 384 billion, RUB 547 billion and RUB 293 billion, or 13%, 20% and 15% of total revenues, respectively. These revenues are recognized mainly under the Refining and distribution segment (Note 8). 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, 2012, the amount of current receivable from the Company's major customer totaled RUB 23 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.

6. Capital and financial risk management (continued)

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.

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

Year ended December 31, 2011	On demand	12 months	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**

Year ended December 31, 2012	On demand	12 months	1 to 5 years	> 5 years	Total
Loans and borrowings	–	111	533	505	**1,149**
Finance lease liabilities	–	4	6	4	**14**
Accounts payable to suppliers and contractors	–	117	–	–	**117**
Banking customer accounts	41	–	–	–	**41**
Derivative financial liabilities	–	–	–	–	**–**

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 30, Note 39).

7. Acquisitions

In February 2012, the Company acquired for RUB 4 billion 100% interest in Research and Development Center LLC which is engaged in developing advanced technologies for 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**

The goodwill of RUB 2 billion relates to the expected synergies arising from the implementation of acquired innovative technologies in refining and petrochemicals. Accordingly, this goodwill was allocated to the Refining and distribution segment.

7. Acquisitions (continued)

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 consolidated financial statements.

8. 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.

Operating segments in 2012:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	**45**	**2,976**	**26**	–	**3,047**
Intersegment revenues	**1,169**	–	–	**(1,169)**	–
Equity share in profits of associates and joint ventures	**31**	–	–	–	**31**
Total revenues and equity share in profits of associates and joint ventures	**1,245**	**2,976**	**26**	**(1,169)**	**3,078**
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	**662**	**2,900**	**76**	**(1,169)**	**2,469**
Depreciation, depletion and amortization	**192**	**29**	**6**	–	**227**
Total costs and expenses	**854**	**2,929**	**82**	**(1,169)**	**2,696**
Operating income	**391**	**47**	**(56)**	–	**382**
Finance income					**24**
Finance expenses					**(15)**
Total finance income					**9**
Other income					**85**
Other expenses					**(50)**
Foreign exchange differences					**11**
Income before income tax					**437**
Income tax					**(95)**
Net income					**342**

8. Segment information (continued)

Operating segments in 2011:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	50	2,621	31	–	2,702
Intersegment revenues	1,030	–	–	(1,030)	–
Equity share in profits of associates and joint ventures	16	–	–	–	16
Total revenues and equity share in profits of associates and joint ventures	1,096	2,621	31	(1,030)	2,718
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	534	2,503	49	(1,030)	2,056
Depreciation, depletion and amortization	184	24	5	–	213
Total costs and expenses	718	2,527	54	(1,030)	2,269
Operating income	378	94	(23)	–	449
Finance income					20
Finance expenses					(19)
Total finance income					1
Other income					25
Other expenses					(48)
Foreign exchange differences					(22)
Income before income tax					405
Income tax					(86)
Net income					319

8. Segment information (continued)

Operating segments in 2010:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	35	1,846	34	–	1,915
Intersegment revenues	817	–	–	(817)	–
Equity share in profits of associates and joint ventures	4	–	–	–	4
Total revenues and equity share in profits of associates and joint ventures	856	1,846	34	(817)	1,919
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	383	1,706	61	(817)	1,333
Depreciation, depletion and amortization	176	23	3	–	202
Total costs and expenses	559	1,729	64	(817)	1,535
Operating income	297	117	(30)	–	384
Finance income					20
Finance expenses					(21)
Total finance expenses					(1)
Other income					27
Other expenses					(49)
Foreign exchange differences					(2)
Income before income tax					359
Income tax					(58)
Net income					301

Oil and gas and petroleum products sales comprise the following (based on the country indicated in the bill of lading):

	2012	2011	2010
Oil and gas sales			
International Sales of crude oil – Europe	**1,033**	955	694
International Sales of crude oil – Asia	**388**	366	299
International Sales of crude oil – CIS, other than Russia	**78**	54	42
Domestic sales of crude oil	**5**	3	8
Domestic sales of gas	**22**	14	13
Total oil and gas sales	**1,526**	1,392	1,056
Petroleum products and petrochemical sales			
International Sales of petroleum products – Europe	**636**	500	254
International Sales of petroleum products – Asia	**228**	224	182
International Sales of petroleum products – CIS, other than Russia	**11**	8	5
Domestic sales of petroleum products	**520**	473	356
Domestic sales of petrochemical products	**11**	10	9
International sales of petrochemical products – Europe	**73**	50	4
Total petroleum products and petrochemicals sales	**1,479**	1,265	810

9. Taxes other than income tax

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

	2012	2011	2010
Mineral extraction tax	**527**	414	274
Excise tax	**79**	55	34
Property tax	**12**	11	9
Other	**27**	18	14
Total taxes	**645**	498	331

10. Export customs duty

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

	2012	2011	2010
Export customs duty on oil and gas sales	**689**	612	396
Export customs duty on petroleum products and petrochemicals sales	**212**	178	113
Total export customs duty	**901**	790	509

11. Finance income

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

	2012	2011	2010
Interest income on:			
Deposits and deposit certificates	**5**	11	11
Loans issued	**6**	5	6
Notes receivable	**3**	2	–
Bonds	**3**	2	–
Gains from changes in fair value of financial assets at fair value recognized in profit or loss	**5**	–	2
Gain from disposal of financial assets	**1**	–	1
Other finance income	**1**	–	–
Total finance income	**24**	20	20

12. Finance expenses

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

	2012	2011	2010
Interest expense on loans and borrowings	**8**	7	11
Restructured tax liabilities	–	3	2
Loss from changes in fair value of financial assets at fair value recognized in profit or loss	–	3	4
Loss from disposal of financial assets	**1**	–	–
Increase in provision due to the unwinding of discount	**4**	5	2
Other finance expenses	**2**	1	2
Total finance expenses	**15**	19	21

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization is 4.05%, 3.70% and 3.84% p.a. in 2012, 2011 and 2010, respectively.

13. Other income/expenses

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

	2012	2011	2010
Gain on remeasurement to fair value of investment in Kynsko-Chaselskoye neftegaz LLC (Note 27)	**82**	–	–
Accounts payable write-off	–	22	11
Other	**3**	3	16
Total other income	**85**	25	27

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

	2012	2011	2010
Loss on disposal of property, plant and equipment and intangible assets	**9**	19	15
Disposal of companies and non-core assets	**11**	10	6
Impairment	**10**	4	–
Social payments, charity, sponsorship, financial aid	**9**	12	5
Other	**11**	3	23
Total other expenses	**50**	48	49

14. Personnel expenses

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

	2012	2011	2010
Salary	**94**	75	73
Statutory insurance contributions	**20**	16	12
Expenses for non-statutory defined contribution plan	**3**	3	3
Other employee benefits	**6**	3	2
Total personnel expenses	**123**	97	90

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

15. Operating leases

Operating leases have various terms and conditions and primarily are agreements to lease oil and gas facilities for an indefinite tenancy, 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, 2012, 2011 and 2010 amounted to RUB 8 billion, RUB 10 billion and RUB 8 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:

	2012	2011	2010
Less than 1 year	**8**	9	7
From 1 to 5 years	**18**	18	10
Over 5 years	**41**	14	8
Total future minimum lease payments	**67**	41	25

16. Income tax

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

	2012	2011	2010
Current income tax	**84**	99	90
Prior period adjustments	**(5)**	(3)	(5)
Current income tax expense	**79**	96	85
Deferred tax relating to origination and reversal of temporary differences	**16**	(10)	(27)
Total deferred income tax expense/(benefit)	**16**	(10)	(27)
Total income tax expense	**95**	86	58

The Russian income tax rate of 20% applied for companies domiciled in Russian Federation in 2012, 2011 and 2010. Income tax rate may vary from 20% for subsidiaries incorporated in other jurisdictions. It is calculated according to local fiscal regulations.

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, 2012	Recognized in profit and loss	As of December 31, 2011	Recognized in profit and loss	As of December 31, 2010
Recognized deferred tax assets relate to the following:					
Short-term financial assets	**3**	**2**	1	1	–
Short-term accounts receivable, net of allowance	**1**	**–**	1	–	1
Inventories	**1**	**1**	–	–	–
Long-term financial assets	**1**	**–**	1	–	1
Long-term accounts receivable, net of allowance	**–**	**–**	–	(1)	1
Property, plant and equipment	**1**	**(1)**	2	2	–
Other non-current assets	**–**	**(2)**	2	–	2
Short-term accounts payable and accrued liabilities	**3**	**(1)**	4	1	3
Other current liabilities	**–**	**(1)**	1	–	1
Long-term accounts payable and accrued liabilities	**2**	**1**	1	–	1
Long- term accrued reserves	**2**	**1**	1	1	–
Tax loss carry forward	**3**	**2**	1	1	–
Valuation allowance for deferred income tax asset	**(2)**	**–**	(2)	(1)	(1)
Deferred tax assets	**15**	**2**	13	4	9
Recognized deferred tax liabilities relate to the following:					
Mineral rights	**(62)**	**1**	(63)	2	(65)
Property, plant and equipment and other	**(190)**	**(19)**	(171)	4	(175)
Deferred tax liabilities	**(252)**	**(18)**	(234)	6	(240)
Net deferred tax liabilities	**(237)**	**(16)**	(221)	10	(231)

16. Income tax (continued)

A reconciliation between tax expense and the product of accounting profit multiplied by 20% tax rate for the years ended 31 December 2012, 2011 and 2010 is as follows:

	2012	2011	2010
Income before income tax	**437**	405	359
Income tax at statutory rate of 20%	**87**	81	72
Increase/(decrease) resulting from:			
Effect of income tax rates in other jurisdictions	**2**	3	2
Effect of income tax relieves	**(12)**	(6)	(10)
Tax effect of non-taxable income and non-deductible expenses	**18**	8	(6)
Income tax	**95**	86	58

Unrecognized deferred tax assets in the consolidation balance sheet for the years ended December 31, 2012, 2011 and 2010 amounted to RUB 7 billion, RUB 5 billion and RUB 5 billion, respectively, related to unused tax losses. Tax loss carry forwards available for utilization to the Company expire in 2013-2022.

17. Non-controlling interests

Non-controlling interests include:

	As of December 31, 2012		2012	As of December 31, 2011		2011	As of December 31, 2010		2010
	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
CJSC Vankorneft	6.04	23	1	6.04	22	5	6.04	18	6
OJSC Grozneftegaz	49.00	6	–	49.00	6	–	49.00	6	–
OJSC Far Eastern Bank	15.91	–	–	17.94	–	–	90.08	3	–
OJSC Rosneft Sakhalin	45.00	2	–	45.00	2	–	45.00	2	–
OJSC Russian Regional Development Bank (VBRR)	15.33	1	–	15.33	1	–	15.33	1	–
PHC CSKA LLC	20.00	2	–	–	–	–	–	–	–
Non-controlling interests in other entities	various	2	–	various	3	(2)	various	2	2
Non-controlling interests as of the end of the reporting period		**36**	**1**		**34**	**3**		**32**	**8**

18. Earnings per share

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

	2012	2011	2010
Continued operations			
Net income attributable to shareholders of Rosneft	**341**	316	293
Weighted average number of issued common shares outstanding (millions)	**9,416**	9,591	9,598
Total basic earnings per share (RUB)	**36.21**	32.95	30.53

19. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	As of December 31,	
	2012	**2011**
Cash on hand and in bank accounts in RUB	**19**	22
Cash on hand and in bank accounts in foreign currencies	**206**	62
Deposits	**69**	80
Other	**2**	2
Total cash and cash equivalents	**296**	166

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

Deposits are interest bearing and denominated primarily in RUB.

Restricted cash comprises the following:

	As of December 31,	
	2012	**2011**
Obligatory reserve with the CBR	**1**	1
Offsetting account under joint venture agreement with BP Group in Euro (Note 27)	**3**	3
Total restricted cash	**4**	4

20. Other short-term financial assets

Other short-term financial assets comprise the following:

	As of December 31,	
	2012	**2011**
Financial assets available-for-sale:		
Bonds	**14**	13
Stocks and shares	**6**	2
Loans and accounts receivable:		
Loans granted (Note 30)	**14**	2
Loans issued to associates	**1**	4
Notes receivable, net of allowance	**27**	36
Loans granted under reverse repurchase agreements	**–**	22
Deposits and deposit certificates	**–**	21
Structured deposits	**–**	31
Held-for-trading financial assets at fair value through profit or loss:		
Corporate bonds	**10**	16
State bonds	**5**	3
Stocks and shares	**6**	–
Derivative financial instruments	**3**	–
Total other short-term financial assets	**86**	150

20. Other short-term financial assets (continued)

As of December 31, 2012 and 2011 available-for-sale bonds comprise the following:

	2012			2011		
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)	**3**	6.9%-8.1%	November 2014 – July 2015	4	6.1% - 11.3%	July 2012 – January 2016
Municipal bonds	**1**	8.75%-9.25%	June 2013 – November 2018	1	8.0% - 17.9%	March 2012 – October 2021
Corporate bonds	**10**	4.25%-10.0%	February 2013 – November 2023	8	6.25% - 13.0%	February 2013 – October 2021
Total	**14**			13		

Structured deposits are denominated in US$ and amount to RUB 0 billion and RUB 31 billion as of December 31, 2012 and 2011, respectively. Interest rates of structured deposits range from 5.1% to 7.0% p.a. as of December 31, 2011. As of December 31, 2012 all structured deposits were repaid.

Bank deposits amount to RUB 0 billion and RUB 21 billion as of December 31, 2012 and 2011, 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, 2012 the bank deposits were repaid.

As of December 31, 2012, notes receivable include corporate notes receivable that are primarily denominated in RUB with nominal interest rates ranging from 4.25% to 8.50% p.a. with maturities to November 2014 and nominally interest-free corporate notes receivable with weighted average effective interest rate of 5.94% p.a. with maturities to June 2013.

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 financial assets (Note 26).

Reverse repurchase agreements are collateralized by trading securities with a fair value of RUB 0 billion and RUB 22 billion as of December 31, 2012 and 2011, respectively.

20. Other short-term financial assets (continued)

As of December 31, 2012 and December 31, 2011 trading securities comprise the following:

	2012			2011		
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
Corporate bonds	**10**	2.85% - 13.5%	March 2013 – October 2023	16	6.47% - 19.0%	February 2012 – October 2021
Bonds issued by CBR	**5**	6.7% - 12.0%	January 2013 – February 2036	–	–	–
Trading stocks with state participation	**6**			–		
Total	**21**			19		

In 2012 the Company entered into a series of deliverable conversion transactions with an option (collar) for the sale of US$ for a term until December 2013. Monthly at the predetermined date RUB/US$ exchange spot rate is fixed. In the event that the RUB/US$ exchange spot rate breaks out of the upper or lower bands of the collar, the parties of the contract execute currency purchase-sale transaction for nominal amount of US$ 20.5 million (RUB 0.6 billion at the CBR official exchange rate as of December 31, 2012) at the conversion rates, stipulated in the contract. Fair value measurements are performed using a model, based on source data from Bloomberg. Fair value of the series of deliverable conversion transactions with an option (collar) is presented in Other short-term financial assets – Derivative financial instruments in the amount of RUB 1 billion in the consolidated balance sheet as of December 31, 2012.

In 2012 the Company entered into currency – interest rate swap contracts with five banks for a term until 2015. In accordance with the schedule the parties of the contract are obliged to exchange payments in one currency for payments in another currency in the amount equivalent to the nominal amount, multiplied by a corresponding interest rate, and exchange the nominal amounts at the end of the contract term. Nominal amount for the Company is US$ 1,982 million (RUB 60 billion at the CBR official exchange rate as of December 31, 2012) at the fixed interest rate ranging from ranging from 1.65% to 2.155% p.a. Nominal amount for the other party is RUB 62 billion at the fixed interest rate 7.2% p.a.

In 2012 the Company entered into currency – interest rate swap contracts with two banks for a term until 2017. In accordance with the schedule the parties of the contract are obliged to exchange payments in one currency for payments in another currency in the amount equivalent to the nominal amount, multiplied by a corresponding interest rate, and exchange the nominal amounts at the end of the contract term. Nominal amount for the Company is US$ 641 million (RUB 19 billion at the CBR official exchange rate as of December 31, 2012) at the floating interest rate USD LIBOR 3M plus 252 and 268 basis points. Nominal amount for the other party is RUB 20 billion at the fixed interest rate 8.6% p.a.

Currency – interest rate swaps are measured, based on the yield curve, at the present value of future estimated cash flows, using market interest rates. Fair value of the currency – interest rate swap contracts is presented in Other short-term financial assets – Derivative financial instruments in the amount of RUB 2 billion in the consolidated balance sheet as of December 31, 2012.

21. Accounts receivable

Accounts receivable include the following:

	As of December 31,	
	2012	**2011**
Trade receivables	**194**	183
Banking loans to customers	**19**	24
Other accounts receivable	**22**	15
Total	**235**	222
Allowance for doubtful accounts	**(8)**	(5)
Total accounts receivable, net of allowance	**227**	217

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, 2012 and 2011.

As of December 31, 2012 and 2011 accounts receivable were not pledged as collateral for loans and borrowings provided to the Company.

22. Inventories

Inventories comprise the following:

	As of December 31,	
	2012	**2011**
Crude oil and associated gas	**45**	46
Petroleum products and petrochemicals	**56**	46
Materials and supplies	**20**	23
Work in progress	**11**	11
Total	**132**	126

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

	2012	**2011**	**2010**
The cost of inventories recognised as an expense during the period	**379**	297	151

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.

23. Prepayments and other current assets

Prepayments comprise the following:

	As of December 31,	
	2012	**2011**
Value added tax and excise receivable	**81**	62
Prepayments to suppliers	**24**	25
Prepaid customs duties	**54**	51
Other taxes	**11**	11
Other	**5**	3
Total prepayments and other current assets	**175**	152

23. Prepayments and other current assets (continued)

Prepaid customs duties primarily represent export duties related to the export of crude oil and petroleum products (Note 10).

24. 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, 2011	1,937	378	82	2,397
Additions	275	103	21	399
Disposals	(20)	(9)	(5)	(34)
Exchange differences	5	–	–	5
Cost of asset retirement (decommissioning) obligations	7	–	–	7
As of December 31, 2011	2,204	472	98	2,774
Depreciation, depletion and impairment losses				
As of January 1, 2011	(294)	(60)	(16)	(370)
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 January 1, 2011	1,643	318	66	2,027
Net book value as of December 31, 2011	1,730	388	66	2,184
Prepayments for property, plant and equipment as of January 1, 2011	13	9	2	24
Prepayments for property, plant and equipment as of December 31, 2011	11	29	7	47
Total as of January 1, 2011	**1,656**	**327**	**68**	**2,051**
Total as of December 31, 2011	**1,741**	**417**	**73**	**2,231**
Cost				
Additions	298	154	22	474
Disposals	(15)	(7)	(10)	(32)
Exchange differences	(6)	–	–	(6)
Cost of asset retirement (decommissioning) obligations	5	–	–	5
As of December 31, 2012	2,486	619	110	3,215
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(185)	(33)	(11)	(229)
Disposals and other movements	1	1	1	3
Impairment of assets	(10)	–	–	(10)
Exchange differences	4	–	–	4
As of December 31, 2012	(664)	(116)	(42)	(822)
Net book value as of December 31, 2012	1,822	503	68	2,393
Prepayments for property, plant and equipment as of December 31, 2012	5	53	10	68
Total as of December 31, 2012	**1,827**	**556**	**78**	**2,461**

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

The cost of construction in progress included in Property, Plant and Equipment was RUB 654 billion, RUB 441 billion and RUB 302 billion as of December 31, 2012, 2011 and January 1, 2011, respectively.

In 2011, the Company identified an impairment indicator (a decrease of freight rates and tariffs on the global transportion 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.

In 2012, the Company identified an impairment indicator (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 entity has decided to discontinue such activities in the specific area) with respect to the three exploration licenses, included in Exploration and production segment of Property, plant and equipment. As a result the Company recognized an impairment loss of RUB 10 billion in Other expenses in the consolidated statement of comprehensive income in 2012.

Depreciation charge for the period includes RUB 4 billion of depreciation which was capitalized as part of the construction cost of property, plant and equipment and cost of inventory.

The Company capitalized RUB 24 billion, RUB 14 billion and RUB 11 billion of interest expenses on loans and borrowings in 2012, 2011 and 2010, respectively.

Exploration and evaluation assets

Exploration and evaluation assets included in segment "Exploration and production" comprise the following:

	2012	2011
As of January 1	**11**	10
Capitalized expenditures	**4**	7
Reclassified to development assets	**(4)**	(1)
Expensed	–	(5)
As of December 31	**11**	11

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

Mineral rights

Mineral rights included in exploration and production assets comprise the following:

	Mineral rights to proved properties	Mineral rights to unproved properties	Total
As of January 1, 2011			
Cost	266	99	365
Accumulated depletion	(30)	–	(30)
Net book value as of January 1, 2011	**236**	99	**335**
Depletion charge	(15)	–	(15)
Additions	–	8	8
Reclassification from unproved properties to proved properties	3	(3)	–
As of December 31, 2011			
Cost	269	104	373
Accumulated depletion	(45)	–	(45)
Net book value as of December 31, 2011	**224**	**104**	**328**
Depletion charge	(15)	–	(15)
Additions	–	6	6
Impairment of unproved properties	–	(10)	(10)
Reclassification from unproved properties to proved properties	2	(2)	–
As of December 31, 2012			
Cost	271	98	369
Accumulated depletion	(60)	–	(60)
Net book value as of December 31, 2012	**211**	**98**	**309**

Provision for asset retirement (decommissioning) obligations

The provision for asset retirement (decommissioning) obligations was RUB 38 billion, RUB 36 billion and RUB 32 billion as of December 31, 2012, 2011 and January 1, 2011, respectively, and included in Property, plant and equipment.

25. 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, 2011	21	8	29	132
Additions	–	3	3	–
Disposals	(2)	(2)	(4)	–
As of December 31, 2011	19	9	28	132
Amortization				
As of January 1, 2011	(4)	(2)	(6)	–
Amortization charge	(1)	(1)	(2)	–
Other disposals	1	1	2	–
As of December 31, 2011	(4)	(2)	(6)	–
Net book value as of January 1, 2011	**17**	**6**	**23**	**132**
Net book value as of December 31, 2011	**15**	**7**	**22**	**132**
Cost				
Additions	–	2	2	2
Disposals	(1)	(2)	(3)	–
As of December 31, 2012	18	9	27	134
Amortization				
Amortization charge	(1)	(1)	(2)	–
As of December 31, 2012	(5)	(3)	(8)	–
Net book value as of December 31, 2012	**13**	**6**	**19**	**134**

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 2012 or 2011.

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,	
	2012	**2011**
Goodwill		
Exploration and production	**21**	21
Refining and distribution	**113**	111
Total	**134**	132

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.

25. Intangible assets and goodwill (continued)

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 most important assumptions among the factors listed above are the following:

- discount rate;
- oil price;
- production volumes.

The sensitivity of the discounted cash flows to their changes is the most significant.

The discount rate calculation is based on the Company's weighted average cost of capital adjusted to reflect pre-tax discount rate and amounts to 6.9% p.a. in 2012 (7.3% p.a.. in 2011). 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, 2012 and 2011 the Company did not have any intangible assets with indefinite useful lives, except for goodwill. As of December 31, 2012 and 2011 no intangible assets have been pledged as collateral.

26. Other long-term financial assets

Other long-term financial assets comprise the following:

	As of December 31,	
	2012	**2011**
Bonds	**1**	1
Financial assets available for sale		
Promissory notes	**–**	7
Shares of OJSC INTER RAO UES	**3**	5
Shares of JSC IDGC Holding	**3**	–
Long-term loans issued to associates	**11**	13
Loans to employees	**1**	1
Derivative financial instruments	**2**	–
Other	**3**	7
Total other long-term financial assets	**24**	34

Pursuant to contracts, long-term loans issued to associates have a maturity period from 3 through 9 years.

26. Other long-term financial assets (continued)

As of December 31, 2012 and December 31, 2011, there were no overdue long-term financial assets for which no impairment provision was created.

As of December 31, 2012 and December 31, 2011, shares of OJSC INTER RAO UES were impaired in the amount of RUB 2 billion and RUB 0 billion, respectively, loans issued to associates were impaired in the amount of RUB 0.2 billion and RUB 0.3 billion, respectively, and promissory notes were impaired in the amount of RUB 0 billion and RUB 3 billion, respectively.

No long-term financial assets were pledged as collateral as of December 31, 2012 and 2011.

As of December 31, 2012 and December 31, 2011, no long-term financial assets were received by the Company as collateral.

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, 2012, the Company's investment in INTER RAO UES was accounted for as Long-term financial asset available for sale.

Shares of JSC IDGC Holding

In April 2012, the Company acquired 1,588,994,637 ordinary shares of JSC IDGC Holding issued additionally. Payment for the shares was made from proceeds received from the sale of investments in associates JSC Kubanenergo and JSC Tomsk Distribution Company. As a result of this acquisition, the Company's ownership interest in JSC IDGC Holding became 3.15%. As of December 31, 2012, the Company's investment in IDGC Holding was accounted for as Long-term financial asset available for sale.

Derivative financial instruments

In 2012 the Company entered into a series of deliverable forward transactions for the sale of US$ for a term until 2015 for the nominal amount of US$ 1,259 million (RUB 38 billion at the CBR official exchange rate as of December 31, 2012). The Company sells US$ in accordance with the schedule at the conversion rates, stipulated in the contract. The value of forward transactions is determined using the market quotes of forward exchange rates. Fair value measurements are performed using a model, based on source data from Bloomberg. Fair value of the series of deliverable forward transactions is presented in Other long-term financial assets – Derivative financial instruments in the amount of RUB 2 billion in the consolidated balance sheet as of December 31, 2012.

27. Investments in joint ventures and associates

Investments in joint ventures and associates comprise the following:

Name of an investee	Country	The Company's share as of December 31, 2012, %	As of December31, 2012	2011
Joint ventures				
Polar Lights Company LLC	Russia	50.00%	**1**	2
OJSC Tomskneft VNK	Russia	50.00%	**38**	34
OJSC Verkhnechonskneftegaz	Russia	25.94%	**30**	16
Rosneft Shell Caspian Vent.	Russia	51.00%	**1**	1
Ruhr Oel GmbH	Germany	50.00%	**47**	46
Taihu Ltd	Cyprus	51.00%	**13**	2
Lanard Holdings LTD (Fuelling complex Vnukovo)	Cyprus	50.00%	**17**	–
NGK ITERA LLC	Russia	51.00%	**95**	–
Arktikshelfneftegaz JSC	Russia	50.00%	**3**	–
Associates				
SC Kubanenergo	Russia	27.97%	–	2
Taas-Yuryakh Neftegazodobycha LLC	Russia	35.33%	**13**	–
Other associates			**11**	11
Total joint ventures and associates			**269**	114

Financial information on significant associates and joint ventures as of December 31, 2012 is presented below:

The Company's share in net assets	OJSC Tomskneft VNK	OJSC Verkhne-chonsk-neftegaz	Taihu Ltd	Ruhr Oel GmbH	NGK ITERA LLC	Taas-Yuryakh Neftegazo-dobycha LLC	Shares of fueling service complex of Vnukovo
Current assets	11	7	10	11	14	1	–
Non-current assets	43	20	46	14	54	8	1
Total assets	**54**	**27**	**56**	**25**	**68**	**9**	**1**
Current liabilities	(22)	(8)	(6)	(19)	(10)	(8)	–
Non-current liabilities	(9)	(1)	(37)	–	(14)	(1)	–
Total liabilities	**(31)**	**(9)**	**(43)**	**(19)**	**(24)**	**(9)**	–
Total Company's share in net assets	**23**	**18**	**13**	**6**	**44**	**–**	**1**

The Company's share in net profit	OJSC Tomskneft VNK	OJSC Verkhne-chonsk-neftegaz	Taihu Ltd	Ruhr Oel GmbH	NGK ITERA LLC	Taas-Yuryakh Neftegazo-dobycha LLC	Shares of fueling service complex of Vnukovo
Sales revenue	55	20	55	24	15	–	2
Cost of sales	(19)	(3)	(41)	(24)	(12)	–	(2)
Gross profit	**36**	**17**	**14**	**–**	**3**	**–**	**–**
Other expenses	(28)	(1)	(3)	–	(1)	–	–
Profit before tax	**8**	**16**	**11**	**–**	**2**	**–**	**–**
Income tax	(2)	(2)	(3)	–	–	–	–
Total Company's share in net profit	**6**	**14**	**8**	**–**	**2**	**–**	**–**

27. Investments in joint ventures and associates (continued)

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**	**–**

The OJSC Verkhnechonskneftegaz and NGK ITERA LLC investments include RUB 7 billion and RUB 2 billion of goodwill, respectively.

The difference amounting to RUB 39 billion between the cost of investments and the Company's share in the net assets of the Ruhr Oel GmbH is an adjustment to the fair value of the identifiable assets and liabilities at the date of the joint venture acquisition, and goodwill. This difference is included in the carrying amount of investments in the Ruhr Oel GmbH.

The difference amounting to RUB 13 billion between the cost of investments and the Company's share in the net assets of Taas-Yuryakh Neftegazodobycha LLC is an adjustment to the fair value of the identifiable assets and liabilities at the date of the associate acquisition. This difference is included in the carrying amount of investments in Taas-Yuryakh Neftegazodobycha LLC.

Investments in fueling service complex of Vnukovo include adjustments to the fair value of the identifiable assets and liabilities at the date of the associate acquisition, and goodwill. The difference amounting to RUB 16 billion is included in the carrying amount of investments in fueling service complex of Vnukovo.

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

	As of December 31, 2012	As of December 31, 2011
OJSC Kubanenergo	–	2

27. Investments in joint ventures and associates (continued)

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

	Participation interest (percentage) as of December 31, 2012	Share in income/(loss) of equity investees		
		2012	**2011**	**2010**
OJSC Tomskneft VNK	50.00	**8**	–	1
Polar Lights Company LLC	50.00	**1**	1	–
OJSC Verkhnechonskneftegaz	25.94	**14**	8	1
Taihu Ltd	51.00	**8**	7	3
NGK ITERA LLC	51.00	**2**	–	–
Other	various	**(2)**	–	(1)
Total equity share in profits		**31**	16	4

The Company's investments in joint operations as of December 31, 2012, 2011 and 2010 include Sakhalin-1 production sharing agreement ("PSA") which is operated by ExxonMobil. PSA Sakhalin-1 was accounted for using method of proportional consolidation.

OJSC Tomskneft VNK

OJSC Tomskneft VNK is a joint venture with OJSC Gazprom Neft 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.

Polar Lights Company LLC ("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.

OJSC Verkhnechonskneftegaz

OJSC Verkhnechonskneftegaz is a joint venture with TNK-BP International Limited which 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.

As of December 31, 2012, as a result of treasury share transactions the share of Taihu Ltd. in OJSC Udmurtneft increased to 97.14%.

27. Investments in joint ventures and associates (continued)

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. Purchase consideration comprised cash in the amount of RUB 7 billion, including performance-based consideration of RUB 2 billion, and fair value of 100% interest in the Company's subsidiary Kynsko-Chaselskoye neftegaz LLC ("KCN LLC") in the amount of RUB 86 billion.

As a result of fair value remeasurement of the disposed 100% share in KCN LLC, which owns an oil and gas exploration and production license, the Company recognized gain in the amount of RUB 82 billion in Other income in the consolidated statement of comprehensive income. The acquisition of share in NGK ITERA LLC was accounted for as an investment in jointly controlled entity using the equity method because key business decisions are subject to unanimous approval by both participants and none of the participants has a preferential voting right.

Rosneft-Shell Caspian Ventures Limited

JV Rosneft-Shell Caspian Ventures Limited ("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.

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.

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.

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.

27. Investments in joint ventures and associates (continued)

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.

Other associates

Other associates 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.

28. Other non-current non-financial assets

Other non-current non-financial assets comprise the following:

	As of December, 31	
	2012	**2011**
Prepaid insurance	**1**	2
Other	**2**	1
Total other non-current non-financial assets	**3**	3

29. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	As of December, 31	
	2012	**2011**
Accounts payable to suppliers and contractors	**117**	97
Advances received	**18**	18
Banking customer accounts	**41**	40
Salary and other benefits payable	**22**	17
Other accounts payable	**10**	9
Total accounts payable and accrued liabilities	**208**	181

Current accounts payable are normally settled within 31 days on average (2011: 32 days). Interest rates on banking customer accounts amount to 0.01%-3.0% p.a. Trade and other payables are non-interest bearing.

30. Loans, borrowings and finance lease liabilities

Loans and borrowings comprise the following:

	Currency	As of December 31, 2012	As of December 31, 2011
Long-term			
Bank loans	RUB	**101**	3
Bank loans	US$, Euro	**648**	658
Bonds	RUB	**20**	–
Eurobonds	US$	**91**	–
Customer deposits	RUB	**8**	5
Customer deposits	US$, Euro	**3**	2
Other debt	RUB	**1**	1
Less: Current portion of long-term loans and borrowings		**(35)**	(73)
Long-term loans and borrowings		**837**	596
Short-term			
Bank loans	RUB	**8**	5
Bank loans (Note 20)	US$	**12**	–
Customer deposits	RUB	**12**	15
Customer deposits	US$, Euro	**3**	3
Borrowings	RUB	**5**	7
Borrowings – Yukos related	RUB	**8**	8
Promissory notes payable	RUB	**1**	1
Promissory notes payable – Yukos related	RUB	**40**	40
Obligations under a repurchase agreement	RUB	**2**	–
Current portion of long-term loans		**35**	73
Short-term loans and borrowings and current portion of long-term loans		**126**	152
Total loans and borrowings		**963**	748

Long-term loans and borrowings

Long-term bank loans comprise the following:

Purpose of the loan	Currency	Interest rate p.a.	Maturity date	As of December 31, 2012	As of December 31, 2011
Loans raised for replenishment of working capital	US$/Euro	LIBOR+0.58% – LIBOR+2.40%; 4.35%; EURIBOR+2.40%	2013-2017	**167**	148
Loans raised to finance special-purpose business activities	US$	LIBOR+0.60% – LIBOR+3.25%	2029	**456**	483
Loans raised to finance special-purpose business activities	RUB	7.20% -8.49%	2015	**101**	3
Loans raised for property, plant and equipment construction/purchase	US$/Euro	LIBOR+1.00% – LIBOR+1.35%; 3.23%; EURIBOR+0.35%	2016-2021	**27**	29
Total				**751**	663
Debt issue costs				**(2)**	(2)
Total long-term bank loans				**749**	661

30. Loans, borrowings and finance lease liabilities (continued)

Long-term loans and borrowings (continued)

Generally, long-term bank loans are denominated in US$ and secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts are normally provided the lender with an express right of claim for contractual revenue in the amount of failing loan repayments which must be remitted directly through transit currency (US$ denominated) accounts in lender banks. 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 through transit currency (US$ denominated) accounts in lender banks Accounts receivable outstanding balance arising out of such contracts amounts to RUB 32 billion and RUB 43 billion as of December 31, 2012 and 2011, respectively, and is indicated as part of receivables of customers and clients.

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 Euro 0.47 billion (RUB 42.5 billion and RUB 18.9 billion at the CBR official exchange rate as of December 31, 2012). The debt is repayable within 5 years.

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 31.9 billion at the CBR official exchange rate as of December 31, 2012) and Euro 0.85 billion (RUB 34.0 billion at the CBR official exchange rate as of December 31, 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 30.4 billion at the CBR official exchange rate as of December 31, 2012) repayable in 2015, but early repaid in November 2012. These loans were raised to finance business activities.

During the third quarter of 2012, the Company received cash under two long-term unsecured loan agreements. One loan in the amount of Euro 0.53 billion (RUB 21.3 billion at the CBR official exchange rate as of December 31, 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 December 31, 2012 the loans are fully drawn down.

In December 2012, the Company signed two long-term loan agreements with a group of international banks for the total amount of US$ 16.8 billion to finance the acquisition of 50% stake in TNK-BP from BP (Note 39). One loan agreement in the amount of US$ 4.1 billion (RUB 124.5 billion at the CBR official exchange rate as of December 31, 2012) is signed with the syndicate of foreign banks for 5 years under floating rates. The other one is signed with the syndicate of foreign banks under floating rates in the amount of US$ 12.7 billion (RUB 385.7 billion at the CBR official exchange rate as of December 31, 2012) for 2 years. As of December 31, 2012 loans are not drawn down.

In October 2012, the Company issued two tranches of documentary non-convertible interest-bearing bonds with the nominal amount of RUB 20 billion and maturity in 2017. Coupon payments will be done on semi-annual basis of fixed rate of 8.6% p.a.

In the fourth quarter of 2012, the Company raised the funds through Eurobonds placement in amount of US$ 3.0 billion. Eurobonds were placed by two tranches at a nominal value: one in the amount of US$ 1.0 billion (RUB 30.4 billion at the CBR official exchange rate as of December 31, 2012) with the coupon of 3.149% p.a. to be matured in March 2017, and the other one in the amount of US$ 2.0 billion (RUB 60.7 billion at the CBR official exchange rate as of December 31, 2012) with the coupon of 4.199% p.a. to be matured in March 2022. The funds received will be used for general corporate purposes.

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, 2012, RUB denominated deposits bear interest rates ranging from 4.00% to 15.12% p.a. and deposits denominated in foreign currencies bear interest rates ranging from 0.75% to 9.00% p.a.

30. Loans, borrowings and finance lease liabilities (continued)

Long-term loans and borrowings (continued)

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, 2012 and 2011, the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

Short-term loans and borrowings

In May and July 2012 the Company issued a US$ 400 million loan to a third party (RUB 13 billion at the CBR official exchange rates as of the issue dates) at the interest rate of 5.5% p.a. and the maturity of 12 months. In October 2012 the Company sold the loan to a foreign bank for the carrying value of the asset at the date of transfer. Simultaneously the foreign bank and the Company entered into put and call option agreements in respect of rights and obligations under the loan agreement. Put option grants the foreign bank an option to require the Company repurchase the loan for its nominal value with interest accrued but not yet paid to the date of the request in the event of a failure by the other party of the loan agreement to pay any amount due. Call option grants the Company an option to repurchase the loan at any time for nominal value with interest accrued but not yet paid to the date of the request. Loan issued to the third party has been included in Other short-term financial assets – Loans granted (Note 20) in the amount of RUB 12 billion in the consolidated balance sheet as of December 31, 2012. Liabilities to the foreign bank were included in Short-term loans and borrowings in the amount of RUB 12 billion in the consolidated balance sheet as of December 31, 2012.

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, 2012 the RUB denominated deposits bear interest rates ranging from 0.01% to 11.00% p.a. and deposits denominated in foreign currencies bear interest rates ranging from 0.01% to 7.20% p.a.

RUB denominated borrowings represent loans received from an equity investee.

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 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 settled the above mentioned liabilities in compliance with the court decision in 2010 (Note 39).

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. (Note 39).

In 2012 and 2011 the Company received cash under repurchase agreements and recognized these transactions as a collateralized loan. As of December 31, 2012, the liabilities of the Company under repurchase agreements amounted to RUB 2 billion with the fair value amounted to RUB 2.5 billion.

In 2012 the Company had neither delays in payments under loan agreements nor overdue interest payments.

30. Loans, borrowings and finance lease liabilities (continued)

Finance lease

	As of December 31, 2012	As of December 31, 2011
Long-term finance lease liabilities	**11**	6
Including short-term financial lease liabilities	***3***	*1*

Repayments of finance lease obligations comprise the following:

As of December 31, 2012	Minimum lease payments	Finance expense	Present value of minimum lease payments
Less than 1 year	4	(1)	3
From 1 to 5 years	6	(1)	5
Over 5 years	4	(1)	3
Total	**14**	**(3)**	**11**

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**

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$.

The following is the analysis of the property, plant and equipment under capital leases recognized in Property, plant and equipment (Note 24):

	As of December 31, 2012	As of December 31, 2011
Plant and machinery	**8**	1
Vehicles	**6**	8
Total cost	**14**	9
Less: accumulated depreciation	**(3)**	(2)
Total net book value of leased property	**11**	7

31. Current liabilities related to derivative instruments

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.

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). The contract expired in December 2012. Under the terms of the contract, a floating LIBOR rate could be converted into a certain fixed rate. The other party had a call option to terminate the deal. Weighted average fixed interest rate for the contract was 3.41% p.a.

Current liabilities related to derivative instruments comprise:

	As of December 31,	
	2012	**2011**
Interest rate swap	–	4
Total current liabilities related to derivative financial instruments	**–**	**4**

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

The resulting change in the fair value of liabilities related to the existing interest rate swap contracts was recorded as finance income in the amount of RUB 4 billion and as a reduction of finance expenses in the amount of RUB 2 billion in the consolidated statement of comprehensive income for the years ended December 31, 2012 and 2011, respectively.

32. Other short-term tax liabilities

Other short-term tax liabilities comprise the following:

	As of December 31,	
	2012	**2011**
Mineral extraction tax	**44**	41
VAT	**19**	13
Excise duties	**10**	7
Personal income tax	**1**	–
Property tax	**3**	3
Other	**–**	2
Total other tax liabilities	**77**	66

33. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
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
Utilised	–	–	–	–
As of December 31, 2011, including	**54**	**4**	**5**	**63**
Non-current	54	3	–	57
Current	–	1	5	6
Provisions charged during the year	5	1	1	7
Increase/(decrease) in the liability resulting from				
Changes in estimates	(3)	–	(1)	(4)
Change in the discount rate	7	–	–	7
Unwinding of discount	4	–	–	4
Utilised	(3)	–	(2)	(5)
As of December 31, 2012, including	**64**	**5**	**3**	**72**
Non-current	64	3	–	67
Current	–	2	3	5

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.

34. 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:

	2012	2011	2010
State Pension Fund	**16**	14	10
NPF Neftegarant	**3**	3	3
Total pension contributions	**19**	17	13

35. Shareholders' equity

Common shares

As of December 31, 2012 and 2011:

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 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.

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.

On November 30, 2012, the extraordinary general shareholders' meeting approved additional dividends on the Company's common shares for 2011 in the amount of RUB 42 billion or 4.08 per share. RUB 38 billion of the above are related to outstanding shares, including dividend withholding tax on treasury shares. In December 2012, the approved dividends were fully paid. Thus the dividends for 2011 amounted to 25% of the Company's IFRS net income attributable to Rosneft's shareholders.

Treasury shares

	As of December 31,	
	2012	**2011**
number, millions	**1,360**	1,010
amount, billions of RUB	**299**	224

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

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 transferred 185,794 of treasury shares to compensate independent members of the Company's Board of Directors for 2011 and 2012 (Note 37). Both fair and carrying value of the above shares approximated RUB 0.04 billion.

In November 2012, the Company purchased 28,513,639 of its own shares for RUB 7 billion or RUB 249 per share.

35. Shareholders' equity (continued)

Additional paid-in capital

	2012	2011
Additional paid-in capital as of January 1	**386**	396
Change in ownership interests in subsidiaries	**(1)**	(10)
Additional paid-in capital as of December 31	**385**	386

In 2012 and 2011 the Company acquired additional shares in its two subsidiaries. The effect of these transactions in the total amount of RUB 1 billion and RUB 10 billion, respectively, 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, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Current assets				
Held-for-trading	13	8	–	21
Available-for-sale	5	15	–	20
Derivative financial instruments	–	3	–	3
Non-current assets				
Available-for-sale	6	–	–	6
Derivative financial instruments	–	2	–	2
Total assets measured at fair value	**24**	**28**	**–**	**52**

	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)

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

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 December 31,	
	2012	2011	2012	2011
Financial assets				
Financial assets at fair value through profit or loss:				
Derivative financial instruments	**5**	–	**5**	–
Corporate and state bonds	**15**	19	**15**	19
Loans issued:				
Bank deposits	**–**	52	**–**	52
Loans issued to associates	**12**	17	**12**	17
Other	**1**	1	**1**	1

	Carrying value		Fair value	
	As of December 31,		As of December 31,	
	2012	2011	2012	2011
Financial liabilities				
Financial liabilities at amortized cost:				
Accounts payable	**(208)**	(181)	**(208)**	(181)
Loans and borrowings with variable interest rate	**(632)**	(642)	**(605)**	(624)
Loans and borrowings with fixed interest rate	**(331)**	(106)	**(321)**	(108)
Financial liabilities at fair value, through profit or loss:				
Derivative financial instruments	**–**	(4)	**–**	(4)
Financial lease liabilities	**(11)**	(6)	**(11)**	(6)

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 2010, 2011 and 2012 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 34).

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. The Company sells crude oil and petroleum products to related parties in the ordinary course of business at the prices close to average market prices. Gas sales prices in Russian market are regulated by the Federal Tariff Service.

37. Related party transactions (continued)

Transactions with companies directly or indirectly controlled by the Russian Government

Revenues and income

	2012	2011	2010
Oil and gas sales	**94**	28	8
Petroleum products and petrochemicals sales	**30**	25	20
Support services and other revenues	**2**	2	2
Finance income	**18**	7	7
	144	62	37

Costs and expenses

	2012	2011	2010
Production and operating expenses	**8**	10	5
Pipeline tariffs and transportation costs	**187**	181	126
Other expenses	**17**	7	–
Financial expenses	**4**	–	–
	216	198	131

Other operations

	2012	2011	2010
Purchase of financial assets and investments	**(6)**	(9)	(1)
Sale of financial assets and investments	**–**	1	–
Loans received	**100**	–	–
Loans repaid	**(2)**	(3)	(43)
Loans and borrowings issued	**–**	(1)	–
Deposits placed	**(10)**	(30)	(105)
Deposits repaid	**24**	165	24
Repurchase of shares	**(1)**	–	–

Settlement balances

	December 31, 2012	December 31, 2011
Assets		
Cash and cash equivalents	**188**	55
Accounts receivable, net of allowance	**13**	11
Prepayments and other current assets	**15**	16
Financial assets	**7**	11
	223	93
Liabilities		
Accounts payable and accrued liabilities	**15**	2
Loans and borrowings	**100**	–
	115	2

37. Related party transactions (continued)

Transactions with joint ventures

Revenues and income

	2012	2011	2010
Support services and other revenues	–	3	2
Finance income	**1**	1	2
	1	4	4

Costs and expenses

	2012	2011	2010
Cost of purchased oil, gas and petroleum products	**89**	68	37
Pipeline tariffs and transportation costs	**6**	5	3
Other expenses	**1**	5	–
	96	78	40

Other operations

	2012	2011	2010
Loans repaid	**(2)**	–	(3)
Repayment of loans and borrowings issued	**5**	3	–

Settlement balances

	December 31, 2012	December 31, 2011
Assets		
Accounts receivable, net of allowance	–	1
Prepayments and other current assets	–	–
Financial assets	–	6
	–	7
Liabilities		
Accounts payable and accrued liabilities	**7**	1
Loans and borrowings	**5**	7
	12	8

37. Related party transactions (continued)

Transactions with associates

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

Pursuant to contracts, long-term loans issued to associates have maturity from 3 through 9 years (Note 26), and bear interest rates from 5.0% to 10.3% p.a.

Revenues and income

	2012	2011	2010
Oil and gas sales	**1**	2	1
Petroleum products and petrochemicals sales	**2**	5	4
Support services and other revenues	**4**	6	4
Finance income	**1**	1	–
	8	14	9

Costs and expenses

	2012	2011	2010
Cost of purchased oil, gas and petroleum products	**19**	12	8
Production and operating expenses	**2**	4	7
Other expenses	**7**	3	1
	28	19	16

Other operations

	2012	2011	2010
Purchase of financial assets	–	(5)	–
Sale of financial assets and investments in associates	–	–	–
Loans and borrowings issued	**(1)**	–	(5)
Repayment of loans and borrowings issued	–	3	–

Settlement balances

	December 31, 2012	December 31, 2011
Assets		
Accounts receivable, net of allowance	**6**	8
Financial assets	**12**	10
	18	18
Liabilities		
Accounts payable and accrued liabilities	**11**	8
	11	8

Transactions with non-state pension fund NPF Neftegarant

Costs and expenses

	2012	2011	2010
Other expenses	**3**	3	3

Other operations

	2012	2011	2010
Loans repaid	**–**	(1)	(1)

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, severance payments and contributions to insurance programs of the key management personnel amounted to RUB 9.1 billion, RUB 4.4 billion and RUB 2.5 billion in 2012, 2011 and 2010, respectively.

On June 18, 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 June 10, 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, 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 as a compensation for their services in the capacity of the Company's directors.

On June 20, 2012, annual General Meeting of Shareholders decided to transfer to each of the following independent members of the Board of Directors of Rosneft as a compensation for their services in the capacity of the Company's directors for the periods June 10, 2011 –September 13, 2011 and September 13, 2011 – June 20, 2012: 28,944 shares of Rosneft to Mr. Alexander D. Nekipelov, 26,925 shares of Rosneft to Mr. Andrey L. Kostin and Mr. Hans-Joerg Rudloff, each, 24,906 shares of Rosneft to Mr. Sergey V. Shishigin, 22,213 shares of Rosneft to Mr. Nikolay P. Tokarev and Mr. Dmitry E. Shugaev, each, 17,408 shares of Rosneft to Mr. Vladimir L. Bogdanov and 16,260 shares of Rosneft to Mr. Matthias Warnig as a compensation for his services in the capacity of the Company's director for the period September 13, 2011 –June 20, 2012.

38. Key subsidiaries

Name	Country of incorporation	Core activity	2012 Preferred and common shares	2012 Voting shares	2011 Preferred and common shares	2011 Voting shares
Exploration and production			%	%	%	%
RN-Yuganskneftegaz LLC	Russia	Oil and gas production operator services	**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
RN-Sakhalinmorneftegaz LLC	Russia	Oil and gas production operator services	**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
RN-Stavropolneftegaz LLC	Russia	Oil and gas production operator services	**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
CJSC RN-Astra	Russia	Oil and gas development and production	**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
OJSC Dagneftegaz	Russia	Oil and gas development and production	**81.22**	**81.22**	81.22	94.96
OJSC Rosneft-Dagneft	Russia	Oil and gas development and production	**68.70**	**68.70**	68.70	91.60
CJSC Vankorneft	Russia	Oil and gas development and production	**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
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
OJSC East-Siberian Oil and Gas Company	Russia	Oil and gas development and production	**100.00**	**100.00**	99.52	99.52
Val Shatskogo LLC	Russia	Oil and gas development	**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

38. Key subsidiaries (continued)

Name	Country of incorporation	Core activity	2012 Preferred and common shares	2012 Voting shares	2011 Preferred and common shares	2011 Voting shares
Refining, marketing and distribution			%	%	%	%
RN-Tuapse Refinery LLC	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
RN-Komsomolsky Refinery LLC	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
OJSC Rosneft-MZ Nefteproduct	Russia	Petroleum refining	**65.42**	**65.42**	65.42	87.23
OJSC Angarsk Petrochemical Company	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
OJSC Achinsk Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
OJSC Angarsk Polymer Plant	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
OJSC Kuybyshev Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
OJSC Novokuybyshev Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
OJSC Syzran Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
CJSC Neftegorsk Gas-Processing Plant	Russia	Gas processing	**100.00**	**100.00**	100.00	100.00
CJSC Otradny Gas-Processing Plant	Russia	Gas processing	**100.00**	**100.00**	100.00	100.00
OJSC Rosneft-ARTAG	Russia	Marketing and distribution	**38.00**	**50.67**	38.00	50.67
OJSC Rosneft-Altainefteproduct	Russia	Marketing and distribution	**64.18**	**78.59**	64.18	78.59
RN-Arkhangelsknefteproduct LLC	Russia	Marketing and distribution	**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
OJSC Rosneft-Kubannefteproduct	Russia	Marketing and distribution	**89.50**	**96.61**	89.50	96.61
OJSC Rosneft-Karachaevo-Cherkessknefteproduct	Russia	Marketing and distribution	**85.99**	**85.99**	85.99	87.46
OJSC Rosneft-Kurgannefteproduct	Russia	Marketing and distribution	**83.32**	**90.33**	83.32	90.33
RN-Nakhodkanefteproduct LLC	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
OJSC Rosneft-Smolensknefteproduct	Russia	Marketing and distribution	**66.67**	**86.97**	66.67	86.97
RN-Tuapsenefteproduct LLC	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
RN-Vostoknefteproduct LLC	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
OJSC Rosneft-Stavropolye	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
RN-Trade LLC	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
CJSC Irkutsknefteprodukt	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
OJSC Samaranefteprodukt	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
Samara Terminal LLC	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
OJSC Buryatnefteprodukt	Russia	Marketing and distribution	**97.48**	**98.88**	97.48	98.88
CJSC Khakasnefteprodukt VNK	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
OJSC Tomsknefteprodukt VNK	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
OJSC Belgorodnefteprodukt	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
CJSC Bryansknefteprodukt	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
OJSC Voronezhnefteprodukt	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
CJSC Lipetsknefteprodukt	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
CJSC Orelnefteprodukt	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
CJSC Penzanefteprodukt	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
CJSC Tambovnefteprodukt	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
CJSC Ulyanovsknefteprodukt	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
Ulyanovsk Terminal LLC	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00

38. Key subsidiaries (continued)

Name	Country of incorporation	Core activity	2012 Preferred and common shares	2012 Voting shares	2011 Preferred and common shares	2011 Voting shares
Refining, marketing and distribution (continued)			%	%	%	%
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
OJSC Germes Moskva	Russia	Marketing and distribution	**85.61**	**85.61**	85.61	85.61
CJSC Contract Oil	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
CJSC Mytischi Fuel Company	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
OJSC Stavropolnefteproduct	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
U-Kuban LLC	Russia	Marketing and distribution	**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**	100.00	100.00
Trumpet limited	Ireland	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
Polar Terminal LLC	Russia	Marketing and distribution	**100.00**	**100.00**	–	–
Other						
Rosneft International Ltd	Ireland	Holding company	**100.00**	**100.00**	100.00	100.00
Yukostransservice CJSC	Russia	Transportation services	**100.00**	**100.00**	100.00	100.00
CJSC Rosnefteflot	Russia	Transportation services	**51.00**	**51.00**	51.00	51.00
OJSC Russian Regional Development Bank (VBRR)	Russia	Banking	**84.67**	**84.67**	84.67	84.67
OJSC Far Eastern Bank	Russia	Banking	**84.09**	**84.67**	82.06	82.62
CJSC RN-Shelf-Dalniy Vostok	Russia	Management company	**100.00**	**100.00**	100.00	100.00
CJSC RN-Energoneft	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
NK Rosneft NTC LLC	Russia	Research & development activities	**100.00**	**100.00**	100.00	100.00
OJSC Rosneft Sakhalin	Russia	Research & development activities	**55.00**	**55.00**	55.00	55.00
PHC CSKA LLC	Russia	Sport activity	**80.00**	**80.00**	100.00	100.00
Research and Development Center LLC	Russia	Research & development activities	**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. 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.

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's application for the court to consider a further preliminary issue is scheduled to be heard in March 2013. The Company intends to defend its position vigorously in the remaining proceedings in England.

39. Contingencies (continued)

Legal claims (continued)

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, whose hearings are set for February 28, 2013.

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 9, 2012, the 9th 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 these judicial acts with the Federal Arbitrazh Court of Moscow District, which is to take place on February 25, 2013.

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 January 20, 2012, OJSC Samaraneftegaz filed a motion for summary judgment on the issue of personal jurisdiction in the U.S. S.D.N.Y. 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. Yukos Capital S.a.r.l. and OJSC Samaraneftegaz thereafter filed cross-motions for summary judgment concerning whether the U.S. S.D.N.Y. should enforce the award. The motions are pending.

Yukos International (UK) B.V. has initiated proceedings in the Amsterdam District Court claiming damages of up to U.S.$333 million (RUB 10 billion at the CBR official exchange rate at December 31, 2012), plus statutory interest with effect from February 7, 2011, plus costs, against Rosneft and other co-respondents unrelated to Rosneft relating to alleged injury supposedly caused by the entry of a freezing order that Yukos International (UK) B.V. claims restricted its ability to invest certain funds as it chose. The first court date in this case was June 27, 2012. Rosneft filed its Statement of Defence on October 3, 2012. That statement asserts various defences including that the court properly granted the freezing order and that Yukos International (UK) B.V. suffered no damages as a result of having its funds deposited in an interest bearing account of its choice. Yukos International (UK) B.V.'s Statement of Reply is due on February 20, 2013.

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 December 31, 2012, the total amount of administrative fines levied by FAS Russia and its regional bodies against Rosneft and its subsidiaries amounts to RUB 0.3 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.

39. Contingencies (continued)

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.

In November 2012, the Company and Federal Tax Agency signed the Pricing Agreement for the purpose of taxation of oil sales transactions at the Russian market. Six Company subsidiaries also acted as the Parties to the Agreement. The document establishes the principles and methods of pricing in the aforementioned transactions. The Agreement was signed as part of the new order of fiscal control over the pricing of related party transactions to match the market parameters.

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. From 2013 under the terms of the agreement, the number of members of the consolidated group of taxpayers is increased to 44. 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 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 balance sheet or results of operations.

As of December 31, 2012, the amount of VAT receivable, that is 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 balance sheet 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.

39. Contingencies (continued)

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.

The total amount contracted but not yet performed deliveries related to the construction and acquisition of property, plant and equipment amounted to RUB 340 billion and RUB 195 billion as of December 31, 2012 and 2011, respectively.

Environmental issues

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 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 tonnes 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 tonnes 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 270 million tonnes based on a standard commercial price formula for crude oil and was bound to supply crude within the following periods:

	2012
Up to 1 year	15
1 to 2 years	15
2 to 3 years	15
3 to 4 years	15
4 to 5 years	15
Over 5 years	195
Total	**270**

In July 2011, the Company entered into an agreement with a state-controlled energy company for the acquisition of 265.5 billion kWh of electric power under the "take-or-pay" arrangement on standard commercial terms through June 30, 2026.

In November 2012, the Company and a state-controlled energy company have concluded a contract on the supply of up to 875 bcm of gas. The contract provides for annual supplies of up to 35 bcm of gas produced by the Company to the power plants beginning on January 1, 2016 and running through December 31, 2040 on a “take-or-pay” basis. Gas prices are regulated by the State.

39. Contingencies (continued)

Long-term contracts (continued)

In December 2012, Rosneft and two of the world's leading oil traders agreed separate provisions for long-term crude supply contracts on standard commercial terms. Under the provisions, Rosneft plans to sign contracts with a prepayment for 5 years to supply up to 67 million tonnes of crude oil in total. The supplies are expected to commence in 2013. The parties agreed the possibility of replacing crude supplies with respective petroleum product supplies for various supply routes.

TNK-BP Acquisition

In October 2012, the Company reached two separate agreements in principle to acquire an aggregate 100% equity interest in TNK-BP, Russia's third largest hydrocarbon producer, from TNK-BP's existing shareholders: 50% from BP and 50% from the AAR consortium. The Company subsequently signed definitive purchase agreements for these acquisitions (i) with BP on November 22, 2012 (the "BP Acquisition") and (ii) with the AAR consortium on December 12, 2012 (the "AAR Acquisition", together with the BP Acquisition, the "TNK-BP Acquisition"). The BP Acquisition and AAR Acquisition are independent of each other.

Under the terms of the BP Acquisition, BP will sell its 50% interest in TNK-BP Limited to Rosneft for US$17.1 billion in cash (plus interest thereon in the amount of U.S. $ 1.6 million per day from and including October 18, 2012 to and excluding the closing date) and 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 October 18, 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, OJSC "ROSNEFTEGAZ", a further 600 million Rosneft shares, representing a 5.66% stake in Rosneft, at a price of US$8.00 per share (plus interest thereon at a rate of 3.5% per annum from and including October 18, 2012 to and excluding the closing date). Again, BP will have the benefit of any dividends on such shares having a record date after October 18, 2012. On completion of these transactions, BP will hold 19.75% of Rosneft shares, inclusive of its existing 1.25% holding in Rosneft, which would entitle BP to two seats on Rosneft's Board of Directors.

Under the terms of the AAR Acquisition agreement, Rosneft will acquire AAR's 50% equity interest in TNK-BP for a cash consideration of US$28.0 billion (plus interest thereon at a rate of 3.75% p.a. from and including October 16, 2012 to but excluding the closing date) subject to the regulatory approvals and certain other conditions. Closing is expected to occur in the first half of 2013.

The Company plans to account for TNK-BP Acquisition as a business combination.

In December 2012, Rosneft received a permission from the FAS Russia to acquire TNK-BP, along with prescription for Rosneft regarding various measures that are aimed at maintaining the competitive environment in Russia.

The management of Rosneft believes that the TNK-BP Acquisition is strategically important to the Company 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, optimization of oil and oil product supply logistics, production and sales of natural gas, as well as with respect to cost and asset optimization.

40. Events after the reporting period

In January 2013, Company acquired additional 20% ownership share in National Oil Consortium LLC ("NOC") for RUB 6 billion. As a result of this acquisition, the Company's ownership interest in NOC will become 40%. National Oil Consortium LLC 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. This acquisition will continue to be accounted for as investment in associate entity using the equity method.

41. 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,		
	2012	**2011**	**2010**
Oil and gas properties related to proved reserves	**2,388**	2,100	1,838
Oil and gas properties related to non-proved reserves	**98**	104	99
Total capitalized costs	**2,486**	2,204	1,937
Accumulated depreciation and depletion	**(664)**	(474)	(294)
Net capitalized costs	**1,822**	1,730	1,643

Net book value of production rights was RUB 309 billion, RUB 328 billion and RUB 335 billion as at December 31, 2012, 2011 and 2010, respectively.

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

For the years ended December 31:

	2012	**2011**	**2010**
Acquisition of non-proved oil and gas reserves	**6**	7	4
Exploration costs	**23**	13	14
Development costs	**276**	260	188
Total costs incurred	**305**	280	206

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

For the years ended December 31:

	2012	**2011**	**2010**
Revenue	**1,214**	1,149	947
Production costs (excluding production taxes)	**74**	70	69
Selling, general and administrative expenses	**15**	27	36
Costs of oil and gas exploration	**23**	13	14
Depreciation, depletion and amortization	**192**	184	176
Unwinding of discount	**4**	5	2
Taxes other than income tax	**550**	430	286
Income tax	**85**	61	57
Results of operations relating to oil and gas production	**271**	359	307

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

Reserve quantity information

For the purposes of evaluation of reserves as of December 31, 2012, 2011 and 2010 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, 2012, 2011 and 2010 are shown in the table below and expressed in million barrels of oil equivalent (oil production data was recalculated from tonnes to barrels using a field specific in the range from 7.07 to 8.04 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).

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

Reserve quantity information (continued)

	2012	2011	2010
	mln boe	mln boe	mln boe
Beginning of year	**16,352**	13,970	13,951
Revisions of previous estimates	**1,375**	2,201	319
Increase and discovery of new reserves	**736**	1,044	541
Purchase of new reserves	**1**	–	–
Sale of reserves (Note 27)	**(806)**	–	–
Production	**(885)**	(863)	(841)
End of year	**16,773**	16,352	13,970
of which:			
Proved reserves under PSA Sakhalin 1	**87**	95	80
Proved developed reserves	**10,902**	10,514	9,769
Minority interest in total proved reserves	**118**	109	122
Minority interest in proved developed reserves	**86**	71	44

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, condensate and gas production are computed by applying the 12 month average prices (reference prices) calculated as unweighted arithmetic average of the first-day-of-the-month price for each month within the 12 month period prior to the end of the reporting period, unless prices are defined by contractual arrangements, 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 current expenses and costs and forecasts. In certain cases, future values, either higher or lower than current values, were used because of anticipated changes in operating conditions, but no general escalation that might result from inflation was applied. 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.

41. 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)

	2012	2011	2010
Future cash inflows	**21,113**	18,611	13,677
Future development costs	**(1,098)**	(947)	(1,043)
Future production costs	**(10,830)**	(9,769)	(6,568)
Future income tax expenses	**(1,496)**	(1,280)	(945)
Future net cash flows	**7,689**	6,615	5,121
Discount for estimated timing of cash flows	**(4,601)**	(3,899)	(2,846)
Discounted value of future cash flows as of the end of year	**3,088**	2,716	2,275

	2012	2011	2010
Discounted value of future cash flows as of the beginning of year	**2,716**	2,275	2,205
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	**(575)**	(622)	(556)
Changes in price estimates, net	**260**	341	370
Changes in future development costs	**(118)**	73	(271)
Development costs incurred during the period	**276**	260	188
Revisions of previous reserves estimates	**151**	223	52
Increase in reserves due to discoveries, less respective expenses	**144**	221	106
Net change in income taxes	**30**	(142)	(51)
Accretion of discount	**272**	228	221
Net changes due to purchases and sales oil and gas fields	**(68)**	–	–
Other	–	(141)	11
Discounted value of future cash flows as of the end of year	**3,088**	2,716	2,275

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

	UOM	2012	2011	2010
Share in capitalized costs relating to oil and gas producing activities (total)	RUB bln	**121**	77	77
Share in results of operations for oil and gas producing activities (total)	RUB bln	**31**	17	7
Share in estimated proven oil and gas reserves	mln boe	**2,253**	1,265	1,228
Share in estimated proven developed oil and gas reserves	mln boe	**1,274**	777	760
Share in discounted value of future cash flows	RUB bln	**330**	271	196

Share of other (minority) shareholders in discounted value of future cash flows

	UOM	2012	2011	2010
Share of other (minority) shareholders in discounted value of future cash flows	RUB bln	**29**	32	21

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