



Rosneft Oil Company

Interim Condensed Consolidated Financial Statements
(Unaudited)

Three months ended March 31, 2012

Rosneft Oil Company

Interim Condensed Consolidated Financial Statements (unaudited)

March 31, 2012

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Report on review of interim condensed consolidated financial statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Open Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), comprising the interim consolidated statement of financial position as at March 31, 2012 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

May 2, 2012

Rosneft Oil Company
Consolidated balance sheet
(in billions of Russian rubles)

	Notes	March 31, 2012 (unaudited)	December 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	9	113	166
Restricted cash		4	4
Financial assets	10	119	150
Accounts receivable, net of allowance of RUB 5 and RUB 5, respectively	11	273	217
Inventories	12	143	126
Prepayments and other current assets	13	139	152
Total current assets		791	815
Non-current assets:			
Property, plant and equipment	14	2,302	2,231
Intangible assets		24	22
Financial assets		31	34
Investments in associates and joint ventures	15	140	114
Bank loans granted, net of allowance of RUB 1 and RUB 1, respectively		13	13
Deferred tax assets		15	13
Goodwill		132	132
Other non-current non-financial assets		4	3
Total non-current assets		2,661	2,562
Assets held for sale	16	2	-
Total assets		3,454	3,377
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	17	189	181
Loans and borrowings		152	152
Finance lease liabilities		1	1
Liabilities related to derivative financial instruments		3	4
Income tax liabilities		8	3
Other tax liabilities	18	79	66
Provisions	19	5	6
Other current liabilities		1	1
Total current liabilities		438	414
Non-current liabilities:			
Loans and borrowings		532	596
Finance lease liabilities		6	5
Deferred tax liabilities		233	234
Provisions	19	64	57
Other non-current liabilities		1	2
Total non-current liabilities		836	894
Equity:			
Share capital		1	1
Treasury shares		(224)	(224)
Additional paid-in capital		385	386
Other funds and reserves		(4)	(5)
Retained earnings		1,989	1,877
Rosneft shareholders' equity		2,147	2,035
Non-controlling interest		33	34
Total equity		2,180	2,069
Total liabilities and equity		3,454	3,377

President  E.Y. Khudainatov

May 2, 2012

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

Rosneft Oil Company

Consolidated statement of comprehensive income

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

		Three months ended March 31, 2012	Three months ended March 31, 2011
	Notes	(unaudited)	(unaudited)
Revenues			
Oil and gas sales	5	378	328
Petroleum products and petrochemicals sales	5	360	248
Support services and other revenues		10	12
Total revenues		748	588
Costs and expenses			
Production and operating expenses		45	40
Cost of purchased oil, gas, petroleum products and refining costs		90	32
General and administrative expenses		15	11
Pipeline tariffs and transportation costs		60	55
Exploration expenses		5	3
Depreciation, depletion and amortization		54	50
Taxes other than income tax	7	161	106
Export customs duty	6	207	147
Total costs and expenses		637	444
Operating income		111	144
Finance income		6	5
Finance expenses		(5)	(5)
Equity share in profits of associates and joint ventures		9	2
Other income	8	27	15
Other expenses	8	(5)	(5)
Income before income tax		143	156
Income tax	7	(31)	(33)
Net income		112	123
Other comprehensive income/(loss)			
Foreign exchange differences on translation of foreign operations		2	(3)
Loss from changes in fair value of financial assets available-for-sale, net of tax		(1)	–
Total other comprehensive income/(loss), net of tax		1	(3)
Total comprehensive income, net of tax		113	120
Net income			
attributable to Rosneft shareholders		112	121
attributable to non-controlling interests		–	2
Total comprehensive income, net of tax			
attributable to Rosneft shareholders		113	118
attributable to non-controlling interests		–	2
Net income attributable to Rosneft per common share (in RUB) – basic and diluted			
		11.68	12.61
Weighted average number of shares outstanding (millions)		9,588	9,599

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 funds and reserves	Retained earnings	Rosneft 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	–	–	–	–	–	121	121	2	123
Other comprehensive loss	–	–	–	–	(3)	–	(3)	–	(3)
Total comprehensive income	–	–	–	–	(3)	121	118	2	120
Change in ownership interest in subsidiaries	–	–	1	–	–	–	1	(2)	(1)
Balance at March 31, 2011	9,599	1	397	(221)	(8)	1,709	1,878	32	1,910
Balance at December 31, 2011	9,588	1	386	(224)	(5)	1,877	2,035	34	2,069
Net income	–	–	–	–	–	112	112	–	112
Other comprehensive income	–	–	–	–	1	–	1	–	1
Total comprehensive income	–	–	–	–	1	112	113	–	113
Change in ownership interest in subsidiaries	–	–	(1)	–	–	–	(1)	(1)	(2)
Balance at March 31, 2012	9,588	1	385	(224)	(4)	1,989	2,147	33	2,180

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	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Operating activities			
Net income		112	123
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization		54	50
(Gain)/loss on sale and disposal of non-current assets	8	(1)	1
Asset impairment loss		1	–
Dry hole costs		1	1
Foreign exchange gains		(51)	(39)
Equity share in profits of associates and joint ventures		(9)	(2)
Finance expenses		5	5
Finance income		(6)	(5)
Income tax expense	7	31	33
Changes in operating assets and liabilities:			
Increase in accounts receivable, gross		(54)	(10)
Increase in inventories		(17)	(11)
Decrease in prepayments and other current assets		13	29
Increase in accounts payable and accrued liabilities		10	31
Increase in other tax liabilities		7	4
Decrease in current provisions		(1)	–
Decrease in other current liabilities		(1)	(1)
Decrease in other non-current liabilities		(1)	(2)
Long-term bank loans granted		(8)	(21)
Repayment of long-term bank loans granted		8	21
Acquisition of trading securities		(12)	(12)
Proceeds from sale of trading securities		13	10
Net cash provided by operating activities before income tax and interest		94	205
Income tax payments		(23)	(25)
Interest received		3	–
Net cash provided by operating activities		74	180

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	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Investing activities			
Capital expenditures		(118)	(81)
Acquisition of licenses		(1)	(4)
Acquisition of short-term financial assets		(15)	(55)
Proceeds from sale of short-term financial assets		31	12
Acquisition of short-term notes receivable		(20)	(4)
Proceeds from sale of short-term notes receivable		13	–
Acquisition of interest in associates and joint ventures	15	(16)	–
Acquisition of a subsidiary, net of cash acquired.	4	(4)	–
Sale of property, plant and equipment		4	–
Placements under reverse REPO agreements		(5)	(14)
Receipts under reverse REPO agreements		25	12
Net cash used in investing activities		(106)	(134)
Financing activities			
Proceeds from short-term loans and borrowings		19	2
Repayment of short-term loans and borrowings		(7)	(2)
Proceeds from long-term loans and borrowings		5	9
Repayment of long-term loans and borrowings		(24)	(34)
Acquisition of non-controlling interests in subsidiaries		(2)	(1)
Interest paid		(6)	(8)
Net cash used in financing activities		(15)	(34)
Net (decrease)/increase in cash and cash equivalents		(47)	12
Cash and cash equivalents at beginning of period	9	166	127
Effect of foreign exchange on cash and cash equivalents		(6)	(2)
Cash and cash equivalents at end of period	9	113	137

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

March 31, 2012

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

1. General

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

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for 2011 prepared in accordance with International Financial Reporting Standards ("IFRS").

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Company omitted disclosures which would substantially duplicate the information contained in its 2011 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequent to the issuance of its 2011 audited consolidated financial statements. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the information presented not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's 2011 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present fairly the Company's financial position, results of operations, statements of changes in shareholders' equity and cash flows for the interim reporting periods.

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by the Russian legislation. The accompanying IFRS interim condensed consolidated financial statements were derived from the Company's Russian statutory books and records.

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

The interim condensed consolidated financial statements for the three months ended March 31, 2012 were approved and authorized for issue by the President of the Company on May 2, 2012.

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited) (continued)

3. Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied and disclosed in the Company's IFRS annual consolidated financial statements for the year ended December 31, 2011.

Seasonality of operations

The Company's operations are not seasonal. Income and expenses are recognized on a straight-line basis throughout the year.

4. Business combinations

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

The following table summarizes the Company's preliminary 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	4
Total non-current assets	5
Deferred tax liabilities	1
Total non-current liabilities	1
Total net assets acquired	4

5. Segment information

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

Segment performance is evaluated based on both revenues and operating income which are measured on the same basis as in the consolidated financial statements, and of revaluation of intersegment transactions at market prices.

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Notes to Interim Condensed Consolidated Financial Statements (unaudited) (continued)

5. Segment information (continued)

Below is performance of the operating segments for the three months ended March 31, 2012:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues					
Revenues from external customers	11	731	6	–	748
Intersegment revenues	301	–	–	(301)	–
Total revenues	312	731	6	(301)	748
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	164	703	17	(301)	583
Depreciation, depletion and amortization	45	8	1	–	54
Total costs and expenses	209	711	18	(301)	637
Operating income	103	20	(12)	–	111
Finance income					6
Finance expenses					(5)
Total finance income					1
Equity share in profits of associates and joint ventures					9
Other income					22
Income before income tax					143
Income tax					(31)
Net income					112

Below is performance of the operating segments for the three months ended March 31, 2011:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues					
Revenues from external customers	2	578	8	–	588
Intersegment revenues	282	–	–	(282)	–
Total revenues	284	578	8	(282)	588
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	113	548	15	(282)	394
Depreciation, depletion and amortization	43	6	1	–	50
Total costs and expenses	156	554	16	(282)	444
Operating income	128	24	(8)	–	144
Finance income					5
Finance expenses					(5)
Total finance expenses					–
Equity share in profits of associates and joint ventures					2
Other income					10
Income before income tax					156
Income tax					(33)
Net income					123

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Notes to Interim Condensed Consolidated Financial Statements (unaudited) (continued)

5. Segment information (continued)

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

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Oil and gas sales		
Export sales of crude oil – Europe and other destinations	246	212
Export sales of crude oil – Asia	105	99
Export sales of crude oil – CIS, other than Russia	21	12
Domestic sales of crude oil	2	1
Domestic sales of gas	4	4
Total oil and gas sales	378	328

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Petroleum products and petrochemicals sales		
Export sales of petroleum products – Europe	167	91
Export sales of petroleum products – Asia	59	54
Export sales of petroleum products – CIS, other than Russia	2	1
Domestic sales of petroleum products	111	98
Domestic sales of petrochemical products	3	3
International sales of petrochemical products to non-CIS	18	1
Total petroleum products and petrochemicals sales	360	248

6. Export customs duty

Export customs duty comprises the following:

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Export customs duty on oil and gas sales	155	110
Export customs duty on petroleum products and petrochemicals sales	52	37
Total export customs duty	207	147

7. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Current income tax expense	35	40
Deferred tax benefit due to the origination and reversal of temporary differences	(4)	(7)
Total income tax expense	31	33

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Notes to Interim Condensed Consolidated Financial Statements (unaudited) (continued)

7. Income tax and other taxes (continued)

In addition to income tax, the Company accrued other taxes as follows:

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Mineral extraction tax	133	86
Excise tax	18	12
Property tax	3	3
Other	7	5
Total taxes other than income tax	161	106

8. Other income and expenses

Other income and expenses comprise:

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Result of operations with foreign currency, foreign exchange differences	26	15
Sale and disposal of property, plant and equipment and intangible assets	1	–
Total other income	27	15
Sale and disposal of property, plant and equipment and intangible assets	–	1
Disposal of companies and non-production assets	1	1
Charity, sponsorship, financial aid, social payments	2	1
Other	2	2
Total other expenses	5	5

9. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	March 31, 2012 (unaudited)	December 31, 2011
Cash on hand and in bank accounts in RUB	12	22
Cash on hand and in bank accounts in foreign currencies	70	62
Deposits	27	80
Others	4	2
Total cash and cash equivalents	113	166

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Notes to Interim Condensed Consolidated Financial Statements (unaudited) (continued)

10. Short-term financial assets

Short-term financial assets comprise the following:

	March 31, 2012 (unaudited)	December 31, 2011
Financial assets available for sale:		
Bonds	15	13
Stocks and shares	5	2
Loans and receivables:		
Loans granted	2	2
Loans issued to associates	1	4
Notes receivable, net of allowance	42	36
Loans granted under reverse repurchase agreements	2	22
Deposits and deposit certificates	21	21
Structured deposits	12	31
Held-for-trading financial assets at fair value through profit or loss:		
Corporate bonds	17	16
Government bonds	2	3
Total short-term financial assets	119	150

11. Accounts receivable

Accounts receivable, net of allowance, include the following:

	March 31, 2012 (unaudited)	December 31, 2011
Trade receivables	240	183
Banking loans to customers	27	24
Other accounts receivable	11	15
Total	278	222
Valuation allowance for doubtful accounts	(5)	(5)
Total accounts receivable, net of allowance	273	217

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

12. Inventories

Inventories comprise the following:

	March 31, 2012 (unaudited)	December 31, 2011
Crude oil and associated gas	49	46
Petroleum products and petrochemicals	59	46
Materials and supplies	21	23
Work in progress	14	11
Total inventories	143	126

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited) (continued)

12. Inventories (continued)

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
The cost of inventories expensed during the period	97	35

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, General and administrative expenses.

13. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	March 31, 2012 (unaudited)	December 31, 2011
Value added tax and excise tax recoverable	73	62
Prepayments to suppliers	24	25
Prepaid customs duties	33	51
Other taxes	4	11
Other	5	3
Total prepayments and other current assets	139	152

14. Property, plant and equipment

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
Cost				
As of December 31, 2011	2,204	472	98	2,774
Additions and other movements	80	38	6	124
Disposals and other movements	(4)	(1)	(7)	(12)
Exchange differences	(9)	–	–	(9)
As of March 31, 2012	2,271	509	97	2,877
Depreciation, depletion and impairment losses				
As of December 31, 2011	(474)	(84)	(32)	(590)
Depreciation and depletion charge	(44)	(8)	(2)	(54)
Disposals and other movements	–	–	1	1
Exchange differences	6	–	–	6
As of March 31, 2012	(512)	(92)	(33)	(637)
Net book value				
As of December 31, 2011	1,730	388	66	2,184
As of March 31, 2012	1,759	417	64	2,240
Prepayments for property, plant and equipment				
As of December 31, 2011	11	29	7	47
As of March 31, 2012	9	44	9	62
Total as of December 31, 2011	1,741	417	73	2,231
Total as of March 31, 2012 (unaudited)	1,768	461	73	2,302

The Company capitalized RUB 5 billion and RUB 3 billion of interest expenses on loans and borrowings for the three months ended March 31, 2012 and the three months ended March 31, 2011, respectively.

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited) (continued)

15. Investments in joint ventures and associates

Taas-Yuryakh Neftegazodobycha LLC

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

Shares of CJSC Arcticshelfneftegaz

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

16. Assets held for sale

In March 2012, the Company entered into a sales-purchase agreement for investments in associates OJSC Kubanenergo and OJSC Tomsk Distribution Company with simultaneous purchase of additionally issued shares of OJSC IDGC Holding for the same amount. The Company recorded the disposal group at the lower of its carrying amount and fair value less costs to sell. This had no effect on the total consolidated comprehensive income of the Company for the three months ended March 31, 2012. The transaction was completed in April 2012 (see Note 22).

17. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	March 31, 2012 (unaudited)	December 31, 2011
Accounts payable to suppliers and contractors	97	97
Advances received	17	18
Banking customer accounts	39	40
Salary and other benefits payable	23	17
Other accounts payable	13	9
Total accounts payable and accrued liabilities	189	181

Current accounts payable are normally settled within 29 days on average (2011: 32 days). Interest rates on banking customer accounts amount to 0.035%-2.0% p.a. Trade and other payables are non-interest bearing.

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited) (continued)

18. Other tax liabilities

Other tax liabilities comprise the following:

	March 31, 2012 (unaudited)	December 31, 2011
Mineral extraction tax	48	41
Value added tax	17	13
Excise tax	10	7
Personal income tax	1	–
Property tax	3	3
Other	–	2
Total other tax liabilities	79	66

19. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
<i>Non-current</i>	54	3	–	57
<i>Current</i>	–	1	5	6
As of December 31, 2011, including	54	4	5	63
Provisions charged during the year	2	1	–	3
Increase (decrease) in the liability resulting from:				
<i>Changes in estimates</i>	3	–	(1)	2
<i>Unwinding of discount</i>	1	–	–	1
As of March 31, 2012 (unaudited), including	60	5	4	69
<i>Non-current</i>	60	4	–	64
<i>Current</i>	–	1	4	5

20. Related party transactions

For the purposes of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the normal course of business the Company enters into transactions with the following related parties: joint ventures and associates; joint operations; enterprises directly or indirectly controlled by the Russian Government; key management personnel; pension funds.

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

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

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited)
(continued)

20. Related party transactions (continued)

Transactions with companies directly or indirectly controlled by the Russian Government

Revenues and income

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Oil and gas sales	30	12
Petroleum products and petrochemicals sales	7	8
Finance income	1	3
	38	23

Costs and expenses

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Production and operating expenses	2	1
Pipeline tariffs and transportation costs	45	42
Other expenses	1	–
	48	43

Other operations

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Purchase of financial assets and investments in associates	(13)	(1)
Loans received	14	–
Loans repaid	(3)	(3)
Repayment of loans and borrowings issued	1	–
Deposits placed	(3)	(6)
Deposits repaid	35	38

Settlement balances

	March 31, 2012 (unaudited)	December 31, 2011
Assets		
Cash and cash equivalents	51	55
Accounts receivable, net of allowance	14	11
Prepayments and other current assets	11	16
Financial assets	15	11
	91	93
Liabilities		
Accounts payable and accrued liabilities	2	2
Loans and borrowings	13	–
	15	2

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited)
(continued)

20. Related party transactions (continued)

Transactions with joint ventures

Costs and expenses

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Cost of purchased oil, gas and petroleum products	24	14
Pipeline tariffs and transportation costs	1	1
Other expenses	1	–
	26	15

Other operations

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Loans received	–	2
Repayment of loans and borrowings issued	2	–

Settlement balances

	March 31, 2012 (unaudited)	December 31, 2011
Assets		
Accounts receivable, net of allowance	–	1
Financial assets	4	6
	4	7
Liabilities		
Accounts payable and accrued liabilities	2	1
Loans and borrowings	8	7
	10	8

Transactions with associates

Revenues and income

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Oil and gas sales	–	1
Petroleum products and petrochemicals sales	1	2
Support services and other revenues	1	2
	2	5

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited)
(continued)

20. Related party transactions (continued)

Transactions with associates (continued)

Costs and expenses

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Cost of purchased oil, gas and petroleum products	3	2
Production and operating expenses	1	2
Other expenses	1	–
	5	4

Other operations

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Purchase of financial assets	–	(5)
Loans received	1	–
Repayment of loans and borrowings issued	–	4

Settlement balances

	March 31, 2012 (unaudited)	December 31, 2011
Assets		
Accounts receivable, net of allowance	6	8
Financial assets	7	10
	13	18
Liabilities		
Accounts payable and accrued liabilities	13	8
	13	8

Transactions with non-state pension fund NPF Neftegarant

Costs and expenses

	Three months ended March 31, 2012 (unaudited)	Three months ended March 31, 2011 (unaudited)
Other expenses	1	1

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited) (continued)

21. 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. At the beginning of 2012 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Company's future consolidated financial position, consolidated results of operations and business prospects.

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

Legal claims

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

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

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

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited) (continued)

21. Contingencies (continued)

Legal claims (continued)

In addition to the amounts paid, Yukos Capital S.a.r.l. continues to seek statutory interest in the High Court of Justice in London in the amount of approximately RUB 4.6 billion as of the date of its Particulars of Claim. On June 14, 2011, the High Court issued an interim decision on two preliminary issues it had agreed to consider prior to reaching a decision on the merits of the claim. Although Yukos Capital S.a.r.l. prevailed on both issues, the court granted the Company leave to appeal. The English Court of Appeal heard the appeal on March 20-22, 2012 and its decision is expected later this year. Once the Company's appeal is decided, a timetable for the trial will be set. The Company intends to defend its position vigorously in the remaining proceedings in England.

In 2007, lawsuits were filed in Russian arbitration courts in Moscow and Samara to nullify the loan agreements with Yukos Capital S.a.r.l. Court hearings on both cases were suspended for some time. However, on July 29, 2011 the Arbitration Court of the Samara Region reopened its proceedings and at a hearing on February 1, 2012 declared invalid the loan agreements between Yukos Capital S.a.r.l. and OJSC Samaraneftgaz. Yukos Capital S.a.r.l.'s appeal is currently suspended due to technical defects, which it was ordered to rectify by May 16, 2012. On February 21, 2012 the Moscow Arbitration Court also reopened its proceedings. Currently the hearing is scheduled for May 22, 2012.

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

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

On February 15, 2011, the Arbitration Court of the Samara Region denied Yukos Capital S.a.r.l.'s enforcement application. The time for cassation appeal from the ruling has lapsed without Yukos Capital S.a.r.l. having filed such an appeal. On May 13, 2011, the U.S. S.D.N.Y. lifted the January 7, 2011 stay and ordered limited discovery solely on the issue of whether the U.S. S.D.N.Y. has jurisdiction to consider Yukos Capital S.a.r.l.'s petition. On January 20, 2012 OJSC Samaraneftgaz filed a motion for summary judgment on the issue of personal jurisdiction. Yukos Capital S.a.r.l. replied on February 17, 2012. Samaraneftgaz submitted its response on March 5, 2012. Further proceedings will be determined by the U.S. S.D.N.Y. in due course.

The Company and its subsidiary participate in arbitral proceedings related to bankruptcy of OJSC Sakhaneftgaz and OJSC Lenaneftgaz for the recovery of certain loans and guarantees of indemnity in the amount of RUB 1.3 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 March 31, 2012, the total amount of administrative fines levied by FAS Russia and its regional bodies against Rosneft and its subsidiaries amounts approximately to RUB 0.8 billion, including a fine of RUB 0.4 billion imposed on one of the Company's subsidiaries which is expected to be paid in the second quarter of 2012.

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.

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited) (continued)

21. 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. The Company's management is in the process of developing a new approach to assess consequences of the new tax rules, to prevent substantial negative impact on the Company's consolidated financial statements.

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 the major subsidiaries of the Company, including Rosneft. Rosneft became a responsible taxpayer of the group. The Company management believes that creation of the Consolidated group of taxpayers does not lead to significant changes of tax burden of the Company for the purpose of these interim consolidated financial statements.

During the reporting period, the tax authorities continued examinations of the Company and its subsidiaries for 2007-2010 fiscal years. The Company and its subsidiaries have disputed a number of claims in pre-trial appeal in federal tax service. The Company does not expect results of the examinations to have a material impact on the Company's consolidated financial position or results of operations.

As of March 31, 2012, the amount of VAT potentially unrecoverable from the tax authorities is immaterial.

The Company management believes that the above tax risks will not have any significant impact on the Company's consolidated financial position or results of operations.

Overall, management believes that the Company has paid or accrued all taxes that are applicable. For taxes other than income tax, where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate of the probable outflow of resources, which will be required to settle these liabilities. Potential liabilities which were identified by management at the reporting date as those that can be subject to different interpretations of tax laws and regulations are not accrued in the consolidated financial statements.

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited) (continued)

21. 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. Depending on the current market situation, actual expenditures may differ from the budgeted amounts.

As of March 31, 2012, the Company's contractual commitments for capital construction and purchase of property, plant and equipment amount to RUB 316.6 billion.

Environmental liabilities

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

22. Events after the reporting period

In April 2012, the Company acquired 1,588,994,637 ordinary shares of OJSC IDGC Holding issued additionally. Payment for the shares was made from proceeds received from the sale of investments in associates OJSC Kubanenergo and OJSC Tomsk Distribution Company. As a result of this acquisition, the Company's ownership interest in OJSC IDGC Holding became 3.15%.

In April 2012, the Company and ExxonMobil signed agreements to implement a long-term Strategic Cooperation Agreement concluded in August 2011 to jointly explore for and develop oil and natural gas in Russia and to share technology and expertise. The agreements signed form joint ventures to manage an exploration program in the Kara Sea and Black Sea. They also set the terms for investments to be made by the partners in Russian offshore projects.

In April 2012, the Company and Eni signed an agreement which envisages cooperation between the parties to set up a joint venture to explore the Fedynsky and Central Barentsevskiy subsoil plots in the Barents Sea and the Zapadno-Chernomorskaya subsoil plot in the Black Sea. Eni's equity interest in the project will be equal to 33.33%. In accordance with the final agreements, Eni will finance comprehensive geological exploration work to confirm the commercial value of the subsoil plots.

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 30.8 billion at the CBR official exchange rate as of March 31, 2012) and EUR 0.85 billion (RUB 33.3 billion at the CBR official exchange rate as of March 31, 2012) is received from the syndicate of foreign banks for 5 years under floating rates. The other one is received from a Russian bank under a fixed rate in the amount of US\$ 1.0 billion (RUB 29.3 billion at the CBR official exchange rate as of March 31, 2012) repayable in 2015. Loans are fully drawn down.

In April 2012, Rosneft's Board of Directors recommended shareholders to approve dividends on the Rosneft's common shares for 2011 in the amount of RUB 36.6 billion or RUB 3.45 per share.

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited) (continued)

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