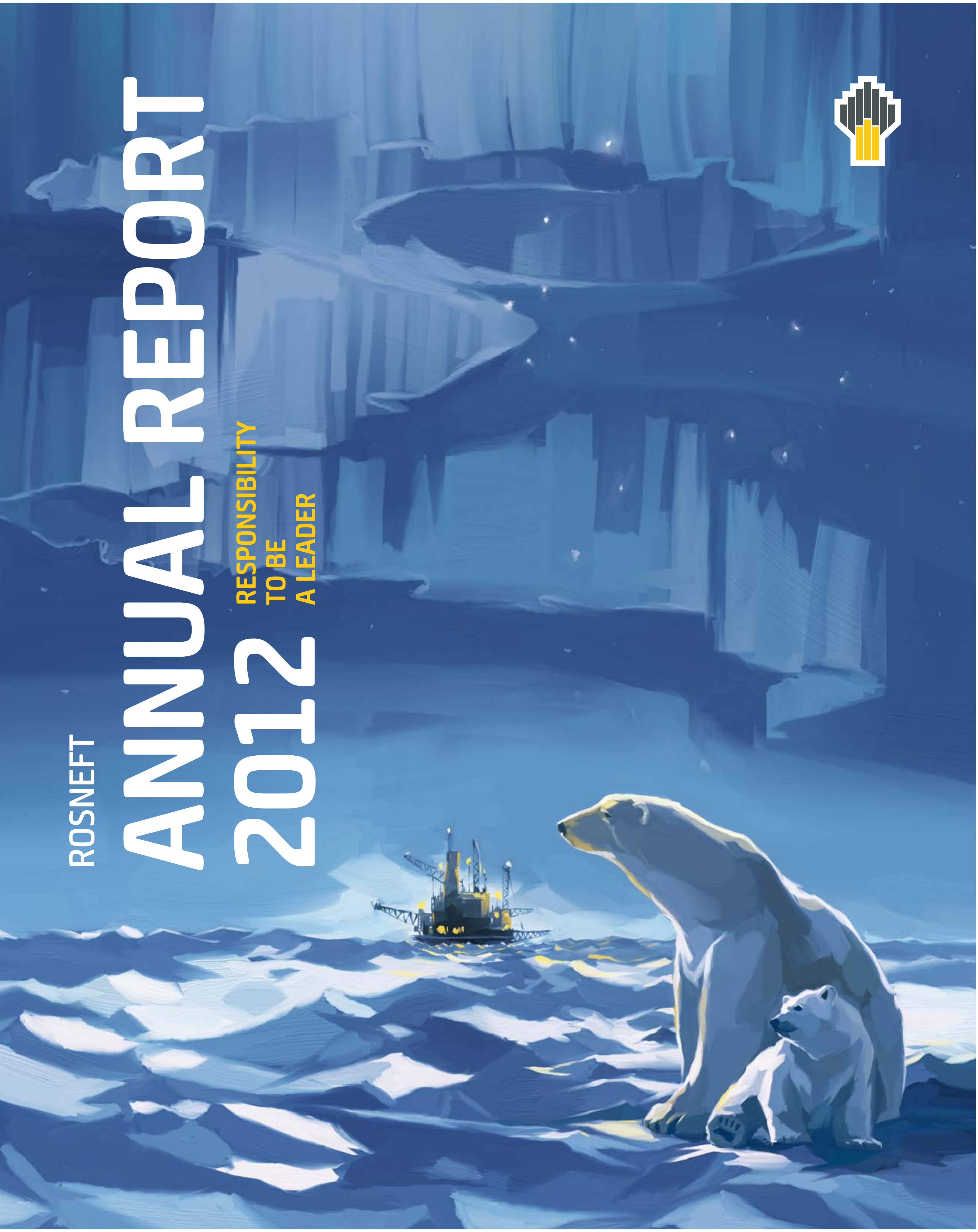
ROSNEFT

ANNUAL REPORT 2012

RESPONSIBILITY TO BE A LEADER



ROSNEFT IS THE LEADER OF THE RUSSIAN OIL INDUSTRY AND ONE OF THE WORLD'S LARGEST PUBLICLY TRADED OIL AND GAS CORPORATIONS

BUSINESS GEOGRAPHY:
Nearly all regions of Russia and a number of foreign countries.

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

MAIN ASSETS:
- PRMS proved reserves: 18.3 billion barrels of crude oil and 992 bcm of gas;
- 424 producing fields with annual output above 890 million barrels of oil and 16 bcm of gas;
- 7 oil refineries in Russia with aggregate refining capacity of 54 mln t of oil per annum;
- Stakes in 4 refineries in Germany with net capacity of 11.5 mln t of oil per annum;
- 1,691 operating filling stations under the Rosneft brand in 46 regions of Russia and 3 filling stations in Abkhazia.

COMPETITIVE ADVANTAGES:
- Resource base of unique scale and quality;
- Russia's largest greenfield projects;
- Lowest unit lifting costs;
- Status of a Company of strategic importance for the Russian Federation.

FUTURE:
A global energy Company, providing consistently high returns to shareholders through sustainable growth, efficiency gains and innovation, including the design and application of new technologies.

DEVELOPMENT PRIORITIES:
- Maintaining production levels at existing fields and development of new fields, both onshore and offshore;
- Bringing hard-to-recover reserves into production;
- Efficient monetization of associated and natural gas reserves;
- Completing modernization of refining capacities;
- Increasing marketing efficiency in Russia and internationally;
- Achieving technology leadership thanks to in-house research and development work and strategic partnerships;
- Implementing best practice in protection of the environment and industrial safety.

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

The terms 'TNK-BP' and 'company TNK-BP' refer to TNK-BP Group.

Contents

Address by the Chairman of the Board

DEAR SHAREHOLDERS,

Rosneft turned strategic and ambitious plans into reality during 2012, achieving positive results in all spheres of Company business and giving a new impetus to the development of Russia's fuel and energy sector.

First of all, I want to emphasize the importance of our acquisition of TNK-BP. Completion of this transaction – of unprecedented scale – will make Rosneft a global leader among publicly traded companies in terms of hydrocarbon production and reserves. And major synergies from integration of the assets of TNK-BP will be a powerful driver for our Company's shareholder value.

Our business results in the reporting year confirmed once again the status of Rosneft as one of the fastest growing vertically integrated oil companies in the world. Daily production of hydrocarbons increased by 4.5% and refinery throughput by 6.4% compared with 2011.

The Company is meeting its targets for reserve replacement, using all available opportunities to increase its resource base. In addition to developing the existing fields, we are engaged in an ambitious enterprise to develop the resource potential of the Russian offshore and to realize the potential of hard-to-recover reserves. Rosneft's exploration and production projects have proved attractive to international majors: ExxonMobil, Eni and Statoil have all entered into large-scale cooperation agreements with Rosneft, which include financing commitments. A system of tax preferences is being set up in Russia to improve the efficiency of offshore projects and of work with hard-to-recover reserves, encouraging further foreign capital inflows.

The refinery modernization programme remains one of our priorities. It is aimed at increasing outputs of high-margin products that meet requirements of the Russian Govern-

ment's Technical Regulations for fuel quality. Total investments in modernization and construction of new facilities at Rosneft refineries in 2012 were around RUB 140 billion, and a total of 16 refining units have been built or renovated since the programme was launched.

We continued work to improve the efficiency of our sales business in 2012, including optimization of the distribution network, logistics and sales channels in Russia and abroad. Achievements include growth of sales through our network of filling stations and the signing of long-term contracts with major trading companies.

The application of complex and innovative solutions is crucial to the success of many strategic projects in the oil and gas industry, and only technology leaders have the capacity to carry them out. Rosneft is pursuing its own research work, applying solutions for more efficient production at mature fields and commercial development of fields with low-permeability reservoirs. Investments by Rosneft in the Company's Innovative Development Programme totaled RUB 9.9 billion in 2012, which is 16% more than in 2011. This work resulted in Rosneft applying for 18 patents.

Rosneft is the flag-bearer in development of the Russian Arctic shelf, and therefore has a special responsibility for protecting the environment. In 2012, the Company signed a declaration with ExxonMobil and Statoil on protection of the environment and of biodiversity during exploration and development of shelf oil and gas resources. Draft agreements on cooperation were prepared with the Russian Ministry for Emergency Situations, the Russian Space Agency and the Ministry of Transport, and positive assessments were obtained from government environmental panels.

Strong financial results enabled us to almost triple dividends for 2011 in comparison with 2010 to RUB 78.5 billion. Dividend payout has thus risen to 25% of IFRS net income, and we intend to maintain this level in the future.

Efficient decision-making and a proactive approach by management resulted in a 35% rise of the Rosneft share price last year.

Our achievements in the reporting period create an excellent platform for the further development of our business and for strong growth of shareholder value of Rosneft.

Chairman of the Board of Directors
OJSC Rosneft Oil Company
Alexander Nekipelov

Address by the Company President

DEAR SHAREHOLDERS,

In 2012, Rosneft continued the successful implementation of its ambitious strategic initiatives, proving that the objectives it has set for itself in all spheres of business are attainable.

The key event for Rosneft in the reporting period was undoubtedly reaching binding agreements to acquire a 100% stake in TNK-BP. Full consolidation of this highly efficient company with its quality assets will make Rosneft the largest publicly traded oil company in the world, increase the scale of its gas business, and optimize supply and marketing channels. Completion of the transaction will also lead to an increase in the shareholding of BP, one of our key strategic investors, to approximately 20%.

We made substantial progress during the reporting year in implementation of strategic agreements with ExxonMobil, Eni and Statoil to explore the vast potential of the Russian shelf and to develop hard-to-recover reserves. We also joined a number of international projects as part of cooperation agreements with our partners, which will give us the opportunity to acquire unique expertise.

In the reporting year Rosneft confirmed its status as the world's largest publicly traded oil company by proven liquid hydrocarbon reserves and by hydrocarbon resources. The replacement ratio for crude oil reserves exceeded 130% and hydrocarbon resources increased by almost 50%.

The Company obtained 32 new licenses in 2012, including 8 on Russia's continental shelf. We also discovered 4 new fields and 31 deposits in the course of the year. Rosneft carried out geological exploration activities in the Pechora and Kara Seas, as a result of which we identified a priority structure for drilling in the Kara Sea – the Universitetskaya structure. Drilling will start in 2014, a year earlier than had been scheduled under the license. Further additions were made to our license portfolio at the start of 2013, when we obtained 12 licenses to areas in the Barents, Kara, Chukchi and Laptev seas.

Strong production growth of 2.8% in 2012 was made possible by an increase in output at Rosneft's new fields in East Siberia (Vankor and Verkhnechonsk) and maintenance of a stable production level in Central Russia and West Siberia. Total crude oil output reached 893 million barrels by the year end. The Company consistently outperforms its competitors by rates of production growth, and our lifting costs are the lowest in the world.

Monetization of gas potential is among our Company's strategic objectives, and a number of important steps were taken in 2012 for the development of gas business. The creation of a joint venture on the basis of Itera has substantially increased our natural gas assets and given us access to a large and well-established distribution network in Russian regions. Long-term gas supply contracts were signed in the reporting year with major power generating companies: INTER RAO UES, Fortum, E.On, Enel and RusHydro.

Rosneft refineries inside and outside Russia processed 62 million tonnes of crude oil in 2012. Increase in refining volumes by 6% reflects the acquisition in 2011 of a 50% stake in Ruhr Oel GmbH, as well as the Company's modernization programme for its Russian refineries. Upgrade of a reforming unit was completed and a delayed coking unit was commissioned at the Komsomolsk Refinery, and construction of a primary oil refining unit with an annual capacity of 12 million tonnes was completed at the Tuapse Refinery.

Rosneft worked intensively on development of its distribution channels during 2012 to ensure that its crude oil and petroleum products are sold as efficiently as possible. The Company signed an agreement with Transneft for joint construction of a pipeline spur from the Eastern Siberia - Pacific Ocean trunk oil pipeline to the Komsomolsk Refinery. Another important event was commercial launch of the Knevichi refueling complex at Vladivostok airport. The launch marks completion of the largest aircraft refueling project of regional significance to be implemented in Russia since the Soviet period.

During 2012 we further strengthened our positions in Venezuela, which ranks the first in the world by proven oil reserves. Rosneft increased its stake in the Junin-6 project, where first oil was produced in the reporting year.

Successful operations ensured strong financial performance in 2012. Net income for the year increased by 7.2% to a historical high of RUB 342 billion.

The business achievements of Rosneft make a substantial contribution to economic and social stability in Russia. The Company once again became the country's largest taxpayer in 2012, paying 1.6 trln RUB to budgets at all levels.

Extensive work is being done to ensure high standards of corporate governance through modernization of the Company's organizational structure, improvement of management efficiency and optimization of personnel number. The Company has installed a transparent and efficient mechanism for making investment decisions, helping us to create an optimal project portfolio that achieves target rates of return.

We are continuing intensive work during 2013 to increase the shareholder value. Our key objectives for the year are efficient integration of TNK-BP assets, bringing unconventional hydrocarbon resources into production, development of our gas business, and increasing our output of light petroleum products.

I would like to thank Company employees for their contribution to achieving excellent operating and financial results, and for the work in the interests of the shareholders of Rosneft.

President, Chairman
of the Management Board
OJSC Rosneft Oil Company
Igor Sechin

Key Events in 2012

01

Conclusion of separate agreements with BP and AAR to acquire a 100% stake in TNK-BP. As part of the transaction BP acquired 5.66% of shares in Rosneft from ROSNEFTEGAZ, making BP the second largest shareholder in Rosneft with nearly 20% interest. The transaction was completed on March 21, 2013. For details, please refer to page 14–23.

02

An agreement was signed as part of strategic cooperation between Rosneft and ExxonMobil concerning pilot development of Bazhenov and Achimov formations in West Siberia. ExxonMobil will provide financing of up to USD 300 mln. The two companies also agreed on participation by ExxonMobil in the Arctic Research and Design Center for Offshore Developments.

03

The Agreements were signed with Statoil for creation of a joint venture (JV) to work at Rosneft areas in the Sea of Okhotsk and the Barents Sea, and for joint work to assess hard-to-recover oil reserves at Company fields in West Siberia and Stavropol Territory.

04

An agreement was signed with Eni for creation of a JV to develop license areas on the Russian shelf of the Barents and Black Seas. Eni will fully finance geological exploration work and will reimburse most historical costs.

05

A transaction was completed for creation of a JV on the basis of Itera for the production and sale of gas. Consolidated proved and probable reserves of the JV under PRMS classification are 427 bcm of gas and 212.5 mln barrels of liquid hydrocarbons.

06

The General Meeting of Shareholders voted to pay RUB 78.5 bln (25% of IFRS net income) as dividends for 2011. Dividends per share were RUB 7.53, which is nearly three times more than in 2010.

07

An agreement was signed in the framework of cooperation with the state oil company of Venezuela (PDVSA) on the creation and management of a JV for development of ultra-heavy crude oil at the Carabobo-2 (North) and Carabobo-4 (West) blocks and on production of synthetic crude oil. Also, the first heavy oil was produced as part of a second JV with PDVSA at the Junin-6 block.

08

Heads of terms were agreed for long-term contracts with Glencore and Vitol, the two largest trading companies in the world. The contracts were signed at the beginning of 2013 and call for supply of up to 490 mln barrels t of crude oil over 5 years with prepayment of up to USD 10 bln.

09

A 25-year contract was signed with INTER RAO UES for the delivery of 875 bcm of gas. The contract envisages annual deliveries of up to 35 bcm on a take-or-pay basis starting from 2016.

Central processing and pumping facility at Yuganskneftegaz

01 ACQUISITION OF TNK-BP: REACHING A NEW LEVEL

The acquisition of TNK-BP makes Rosneft the biggest public company in the world by levels of hydrocarbon production and reserves

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THE PURCHASE OF THE TNK-BP GROUP IS AN ACQUISITION OF A UNIQUE SCALE BY BOTH RUSSIAN AND INTERNATIONAL STANDARDS

4

MLN BARRELS
of oil per day

The key source for growth of hydrocarbon production today is development of resources in locations with severe natural environment and climate and/or complex geology. Leading international oil & gas companies are compelled to develop new types of fields with hard-to-recover reserves as well as hydrocarbon resources on shelf. Such projects require substantial capital investments, and can only be implemented with confidence by the largest international companies, which have the unique technological expertise. Growth in the scale of projects was largely determined by the large mergers of the late 1990s, which led to the creation of such companies as ExxonMobil, Chevron Texaco, as well as shaping Total and BP in their present form.

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39.4

BLN BARRELS
of oil equivalent of proved hydrocarbon reserves

Non-organic growth remains an important element of the strategy of every large oil & gas company today. By acquiring the TNK-BP Group, Rosneft will not only increase the scale of its business and take the first place by production and reserve volumes among the world's publicly traded oil companies, but will also achieve other goals of strategic importance to the Company, including the development of gas business and greater efficiency in marketing.

Levels of production by Rosneft will expand to more than 4 mln barrels of oil per day, which is about 5 % of global output, and to more than 40 bcm of gas. Total proved reserves of oil and gas to PRMS standards will exceed 39 bln barrels of oil equivalent. Oil refining by the Company will be close to 100 mln tonnes.

11

OIL REFINERIES
in Russia

Rosneft's production assets will be supplemented by the massive Samotlor field, and by production companies in the Khanty-Mansiysk and Yamalo-Nenets Autonomous Districts, Tyumen, Orenburg and Samara Regions and Krasnoyarsk Territory. Production and exploration will be carried out at more than 830 license areas. ABC1+C2 recoverable reserves will be in excess of 11 bln tonnes of oil and condensate and 5.8 tcm of gas. The united Company will manage 11 refineries in Russia and 6 outside Russia (interest in 4 refineries in Germany and the Mozyr Refinery in Belarus as well as the Lisichansk Refinery in Ukraine), and will sell fuels and lubricants through a network of 2,435 filling stations. The acquisition of TNK-BP also expands Rosneft's international business, including 5 projects in Venezuela, as well as projects in Brazil and Vietnam.

TNK-BP IS BEING PURCHASED ON BENEFICIAL TERMS FOR ROSNEFT. PRICING OF THE TRANSACTIONS MATCHES FAIR VALUE OF THE ASSETS BEING ACQUIRED

OBJECTIVE: TO CREATE, IN THE SHORTEST POSSIBLE TIMEFRAME, A UNITED COMPANY WHICH CORRESPONDS TO THE STRATEGIC DEVELOPMENT PLANS OF ROSNEFT

JULY 2012

Declaration of interest in purchase of BP's interest in TNK-BP

OCTOBER 2012

Agreements are reached with BP on the acquisition of a 50% interest in TNK-BP; heads of terms reached with AAR

NOVEMBER 2012

The Board of Directors of Rosneft approves terms of the transactions with BP; definitive agreements are signed with BP on purchase of a 50% interest in TNK-BP; final approval is obtained from the Russian Government for the purchase of 100% of TNK-BP

DECEMBER 2012

The Board of Directors of Rosneft approves terms of the transaction with the AAR Consortium; the agreement for sale and purchase of a 50% interest in TNK-BP is signed with the AAR Consortium; approvals are obtained from anti-trust bodies in Russia and Ukraine

FEBRUARY 2013

Approval from the Oil and Mining Industry Ministry of Venezuela

MARCH 2013

Anti-trust approval from the European Commission

MARCH 21, 2013

Closure of transactions

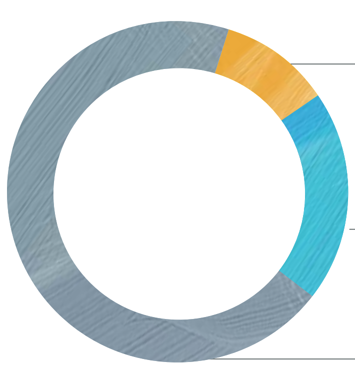
20%

BP will have a 20% stake in the share capital of Rosneft after completion of the transaction

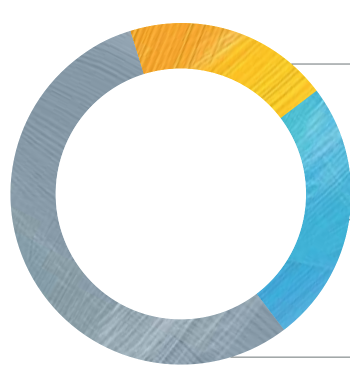
26%

The Rosneft share price has risen by 26% since the transaction was announced

Shareholder structure after TNK-BP acquisition



Financing framework of TNK-BP acquisition



On October 22, 2012 Rosneft achieved principle agreements on purchase of the TNK-BP Group through two separate transactions: 50% from BP and 50% from the AAR Consortium. Final sale-and-purchase agreements were made:

1. on November 22, 2012 with BP;
2. on December 12, 2012 with the AAR Consortium.

On March 21, 2013 BP sold its interest in the companies TNK-BP Limited (the parent company of TNK-BP Group) and TNK Industrial Holdings Limited to Rosneft for USD 16.65 bln in cash and 12.84% of Rosneft shares. Separately, BP acquired 5.66% of Rosneft shares from OJSC ROSNEFTEGAZ for USD 4.87 bln. As a result BP received USD 12.48 bln in cash (including dividends of USD 0.71 bln, received in December 2012) and became the owner of 19.75% of the shares of Rosneft (including 1.25% already owned by BP), so that BP will be entitled to two seats in the Company's Board of Directors.

Under the terms of the transaction with AAR, the Company has acquired the Consortium's stake in the companies TNK-BP Limited and TNK Industrial Holdings Limited in exchange for USD 27.73 bln.

The transactions are financed through an efficient combination of own funds and borrowings.

In December 2012, Rosneft signed an agreement to receive loans amounting to USD 16.8 bln from a group of international banks to finance purchase of BP stake: USD 4.1 bln for five years and USD 12.7 bln for two years. In February 2013, agreements were reached with a group of international banks on a loan of USD 14.2 bln to finance purchase of the AAR stake.

The borrowing terms are among the most favorable on the current market for lending to Russian companies. The loans will be refinanced by issue of eurobonds and rouble bonds and by obtaining prepayment in contracts with traders.

Upstream Business of the United Company

THE COMPANY WILL STRENGTHEN ITS POSITIONS IN RUSSIA AND ON INTERNATIONAL MARKETS BY EXPANSION OF ITS BUSINESS GEOGRAPHY AND EFFICIENT MANAGEMENT OF JOINT PROJECTS

Rosneft assets

- Oil production assets
- Exploration assets
- Gas projects

TNK-BP assets

- Oil production assets
- Exploration assets
- Gas projects

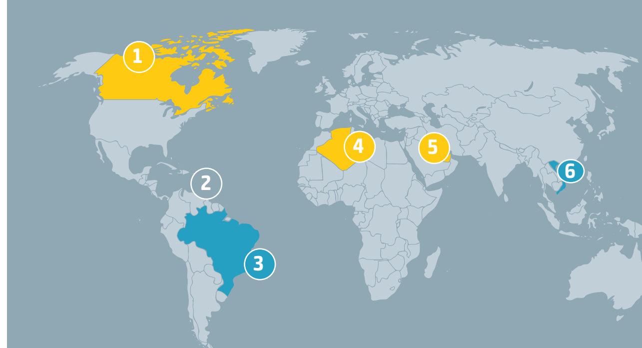
Itera assets

- Gas projects

MAIN ASSETS:

30.6	BLN BARRELS OF PROVED OIL RESERVES
1.5	TRILLION CUBIC METERS OF PROVED GAS RESERVES
4	MLN BARRELS OF OIL PER DAY
850	LICENSE AREAS
11	BLN TONNES OF RECOVERABLE OIL RESERVES

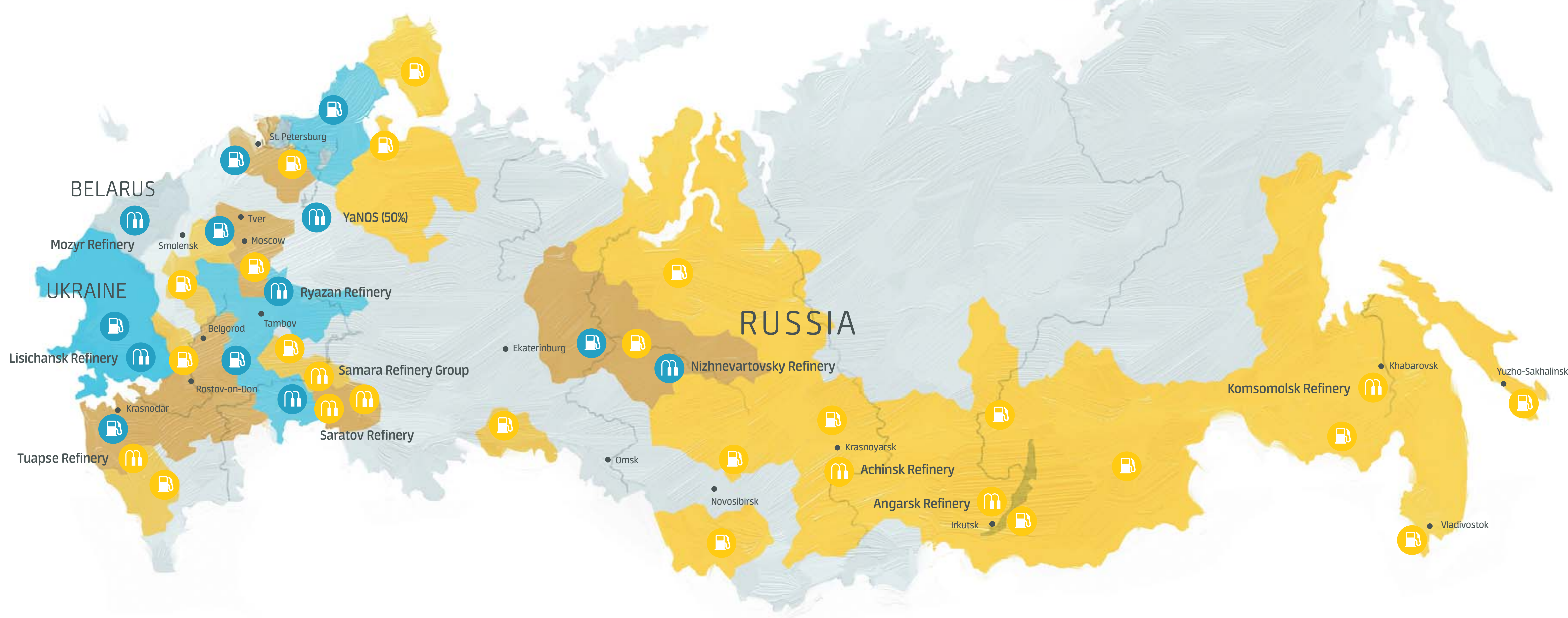
INTERNATIONAL PROJECTS OF ROSNEFT AND TNK-BP



1 Canada
2 Venezuela
3 Brazil
4 Algeria
5 UAE
6 Vietnam

Downstream Business of the United Company

THE COMPANY WILL IMPROVE OPERATING EFFICIENCY IN THE SEGMENT THANKS TO STRONGER POSITIONS IN ITS SALES REGIONS AND OPTIMIZATION OF OIL AND PETROLEUM PRODUCT SUPPLY LOGISTICS



Rosneft assets

Refinery

Filling station network

TNK-BP assets

Refinery

Filling station network

Regions with filling-station presence

Rosneft

TNK-BP

Rosneft and TNK-BP

MAIN ASSETS:

11	REFINERIES IN RUSSIA
6	REFINERIES OUTSIDE RUSSIA
100	MLN TONNES OF CRUDE OIL PROCESSING CAPACITY (ALL REFINERIES)
2,435	FILLING STATIONS
9	REGIONS WHERE BOTH COMPANIES ARE ALREADY PRESENT

Abkhazia

Germany

stakes in 4 refineries

BETTER OPERATING AND FINANCIAL RESULTS WILL BE ACHIEVED USING THE STRENGTHS OF EACH COMPANY

The acquisition of TNK-BP is intended to increase the scale and raise the efficiency of Rosneft's business in Russia and abroad. The strengths of each company are complementary, both as regards assets and staff expertise.

Main synergies in the upstream segment are optimization of field construction costs and faster launch of fields, reduction of logistics expenses and expenses for purchase of works and services, and improved efficiency of operations. In particular, Rosneft expects to achieve synergies from:

- faster launch and construction of TNK-BP's Suzunskoye, Tagulskoye and Lodochnoye fields using the infrastructure of the Vankor field;
- optimization of management schemes for assets in the Irkutsk Region;
- optimization of the portfolio of geological exploration projects in the Krasnoyarsk Territory, Timan-Pechora and Irkutsk Region;
- optimization of technical solutions and use of best practice (Control Centre for Remote Drilling, selection of wells, etc.);
- unification of procurement terms and the effect of scale;
- optimized use of production service facilities at the Kuyumbinskoye, Suzunskoye, Tagulskoye and Vankor fields and at fields in the Urals-Volga region;
- reduction of administrative and management costs at companies and in projects;
- brownfields production programmes optimization.

Synergy effects in refining and marketing will come mainly from optimization of marketing, reduction of spending on contracted works and improvement of operating efficiency. In particular, Rosneft expects to achieve synergies from:

- swap operations in crude oil supplies to refineries and in loading of the ESPO pipeline;
- swap operations in petroleum product supplies;
- increased efficiency in sale of B2B products (bitumen, jet fuel, lubricants);
- expansion of business in CIS countries;
- unification of purchase terms and effects of scale;
- optimized use of service production capacities;
- reduction of administrative and management costs at enterprises and in projects;
- optimization of the filling station network.

The integration of TNK-BP consists of three stages:

1. preparation and planning of the integration, including creation of working groups and preparation of methodologies;
2. detailed planning of integration and steps to realize joint potential;
3. integration and creation of a unified company.

Main changes to organizational structure and business processes are to be carried out by the end of 2013. Further integration work is expected to continue until mid-2014.

Crude and Product Supply Optimization

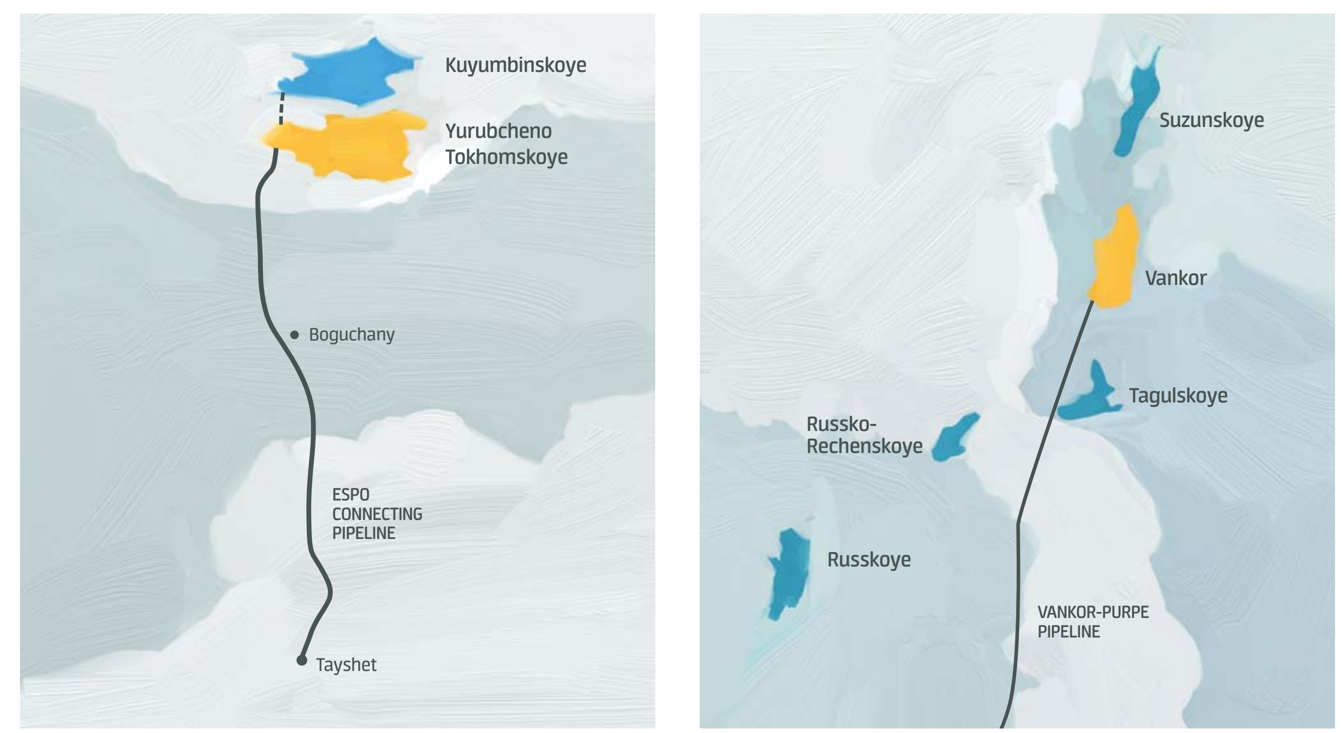
Rosneft assets

Oil production assets Refinery

TNK-BP assets

Oil production assets Refinery

Synergy in Joint Development Areas



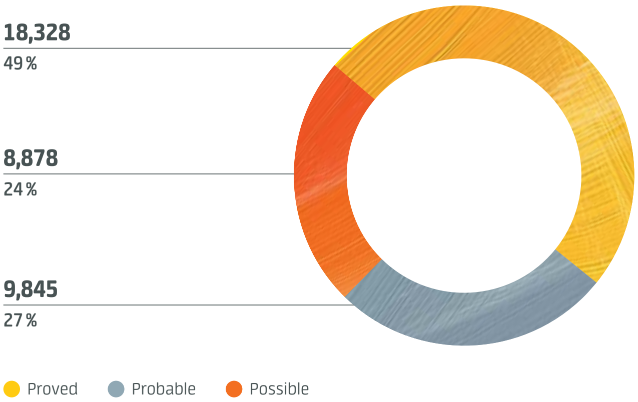
Rosneft assets TNK-BP assets

Key indicators

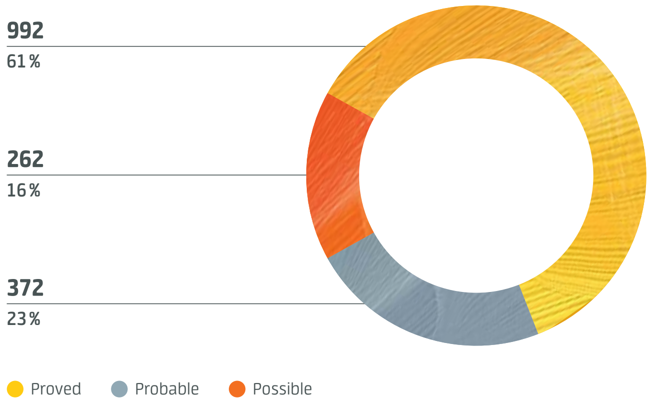
2010		2011	2012	%
OPERATING HIGHLIGHTS				
18,110	Proved oil reserves, PRMS (mln bbl)	18,351	18,328	-0.2 %
1,887	Proved oil reserves, SEC (mln bbl)	1,960	1,999	+2.0 %
791	Proved gas reserves, PRMS (bcm)	850	992	+16.7 %
247	Proved gas reserves, SEC (bcm)	566	753	+33.0 %
25	Hydrocarbon reserve-to-production ratio, PRMS (years)	25	25	
847.4	Crude oil prodution (mln bbl)	868.6	892.6	+2.8 %
12.34	Gas production (blcm)	12.79	16.39	+28.1 %
445.5.	Crude oil export sales (mln bbl)	467.4	485.7	+3.9 %
50.49	Refining throughput (mln t)	57.86	61.58	+6.4 %
48.36	Petroleum product and petrochemical output (mln t)	55.91	59.59	+6.6 %
25.8	Sale of petroleum products abroad (mln t)	30.9	33.1	+7.1 %
5.3	Retail sale of petroleum products (mln t)	6.5	6.8	+4.6 %
FINANCIAL HIGHLIGHTS				
1,919	Revenues and equity share in profits of affiliates and JVs (RUB bln)	2,718	3,078	+13.2 %
586	EBITDA (RUB bln)	662	609	-8.0 %
30.5 %	EBITDA margin	24.4 %	19.8 %	
301	Net income (RUB bln)	319	342	+7.2 %
15.7 %	Net income margin	11.7 %	11.1 %	
15.3 %	Return on average capital employed (ROACE)	15.5 %	10.7 %	
18.2 %	Return on average equity (ROAE)	16.5 %	15.8 %	
264	Capital expenditures (RUB bln)	391	466	+19.2 %
222	Upstream capital expenditures per boe of production (RUB)	277	301	+8.7 %
78.2	Hydrocarbon lifting costs per boe of production (RUB)	81.6	82.3	+0.9 %
203	Free cash flow (RUB bln)	99	45	-54.5 %
378	Net debt (RUB bln)	432	581	+34.5 %
0.17	Net debt-to-capital employed ratio	0.17	0.20	
0.65	Net debt-to-EBITDA ratio	0.65	0.95	
2.76	Dividends per share (RUB)	7.53	8.05	+6.9 %
7.16	Share price on the LSE at the end of the year (USD)	6.60	8.91	+35.0 %
MAIN SOCIAL INDICATORS				
159.8	Employee numbers at the end of the year[1] (th.)	160.8	166.1	+3.3 %
31.6	Number of pensioners and veterans receiving corporate pensions (th.)	39.9	54.5	+36.6 %
16.6	Spending on social programmes (RUB bln)	20.3	22.4	+10.3 %
0.22	Industrial injury rate (injuries per mln hours worked)	0.19	0.16	-15.8 %
2.55	Fatal injury rate (fatal injuries per 100 mln hours worked)	2.68	2.02	-24.5 %
13.3	Investments and current spending on environmental measures (RUB bln)	17.5	22.1	+26.3 %

1. International standards.

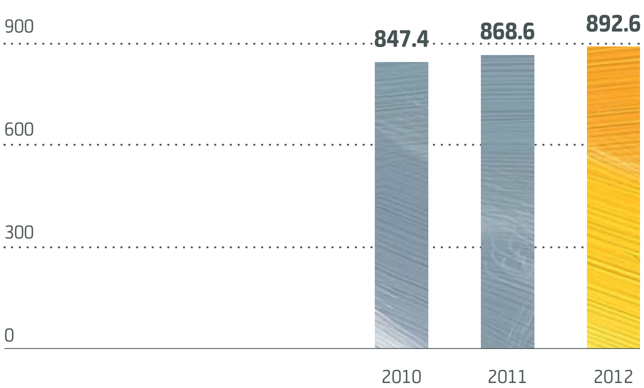
Oil reserves PRMS (mln barrels; %)



Gas reserves PRMS (bcm; %)

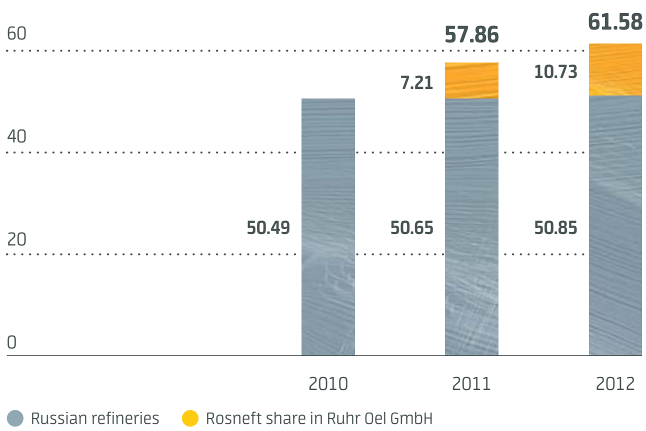


Crude oil production (mln bbl)*



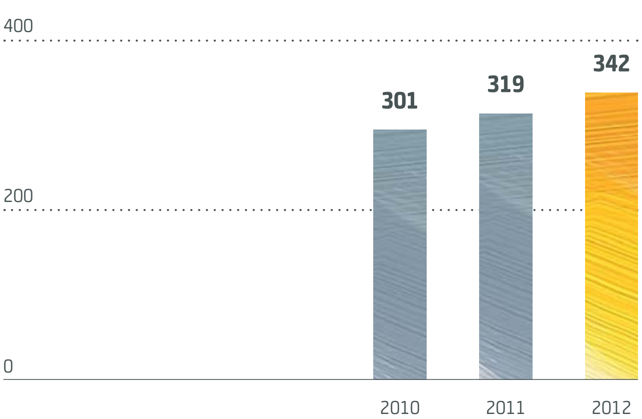
* Including share of production in affiliates

Refinery throughput (mln tonnes)*

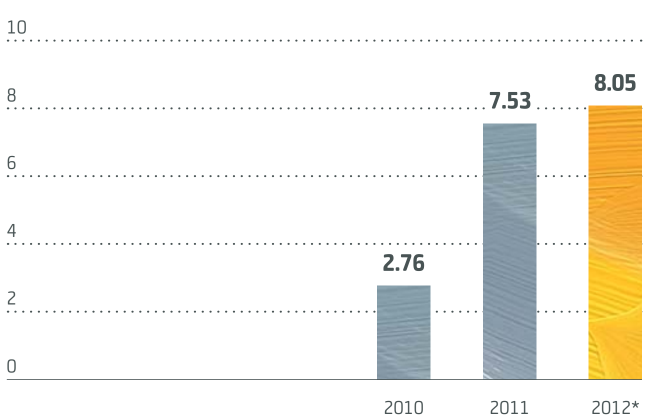


* Not including heavy fractions, which mini-refineries return to the Transneft system

Net profit (RUB bln)



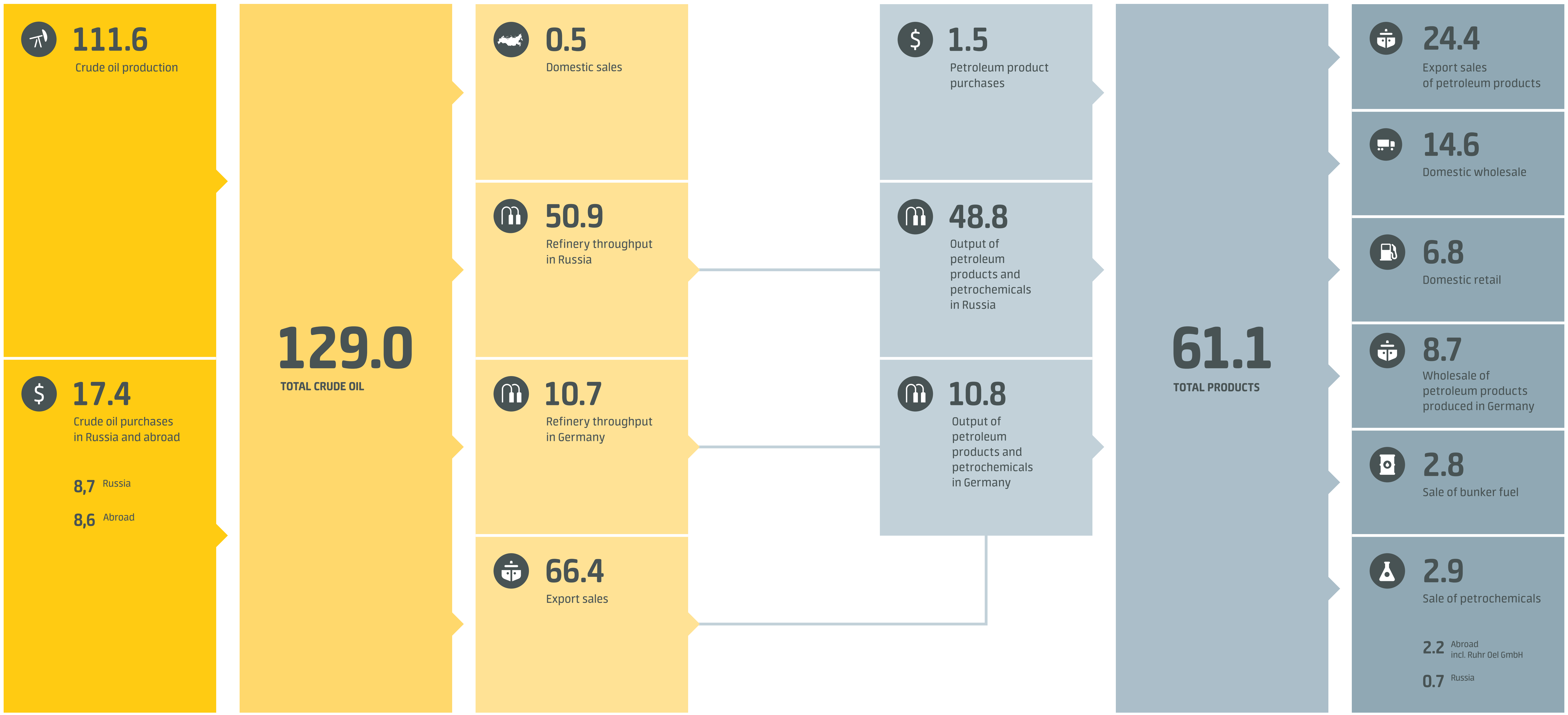
Dividends per share (RUB)



* Dividends recommended by the Board of Directors for approval by the Annual General Meeting of Shareholders

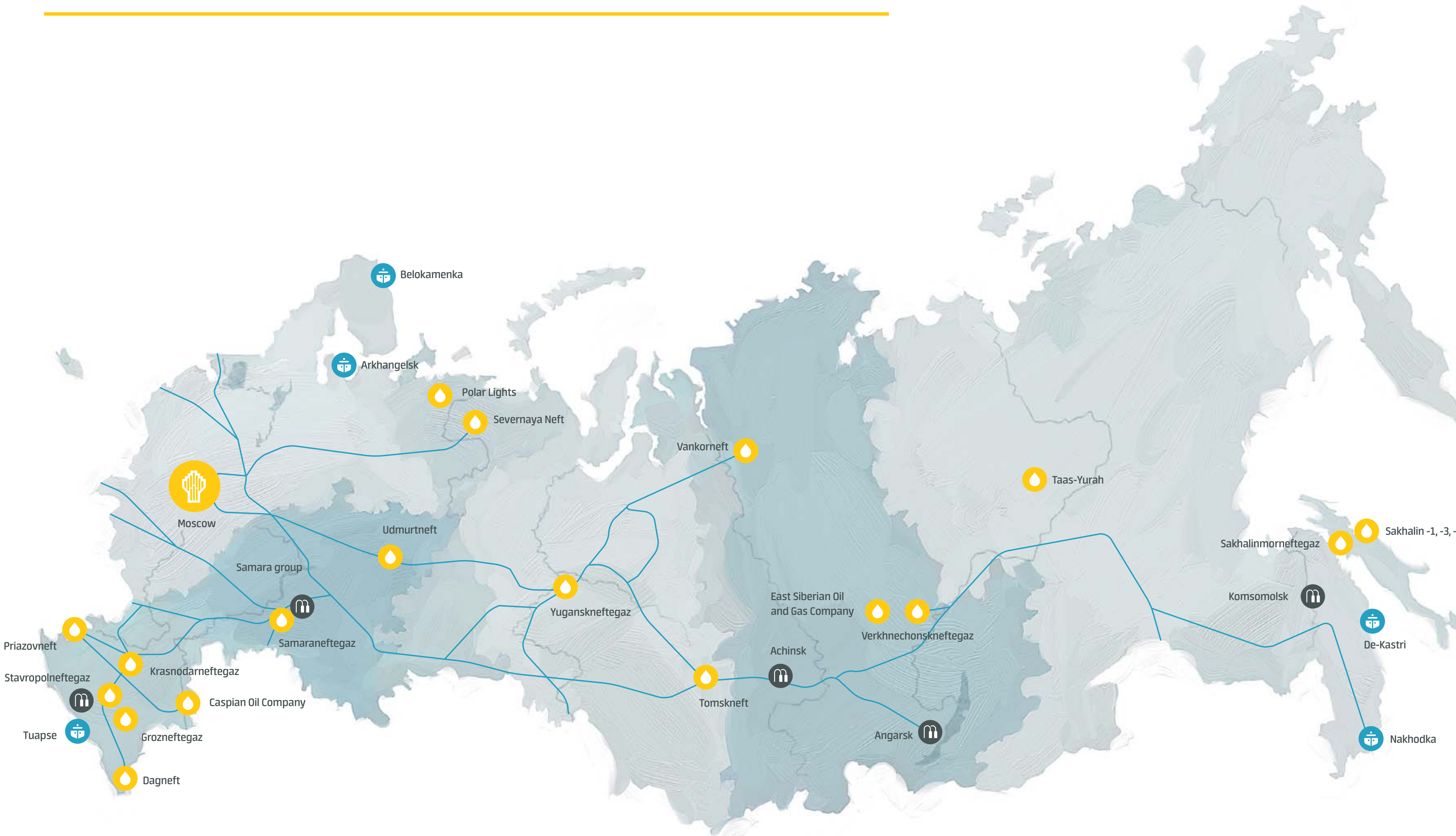
Production chain

of consolidated enterprises (mln tonnes)



The difference between 'Total crude oil' and its breakdown is equal to the sum of losses, intra-group consumption and change of inventories.
The difference between 'Total refinery throughput' and 'Total output of petroleum products and petrochemicals' is equal to the sum of losses due to water and salt removal, own use, irretrievable losses and change of inventories.
The difference between 'Total products' and its breakdown is equal to the sum of losses, intra-group consumption and change of inventories.

Rosneft Operating Regions



Legend

Exploration and production

Export terminals

Oil pipelines

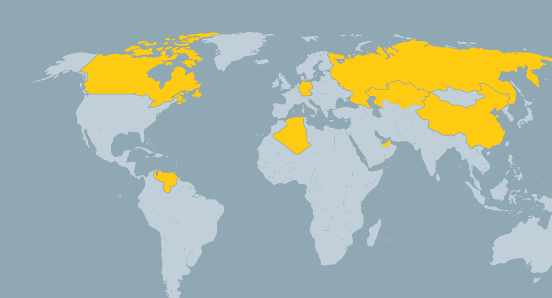
Refineries

Headquarters

MAIN ASSETS:

18.3	BLN BBL PRMS PROVED OIL RESERVES
992	BCM PRMS PROVED GAS RESERVES
890	MLN BBL OF OIL ANNUAL PRODUCTION
16	BCM ANNUAL GAS PRODUCTION
201	BLN BOE PRMS RESOURSES
66	MTPA AGREGATE REFINING CAPACITY
1,694	OPERATING FILLING STATIONS UNDER THE ROSNEFT BRAND

Geography of activity



02 PERFORMANCE REVIEW

Actions to increase production, ensure efficient use of oil refining capacities and optimize sales business gave record levels of net income in 2012

ROSNEFT

RESPONSIBILITY TO BE A LEADER

Licensing

ROSNEFT IS A HIGHLY RESPONSIBLE USER OF MINERAL RESOURCES, STRICTLY OBSERVING ALL OF ITS LICENSE COMMITMENTS

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

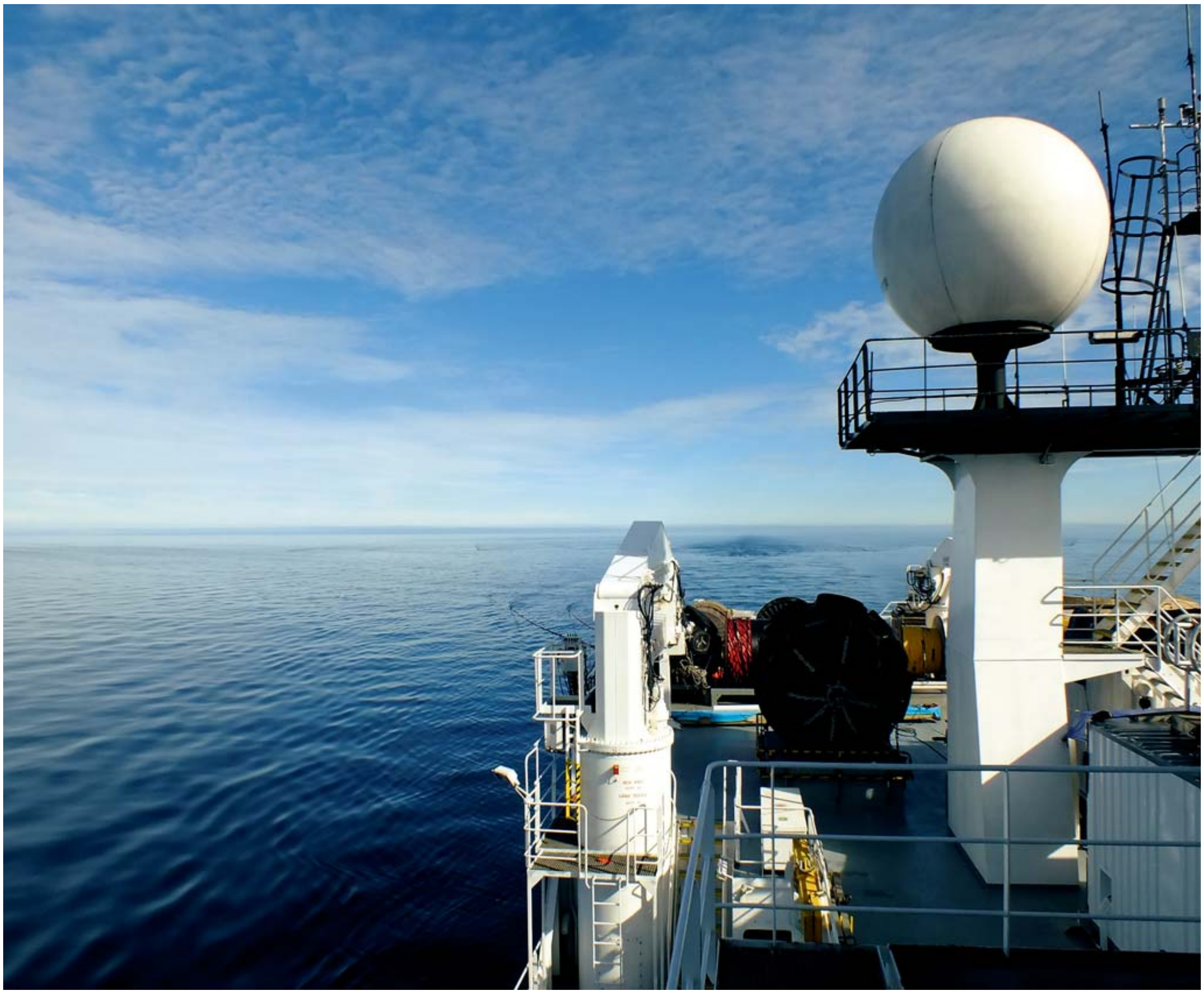
As of December 31, 2012 Rosneft, its subsidiaries and equity affiliates held 597 licenses for geological study and (or) exploration and production of hydrocarbons in Russia and on the Russian offshore. The Company also held six licenses in foreign countries.

The expiry dates of the Company's production licenses vary from 2013 to 2070. Rosneft has been working in the last six years to secure further extension of licenses for its major fields (the Russian Law On Sub-soil Resources permits license extension for a period up to full field depletion in accordance with project documentation on the initiative of sub-soil users, provided that no violation of license conditions has been committed). Rosneft obtained extensions for 163 licenses in the period from 2007 until 2012, including 47 extensions obtained in 2012. A total of 194 applications for amendments and additions to current licenses were prepared in 2012 and submitted to federal and regional agencies with responsibility for sub-soil use, of which 63 were for changes in exploration work schedules, 75 for extension of the period of license validity, 33 for updating of the terms of license agreements, 21 for boundary changes at license areas and 2 for redrafting of licenses.

Rosneft is a responsible user of mineral resources, strictly observing all of its license commitments. In 2012, agencies responsible for the supervision and control of sub-soil use carried out six inspections of observance of license conditions and environmental protection obligations at Tomskneft VNK, RN-Krasnodarneftegaz, Grozneftegaz and Samaraneftegaz. Action plans were designed on the basis of the inspection findings and reports on implementation of the plans have been heard by three commissions on sub-soil use at the Company. The action plans are being implemented according to the approved schedule.

The Company obtained 32 new licenses during 2012, winning eight auctions (competitions) for rights to carry out geological studies, exploration and production of hydrocarbons at the Sernovodskoye field (Republic of Ingushetia), the Korneyevsky, Komsomolsky and Nizovsky areas (Samara Region) and the Logoshursky, South Lyuksky, Votkinsky and Sharkansky areas (Republic of Udmurtia). Payments for these licenses totaled RUB 1.4 bln. Total recoverable ABC1 and C2 reserves at the new areas (Russian classification) are estimated at 6.2 mln tonnes of oil and 1 bcm of gas.

Six exploration licenses were obtained on an application basis, of which four in the Chechen Republic (the North Groznensky, West Groznensky, East Groznensky and Nozhai-Yurtovsky



Seismic works in Sakhalin offshore

areas), one in Krasnodar Territory (Novoukrainsky area) and one in Sakhalin Region (West-Monginsky area).

Three licenses were obtained on the basis of field discoveries: the North Danilovskoye and and South Danilovskoye field (Samara Region) and the Ichemminskoye field (Krasnoyarsk Territory).

Five licenses were obtained without competition for areas on the shelf of the Barents Sea (Sea of Pechora): the Perseyevsky, Fedynsky, Central Barents, Pomorsky and North Pomorsky-2 areas. License payments for these areas totaled RUB 2.9 bln. Recoverable resources are estimated at 2.9 bln tonnes of oil equivalent.

Rosneft had 18 license applications under consideration by Russian Government authorities at the end of 2012, including 12 applications for offshore areas in the Arctic seas. At the end of January 2013 a Russian Government order was signed granting Rosneft 12 licenses for areas in the Barents Sea, Kara Sea, Chukchi Sea and Laptev Sea. Recoverable resources at these areas are estimated at 111.5 bln barrels of oil equivalent (taking into account West-Prinovozemelsky Block for which the licence was reissued).

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exploration & production licenses as of December 31, 2012

Geological Exploration

ROSNEFT STRATEGIC TASK IS TO TRANSFER RESOURCES INTO PROVED RESERVES IN ORDER TO DELIVER SUSTAINABLE PRODUCTION GROWTH IN MID TERM AND LONG TERM PERSPECTIVES. THE COMPANY THEREFORE PAYS SPECIAL ATTENTION TO ENSURE THAT OPTIMAL AMOUNTS OF PROSPECTING AND EXPLORATION WORK ARE CARRIED OUT AND THAT THE EFFICIENCY OF THIS WORK IS MAXIMIZED

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

A total 14,130 linear km of 2D and 13,464 sq. km of 3D seismic surveying were carried out during 2012 in projects with Company involvement, as well as 128,500 meters of exploration drilling. Growth of prospecting and exploration drilling compared with 2011 was mainly due to work on the shelf of the Sea of Okhotsk, and also in Western Siberia and Algeria. Growth of seismic work (by four times for 2D and three times for 3D) was associated with the launch of sub-soil studies on the Arctic shelf as well as further intensive work in the Black Sea. A total of 57 prospecting and exploration wells were completed, 48 of which gave commercial inflows of hydrocarbons. Rosneft subsidiaries discovered 4 new fields and 31 hydrocarbon deposits at fields, which had been discovered earlier.

Exploration work and production drilling in 2012 gave growth of ABC1 reserves (Russian classification) by 162 mln tonnes of oil and gas condensate and 89 bcm of natural gas (by 156 mln tonnes and 60 bcm, respectively, if the count is limited to Rosneft project shares). The biggest contributions to reserve growth were from fields in Western and Eastern Siberia and fields in the Volga region.

West Siberia

B In West Siberia, Rosneft is engaged in geological exploration work in the Khanty-Mansiysk Autonomous District (KhMAD), Yamalo-Nenets Autonomous District (YaNAD), and in Tomsk Region, where the work is being carried out by Tomskneft VNK (a joint venture between Rosneft and Gazprom Neft).

A total 825 sq. km of 3D seismic work was carried out in KhMAD during 2012 in order to clarify the structure of fields and 21 exploration wells were drilled, all of which gave commercial inflows of oil. Growth of oil reserves thanks to geological exploration in KhMAD during 2012 was 85 mln t and five new hydrocarbon deposits were found.

Three exploration wells were drilled in YaNAD and their testing will be continued in 2013. Two boreholes at previously drilled wells at the Kynskoye field were deepened in order to carry out further exploration of lower-lying horizons and commercial oil inflows were obtained. Reserve growth amounted to 12 mln t of oil and 17 bcm of gas, and three new deposits were discovered.

Some 480 linear km of 2D seismic and 555 sq. km of 3D seismic were shot during 2012 in the Tomsk Region. Three exploration wells were drilled in the Region, two of which gave commercial inflow of hydrocarbons. Reserve growth was 7 mln tonnes of oil, and three new deposits were discovered.

Russian Far East

In the Far East, Rosneft is involved in exploration work at 14 offshore areas in the Okhotsk Sea, both independently and together with partners. The Sakhalin-3 project (Veninsky area) and development of the Magadan-1, Lisyansky and Kashevarovsky areas are being implemented jointly with foreign partners on the basis of special agreements, which minimize risks for Rosneft.

Work at the Kashevarovsky, Lisyansky and Magadan-1 areas is being carried out under the shareholder and operating agreements with Statoil. The agreements give Statoil a 33.3% share in the project and oblige the foreign partner to finance 100% of the exploration stage, including a mandatory programme for drilling of six prospecting and exploration wells in 2016-2021, as well as reimbursing Rosneft's historical costs at the areas and 33.3% of the license cost.

Exploration programmes for the areas were designed in the reporting year and preparations were made for seismic works in 2013.

A prospecting and exploration well, North Veninskaya №3, was drilled at the Veninsky block in 2012. Drilling results were analyzed and 3D seismic data of past years was re-interpreted using the results obtained in the latest drilling work.

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MLN TONNES
Increase of ABC1 oil reserves in 2012

A second prospecting and appraisal well was drilled in 2012 at the Lebedinsky license area. The well was closed down for geological reasons.

Work to assess hydrocarbon potential at the Kaigan-Vasyukansky area (Sakhalin-5) was continued. The share of Rosneft in the project was increased up to 100%.

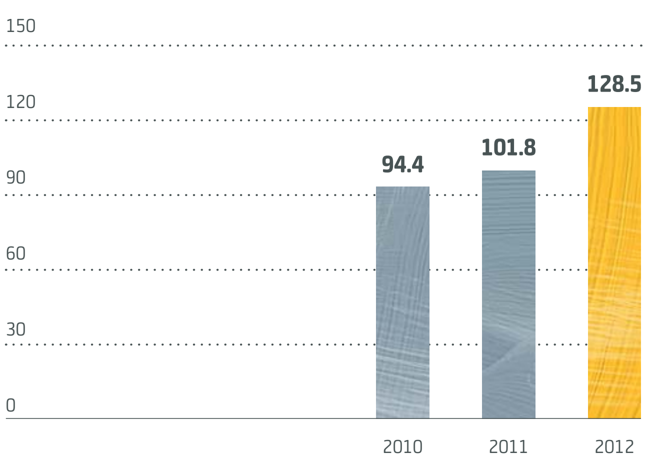
1,080 linear km of 2D seismic surveying as well as marine geochemical studies and electric prospecting were carried out at the Sea of Astrakhan - Nekrasovsky license area.

A prospecting and appraisal programme was designed for the Magadan-2 and -3 license areas.

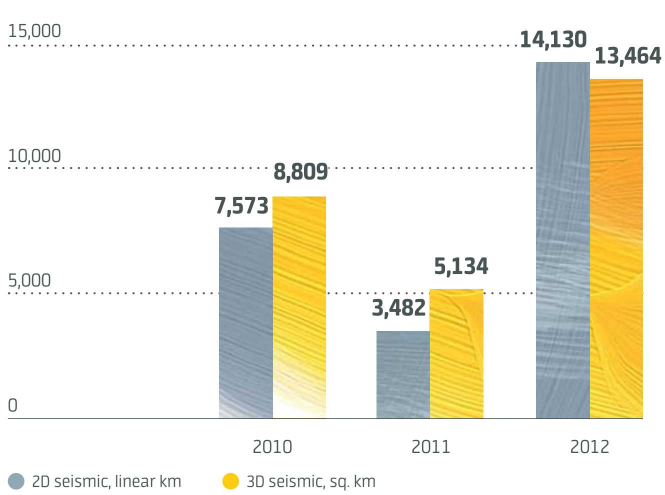
Udmurtia

Rosneft is carrying out geological exploration work jointly with Chinese Sinopec in the Republic of Udmurtia at the operating territory of Udmurtneft.

Exploration drilling in progress involving Rosneft ('000 meters)



Seismic surveing in projects involving Rosneft (linear km; sq. km)



Well pad at Vankor field

A total of 190 linear km of 2D seismic and 100 sq. km of 3D seismic were completed during the year, two exploration wells were drilled and a sidetrack was added to a previously drilled well. Testing of a prospecting well at the Orosovskaya structure (located at the Karsovaisky area) gave a commercial inflow of oil, marking the discovery of a new field.

Increase of reserves in the Republic of Udmurtia was 9 mln tonnes of oil and eight new reservoirs were identified.

Areas around the Vankor field

Rosneft holds licenses for 11 areas located around the Vankor field, and a total 223 sq. km of 3D seismic work was carried out at the areas in 2012.

Exploration work continued in the reporting year at the Baikalovskoye field, which was discovered in 2009. Testing of two exploration wells, Baikalovskiye №3 and №4, was completed, leading to the discovery of a new hydrocarbon deposit. The Yakovlevskaya №2 appraisal well was drilled at the Baikalovsky area (testing to be completed in 2013).

Testing of the prospecting and appraisal well, Ichemminskaya №1, at the West Lodochny license area led to the discovery of a new field with ABC1 + C2 reserves (Russian classification) amounting to 6.6 mln t of oil and 603 mln cubic meters of gas.

Reserve growth was 13 mln tonnes of oil and 11 bcm of gas.

Southern regions of Eastern Siberia

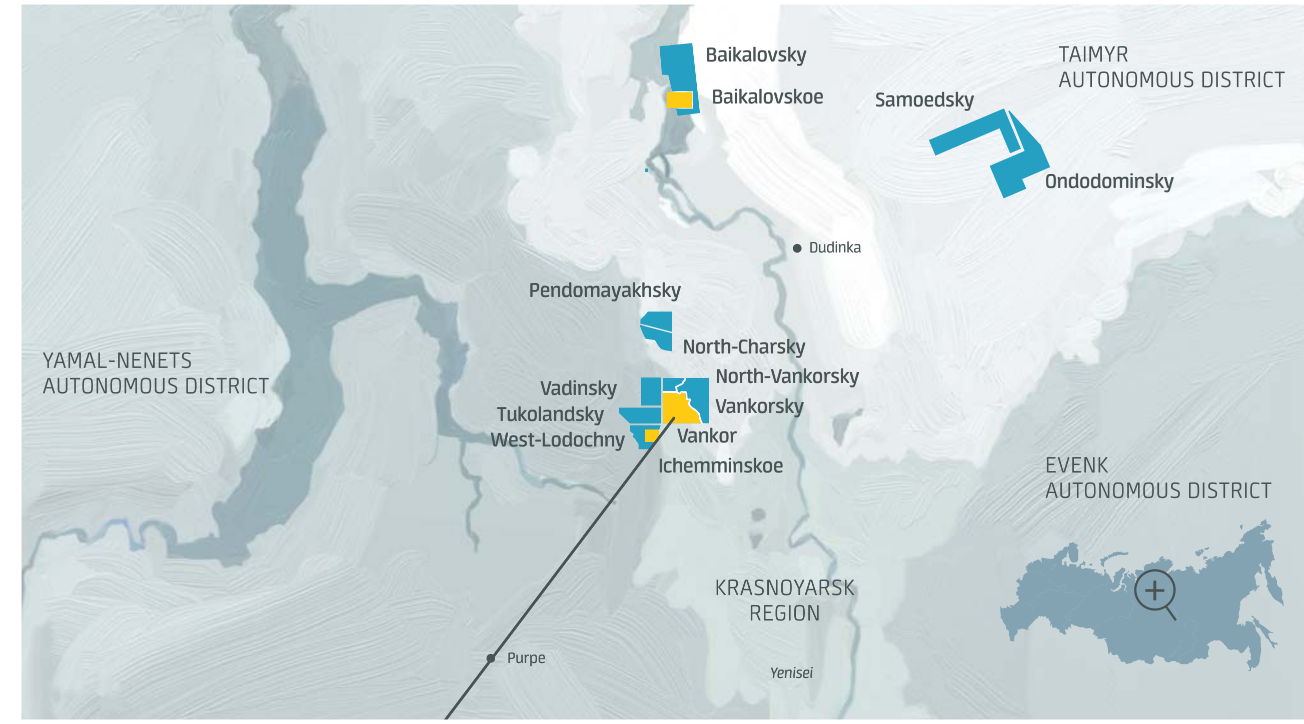
Rosneft is carrying out geological exploration work at 15 areas in the Irkutsk Region and Evenkia.

A total 278 linear km of 2D seismic work was completed in the Irkutsk Region during 2012, 3D seismic exploration work amounted to 950 sq. km, and four prospecting and appraisal wells were drilled.

Drilling of a prospecting and appraisal well at the Preobrazhensky license area yielded commercial oil flows and led to the discovery of the V.B. Mazur oil field with ABC1+ C2 reserves of 39.7 mln tonnes of oil and 5.0 bcm of gas.

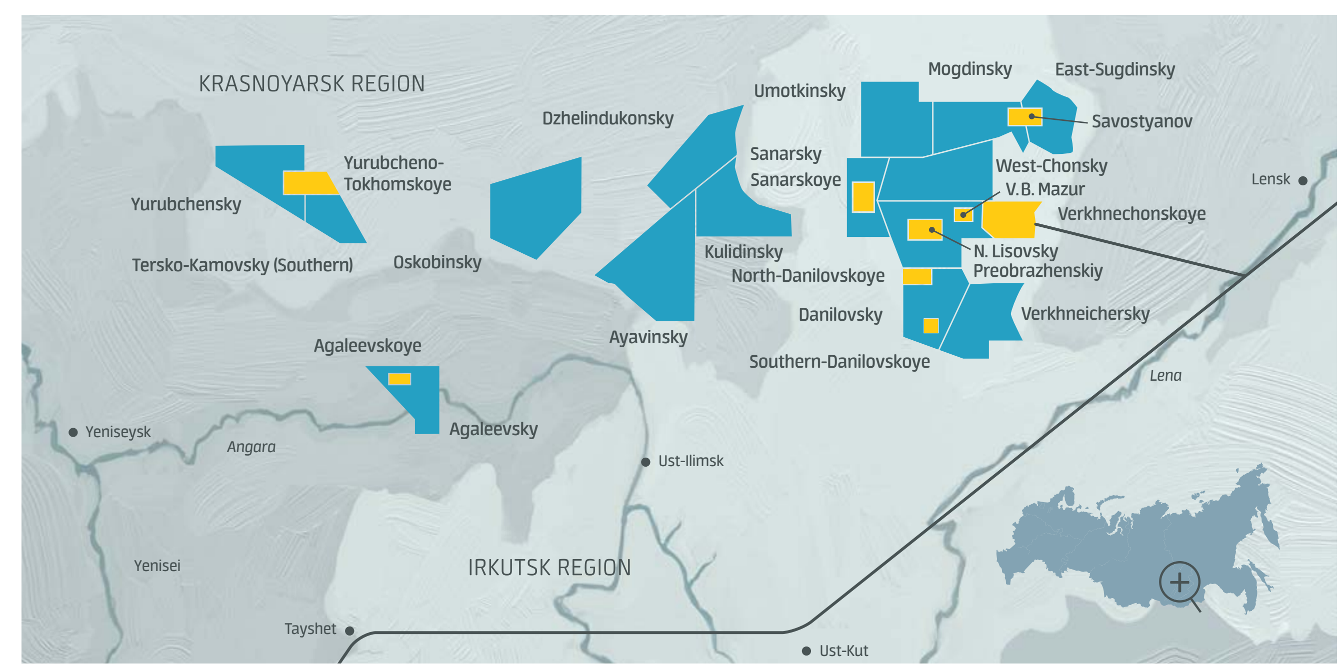
Hydrofracturing was carried out at two previously drilled prospecting and appraisal wells at the Lisovskoye and Savostyanova fields in order to establish production potential of the wells.

Exploration projects involving Rosneft adjacent to the Vankor field



License blocks | Fields | Oil pipelines | Towns

Exploration projects involving Rosneft in the south of Eastern Siberia



License blocks | Fields | Oil pipelines | Towns

Increase of reserves in Irkutsk Region totaled 4 mln tonnes, and a new reservoir was discovered at the Danilovskoye field (North-Danilovsky license area).

A total of 600 linear km of 2D seismic and 477 sq. km of 3D seismic were carried out at the Yurubcheno-Tokhomskoye field. One exploration well was drilled and testing gave a commercial inflow of hydrocarbons. Horizontal sidetracks were drilled at two existing wells, from one of which a gushing flow of oil and gas was obtained. The work led to an increase of field reserves by 10 mln tonnes of oil.

Arctic offshore

In 2012, Rosneft carried out work at three areas in the Kara Sea (East Prinovozemelsky-1, -2 and -3), five areas in the Barents Sea (Central Barents, Fedynsky, Perseyevsky, Admiralteisky, Pakhtusovsky) and four in the Sea of Pechora (South-Russky, Pomorsky, North-Pomorsky-2, Medynsko-Varandeisky). The Company is implementing these projects both independently and in partnership with major international companies.

Work at areas in the Kara Sea is being conducted in accordance with the agreements with ExxonMobil, which were signed in April 2012. Recoverable resources at these areas are estimated at 11.6 bln tonnes of oil equivalent.

Geological engineering studies and 2,998 sq. km of 3D seismic work were carried out at the East Prinovozemelsky-1 area, as a result of which the Universitetskaya structure, was selected as the first priority for drilling work. The start of drilling is scheduled for 2014 (a year earlier than specified in the license).

A total 5,292 linear km of 2D seismic work was carried out in the reporting year at the East Prinovozemelsky-2 block.

Environmental and fishery research was also carried out at the license areas, as well as hydrometeorological surveys, and initial processing of field data was begun. A contractor was selected for concept assessment and feasibility studies for a platform capable of safely exploring the shallow waters of the Kara Sea.

Work is being carried out at the Fedynsky, Central Barents and Perseyevsky areas in the Barents Sea under agreements that were signed by Rosneft in the course of the year with the companies Eni and Statoil. According to the agreements, the partners each receive a 33.33% stake in the projects in exchange for financing of geological exploration work. Recoverable resources at the areas are estimated at 2.8 bln tonnes of oil equivalent. Reinterpretation of historical data and preparation for field work were carried out at the areas in 2012.

Preparations were made for 3D experimental studies to be carried out in 2013 at the Admiralteisky and Pakhtusovsky area, in accordance with scheduled work programmes. Recoverable resources at the area are estimated at 2.9 bln tonnes of oil equivalent.

Preparation of the work programme began for the Pomorsky and North-Pomorsky-2 areas, where recoverable resources are estimated at 0.05 bln tonnes of oil equivalent.

Environmental monitoring was carried out at the Medynsko-Varandeisky area and preparations were made for 3D seismic work in 2013. Recoverable reserves are estimated at 103 mln tonnes of oil and 5 bcm of gas.

Environmental and fishery research was carried out at the South-Russky area in the Pechora Sea during 2012 as well as 829 sq. km of 3D seismic work. Recoverable resources at the areas are estimated at 0.32 bln tonnes of oil equivalent. The South-Russky area includes the North-Gulyaevskoye field, where C1 + C2 reserves are 13 mln tonnes of oil and condensate and 52 bcm of gas.

Russia's Southern Seas

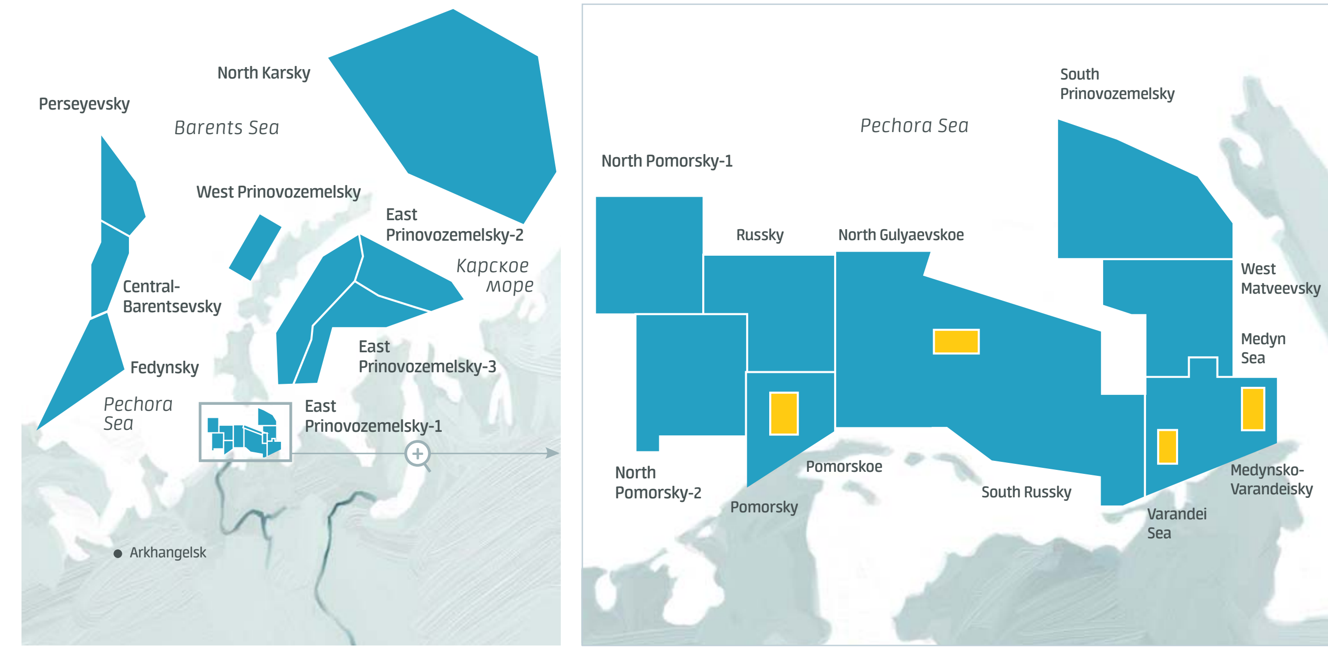
Rosneft is working at a number of areas in Russia's southern seas: the Tuapse Trough, West-Chernomorsky and the South-Chernomorsky offshore areas in the Black Sea; the North Caspian area in the Caspian Sea; and the Temryuksko-Akhtarsky area in the Sea of Azov. The Company is implementing these projects both independently and in partnership with major Russian and international companies.

Work at the Tuapse Trough, where recoverable resources are estimated at 1.2 bln tonnes of oil equivalent, is being carried out jointly with ExxonMobil. 3D seismic work totaling 4,200 sq. km was completed in 2012 and 3D seismic data obtained earlier were processed. Environmental monitoring work was also carried out.

Development of the West-Chernomorsky area, with estimated recoverable resources equal to 1.4 bln tonnes of oil equivalent, is being pursued jointly with Eni. Interpretation of 3D seismic data from the 2010 season was carried out in 2012, as well as environmental monitoring work.

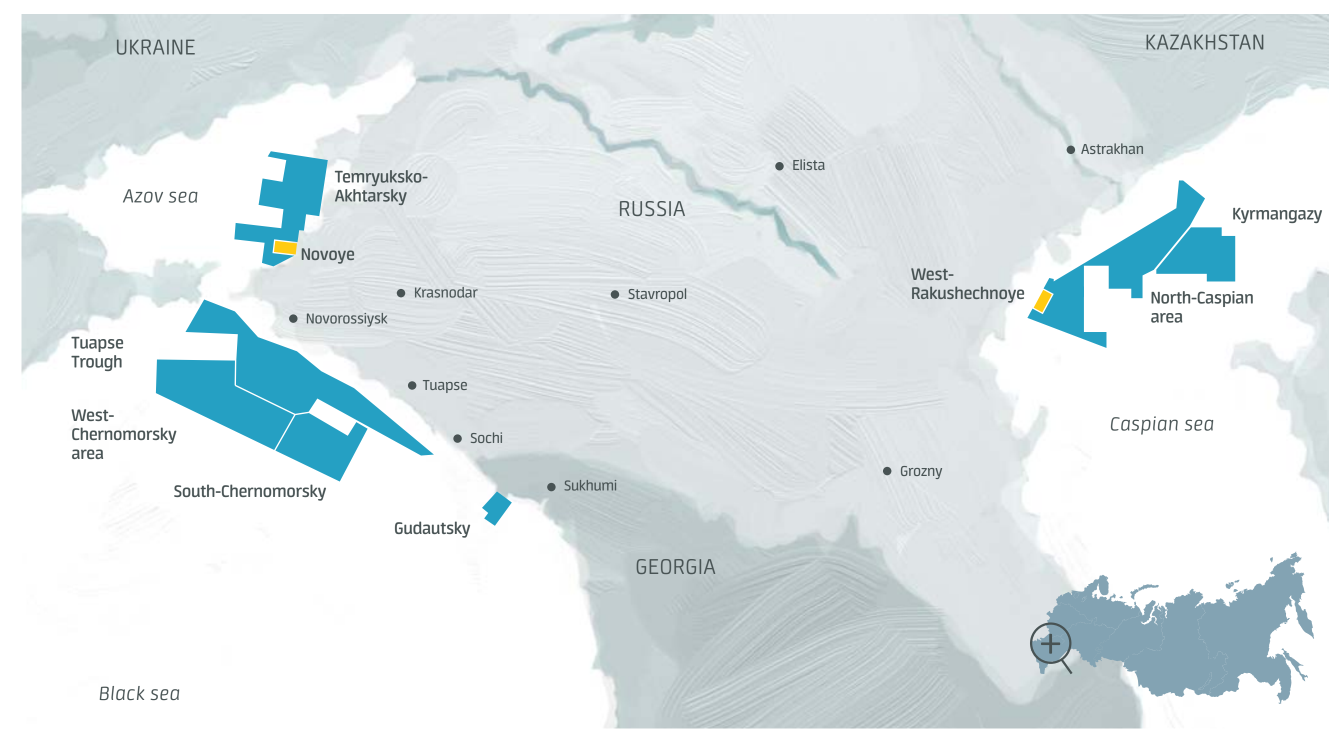
A total of 3,490 linear km of 2D seismic surveying was carried out in 2012 at the South-Chernomorsky area, which has the

Exploration projects involving Rosneft at the Arctic offshore



License blocks
Fields
Towns

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



License blocks
Fields
Towns

Production facilities of Sakhalinmorneftegaz

recoverable resources of 0.47 bln tonnes of oil equivalent, along with monitoring the environmental situation.

Work at the North Caspian area (recoverable resources of 0.15 bln tonnes of oil equivalent) included the reprocessing and reinterpretation of 2D seismic data. Preparations were also made for the drilling of a prospecting and appraisal well in 2013 and environmental monitoring was carried out.

At the Temryuksko-Akhtarsky area a total 325 linear km of 2D seismic surveying was completed, and reprocessing and reinterpretation of seismic data was carried out.

Samara Region

Rosneft carried out 1,750 linear km of 2D seismic and 1,456 sq. km of 3D seismic surveying during 2012 in the Samara Region. Five prospecting and appraisal wells were completed, all of which were productive, and the South Slavkinskoye field was discovered at the Kelveysky license area.

Reserve increase in the Samara Region totaled 11 mln tonnes of oil and 10 new reservoirs were found.

Timan-Pechora

Exploration work in the Timan-Pechora region (the Komi Republic and the Nenets Autonomous District) is the responsibility of RN-Severnaya Neft and the company Polar Lights (a joint venture with ConocoPhillips).

A total 427 sq. km of 3D seismic work was carried out in the region during 2012, and 3 prospecting and appraisal wells were completed.

Drilling and testing of a prospecting and appraisal well at the Verkhnekharyaginskaya area gave evidence of oil & gas saturation in Sirachoysk formations, but there were no commercial oil finds.

An exploration well was drilled at the East Veyakskoye field in 2012 and testing will be completed in 2013. Two exploration wells were completed at the Osoveiskoye field, and commercial oil inflows were obtained from both of them. Work began on drilling of a prospecting well at the Labaganskoye field, which should be completed and tested in 2013.

Oil reserves in Timan-Pechora increased by 4 mln tonnes in 2012.

Jack-up drilling rig at Veninsky block, Sakhalin-3 project

North Caucasus and Southern Federal District

Rosneft carries out exploration work in the southern part of European Russia (the Republics of Chechnya, Ingushetia and Dagestan, the Stavropol and Krasnodar Territories).

Some 495 linear km of 2D seismic and 55 sq. km of 3D seismic surveying was completed in the Chechen Republic during 2012. Work was carried out to identify prospective structures and to prepare them for a prospecting and appraisal drilling at the Surovsky, North Groznensky, East Groznensky and West Groznensky license areas. Drilling work was carried out on an exploration well at the Andreyevskoye field, which is scheduled for completion and testing in 2013.

In the Republic of Dagestan the Company completed 100 linear km of 2D seismic work in the coastal zone of the Caspian Sea at the Izberbash field. A sidetrack was drilled onto a previously drilled well at the Safaralinskaya area, which had not been completed to its target depth. Completion of drilling and testing of the well is scheduled for 2013.

Data derived from 2D seismic surveying carried out in 2011 at the North Achaluksky, Krasnogorsky and Nazrano-Yandyrsky areas in the Republic of Ingushetia were processed and interpreted in 2012, and 50 linear km of 2D seismic were shot at the Sernovodskoye field, which was acquired in 2012.

International Projects

Rosneft is involved in several exploration projects outside Russia: the 245-South block in Algeria, the Sharjah project in the UAE, the Guduatsky area on the Abkhazian shelf of the Black Sea, as well as the Junin-6 project in Venezuela. The Company's recoverable resources in these projects are estimated in excess of 220 mln tonnes of oil equivalent.

Extra work carried out at Block 245-South in 2012 included further actions at the East Takuazet, West Takuazet and and North Tisselit fields. Six appraisal wells were drilled in order to clarify development schemes for the fields, and total 187 sq. km of 3D seismic was carried out.

Analysis of 3D seismic surveying from 2011 was carried out as part of the Sharjah project.

Reserves and Resources

IN 2012, ROSNEFT CONFIRMED ITS STATUS AS THE WORLD'S LARGEST PUBLICLY TRADED OIL COMPANY BY PROVED RESERVES OF LIQUID HYDROCARBONS AND A LEADER BY TOTAL VOLUME OF HYDROCARBON RESOURCES

According to an audit by DeGolyer & MacNaughton, Rosneft's proved hydrocarbon reserves under SEC classification (life-of-field reserves) as of December 31, 2012 were 19,026 mln barrels of oil equivalent, of which 14,592 mln barrels of oil and 753 bcm of gas. The replacement ratio for proved oil reserves was therefore 131 %. Hydrocarbon reserves grew by 8 % compared with the end of 2011 (oil reserves by 2 % and gas reserves by 33 %). Growth of gas reserves was mainly due to creation of a joint venture with Itera LLC.

DeGolyer & MacNaughton also carried out an audit of Rosneft reserves to PRMS standards, which showed proved reserves of hydrocarbons as of December 31, 2012 equal to 24,164 mln barrels of oil equivalent, consisting of 18,328 mln barrels of oil and 992 bcm of gas. Hydrocarbon reserve life was 25 years (21 for oil and 62 for gas).

Company reserves are located both in traditional oil & gas producing regions (the southern part of European Russia, West Siberia, Central Russia) and in promising new regions (East Siberia, the Far East, Timan-Pechora). About 73 % of the Company's proved oil reserves are concentrated in West Siberia, mainly in Khanty-Mansiysk Autonomous District, and about 13 % are in East Siberia. Western Siberia also contains about 85 % of the Company's proved gas reserves, which are concentrated mainly in the Yamal-Nenets Autonomous District. Most of Rosneft's hydrocarbon reserves are conventional.

Rosneft's resource base was also audited by DeGolyer & MacNaughton. The mean estimate of prospective recoverable hydrocarbon resources as of December 31, 2012 was 201 bln barrels (including 112 bln barrels of oil and 15 bcm of gas), which is almost 50 % more than at the end of 2011. The growth was mainly due to acquisition of licenses to offshore areas in the Barents Sea and Sea of Pechora.

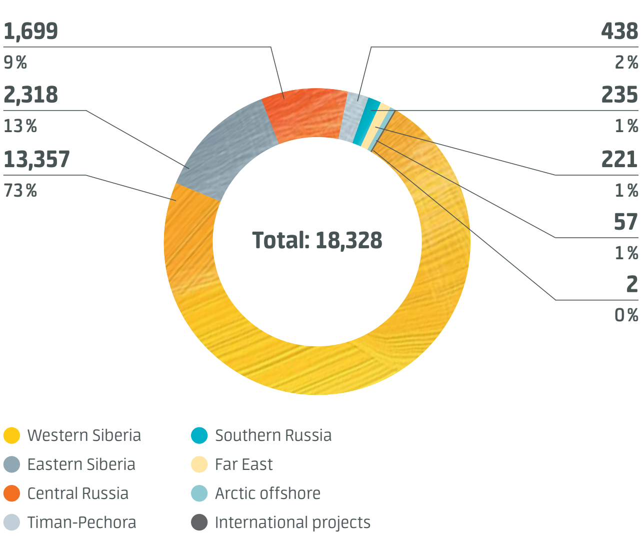
24.2

BLN BARRELS
of oil equivalent of proved hydrocarbon reserves as of December 31, 2012

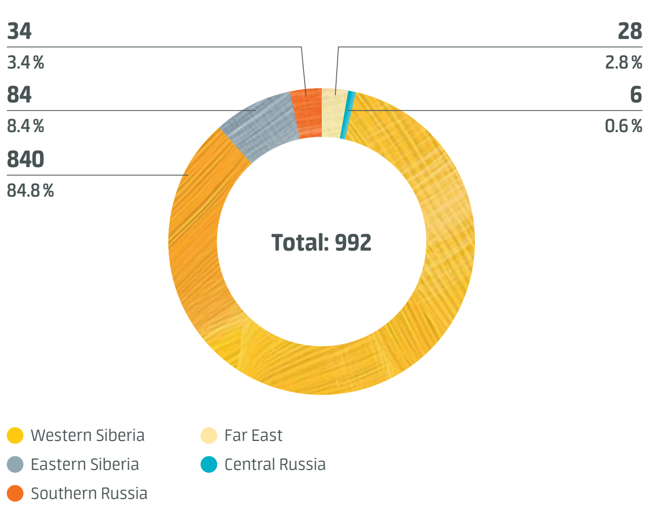
Estimated 3C resources as of December 31, 2012 were 2,232 mln tonnes of oil equivalent, including 1,476 mln tonnes of oil and 964 bcm of gas (including shares in joint ventures).

Around the Vankor field

Proved oil reserves, PRMS (mln barrels, %)



Proved gas reserves, PRMS (bcm, %)



Production

THE COMPANY PRODUCED 892.6 MLN BARRELS OF CRUDE OIL AND GAS CONDENSATE IN 2012, UP 2.8% Y-O-Y

Rosneft's crude oil production is the responsibility of 12 subsidiaries operating in Western and Eastern Siberia, Timan-Pechora, Central Russia, the southern part of European Russia and the Far East. The Company also owns a 20% stake in the Sakhalin-1 project, which is consolidated proportionally, as well as producing oil & gas through four joint ventures, which are treated on the pro rata basis: Tomskneft (50.0% owned by Rosneft), Udmurtneft (49.54%), Polar Lights (50.0%) and Verkhnechonskneftegaz (25.94%).

Company efforts in 2012 were focused on optimization of operating and capital costs, attaining project capacity at the Vankor field, and on programmes to improve energy efficiency.

Rosneft produced 892.6 mln barrels of oil and gas condensate during the year, which is 2.8% more than in 2011. The growth was mainly due to increased production at the Vankor and Verkhnechonsk fields in East Siberia and implementation of highly efficient well intervention programmes at fields in Central Russia and West Siberia.

Production of natural and associated gas (net of amounts flared) increased by 28.1% in 2012 compared with the previous year to 16.39 bcm. The growth was mainly due to creation of a joint venture with Itera LLC, in which Rosneft took 51%, good performance by the compressor station at Tomskneft's Luginetskoye field, increase of oil output at the Vankor and Priobskoye fields, commissioning of compressor stations at the Komsomolskoye field in September 2011, and the construction of a gas pipeline to fields operated by Severnaya Neft.

The Company made special efforts in 2012 to improve operating efficiency in production. Production and operating costs in the upstream segment increased by only 3.8% (to RUB 73.4 bln), much below the rate of inflation, thanks to successful implementation of cost saving initiatives.

Production drilling by Rosneft consolidated companies (excluding the Sakhalin-1 project) amounted to 3,936 th meters, and 1,126 oil wells were completed and brought into production, which is 11.4% more than in 2011. Production from new wells totaled 9.41 mln tonnes of oil and gas condensate and 0.7 bcm of gas.

The average flow rate at new wells was 413 barrels per day, and the average daily flow rate for all production wells was 133 barrels, which is 4.1% more than in 2011. Lower flow rates at new wells in 2012 compared with 2011 were due to natural deterioration of reserves currently in production in West Siberia as well as artificial

Drilling unit «Yastreb» at Chaivo field, Sakhalin-1 project

limitation of flow rates at the Vankor field. Increase of average flow rates for all wells reflects increase in the number of new wells and efficient management of the Company's mature wells.

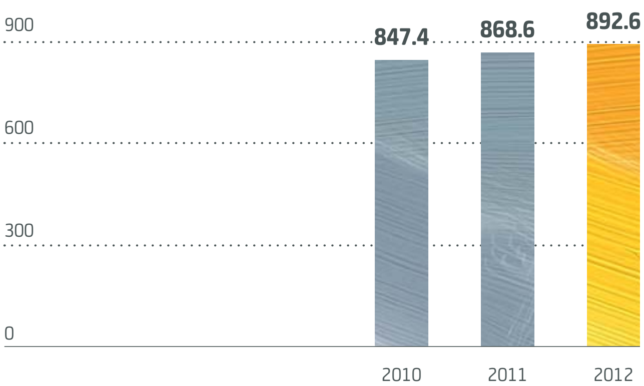
Spending in 2012 on field development by Rosneft's consolidated companies amounted to RUB 276 bln, which is 6% more than in 2011.

West Siberia

KHANTY-MANSIYSK AUTONOMOUS DISTRICT (KHMAD)

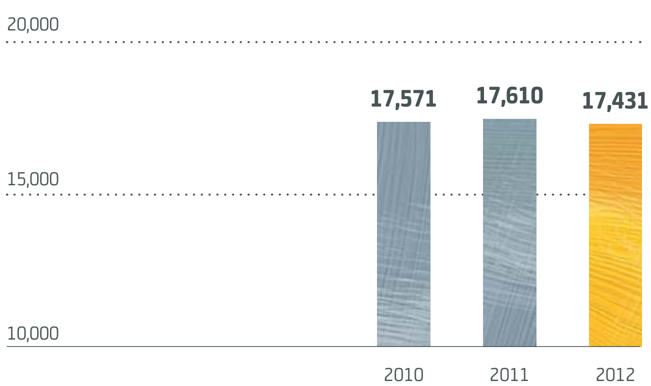
Khanty-Mansiysk Autonomous District (KhMAD) is Rosneft's main production region, containing the Company's largest field — Priobskoye, — which accounts for 32% of proved crude oil reserves and 22% of total production by Rosneft.

Crude oil production (mln bbl)*



* Including share of production in affiliates

Oil production wells (wells, end of year)*



* Companies consolidated by Rosneft, excluding Sakhalin-1

Rosneft continued to bring reserves at fields in KhMAD into production in the course of 2012. Production drilling by the Company in the region amounted to 3,162,000 meters, which is 17.8% more than in 2011. A total of 927 wells were completed and brought into production and the average flow rate at new wells was 319 barrels per day. Average flow rates from existing oil wells in the region were almost unchanged from the 2011 level at 159 barrels per day, which is more than double the Russian average.

Total output from Company fields in the region in 2012 was 488.8 mln barrels of oil and 3.2 bcm of gas (net of amounts flared), representing 55% and 19% of total Company outputs of oil and gas, respectively.

Agreements were signed in 2012 with ExxonMobil for joint study of possible commercial production of hard-to-recover oil in the Achimov and Bazhenov formations in Western Siberia.

A pilot programme was developed jointly with ExxonMobil for work at 23 Rosneft license areas in KhMAD covering a total area of 10,000 sq. km. Work is expected to begin in 2013 and overall financing by ExxonMobil will be up to USD 300 mln.

YAMAL-NENETS AUTONOMOUS DISTRICT (YANAD)

Efforts by Rosneft during 2012 in YaNAD were mainly focused on improving field development and operating systems, including an integrated solution to the task of associated gas utilization.

Rosneft's reserves in YaNAD are highly concentrated. More than 70% of oil & gas condensate reserves are located at the Komsomolskoye, Tarasovskoye, Barsukovskoye and Kharampurskoye fields. This fact helps to keep down field development and production costs.

Production drilling in the region amounted to 163,000 meters and 42 wells were completed and brought into production during the year. Total output by Rosneft in YaNAD during 2012 was 50.7 mln barrels of oil and gas condensate and 6.7 bcm of gas (net of amounts flared).

YaNAD is the principal gas-producing region for Rosneft, accounting for 66.1% of the Company's proved gas reserves (including the share in Itera LLC) and 40.8% of total gas production by the Company.

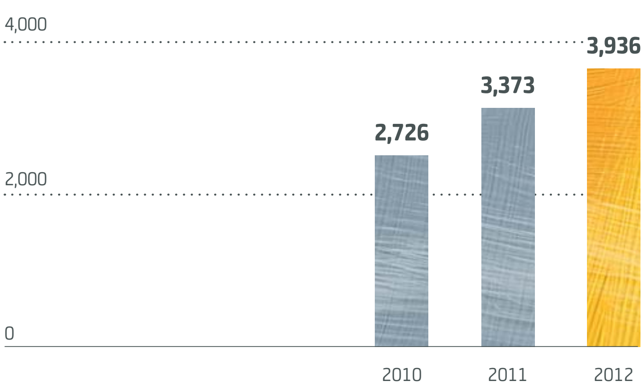
In 2012, Rosneft pursued its programme to increase the associated gas utilization. A system of gas gathering pipelines and a booster compression station were brought into operation at the Kharampurskaya group of fields during the reporting year.

Rosneft and Statoil prepared pilot programs and chose a pilot area for drilling at the North Komsomolsk field.

TOMSK REGION

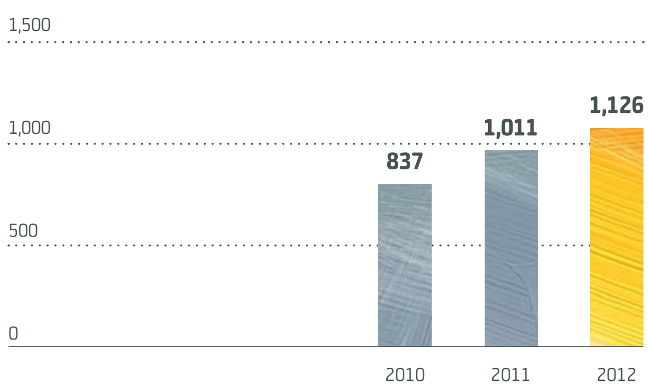
The interests of the Company in Tomsk Region are represented by Tomskneft VNK, which Rosneft owns on a parity basis with Gazprom Neft. Tomskneft is developing a number of mature fields with water cut in excess of 70% (Sovetskoye, Olenye, Nizhnevartovskoye, Strezhevskoye), as well as a number of relatively young fields (Krapivinskoye, Dvurenchenskoye, West Moiseyevskoye and Igolsko-Talovoye). Tomskneft fields produced 37.4 mln barrels of oil and gas condensate and 0.8 bcm of gas during 2012 (measured by the Rosneft share).

Production drilling growth ('000 meters)*



* Companies consolidated by Rosneft, excluding Sakhalin-1

New oil production wells launched for production growth (wells)*



* Companies consolidated by Rosneft, excluding Sakhalin-1

Timan-Pechora

The Rosneft subsidiary, RN-Severnaya Neft, is developing the Val Gamburtseva field and the Baganskaya group of fields, which are located in the Timan-Pechora oil province in the Komi Republic and the Nenets Autonomous District. Oil and gas condensate production by Severnaya Neft in 2012 totaled to 25.7 mln barrels, and gas output was 0.29 bcm (net of amounts flared).

Polar Lights LLC, a parity-owned joint venture between Rosneft and ConocoPhillips, operates in the northern part of the Timan-Pechora oil province, where it is developing six oil fields: Ardalinskoye, East Kolvinskoye, Oshkotynskoye, Dyu-sushevskoe, Central Khoreiverskoye and West Sikhoreiskoye. Output by the joint venture in 2012 was 1.9 mln barrels of oil (measured by the Rosneft share).

Russian Far East

Rosneft produces oil & gas on the Sakhalin Island in the Russian Far East and adjacent offshore zones as part of the Sakhalin-1 project, in which the Company owns a 20% stake. Rosneft production in the region during 2012 was 19.1 mln barrels of oil and gas condensate and 0.84 bcm of gas.

Samara Region

In 2012, Rosneft produced 10.8 mln tonnes of oil and 0.53 bcm of gas (net of amounts flared) at fields of Samaraneftegaz in Samara and Orenburg regions. Oil production rose by 1.5% and the average flow rate at existing oil wells grew by 7.0% from 8.6 to 9.2 tonnes/day. The Company purchased three new licenses for study, exploration and production of hydro-carbons in the Samara Region during 2012.

4.5%

y-o-y growth of hydrocarbon production

Republic of Udmurtia

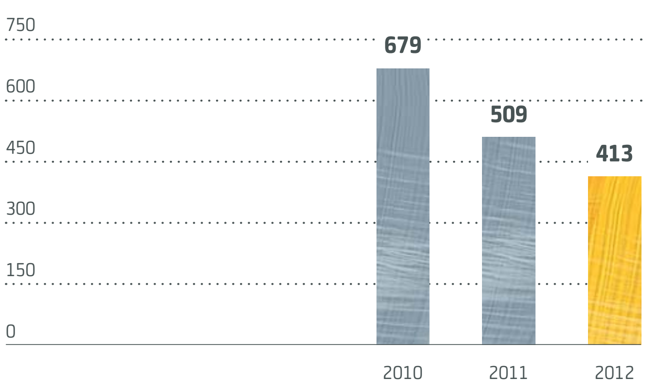
Rosneft exercises joint management of the company Ud-murtneft with China's Sinopec in the Republic of Udmurtia (the Rosneft share in Udmutneft is 49.54%). Application of the latest enhanced oil recovery (EOR) methods made it possible to keep output levels in 2012 at the level of 2010-2011 (the Rosneft share of production was 23.5 mln barrels).

North Caucasus and Southern Federal Districts

There are more than 150 oil & gas fields being developed by Rosneft in the North Caucasus and Southern Federal Districts. Production capacities are located in Krasnodar Territory, the Chechen Republic, the Stavropol Territory and the Republic of Dagestan. This region is the longest-established zone of oil production in Russia and has the advantage of being imme-diately adjacent to major export ports on the Black Sea.

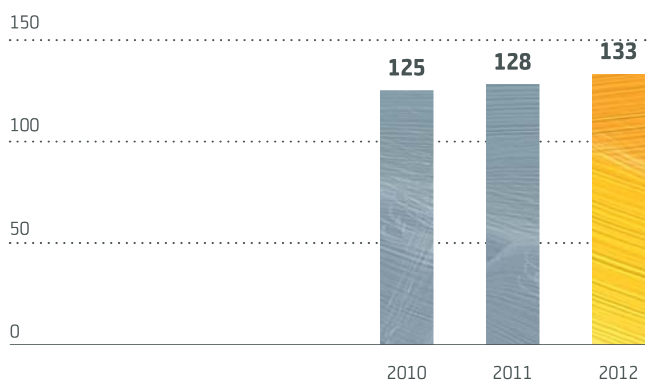
Oil and gas condensate production in the region during 2012 amounted to 19.0 mln barrels, which is 9% less than in 2011 due to depletion of the resource base. Gas production in 2012

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



* Companies consolidated by Rosneft, excluding Sakhalin-1

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



* Companies consolidated by Rosneft, excluding Sakhalin-1

Rosneft Oil and Gas Production Regions

Legend

Oil production, mln tonnes

Gas production, bcm
(not including amounts flare off)

Productions regions

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

SHARE IN TOTAL PRODUCTION OF CRUDE OIL (%)

Western Siberia	65%
Eastern Siberia	17%
Central Russia	11%
Timan-Pechora	3%
Far East	2%
Southern Russia	2%

122.0 MLN TONNES TOTAL OIL

SHARE IN TOTAL PRODUCTION OF GAS (%)

Western Siberia	65%
Southern Russia	22%
Far East	5%
Central Russia	3%
Eastern Siberia	2%
Timan-Pechora	2%

16.39 BCM TOTAL GAS

grew by 3.1% to 3.53 bcm (net of amounts flared) thanks to increase of natural gas output at the Anastasievsko-Troitskoye field, operated by RN Krasnodarneftegaz.

Rosneft signed an agreement in 2012 with Statoil for joint study of possible commercial production of hard-to-recover oil reserves from Khadumsky formations at fields in Stavropol Region. Testing programmes were prepared and prospective areas with Khadumsky deposits in Stavropol Region were selected.

East Siberia

VANKOR FIELD

Commercial production at the Vankor field began in July 2009 and increased by 22.1% in 2012 compared with 2011 to 133.9 mln barrels.

Intensive drilling and field construction work was continued in 2012. Production drilling amounted to 371,000 meters and 83 new oil wells were completed and brought into production. The total number of production wells in operation at Vankor at the year-end was 237, and the average daily flow rate at wells during the year was 1,920 barrels. However, it should be noted that the flow rate was artificially limited as part of the programme to achieve maximum economic efficiency in development of Vankor and other fields in East Siberia.

VERKHNECHONSK FIELD

The Verkhnechonsk field is located in Irkutsk Region and has been developed jointly by TNK-BP and Rosneft (the Rosneft share is 25.94%) since October 2008. Oil production at the field in 2012 was 13.4 mln barrels (the Rosneft share). A total of 62 oil wells were brought into production during 2012 and there were 183 production wells in operation at the end of the year.

YURUBCHENO-TOKHOMSKOYE FIELD

Construction of production wells at the field was continued in 2012, when five wells were drilled, four were completed and drilling of two wells will be continued in 2013. Production drilling totaled 16,497 meters. Building of drilling support and other field facilities also continued through the year.

Seasonal oil production was carried out in test mode during 2011 for the Company's own needs and the needs of nearby communities.

Full-scale development of the field will only be possible once a special tax regime is put in place, since large investments are needed to address its complex geology, remoteness and the lack of transport infrastructure.

International Projects

CANADA

As part of the agreement on strategic partnership with ExxonMobil in August 2012 the Company acquired a 30% stake in the project for development of tight oil reserves in the Cardium formation (Alberta, Canada). Field development is currently underway. A total of 17 oil wells have been built and brought into production since Rosneft entered the project and there were 26 wells in operation by the end of 2012. The Rosneft share of production in the reporting year was 78,300 barrels of oil and 3.9 mln cubic meters of gas.

VENEZUELA

Rosneft signed an agreement as part of its cooperation with the Venezuelan state oil company, PDVSA, for establishment of a joint venture to develop the Carabobo-2 block, located in the heavy-oil belt of the Orinoco River. Oil in place amounts to 6.5 bln tonnes, with Rosneft's share in the JV amounting to 40%.

Programme for associated gas utilization

Production of associated petroleum gas (net of amounts flared) was 9.1 bcm in 2012, which is 12.3% more than in 2011. The growth was due to increased production at fields of Yuganskneftegaz (by 10.3%), Purneftegaz (22.5%) and Tomskneft (14.7%). The level of associated gas utilization was 53.5%, which corresponds to the level of 2011.

The Company took further steps during the year to implement its programme for raising associated gas utilization to 95%. The following facilities were commissioned in 2012 as part of the programme:

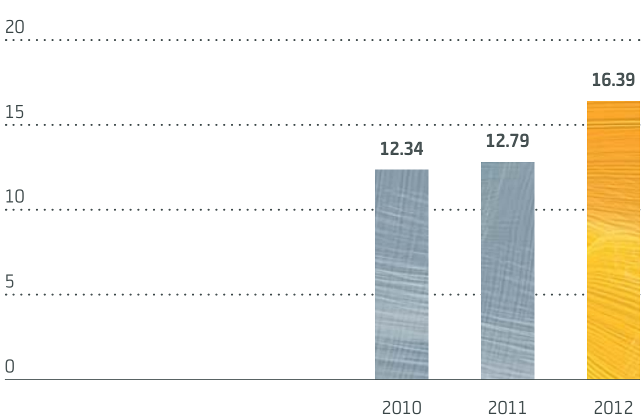
- at Yuganskneftegaz:
  - the second launch complex of the gas preparation unit at the Priobskoye field;
  - two local gas pipelines and a compressor station at the South Balykskoye field;
  - the first launch complex of a gas pipeline at the Ombinskoye field.

Boosting compressor station at Komsomolsk field

- at Purneftegaz:
  — a system of gas gathering pipelines and the first stage of a booster compressor station at the Kharampurskoye field.

- at Samaraneftegaz:
  — a pipeline at the Krasnoarmeiskoye field;
  — two gas gathering pipelines at the Southern group of fields.

Gas production (bcm)*



* Including share of production in affiliates

- at Tomskneft:
  — a gas pipeline from the Krapivinskoye field to the gas-turbine power plant at the Igolsko-Talovoye field;
  — equipment enabling changeover to dual-fuel use at the energy centre serving at the Kolotushnoye field.

- at Severnaya Neft:
  — construction of a compressor station at the Cherpayuskoye field.

Work on the construction of main associated gas facilities at the Vankor field was continued (for gas injection and transportation of gas to the Gazprom transportation system), as well as at the Priobskoye and Cherpayuskoye fields, and at the Ugut-Kinyaminskaya, Kharampurskaya and Barsukovskaya field groups.

Measures as part of the associated gas utilization programme brought the rate of utilization at the Rosneft subsidiary, Severnaya Neft, to a level of 95% in 2012. So the target level for utilization has now been achieved at four Rosneft subsidiaries: Sakhalinmorneftegaz, Severnaya Neft, Dagneft and Dagneftegaz.

Refining

ROSNEFT'S STRATEGIC GOAL IN REFINING BUSINESS IS TO OPTIMIZE THE STRUCTURE AND SCALE OF OUTPUTS TO MEET GROWING DEMAND FOR HIGH-QUALITY MOTOR FUELS

Rosneft refining business

Rosneft has seven large oil refineries in Russia: Komsomolsk, Tuapse, Novokuibyshevsk, Kuibyshev, Syzran and Achinsk and Angarsk Petrochemical Company. Overall primary refining capacity at these facilities is 54 mln tonnes of crude oil per year. Rosneft also owns four mini-refineries in Western and Eastern Siberia, Timan-Pechora and Southern Russia, with total annual capacity of 0.6 mln tonnes, as well as a stake in the Strezhevsky mini-refinery in Western Siberia. In Germany, Rosneft owns stakes in four refineries with capacity of 11.5 mln tonnes (measured by the Company's share of production).

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

Rosneft's lubricant business is also developing rapidly. The Company's main production facilities in this segment are the Novokuibyshevsk Lubricant and Additive Plant, a lubricant production facility at the Angarsk Petrochemical Company and the Nefteprodukt plant in Moscow. Total saleable-product capacity at these plants is about 600,000 tonnes per year, including 460,000 tonnes of lubricants.

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

New Projects

Work continued in the reporting year on the project for construction of a petrochemical complex in the Far East (the Eastern Petrochemical Company) with input capacity of 3.4 mln tonnes. The plant will specialize in the production of polymers (polyethylene and polypropylene). In 2012 Rosneft continued work on leasing and purchase of land for construction and selection of a foreign partner. Design work was completed in base projects for main processing units: pyrolysis, production of polyethylene, polypropylene, linear alpha-olefins and mono-ethylene glycol. Investment in the project in 2012 totaled RUB 3.8 bln.

The Company also completed basic design work in the reporting year for technology configuration at the Grozny Refinery, which will have annual input capacity of 1 mln tonnes of crude oil and a target commercial yield of 94%.

As well as projects for construction of new refineries, work continued in 2012 to expand capacities at the Angarsk Polymer Plant. The project includes reconstruction of existing

Reforming unit at Komsomolsk refinery

capacities and construction of new ones, including Russia's largest high density polyethylene (HDPE) facility, with annual capacity of 345,000 tonnes. Total investments at the Angarsk Polymer Plant in 2012 were RUB 1.9 bln.

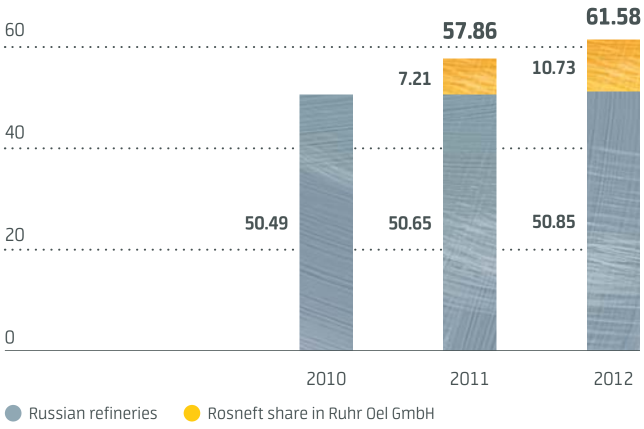
Refinery Modernization Program

Implementation of the programme to modernize Rosneft oil refineries continued in 2012. Completion of the programme will enable the Company to increase its refining volumes and radically improve the quality of existing capacities.

Reconstruction of a catalytic reforming unit was completed in the reporting year at the Komsomolsk Refinery. A base for storage and shipping of liquefied gases and a delayed coking unit were also commissioned at Komsomolsk during 2012.

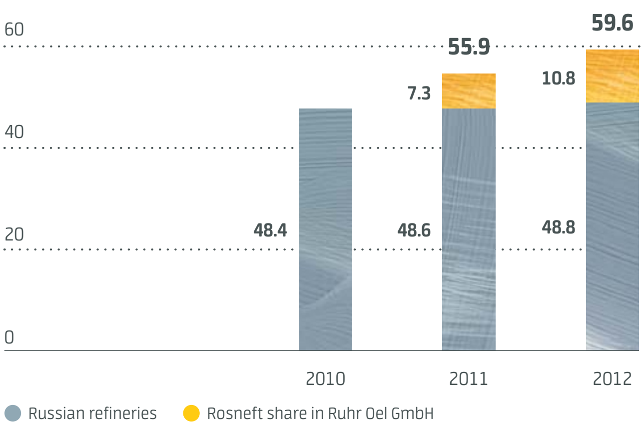
This means that a total of 16 units have been built or upgraded since the start of the refinery modernization programme in 2008.

Refinery througput (mln tonnes)*



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

Petroleum and petrochemical product output (mln tonnes)*



* Including output of gas-processing plants and light hydrocarbon fractions produced as a result of oil treatment

Main programme works should be completed by 2017. The result will be an increase in primary processing capacity at Company plants by 7 mln tonnes, while conversion capacity will rise by 17.7 mln tonnes and reforming capacity by 30 mln tonnes. Light product yield will increase from 56.7% in 2012 to almost 80%, and the average Nelson complexity index will rise from 4 to above 7.

Operating results in 2012

Company refineries in Russia, including mini-refineries, processed 50.9 mln tonnes of crude oil in 2012, matching the level in 2011. Utilization of design capacity at refineries was 93.8%. Total output of petroleum products at refineries in Russia was 48.8 mln tonnes, including outputs at the Angarsk Polymer Plant and Novokuibyshevsk Lubricant and Additives Plant. Light product yield was 56.7%.

The share of Rosneft in refining inputs at Ruhr Oel GmbH refineries during 2012 was 11.9 mln tonnes, including 10.7 mln tonnes of crude oil. Capacity utilization at the plants in 2012 was 92.5%. Rosneft's share of outputs was 10.8 mln tonnes, including 2.1 mln tonnes of petrochemicals. Refining depth was 92.6%.

Capital expenditures at the Company's Russian refineries in 2012 totaled RUB 140 bln.

KOMSOMOLSK REFINERY

A total 7.5 mln tonnes of crude oil were processed at the Komsomolsk Refinery in 2012. Reduction of 1.8% y-o-y was caused by disruption to oil supplies by railway. Petroleum product output in 2012 was 7.3 mln tonnes. Refining depth was 61.9%, compared with 60.3% in 2011.

Reconstruction of the catalytic reforming unit was completed in the reporting year, with launch of equipment for prefractionation of reforming inputs with 1.5 mln tonnes of annual capacity. The unit will enable the Refinery to fully switch to production of motor gasoline in environmental classes 3, 4, and 5. A storage and shipping base for liquefied gas with capacity of 2,400 cubic meters and a delayed coker with 1 mln tonnes annual capacity were also commissioned at Komsomolsk in the reporting year.

Initial construction work was carried out on the new hydrocracking facility.

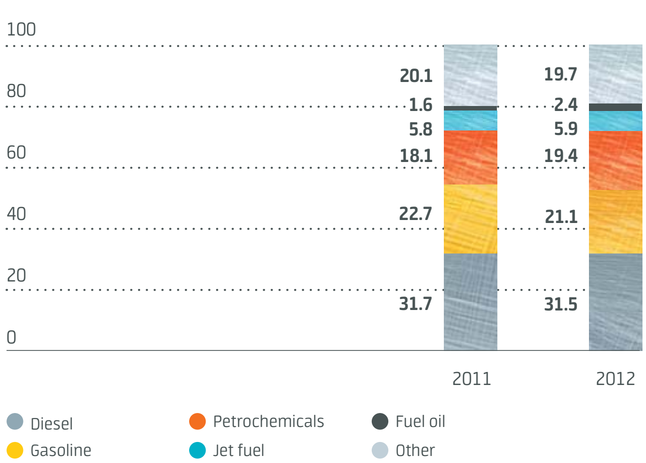
Capital expenditures at the Komsomolsk Refinery in 2012 were RUB 9 bln.

TUAPSE REFINERY

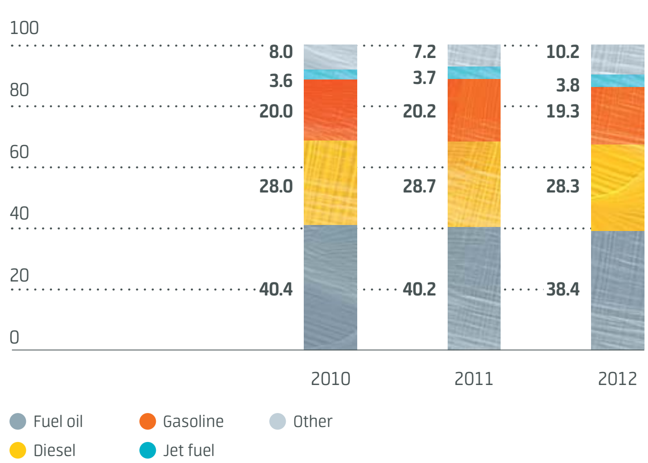
Crude throughput at the Tuapse Refinery amounted to 4.6 mln tonnes in 2012, almost unchanged from 2011. Production facilities were fully loaded, and petroleum product output was 4.5 mln tonnes. Refining depth was 54%, which is 2.3 percentage points more than in 2011.

Construction and assembly work continued on the first launch complex of a new refinery at Tuapse with 12 mln tonnes annual capacity. Start-up procedures on the ELOU-AVT-12 primary refining unit (electric desalter and atmospheric-vacuum distillation unit) are scheduled for completion in the first half of 2013. Commissioning of the first launch complex has been constrained by delays in construc-

Structure of petroleum products output at Ruhr Oel (%)



Structure of petroleum products output at Komsomolsk refinery (%)



tion of the Tikhoretsk-Tuapse-2 trunk pipeline, which will deliver crude oil to the new refinery. Design work continued on facilities which will be part of the second and the third launch complexes.

Capital expenditures at the Tuapse Refinery in 2012 were RUB 76 bln.

NOVOKUIBYSHEVSK REFINERY

The Novokuibyshevsk Refinery processed 7.8 mln tonnes of oil in 2012, which is 1.1% more than in 2011. Output of petroleum products was 6.9 mln tonnes, and refining depth rose by 4.3 percentage points compared with 2011 to 78.5%.

Work continued during 2012 to reduce irretrievable losses in the refining process. As a result of these efforts, irretrievable losses were reduced to 0.99% of the total processing volume as compared with 1.07% in 2011.

There was substantial progress in construction of reforming, hydrocracking and isomerization complexes at Novokuibyshevsk.

Capital expenditures at the Novokuibyshevsk Refinery in 2012 were RUB 13 bln.

KUIBYSHEV REFINERY

The Kuibyshev Refinery processed 6.7 mln tonnes of oil in 2012, matching the level of 2011. The Refinery produced 6.3 mln tonnes of saleable petroleum products. Refining depth was 60%, matching the indicator of 2011.

61.6

MLN TONNES

of crude oil processed at refineries in Russia and Germany in 2012

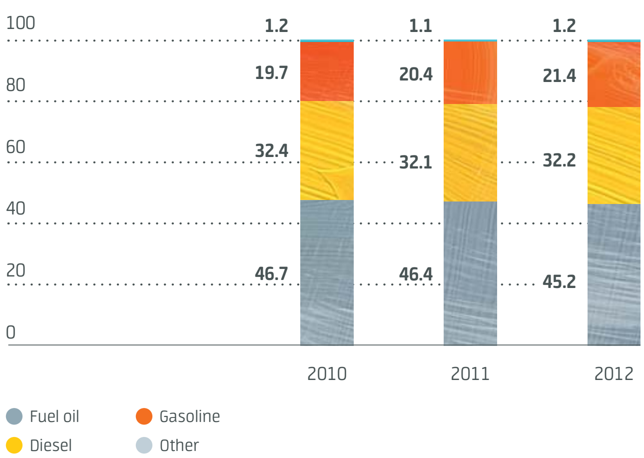
Further measures were implemented to reduce fuel consumption at the Kuibyshev Refinery. The share of produced fuel used for operations was lowered to 5.99% from 6.38% in 2011, and the share of fuel used for energy generation was reduced to 2.63% from 2.87% in 2011.

There was further progress in the construction of isomerization, gas fractionation and catalytic cracking units, as well as a unit for hydrotreatment of vacuum gas oil and a unit for production of high-octane oxygenated additives for gasoline (MTBE).

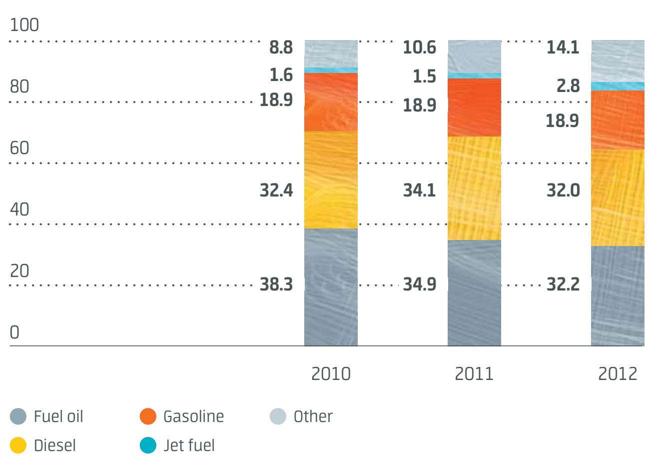
Transfer of boilers at the Refinery's heat and power plant from fuel oil to natural gas was completed in 2012, reducing operating costs.

Capital expenditures at the Kuibyshev Refinery during 2012 were RUB 11 bln.

Structure of petroleum products output at Tuaspe refinery (%)



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



* Including production at the Novokuibyshevsk Oils and Additives Plant

SYZRAN REFINERY

The Syzran Refinery processed 6.7 mln tonnes of oil in 2012, which is 1.7% more than in 2011, and produced 6.3 mln tonnes of saleable products. Refining depth was 68.9%, representing an increase of 6 percentage points over 2011.

Work to reduce irretrievable refining losses continued in the reporting year. Such losses were reduced to 0.79% of total refining volumes compared with 0.91% in 2011.

Efforts to increase refining depth also continued in 2012. A catalytic cracking unit, now under construction, will enable the Refinery to produce fuels in environmental class 5.

Capital expenditures at the Syzran Refinery in 2012 were RUB 8 bln.

ACHINSK REFINERY

The Achinsk Refinery processed 7.4 mln tonnes of crude oil and produced 7.2 mln tonnes of saleable products in 2012. Refining depth was 61.3%.

Following launch of an isomerization unit at Achinsk in December 2007 the Refinery produces more gasoline in environmental classes 3 and 4 than any other Rosneft refinery.

Intensive work is underway for construction of a delayed coker with capacity of 1 mln tonnes, as well as work for construction of a hydrocracker with 2 mln tonnes capacity.

Capital expenditures at the Achinsk Refinery in 2012 were RUB 14 bln.

ANGARSK PETROCHEMICAL COMPANY

Angarsk Petrochemical Company processed 10.1 mln tonnes of oil in 2012, which is 2.5% more than in 2011. The plant produced 9.3 mln tonnes of saleable products (including outputs by the Angarsk Polymer Plant) and refining depth was 73.1%.

Work continued on implementation of a comprehensive modernization programme, aimed at meeting the requirements of the Russian Government's Technical Regulations. The construction of a gasoline blending station was competed as part of the programme, optimizing production of gasoline.

Capital expenditures at Angarsk in 2012 were RUB 9 bln..

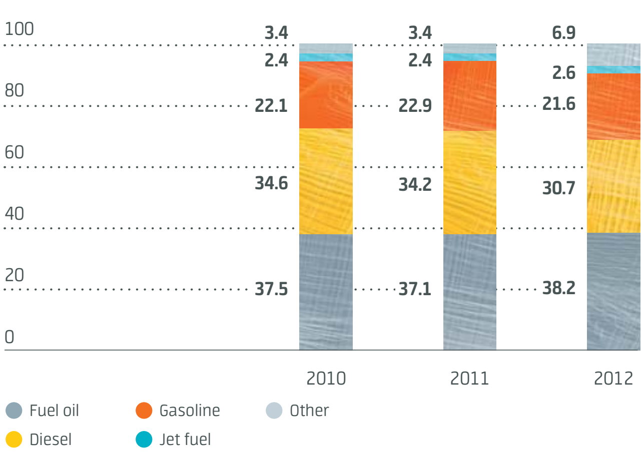
ANGARSK POLYMER PLANT

Angarsk Polymer Plant processed 705,900 tonnes of inputs in 2012 and produced 521,900 tonnes of saleable products, including 137,600 tonnes of ethylene, 105,100 tonnes of propylene, 40,800 tonnes of high-density polyethylene, 20,700 tonnes of styrene, 13,500 tonnes of polystyrene and 50,600 tonnes of benzene.

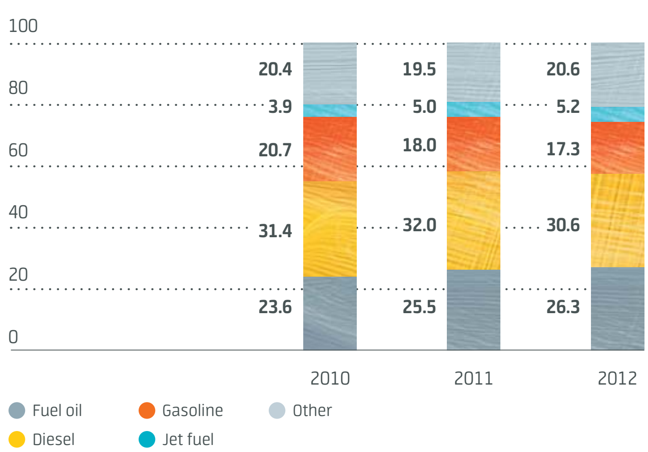
LUBRICANT PRODUCTION

Rosneft produced 551,800 tonnes of lubricants, additives and other related products, including 460,000 tonnes of saleable lubricants in the reporting year. The Company was in second place by volumes of lubricant production in Russia and in first place for production of additives.

Structure of petroleum products output at Achinsk refinery (%)



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



* Including production at the Angarsk Polymer Plant

Delayed coking at Komsomolsk refinery

The Novokuibyshevsk Lubricants and Additives Plant continued its programme of reconstruction and development during 2012. Steps in 2012 as part of scheduled expansion of the Plant's range of versatile, up-to-date lubricants included the launch of new multigrade oils (Rosneft Optimum and Rosneft Maximum Service), and of a new transmission fluid (Rosneft Kinetic Service). Angarsk Petrochemical Company started to produce lubricants under the Rosneft Diesel brand (API CI-4/SL).

Output at Novokuibyshevsk of the anti-wear additive for diesel fuel, Komplexal-ECO D, was significantly increased in the reporting year (by 40%). The additive has been recognized as compatible with bio-components and included in the European 'No-Harm' list. Rosneft is the first and still the only Russian company to produce an additive, which is included in this list. Diesel fuel produced by the Company is therefore admitted to the European pipeline system.

GAS PROCESSING

The Otradnensky and Neftegorsky gas-processing plants processed 390.4 and 380.4 mln cubic meters of associated gas, respectively, in 2012. The total volume of gas processing in the year decreased by 2.9% compared with 2011. Production consisted of 412.3 mln cubic meters of dry stripped gas, 398,600 tonnes of natural gas liquids, 91,700 tonnes of ethane fraction and 5,900 tonnes of sulphur.

Sales and Marketing

THE AIM OF ROSNEFT IN ITS CRUDE OIL, GAS AND PETROLEUM PRODUCT MARKETING BUSINESS IS TO MAXIMIZE MARGINS BY INCREASING THE VOLUME OF DIRECT SALES TO END-USERS AND BY IMPROVING THE REACH AND EFFICIENCY OF THE SALES NETWORK

Rosneft continuously monitors domestic and international markets for crude oil and petroleum products in order to respond flexibly to changes in demand and the pricing environment. Ownership of terminals enables the Company to achieve greater efficiency in exports, and extensive product sales infrastructure, including a large network of filling stations, enables substantial product sales via retail and small wholesale channels.

Crude oil sales

Rosneft allocates the crude oil, which it produces, between supplies to its own refineries in Russia and Germany, on the one hand, and sales in Russia, the CIS and the international market, on the other hand.

The Company exports most of the crude oil, which remains after loading of its own refineries. Export sales are via long-term contracts and tenders. Efficient organization of tender sales enables Rosneft to achieve price premiums compared with benchmarks.

In the reporting year, the Company supplied 372.0 mln bbl of oil to its own refineries in Russia, matching the level in 2011. Rosneft continued the practice of swap operations with other Russian oil producers in 2012 as a means of optimizing the costs of transporting crude to refineries. The volume of swap operations increased by 24% y-o-y to 81.6 mln bbl thanks to transactions with new counterparties, enabling cost savings of RUB 2.3 bln.

Rosneft also delivered 2.2 mln tonnes (15.8 mln bbl) of its own crude oil to Ruhr Oel GmbH refineries in 2012, of which 2.1 mln tonnes (15.7 mln bbl) were refined and sold.

Crude oil sales in 2012 totaled 66.9 mln tonnes (489.4 mln bbl), including 0.5 mln tonnes (3.7 mln bbl) sold on the domestic market. Crude oil exports increased by 3.9% to 66.4 mln tonnes (485.7 mln bbl) reflecting growth of production.

Rosneft exported 41.9 mln tonnes (306.5 mln bbl) of crude oil to North-Western, Central and Eastern Europe, the Mediterranean and other areas outside the CIS. Exports to the CIS amounted to 6.5 mln tonnes (47.5 mln bbl). Growth of exports to CIS countries by more than 41% was due to assignment of extra quotas. The Company sold 18.0 mln tonnes (131.7 mln bbl) of oil in the Asia-Pacific region, of which 15.1 mln tonnes (110.5 mln bbl) were supplied by pipeline to China under a long-term contract and the remainder was exported through the ports of Kozmino and De-Kastri.

The bulk of exports by Rosneft are made via Transneft capacities, including export pipelines and ports. The structure

Tuapsenefteproduct terminal

of exports by transport type in the reporting year was as follows:

- pipelines – 64.7 mln tonnes (473.3 mln bbl), representing 97.4% of total crude exports;
- railway and mixed transport – 1.7 mln tonnes (12.4 mln bbl), representing 2.6% of total crude exports.

DE-KASTRI PORT

De-Kastri is one of the largest ports in the Far East, and offers an efficient means of exporting crude oil to the Asian market. The oil export terminal with 12 mln tonnes (88 mln bbl) annual capacity is owned by the Sakhalin-1 consortium, in which Rosneft has a 20% stake. A total of 1.3 mln tonnes (9.5 mln bbl) of Company oil were dispatched through De-Kastri in 2012. Decline of volumes from 1.6 mln tonnes (11.7 mln bbl) in 2011 was due to reduction of export deliveries by the Sakhalin-1 project.

BELOKAMENKA

The Belokamenka floating storage facility, located in an ice-free inlet of the Kola Bay, is used by Rosneft under a long-term lease arrangement for the transshipment of oil produced at fields in Timan-Pechora. Oil is carried to the floating facility in shuttle tankers, and then delivered onwards to the international market by large tankers. Belokamenka was used for the shipment of 1.5 mln tonnes (11.0 mln bbl) of oil during 2012. A decline from 3.2 mln tonnes (23.4 mln bbl) in 2011 reflects reduction of supplies from third-parties, due to decline of their production levels in the region.

THE CASPIAN PIPELINE CONSORTIUM

The Caspian Pipeline Consortium (CPC) pipeline runs from the Tengiz oil field in Western Kazakhstan to the port of Novorossiysk. Rosneft has held an interest in the CPC since 1996 through the joint venture, Rosneft Shell Caspian Ventures Ltd., which has a 7.5% equity stake in the CPC. Rosneft owns 51% of the joint venture, and the remaining 49% belongs to Shell.

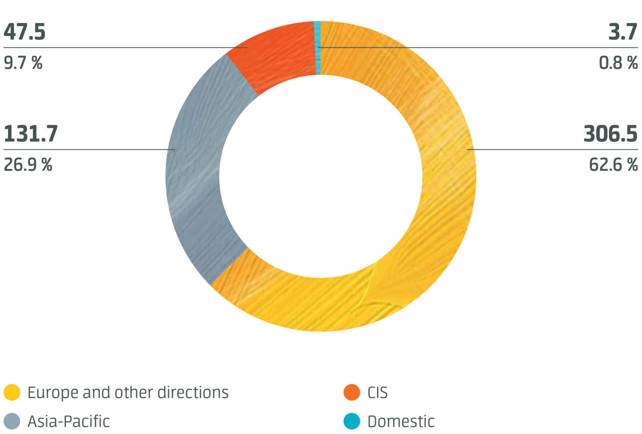
The Company supplied 1.7 mln tonnes (12.4 mln bbl) of oil and gas condensate via the CPC in 2012. Decline from 2.2 mln tonnes (16.1 mln bbl) in 2011 was mainly due to the cessation of oil exports by Purneftegaz.

Gas sales

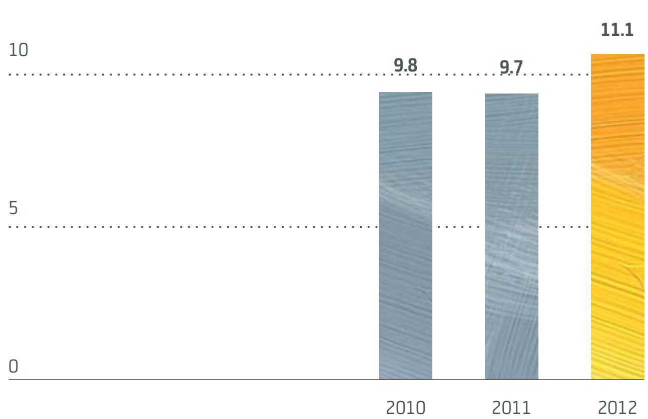
The company supplies natural gas, stripped gas and associated gas to Russian consumers. Associated gas is delivered to the Company's own gas-processing plants and to plants owned by SIBUR Holding. Natural and stripped gas is delivered to consumers via Gazprom's Unified Gas Supply System on the basis of a contract for gas transportation. In 2012 Rosneft entered into long-term gas supply contracts with the power generating companies INTER RAO, Fortum, E.ON Russia and other strategic partners in order to build a guaranteed customer base and improve the efficiency of gas sales to end-users. Rosneft does not export any of its gas, since the Federal Law on Gas Export makes exports the exclusive right of Gazprom.

The Company sold 11.1 bln cubic meters of gas in 2012, including 4.5 bln cubic meters in Western Siberia, 3.0 bln in the Southern Russia, 2.8 bln in European Russia and the remainder in the Russian Far East.

Crude oil sales 2012 (mln barrels, %)



Gas sales (bcm)



Rack of Tuapsenefteproduct terminal

Petroleum product sales

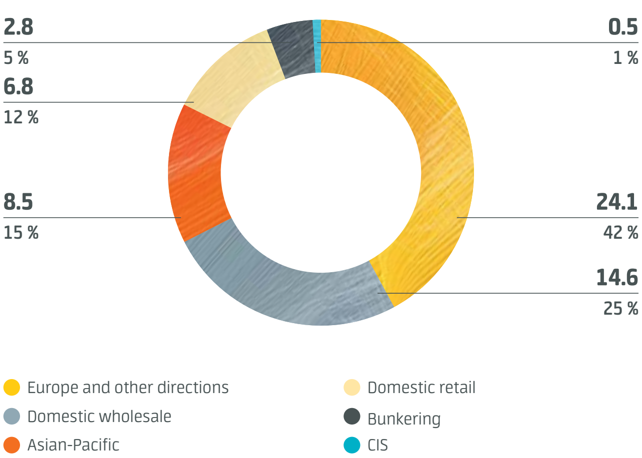
Rosneft has developed infrastructure for the sale of petroleum products on the domestic and international markets. A total of 57.3 mln tonnes of petroleum products (not including sales of petrochemical products), were sold in the reporting year, representing an increase of 4.6% y-o-y. Growth of sales was mainly due to increase of crude oil throughput following the acquisition of refining capacities in Germany.

DOMESTIC SALES OF PETROLEUM PRODUCTS

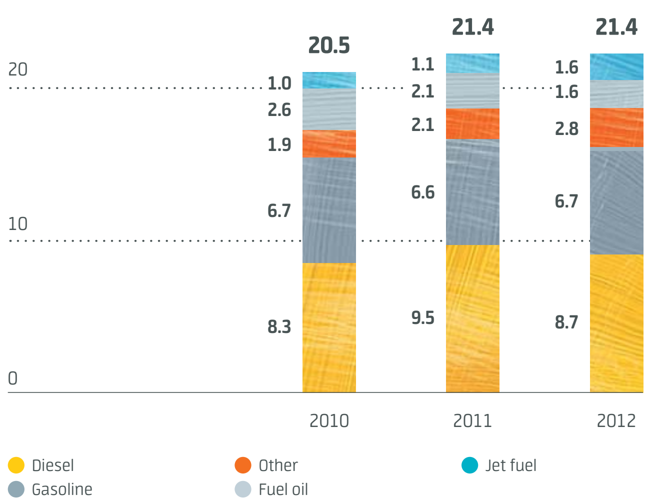
Rosneft owns extensive, well-developed infrastructure for the sale of petroleum products on the domestic market, including a network of marketing companies, which carry out wholesale and retail sale of petroleum products, as well as storage, transport and handling of products.

Domestic sales of petroleum products amounted to 21.4 mln tonnes in 2012, equaling the figure in 2011. Gasoline account-

Petroleum product sales (mln tonnes, %)



Domestic sales of petroleum products (mln tonnes)



ed for 31% of domestic sales volumes, while 41% were diesel, 7% were fuel oil and another 7% were jet fuel. Volumes of jet fuel sold on the domestic market rose by 46% y-o-y in absolute terms, mainly due to increase in demand.

Wholesale

Domestic sales of petroleum products via wholesale channels amounted to 14.6 mln tonnes in 2012. Most of the wholesale buyers of Rosneft petroleum products are independent traders and large end-users (including the Russian Ministry of Defence, and Russian Railways). The main products supplied to these customers are heating oil and diesel fuel.

The Company continued to sell petroleum products through Russian commodity exchanges in the reporting year. A total of 1.4 mln tonnes of petroleum products were sold via the St. Petersburg Mercantile Exchange and the Interregional Oil & Gas Trading Exchange in 2012. Decline from 3.4 mln tonnes in 2011 reflects an increase in volumes sold by Rosneft marketing subsidiaries through retail and small-wholesale channels, and expansion of sales to end-users.

Retail

By the end of 2012 Rosneft had retail business in 46 of Russia's administrative regions, from Murmansk in the north to the North Caucasus in the south, and from Bryansk in the west to Sakhalin in the east. The Company's retail sales include gasoline, diesel fuel, lubricants and liquefied gases.

As of December 31, 2012 Rosneft marketing subsidiaries owned 128 operating tank farms with total capacity of 1.7 mln cubic meters. The Company's filling station network consisted of 1,648 owned and leased stations (including 3 stations in Abkhazia), and 46 stations operating under the Rosneft brand. Owned and leased filling stations were equipped with 121 car washes, 1,109 shops and 186 cafes. Minor vehicle repairs and servicing were available at 76 filling stations.

The Company pursued its programme for optimization of its distribution network in 2012 (closure of underperforming filling stations, reconstruction of existing stations and construction of new ones). A total of 53 inefficient filling stations were leased out, liquidated, or mothballed in 2012, while 29 new stations were built and 69 existing stations were renovated.

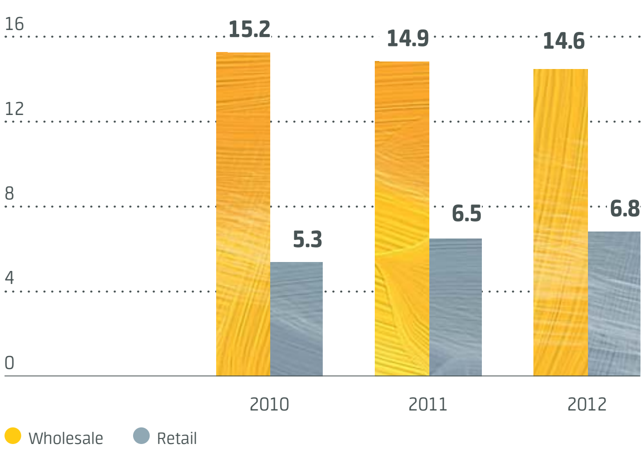
Sales volumes through the filling station network grew by 7% y-o-y to 7.0 mln tonnes compared with 2011 thanks to increased demand for Company products. Average sales per station rose by 11% to 11.8 tonnes per day.

Rosneft has been general sponsor for the 2014 Sochi Olympic Games since 2009, and construction of filling stations using the 'Olympic' format (with use of Olympic insignia) continued in 2012 along the M-4 (Don) Federal Highway, as well as reconstruction of the Adler storage facility. Project planning documents were also prepared in 2012 for the construction of 8 Olympic filling stations in the city of Sochi. Completion of these projects will ensure that the Company can fully supply the fuel needs of guests and organizers of the 2014 Olympic Games.

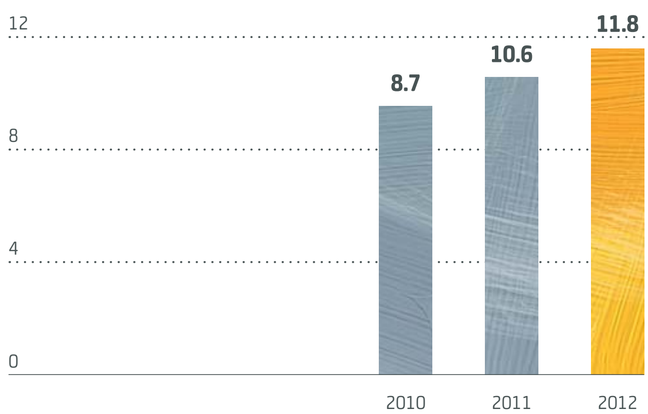
INTERNATIONAL SALES OF PETROLEUM PRODUCTS

Rosneft sold 33.1 mln tonnes of petroleum products outside Russia in 2012 (including purchases from third-parties, but

Domestic saless of petroleum products (mln tonnes)



Average sales through one filling station (tonnes per day)



without bunkering and sales of petrochemicals), which is 7.1% more than in 2011. Growth of sales volumes was a result of the acquisition of a 50% interest in Ruhr Oel GmbH. Sales outside the CIS totaled 32.6 mln tonnes (98% of total product exports), including 8.7 mln tonnes of petroleum products produced at German refineries (the Rosneft share of outputs at these refineries). Product sales in CIS countries (except Russia) were 0.5 mln tonnes.

Fuel oil accounted for 52% of product exports, while 30% were diesel fuel and low viscosity marine fuel, and 15% were naphtha.

Most product shipments (including bunkering and sales of petrochemicals) in 2012 from refineries for sale outside Russia used railway and mixed transport (27.0 mln tonnes, or 73.4% of the total), while 1.4 mln tonnes (3.8% of the total) were shipped via pipeline, and the remainder (8.4 mln tonnes or 22.8%) were shipped from the Tuapse refinery and on FCA[1] terms from the Samara group of refineries, where Rosneft does not bear transport costs directly, except for handling and dispatching costs.

Nakhodka terminal

Rosneft owns the Nakhodka terminal in Primorsky Territory, which is used mainly for export of petroleum product outputs from the Komsomolsk, Angarsk and Achinsk refineries. Annual transshipment capacity at Nakhodka is about 7 mln tonnes.

Petroleum product supplies via the Nakhodka terminal (including bunkering for export and domestic market) totaled 6.8 mln tonnes in 2012.

12%

increase in sales of bunker fuel

Tuapse terminal

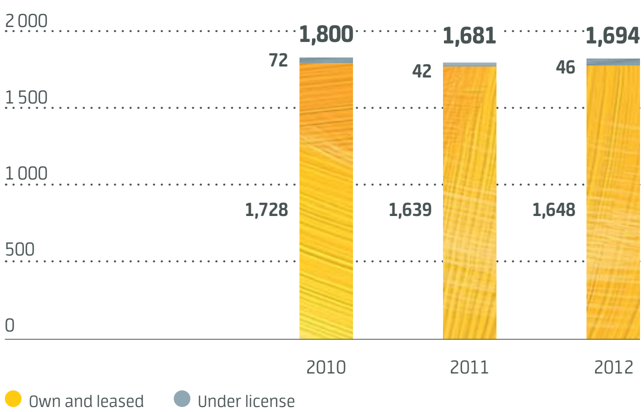
The Tuapse terminal, which is also owned by Rosneft, has 17 mln tonnes annual capacity and is located adjacent to the Tuapse refinery. The terminal is mainly used for the export of outputs from the Tuapse and Achinsk refineries as well as the Samara group refineries.

Petroleum product export volumes in 2012 through the Tuapse terminal (including bunkering for export and domestic market) were 7.8 mln tonnes (9.6 mln tonnes including transhipments for third-parties).

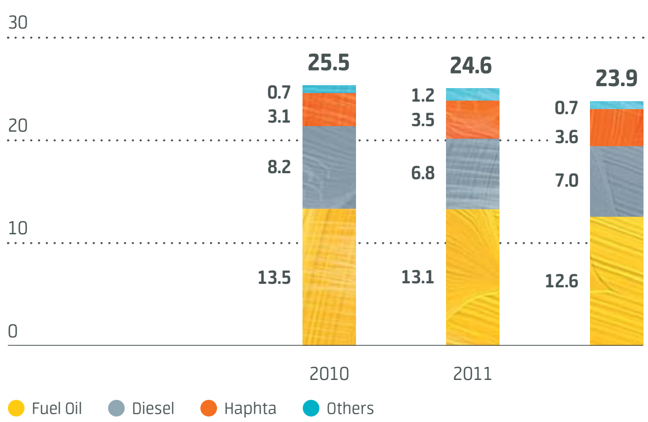
Sales of petrochemicals

Rosneft sold 2.9 mln tonnes of petrochemicals in 2012, which is 31.8% more than in 2011. Sales outside Russia were 2.2 mln tonnes (including 2.1 mln tonnes produced at refineries of Ruhr Oel GmbH) and 0.7 mln tonnes were sold on the domestic market.

Operating filling stations (end of year)



Export sales of petroleum products (mnl tonnes)*



* Excluding sales of petroleum products and petrochemicals produced at Ruhr Oel

1. A trading term (included in Incoterms), meaning that the seller undertakes to deliver goods (clear of export duties) to the carrier nominated by the buyer at an agreed location.

Bunkering

The Company is engaged in bunkering through its subsidiaries RN-Bunker and Rosneft Marine UK Ltd., which serve all major sea and river ports that offer bunkering services in Russia as well as operating at several foreign ports in the Middle East.

Expansion of the business and favorable market conditions led to increase of sales volumes by 12% in 2012 to 2.8 mln tonnes.

Bunker fuel sold by the company complies with Russian standards and with the ISO 8217:2010 international standard.

Rosneft continued efforts to increase its presence on key bunkering markets in Russia during the year. Main actions for this purposes were as follows:

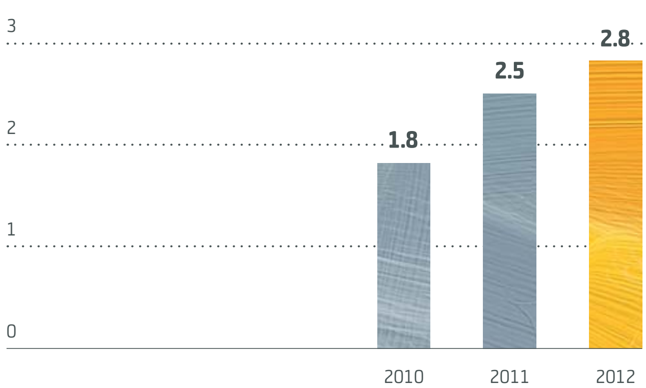
- the Company entered into long-term contracts with large foreign shipowners (Maersk, CMA CGM, SEIC, ZIM), which strengthened its position in the Far East and the Black Sea;
- a modern ice-class bunkering tanker, the RN Polaris, was brought into use and will work in the Main Port of St. Petersburg and the port of Ust-Luga. The tanker meets all requirements for vessels of this class;
- a floating storage facility was installed at Kavkaz port (Krasnodar Region).

Thanks to these actions Rosneft increased its share of the Russian bunkering market to 23% in 2012.

Aircraft refueling

Rosneft carries out aircraft refueling business through its subsidiary RN-Aero and can provide refueling services in nearly all Russian regions thanks to wide distribution of its refineries across Russia.

Sales of bunker fuel (mln tonnes)



The company makes direct deliveries of jet fuel to a number of airlines; Aeroflot, Transaero, North Wind, Lufthansa Cargo AG, UTair, Deutsche Lufthansa AG, Sibir, Turkish Airlines, Ural Airlines, Yakutia, Armavia, Taimyr, and others.

Jet fuel sales by the company amounted to 1.5 mln tonnes in 2012, which is almost double the level in 2011.

'In-wing' refueling services were provided in 2012 at airports in the following cities: Krasnoyarsk (Yemelyanovo), Vladivostok, Irkutsk (Knevichi), Mineralniye Vody, Blagoveshchensk (Ignatiev), Rostov-on-Don, Vankor PU, Igarka, Verkhnechonsk Field, Vnukovo, Komsomolsk-on-Amur (Khurba), Arkhangelsk (Talagi), Elista and Stavropol.

The total volume of into-plane refueling in 2012 was 404,900 tonnes, which is over 2 times more than in 2011. The growth reflects agreements made in 2012 with Transaero and Lufthansa airlines, under which more than 100,000 tonnes of fuel were provided.

Sale of lubricants

Rosneft sold 596,000 tonnes of lubricants during 2012, of which 406,000 or 68% of the total were sold on the domestic market.

Sale of lubricants in 2012 amounted to 443,000 tonnes, of which 305,000 tonnes (68%) were sold on the domestic market. Sales of packaged lubricants amounted to 81,000 tonnes, and sales of packaged lubricants under the Rosneft brand (Rosneft Premium, Rosneft Maximum, Rosneft Optimum, Rosneft Optimum Service, Rosneft Maximum Service, Rosneft Kinetic and Rosneft Express) grew by 15% y-o-y to 11,600 tonnes.

Rosneft delivered 10,100 tonnes of industrial lubricants, quench oil, engine oils, transmission fluids and first-fill lubricants to the Russian car producer AvtoVAZ in 2012 as part of the cooperation programme between the two companies. The deliveries were made from the Novokuibyshevsk Oils and Additives Plant. A Russian Government decree appointed Rosneft as the sole supplier of K4-20 compressor oil in 2012.

Macroeconomic Environment

INCREASE IN OIL AND PETROLEUM PRODUCT PRICES WAS PARTIALLY OFFSET BY INDEXATION OF NATURAL MONOPOLIES TARIFFS AND THE BASE RATE OF MET

The main factors determining Rosneft's operating results are as follows:

- changes in prices for crude oil, petroleum products and gas;
- the USD/RUB exchange rate and inflation;
- taxation (mainly changes in mineral extraction tax (MET), export duties and excise taxes);
- changes in transport tariffs of natural monopolies (pipeline and railway);
- changes in electricity prices.

Changes in prices for crude oil, petroleum products and natural gas

World prices for crude oil are subject to major fluctuations, caused by the global balance of supply and demand and by many other factors. Crude oil exported by Rosneft via the pipeline system of Transneft (the Russian pipeline monopoly) is blended with crude oil of other producers, which is of a different quality. The resulting Urals blend is traded at a discount to Brent. Crude oil exported via the ESPO pipeline is sold at a special price, which is linked to the price for Dubai crude.

Global and domestic market prices for petroleum products are determined mainly by international crude oil prices, supply and demand on the petroleum product market, and the level of competition on different markets. Price dynamics for different petroleum products vary.

The prices at which Gazprom sells gas on the domestic market are regulated by the Russian Government. However, regulated prices for gas on the domestic market are rising and are expected to continue to rise towards equality with export netbacks. The gap between domestic prices and the export netback level remains substantial at the present time.

Regulated prices have affected and are likely to continue to affect price formation in sales of gas by Rosneft to Gazprom.

The average price for gas sold by the Company (excluding VAT) was RUB 1,970 and RUB 1,470 per thousand cubic meters in 2012 and 2011, respectively.

Exchange rates and inflation

The USD/RUB and EUR/RUB exchange rate and rates of inflation in the Russian Federation have an impact on Rosneft's results, as a substantial amount of the Company's revenues from sales of crude oil and petroleum products are denominated in USD, while most of the Company's expenses are denominated in roubles. As a result, any depreciation of the rouble in real terms has positive effect on Rosneft's operating income, while rouble appreciation has the opposite effect.

109.6

USD PER BARREL
average Urals price in 2012

Prices for crude oil and petroleum products

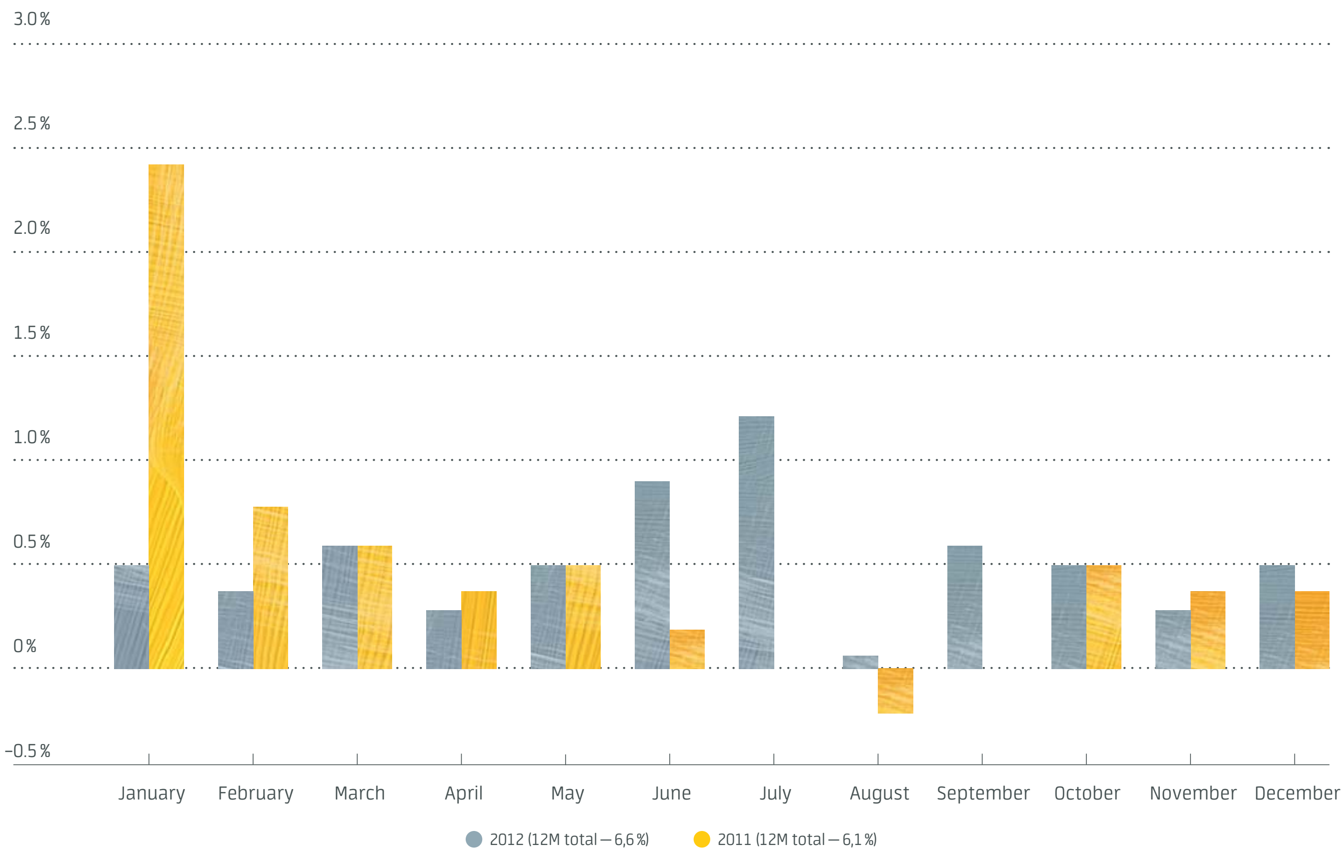
2010		2011	2012	Change, %
WORLD MARKET (USD PER BARREL)				
79.5	Brent	111.3	111.6	0.3%
78.2	Urals (average for Med and NWE)	109.1	110.3	1.1%
76.7	Urals (FOB Primorsk)	108.2	109.0	0.7%
76.8	Urals (FOB Novorossiysk)	108.3	109.5	1.1%
78.0	Dubai	106.2	109.1	2.7%
WORLD MARKET (USD PER TONNE)				
698	Naphtha (average FOB/CIF Med)	915	918	0.4%
711	Naphtha (average FOB Rotterdam/CIF NWE)	929	934	0.5%
724	Naphtha (CFR Japan)	938	943	0.5%
442	Fuel oil 3.5%, (average FOB/CIF Med)	609	631	3.7%
441	Fuel oil 3.5% (average FOB Rotterdam/CIF NWE)	607	629	3.5%
470	High-sulphur fuel oil 180 cst (FOB Singapore)	649	672	3.5%
672	Gasoil 0.1% (average FOB/CIF Med)	932	953	2.3%
672	Gasoil 0.1% (average FOB Rotterdam/CIF NWE)	934	954	2.2%
665	Gasoil (FOB Singapore)	925	938	1.4%
RUSSIAN MARKET (WITH EXCISES, NET OF VAT) (TH. RUB PER TONNE)				
6.7	Oil	8.9	10.2	14.6%
7.7	Fuel oil	8.8	9.2	4.5%
14.3	Summer diesel	19.7	23.2	17.8%
16.5	Winter diesel	21.9	25.3	15.5%
14.9	Jet fuel	20.7	23.3	12.6%
20.8	High-octane gasoline	24.1	25.5	5.8%
17.3	Low-octane gasoline	22.1	23.4	5.9%

Source: Platts (world market), Kortes/Argus (Russian market)

USD/RUB and EUR/RUB exchange rates and inflation

2010		2011	2012
8.8%	Rouble inflation (CPI)	6.1%	6.6%
30.37	Average USD exchange rate (RUB/USD)	29.39	31.09
30.48	USD exchange rate at end of period (RUB/USD)	32.20	30.37
40.30	Average EUR exchange rate (RUB/EUR)	40.88	39.95
40.33	EUR exchange rate at end of period (RUB/EUR)	41.67	40.23

Consumer Price Index in 2012 (rouble inflation), (%)



USD exchange rate in 2012 (RUB per USD)

Taxation

MINERAL EXTRACTION TAX (MET)

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

The MET rate for crude oil is calculated by multiplying the base rate by an adjustment ratio: (Price - 15) x Exchange Rate / 261, where 'Price' is the average price per barrel of Urals crude and 'Exchange rate' is the average RUB/USD exchange rate set by the Central Bank of Russia for the respective period. The result is then multiplied by coefficients that characterize the degree of depletion and volume of reserves at the specific oilfield.

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

- the reduced rate is applicable to crude oil produced at fields with reserve depletion above 80%; in these cases a special adjustment ratio (3.8 – 3.5 * level of reserve depletion) is applied for calculation of the reduced rate, which therefore varies between 0.3x and 1.0x the standard rate;
- the zero tax rate is applicable to high-viscosity crude oil;
- the zero tax rate is applicable until a specified time or until accrued production reaches a certain level (if the latter occurs before the specified time) at fields in Yakutia, Irkutsk Region, Krasnoyarsk Territory, Nenets Autonomous District, the Yamal Peninsula, the Azov, Caspian and Black Seas and the Sea of Okhotsk, and at offshore fields located to the north of the Arctic Circle (the specified time period and level of accrued production vary depending on where the field is located);
- the reduced rate is applicable to crude oil produced at fields where initial recoverable reserves are less than 5 mln tonnes and depletion is less than or equal to 0.05. The exact rate is calculated from the amount of reserves at the area using a specific formula: (0.125 × initial amount of recoverable oil reserves + 0.375).

In some regions, including the Russian Far East, and South and Central Russia, the Company produces high-viscosity oil and benefits from a zero MET rate. Total production of high-viscosity oil in 2012 exceeded 165,000 tonnes.

Rosneft also benefits from a reduced MET rate at a number of fields with depletion rates exceeding 80%, which lowers the tax burden on the Company.

A part of Rosneft's reserves are located in Irkutsk Region and Krasnoyarsk Territory and are subject to a zero MET rate for the first 25 mln tonnes of production or for the first 10 years

Average tax and export duty rates in Russia

2010		2011	2012	Change, %
MINERAL EXTRACTION TAX				
3,074	Crude oil (RUB/tonne)	4,455	5,066	13.7%
147	Natural gas (RUB/th. cubic meters)	237	251	5.9%
0	Associated gas (RUB/th. cubic meters)	0	0	-
EXPORT DUTY				
8,309	Crude oil (RUB/tonne)	12,017	12,570	4.6%
1,764	East Siberian crude (RUB/tonne)	9,920[1]	12,570	26.7%
5,972	Gasoline, naphtha[2] (RUB/tonne)	10,030	11,312	12.8%
5,972	Light and medium distillates (RUB/tonne)	8,054	8,295	3.0%
3,217	Liquid fuel (boiler fuel) (RUB/tonne)	6,119	8,295	35.6%

1. A special export duty for crude oil produced at the Verkhnechonsk and Vankor fields was in force until May 2011.
2. Starting from May 1, 2011 the Russian Government introduced a special export customs duty rate on gasoline equivalent to 90% of the export duty for crude oil. Starting from June 1, 2011 the Russian Government introduced a special export duty on naphtha equivalent to 90% of the export duty for crude oil.

MET base rates (RUB/tone)

	2011	2012	2013	2012 to 2011	2013 to 2012
MET base rate	419	446	470	6.4%	5.4%

in case of a production license and for 15 years in case of an exploration and production license.

Accrued production at the Vankor field reached 25 million tonnes on August 6, 2011, since than the zero MET rate has been replaced by the standard rate. In May 2012 the Company started developing the North Vankor field, where a zero MET rate is applicable for the first 25 mln tonnes of oil produced.

Rosneft has exploration projects in the Azov, Okhotsk, Caspian, Barents, Kara and Black seas and participates in the Sakhalin-1 PSA, which is subject to a special tax regime exempting the Company from payment of mineral extraction tax.The Russian Ministry of Finance together with the Ministry of Energy and Ministry of Economic Development are currently working on a law draft that will introduce a special MET regime for certain offshore projects. The regime will divide projects into four categories by their complexity, setting MET rates that range from 5% to 30% of the world oil price, depending on the category.

The Company holds licenses for areas with hard-to-recover oil reserves estimated at 1.2 bln tonnes in total (under Russian classification). The above-mentioned Ministries are currently preparing a law on reduced MET rates for these reserves.

CRUDE OIL EXPORT DUTY

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

From October 2011 the ceiling rate for export customs duty on crude oil was lowered from 65% to a level of 60%, which remains in force at the present time.

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

A draft law introducing a special tax regime for offshore projects on the Russian shelf includes full exemption from export duties. The export duty exemptions, which will be enacted by the law, were already defined by the Russian Government Decree № 443R (dated April 12, 2012).

According to amendments to the Federal Law on Customs Tariffs, the Russian Government will define formulas for calculating rates of export duties on crude oil that take account of international oil prices starting April 1, 2013. A specially authorized federal executive body will calculate the exact rates using the formulas.

The Russian Government will also define special formulas for highly viscous oil and oil with specific physical and chemical characteristics, and there will be a statutory ceiling on the rate calculated using these formulas.

Export duty on East Siberian crude oil (Vankor and Verkhnechonsk)

Starting from December 1, 2009 crude oil produced at some fields in East Siberia is subject to a special export regime (a zero duty is applied for crude oil with specific physical and chemical characteristics).

A zero duty rate for exports of oil from the Vankor field has been in force since January 19, 2010.

Starting from July 1, 2010 the zero rate for Vankor oil was replaced by a special rate calculated as (Price – 50) x 0.45, where ‘Price’ is the average Urals price in USD per barrel used for calculation of export duty.

Since May 1, 2011 oil from the Vankor and Verkhnechonsk fields has been subject to export duty at the standard rate.

Customs duty on crude oil exports to CIS countries

Export duties are not payable on crude oil exports to CIS countries that are members of the Customs Union. According

Calculation of export duty for crude oil

Urals price	Export duty
Up to USD 109.5 per tonne (USD 15 per barrel)	Export duty is not applicable
Above USD 109.5 and up to 146 per tonne (USD 15-20 per barrel)	35% of the difference between the average Urals price in USD per tonne and USD 109.5
Above USD 146 and up to 182.5 per tonne (USD 20-25 per barrel)	USD 12.78 plus 45% of the difference between the average Urals price in USD per tonne and USD 146
Above USD 182.5 per tonne (USD 25 per barrel)	USD 29.2 plus 60% of the difference between the average Urals price in USD per tonne and USD 182.5

to the Protocol, dated January 27, 2010, amending the Agreement, dated January 12, 2007, between the Government of the Russian Federation and the Government of the Republic of Belarus on measures to regulate trade and economic cooperation in export of oil and petroleum products, crude oil exports to Belarus within limits established by the Russian Ministry of Energy were exempted from payment of export duty until January 1, 2012. From that date, all exports to Belarus and also to Kazakhstan benefit from a zero duty rate. The tax regime for crude oil exports to the CIS has not been changed for 2013.

EXPORT DUTY ON PETROLEUM PRODUCTS

Export duty on petroleum products is set every month by Government Decree, simultaneously with the export duty on crude oil, and is denominated in USD per tonne. The rate of export duty on petroleum products is linked to the price for Urals crude on the international market.

In January 2011, export duties on light and dark petroleum products were calculated using special formulas, and were set at 71% and 38% of the duty on crude oil, respectively.

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

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

Starting from October 2011, the export duty for light petroleum products (except gasoline and naphtha) was reduced from 67% to 66% of the duty for crude oil, simultaneously with lowering of the duty ceiling for crude oil from 65% to 60%. The duty for dark petroleum products were raised from 46.7% to 66% of the rate for crude oil., while the duty for naphtha and gasoline remained at 90% of that for crude oil. These formulas are still applied at the present time.

Changes in tariffs charged by pipeline and railway monopolies

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

The Federal Tariff Service (FTS), a government body regulating natural monopolies, sets Transneft's base tariff for pipeline transportation of crude oil and petroleum products inside Russia, which includes component tariffs for actual transportation, handling, charge and discharge, receipt and delivery of oil, dispatching services in the trunk pipeline system, etc. Indexation of tariffs for rail transportation is also decided by the FTS. The tariffs are set in roubles and are not linked to the RUB/USD exchange rate.

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

Average tariffs applied for major transportation routes used by Rosneft, (RUB/tonne)

2010		2011	2012	Change, %
CRUDE OIL				
TRANSPORTATION ON THE DOMESTIC MARKET				
Pipeline transport				
0.65	Yuganskneftegaz - Samara group of refineries	0.73	0.75	2.7%
0.04	Samaraneftegaz - Samara group of refineries	0.05	0.05	-
1.08	Yuganskneftegaz - Angarsk Petrochemical Company	1.21	1.26	4.1%
1.34	Purpe – Tuapse Refinery	1.50	1.57	4.7%
0.30	Tomskneft - Achinsk Refinery	0.33	0.34	3.0%
Mixed transport				
3.61	Yuganskneftegaz - Komsomolsk Refinery	3.93	4.14	5.3%
EXPORT				
Pipeline transport				
1.16	Yuganskneftegaz - Primorsk	1.35	1.55	14.8%
1.31	Yuganskneftegaz – Novorossiysk	1.46	1.50	2.7%
1.63	Vankor (Purpe) – Kozmino	1.84	1.92	4.3%
Railway and mixed transport				
0.61	Stavropolneftegaz - CTC (railway transport)	0.66	0.68	3.0%
PETROLEUM PRODUCTS (EXPORT)				
DIESEL				
1.60	Samara group of refineries – Ventspils	1.73	1.89	9.2%
3.62	Angarsk Petrochemical Company – Nakhodka	3.89	4.16	6.9%
1.42	Komsomolsk Refinery – Nakhodka	1.53	1.63	6.5%
4.07	Achinsk Refinery - Tuapse	4.38	4.69	7.1%
FUEL OIL				
2.58	Samara group of refineries - Odessa	2.71	2.90	7.0%
3.67	Angarsk Petrochemical Company – Nakhodka	3.96	4.14	4.5%
1.37	Komsomolsk Refinery – Nakhodka	1.48	1.56	5.4%
4.53	Achinsk Refinery - Nakhodka	4.89	5.30	8.4%
NAPHTHA				
1.74	Samara group of refineries – Tuapse	1.87	1.93	3.2%
4.00	Achinsk Refinery - Tuapse	4.30	4.58	6.5%
3.51	Angarsk Petrochemical Company – Nakhodka	3.78	3.92	3.7%
1.39	Komsomolsk Refinery – Nakhodka	1.50	1.60	6.7%

Source: Transneft, RZD, Rosneft. Mixed export tariffs include transshipment at non-Rosneft terminals. The data are for the most used routes between each location.

Key Financial Results

NET INCOME ROSE BY 7.2% TO RECORD HIGH LEVEL OF RUB 342 BLN IN 2012

Consolidated financial statements for 2012 audited by Ernst&Young LLC, one of the "Big 4"[1] accounting firms, are included in Appendix 1 to this Report.

Analysis of the Company's financial results in 2012 is presented below.

Revenues

Sales revenue and equity share in profits of associates and joint ventures increased by 13.2% to RUB 3,078 bln, thanks to increase of sales volumes and prices. The price for Urals crude, expressed in RUB, rose by 6.9%, and international market prices for diesel and fuel oil, expressed in RUB, increased by 8.4% and 9.6%, respectively.

CRUDE OIL AND GAS SALES

Sales of crude oil and gas increased by 9.6% in 2012 to RUB 1,526 bln thanks to higher prices and growth of sales volumes as a result of 4.5% growth of hydrocarbon production.

Revenue from exports to non-CIS countries grew by 7.6%. Price increase of 6.3% had positive impact of RUB 87 bln, and the effect was amplified by a slight increase in sales volumes by 1% (positive impact of RUB 13 bln).

Rosneft continued supplying its own crude oil to Ruhr Oel GmbH refineries in January 2012. These supplies totaled 2.2 mln tonnes during the year, not counting resale operations. Rosneft paid export duty amounting to RUB 27 bln on the supplies and 2.1 mln tonnes of the crude oil were fully processed and sold.

In addition to deliveries of its own crude oil, Rosneft purchased 8.7 mln tonnes of crude on the international market for RUB 221 bln in 2012 for supply to Ruhr Oel GmbH refineries. This spending is reflected as part of costs of purchased crude oil in the statements of consolidated income and comprehensive income.

Revenue from exports of crude oil to CIS countries (Belarus, Kazakhstan) increased by RUB 24 bln y-o-y in 2012 thanks to a 41.4% increase of sales volumes (positive impact on revenues was RUB 22 bln) and a price upturn of 2.5% (positive effect on revenues was RUB 2 bln).

Gas supplies by Rosneft have been limited to date, but the Company's long-term strategy includes significant

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

expansion of gas business. Gazprom controls the Unified Gas Supply System in Russia, and is a dominant supplier of natural gas to the domestic market and the sole exporter of Russian gas.

Revenue of Rosneft from gas sales in 2012 increased by 53.5% y-o-y thanks to price increase by 34.0% and growth of sales volumes (positive impacts on revenues were RUB 6 bln and RUB 2 bln, respectively). Gas contracts with major power generators also had positive impact on revenue dynamics in 2012.

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

Revenue from petroleum product sales grew by 16.9% y-o-y in 2012 to RUB 1,479 bln thanks to higher prices and sales volumes as total refining throughput increased by 6.4%.

Exports of petroleum products to non-CIS countries increased by 17.8% y-o-y in 2012 thanks to rise of average prices by 9.8% (positive impact on revenues was RUB 78 bln) and

Key financial indicators

2010		2011	2012
30.5%	EBITDA margin	24.4%	19.8%
691	EBITDA per boe of production (RUB)	764	682
15.7%	Net income margin	11.7%	11.1%
15.3%	Return on average capital employed (ROACE)	15.5%	10.7%
18.2%	Return on average equity (ROAE)	16.5%	15.8%
0.17	Net debt-to-capital employed ratio	0.17	0.20
0.65	Net debt–to-EBITDA ratio	0.65	0.95
1.98	Current ratio	1.97	2.15

Revenues and equity share in profits of associates and joint ventures (RUB bln)

2010		2011	2012	Изменение, %
CRUDE OIL				
993	International sales to non-CIS	1,321	1,421	7.6%
694	Europe and other markets	955	1,033	8.2%
299	Asia	366	388	6.0%
42	International sales to CIS	54	78	44.4%
8	Domestic	3	5	66.7%
1,043	**Total sales of crude oil**	**1,378**	**1,504**	**9.1%**
13	**Gas sales**	**14**	**22**	**57.1%**
PETROLEUM PRODUCTS				
429	International sales to non-CIS	712	839	17.8%
247	Europe and other markets	488	611	25.2%
182	Asia	224	228	1.8%
5	International sales to CIS	8	11	37.5%
340	Domestic	448	495	10.5%
220	Wholesale	270	295	9.3%
120	Retail	178	200	12.4%
23	Sales of bunker fuel to end-users	37	50	35.1%
797	**Total petroleum products**	**1,205**	**1,395**	**15.8%**
13	**Petrochemical products**	**60**	**84**	**40.0%**
4	International sales	50	73	46.0%
9	Domestic	10	11	10.0%
49	**Support services and other revenues**	**45**	**42**	**(6.7)%**
4	**Equity share in profits of associates and joint ventures**	**16**	**31**	**93.8%**
1,919	**Total sales**	**2,718**	**3,078**	**13.2%**

increase of sales volumes by 6.9% (RUB 49 bln positive impact on revenues). Growth of volumes reflected the acquisition of a 50% stake in Ruhr Oel GmbH.

Sales of petroleum products on the domestic market increased by 10.5% in 2012 compared with 2011 to RUB 495 bln, mainly due to increase of average prices by 10.5% (positive impact on revenues was RUB 47 bln).

Since 2007 the Company has sold bunker fuel (fuel oil and diesel fuel) in sea ports located the Russian Far East, North and South of European Russia, as well as at river ports.

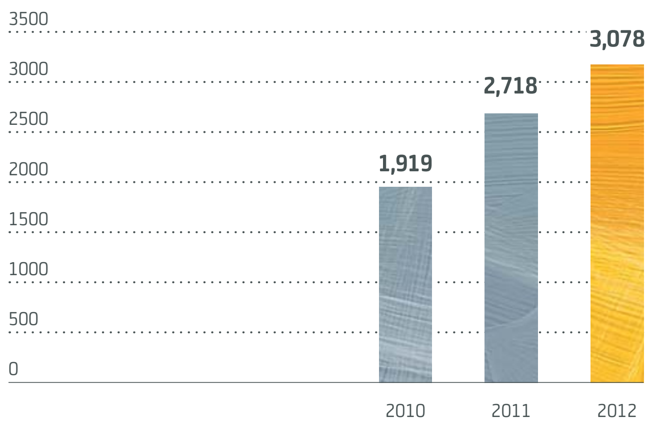
Price increase by 16.2% and increase of sales volumes by 12.0% enabled growth of revenue from sales of bunker fuel by 35.1% to RUB 13 bln in 2012.

Revenue from sales of petrochemical products by 40.0% in 2012 reflects the acquisition of a 50% stake in Ruhr Oel GmbH in May 2011. Sales volumes of petrochemical products from Ruhr Oel GmbH totaled 2.05 mln tonnes in 2012.

REVENUE FROM SUPPORT SERVICES AND OTHER REVENUE

Rosneft owns companies that provide drilling, construction, repair and other services primarily to other Group companies. Revenue from provision of such services to third parties is recognized in the consolidated statements of income and comprehensive income.

Revenue (RUB bln)



In 2012 sales of support services and other revenues decreased by 6.9% to RUB 41.6 bln, mainly due to sales of non-core assets.

EQUITY SHARE IN PROFITS OF ASSOCIATES AND JOINT VENTURES

In 2012 Rosneft made a number of substantial investments in subsidiaries and affiliates. As a result, the Company retrospectively changed presentation of the item 'Equity share in profits of associates and joint ventures' in the consolidated statement of comprehensive income. Equity share in profits of associates and joint ventures in 2010-2012 was transferred to the item 'Revenues and equity share in profits of affiliates and joint ventures' and included in operating income.

Investments in joint ventures and associates (RUB bln)

Name of investee	Country	Company share as of December 31, 2012	As of December 31		
			2012 г.	2011 г.	2010 г.
JOINT VENTURES					
Polar Lights LLC	Russia	50.00%	1	2	2
OJSC Tomskneft VNK	Russia	50.00%	38	34	39
OJSC Verkhnechonskneftegaz	Russia	25.94%	30	16	8
Rosneft Shell Caspian Vent.	Russia	51.00%	1	1	1
Ruhr Oel GmbH	Germany	50.00%	47	46	-
Taikhu Limited	Cyprus	51.00%	13	2	-
Lanard Holdings LTD	Cyprus	50.00%	17	-	-
OJSC Itera	Russia	51.00%	95	-	-
CJSC Arktikshelfneftegaz	Russia	50.00%	3	-	-
AFFILIATES					
OJSC Kubanenergo	Russia	27.97%	-	2	3
Taas-Yuryakh Neftegazodobycha LLC	Russia	35.33%	13	-	-
Other			**11**	**11**	**10**
TOTAL			**269**	**114**	**63**

Costs and expenses

Total costs and expenses of Rosneft grew by 18.8% in 2012 to RUB 2,696 bln (87.6% of revenue), and by 17.2% (to RUB 1,150 bln) not including taxes other than income tax and export duties (37.4% of revenue).

PRODUCTION AND OPERATING EXPENSES

Upstream production and operating expenses include the cost of raw materials and supplies, maintenance and repair of equipment, payroll, enhanced oil recovery operations, fuel and electricity purchases, and other similar costs of Rosneft's consolidated exploration and production enterprises.

These expenses increased by 3.8% in 2012 to RUB 73.4 bln. The Company was successful in keeping the increase below the rate of inflation thanks to cost-reduction efforts.

Downstream operating expenses increased by 28.0% in 2012 partly due to increase in the cost of procurement of additives and other special materials for production at Ruhr Oel GmbH. Excluding these purchases, segment costs increased by 23.6%, which reflected growth of electricity tariffs and increased volumes of additive purchases associated with increase in production of euro-class fuels at the Company's own refineries[2]. As a result operating costs at the Company's refineries in Russia increased by 25.7% to RUB 38.8 bln.

Operating expenses classed as 'Other' increased by 7.3% to RUB 30.8 bln in 2012, mainly due to increased volumes of drilling, repair and other services provided to external customers.

COST OF PURCHASED CRUDE OIL, GAS AND PETROLEUM PRODUCTS AND OF REFINING SERVICES

The company buys crude oil for processing at its own refineries (mainly from affiliates) and also on the international market for supplies to the refineries of Ruhr Oel GmbH.

In 2012, the cost of purchased oil, gas, petroleum products and of refining services increased by 24.5% to RUB 371 bln. This was mainly due to increased volumes of crude oil purchased on the international market, and of oil refined under processing contracts at Ruhr Oel GmbH refineries.

Rosneft also carries out swap operations to optimize transport costs in the supply of oil to refineries. In 2012, crude oil swaps amounted to 11.2 mln tonnes. Gains to Rosneft as a result of these transactions in 2012 were RUB 2.3 bln.

Costs and expenses (RUB bln)

2010		2011	2012	Change, %
144	Production and operating expenses	189	220	16.4%
72	Cost of purchased oil, gas and petroleum products, and of refining services	298	371	24.5%
51	General and administrative expenses	52	68	30.8%
212	Pipeline tariffs and transportation costs	216	241	11.6%
14	Exploration expenses	13	23	76.9%
202	Depreciation, depletion and amortization	213	227	6.6%
331	Taxes other than income tax	498	645	29.5%
509	Export duty	790	901	14.1%
1,535	**Total costs and expenses**	**2,269**	**2,696**	**18.8%**

Structure of operating expenses (RUB bln)

2010		2011	2012	Изменение, %
66.3	Upstream	70.7	73.4	3.8%
3.4	Land remediation program	-	0.7	-
47.6	Downstream	89.8	114.9	28.0%
-	Including procurement of additives and materials for Ruhr Oel GmbH	24.1	33.7	39.8%
26.7	Other	28.7	30.8	7.3%
144.0	**Total**	**189.2**	**219.8**	**16.2%**

2. In accordance with requirements of the Russian Technical Regulations for quality of motor fuels.

Petroleum product purchases from third parties are carried out mainly to cover the current needs of Rosneft sales companies. The amounts and structure of petroleum product purchases are subject to seasonal fluctuations. Prices can vary greatly depending on the region, where the purchases are made.

Total value of petroleum product purchases decreased by 36.1% in 2012 to RUB 39 bln. Reduction in purchases of petroleum products reflects an increase in the supply to sales companies from Rosneft's own refineries.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include wages, salaries and social benefits (excluding the wages of blue collar workers employed by oil production and refining enterprises), commission payments to banks, consulting services, insurance costs (excluding the cost of property insurance for oil production and refining enterprises), spending to maintain social infrastructure, lease payments, changes in bad debt provisions, and other expenses.

In 2012 general and administrative expenses rose to RUB 68 bln, against RUB 52 bln in 2011, due to increase in audit and consulting services and other factors.

Pipeline tariffs and transportation costs

Transportation includes costs incurred by Rosneft for delivery of crude oil for refining and to end- customers, as well as delivery of petroleum products from refineries to end-customers (these costs may include pipeline tariffs and railway transport costs, handling costs, port fees, sea freight and other costs).

Transport costs increased by 11.6% in 2012 due to indexation of transport tariffs. The increase was partly offset by a change in the structure of transport routes.

Transport costs per tonne of crude oil delivered to export via pipelines increased by 8.7% in 2012, reflecting tariff increases between 2.7% and 14.8%.

Lowering of transport costs per tonne of crude oil delivered to export by rail and mixed transport in 2012 by 22.9% was caused by the ending of crude oil deliveries by Purneftegaz via the Caspian Pipeline Consortium.

The cost of pipeline transport of crude oil to refineries increased by 1.7% per tonne in 2012 due to indexation of transport tariffs, offset by an increase in volumes of oil purchased on the international market for Ruhr Oel GmbH refineries.

The cost of crude oil transport to refineries by railway and mixed transport increased by 3.4% per tonne of supplies in 2012, reflecting an increase of transport tariffs.

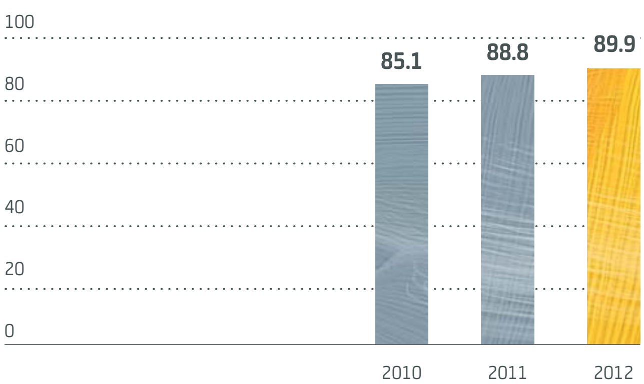
Transport costs per tonne of petroleum products delivered to export via pipelines increased by 7.7% in 2012 due to rise of transport tariffs.

The cost of transporting petroleum products to export by railway and mixed transport decreased by 10.8% per tonne in 2012, due to an increase in the volume of petroleum product sales from German refineries (transport costs were lower due to smaller transportation distances).

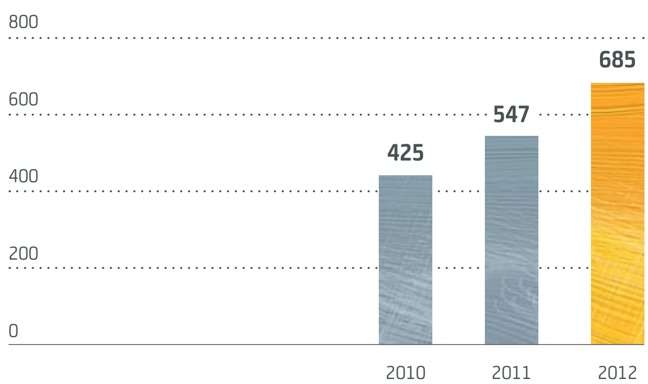
EXPLORATION EXPENSES

Exploration expenses relate mainly to exploration drilling, seismic surveying and other geological and geophysical works. The cost of exploration drilling is capitalized if

Crude oil lifting costs (RUB per barrel)



Operating costs of Rosneft refineries in Russia (RUB per tonne)



commercial reserves of crude oil and gas are discovered, or expensed in the current period in case of failure.

In 2012, the cost of oil & gas exploration increased by 76.9% to RUB 23 bln, due to the expansion of seismic survey work in the Black Sea and offshore Arctic.

DEPRECIATION, DEPLETION AND AMORTIZATION

Depreciation, depletion and amortization include depreciation of crude oil producing assets, and of other production and non-production assets.

These expenses increased by 6.6% y-o-y in 2012 to RUB 227 bln.

TAXES OTHER THAN INCOME TAX

Taxes other than income tax increased by 29.5% to RUB 645 bln in 2012. The growth was driven mainly by an increase in MET, which became chargeable for the Vankor field, and also due to indexation of the base MET rate during 2012. Increase of tax expenses also reflected the indexation of excise rates from January 1, 2012 and from July 1, 2012.

Transportation costs

		2010				2011			2012
Volume, mln t	Cost, RUB bln	Cost per tonne		Volume, mln t	Cost, RUB bln	Cost per tonne	Volume, mln t	Cost, RUB bln	Cost per tonne
CRUDE OIL									
INTERNATIONAL SALES									
47.4	61.2	1.29	Pipeline	61.5	92.5	1.50	64.7	105.6	1.63
13.4	31.7	2.37	Railway and mixed	2.4	2.6	1.09	1.7	1.4	0.84
TRANSPORTATION TO REFINERIES									
37.8	22.4	0.59	Pipeline[1]	42.0	24.2	0.58	43.4	25.8	0.59
6.6	23.6	3.60	Railway and mixed	6.2	23.7	3.84	6.1	24.2	3.97
PETROLEUM PRODUCTS									
INTERNATIONAL SALES									
1.1	2.3	2.07	Pipeline	0.6	1.4	2.22	1.4	3.3	2.39
18.0	46.2	2.56	Railway and mixed	25.5	49.7	1.95	27.0	47.0	1.74
7.3	-	-	Pipeline and FCA delivery[2]	6.9	-	-	8.4	-	-
	25		**Other transportation costs[3]**		22			34	
131.6	**212**		**TOTAL**	**145.1**	**216**		**152.7**	**241**	

1. Including crude oil purchased on the international market, which was directed to Ruhr Oel GmbH.
2. Part of petroleum products were shipped for export in 2012, 2011 and 2010 from the Tuapse Refinery and on FCA terms from the Samara Refinery, where Rosneft does not directly bear transportation costs, except for transshipment and dispatching.
3. Other transportation costs include the cost of railway transportation of petroleum products from refineries to tank farms, and road transportation from tank farms to service stations. Other transportation costs also include Rosneft expenditures on crude oil swap deals (net of the effect from price differences).

Taxes other than income tax (RUB bln)

2010		2011	2012	Change, %
274	Mineral extraction tax	414	527	27.3%
34	Excise tax	55	79	43.6%
12	Social security tax	15	22	46.7%
9	Property tax	11	12	9.1%
2	Fines, penalties and other payments to the budget	3	5	66.7%
331	**Total taxes other than income tax**	**498**	**645**	**29.5%**

Export duties (RUB bln)

2010		2011	2012	Change, %
396	Export duty for crude oil	612	689	12.6%
113	Export duty for petroleum products	178	212	19.1%
509	**Total export duties**	**790**	**901**	**14.1%**

342

RUB BLN
net income for 2012

EXPORT DUTIES

Export duties paid by the Company, consist of export duties on crude oil and petroleum products. The mechanism for calculation and application of export duties is discussed in 'Macroeconomic Environment' (section of this report).

In 2012, total payment of export duties on crude oil and petroleum products increased by 14.1% to RUB 901 bln, due mainly to higher prices for crude oil and petroleum products and growth of exports.

Operating income

Operating income decreased by 14.9% y-o-y in 2012 to RUB 382 bln. Operating income as a percentage of revenue was 12.4% in 2012 compared with 16.5% in 2011. Decline of the margin was due mainly to the ending of tax privileges for the Vankor field, which had operated in the same period of 2011, as well as indexation of the base MET rate and increase of natural monopoly tariffs.

Other income and expenses

FINANCIAL INCOME AND EXPENSES

Financial income and expenses include: interest earned on deposits, deposit certificates and loans issued; interest paid on loans received; change in fair value of financial assets; increase of provisions; sale and disposal of financial assets; and other financial income and costs.

Net financial income in 2012 increased to RUB 9 bln from RUB 1 bln in 2011. The increase was mainly due to change in the fair value of derivative financial instruments and write-off of tax debt that was restructured in 2011 and 2012.

OTHER INCOME AND EXPENSES

Other income in 2012 amounted to RUB 85 bln compared with RUB 25 bln in 2011. The growth was mainly due to the recognition of non-cash income from the transaction to acquire a 51% stake in Itera LLC.

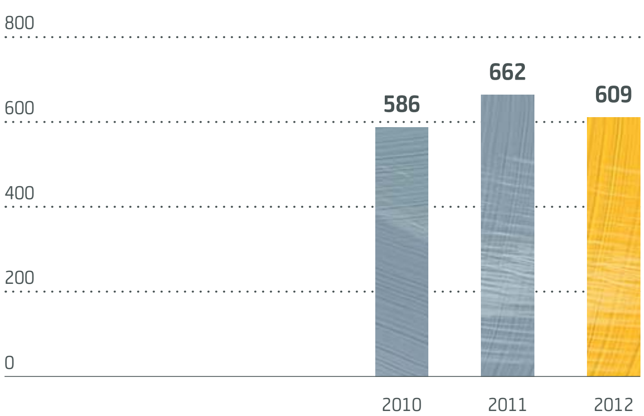
Other costs totaled RUB 50 bln and RUB 48 bln in 2012 and 2011, respectively.

FOREIGN EXCHANGE GAIN/(LOSS)

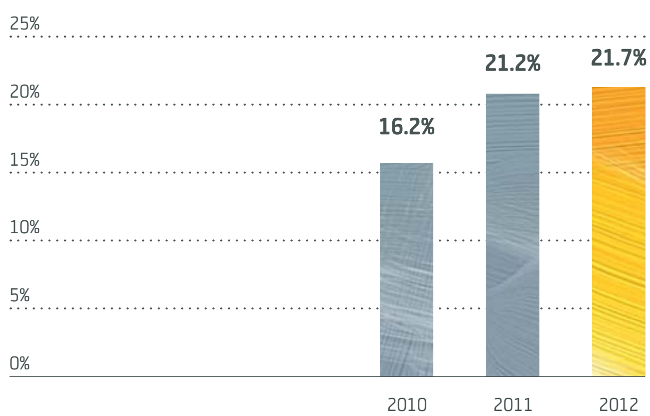
Rosneft experiences foreign exchange gains or losses due to monthly revaluation of its foreign-currency assets and liabilities (revaluation is based on the dollar exchange rate at the end of each period).

The Company showed a foreign exchange gain of RUB 11 bln in 2012, compared with a loss of RUB 22 bln in 2011, due to change of trend in the RUB/USD exchange rate.

EBITDA (RUB bln)



Effective rate of income tax (%)

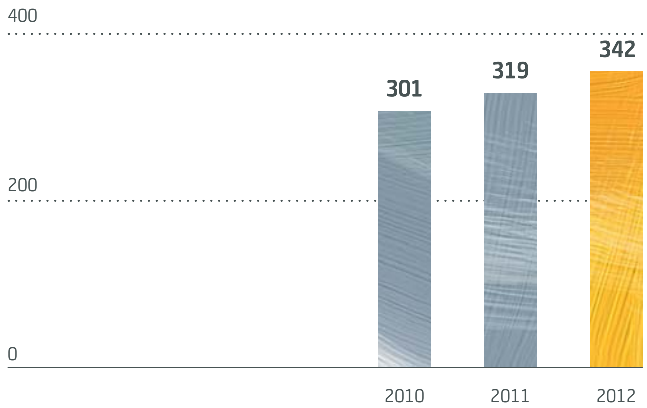


INCOME TAX

Income tax expense was RUB 95 bln in 2012 compared with RUB 86 bln in 2011.

The Company follows the provisions of IFRS (IAS) 12 'Income Tax' in defining its effective tax rate. In the reporting period the Company created a consolidated group of taxpayers, consisting of 22 key subsidiaries. The effective rate of income tax is reckoned as the ratio of income tax expenses, as calculated by book-keeping, to income before tax.

Net income (RUB bln)



Net income/(loss)

Rosneft showed net income of RUB 342 bln in 2012 compared with RUB 319 bln in 2011. The growth was due to increase of other income associated with recognition of income from the acquisition of a stake in Itera LLC and foreign exchange gain (revaluation of foreign currency assets and liabilities on the back of the RUB/USD exchange rate fluctuation).

Liquidity and capital

CASH FLOW

Net cash from operations

Net cash from operating activities, adjusted for operations with traded securities[3], amounted to RUB 511 bln in 2012. Growth compared with 2011 was due to efficient management of working capital.

Net cash used for investments

Net cash used for investments increased to RUB 445 bln in 2012 from RUB 394 bln in 2011 due to higher capital expenditures and the acquisition of additional interest in subsidiaries and affiliates, which was partly offset by positive impact from the sale of short-term financial assets.

Net cash received/ (used) for financing

Net cash for financing amounted to RUB 68 bln in 2012. The increase compared with 2011 was due to placement of rouble bonds worth RUB 20 bln and issue of Eurobonds worth USD 3 bln.

Adjusted net cash from operations (RUB bln)

2010		2011	2012	Change (times)
478	**Net cash from operations**	**487**	**516**	**1.06**
(11)	Effect from operations with traded securities	3	(5)	-
467	**Adjusted net cash from operations**	**490**	**511**	**1.04**

Cashflow statement (main items), (RUB bln)

2010		2011	2012	Change (times)
478	Net cash from operations	487	516	1.06
(379)	Net cash used for investments	(394)	(445)	1.13
(32)	Net cash received/ (used) for financing	(56)	68	-

3. Operations with traded securities are a part of the Company's surplus cash management. There was a net inflow of RUB 5 bln and net outflow of RUB 3 bln from these operations in 2012 and 2011, respectively.

On June 20, 2012 the Annual General Meeting of Shareholders of Rosneft approved dividends for 2011 totaling RUB 36.6 bln (RUB 3.45 per share). The approved dividends were paid in August 2012. On November 30, 2012 an Extraordinary General Meeting of Shareholders approved RUB 41.9 bln of additional dividends for 2011 (RUB 4.08 per share), which were paid in December 2012. So total dividends paid by the Company in 2011 were RUB 78.5 bln (25% of IFRS net income)[4].

CAPITAL EXPENDITURES

Total capital expenditures in 2012 (including purchases of inventory for capital construction) amounted to RUB 466 bln, which is 19.2% more than in 2011.

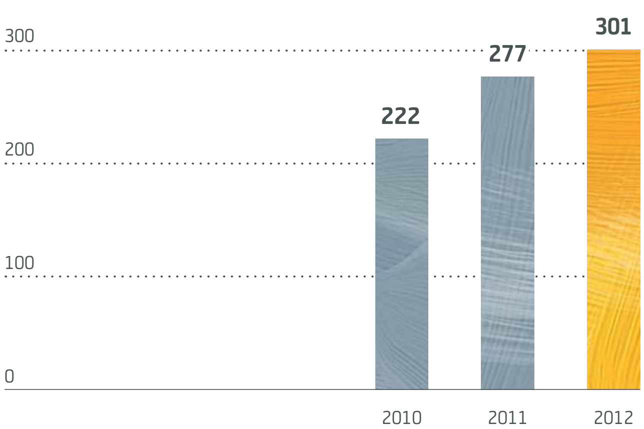
Upstream capex in 2012 rose by 12.1% y-o-y to RUB 269 bln, due to increase of construction work and equipment

Capital expenditures (RUB bln)

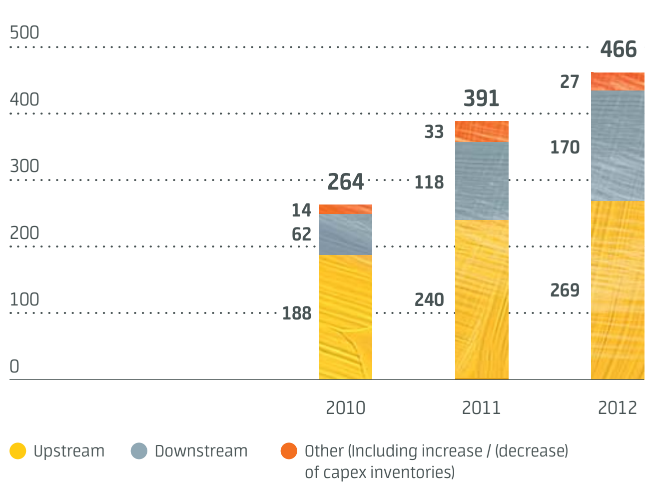
2010		2011	2012	Change, %
74	Yuganskneftegaz	96	108	12.5%
63	Vankorneft	86	95	10.5%
15	Purneftegaz	15	18	20.0%
3	Severnaya Neft	6	6	-
6	Samaraneftegaz	9	11	22.2%
27	Other[1]	28	31	10.7%
188	**Total upstream**	**240**	**269**	**12.1%**
2	Rosneft	1	1	-
22	Tuapse Refinery	59	76	28.8%
3	Komsomolsk Refinery	5	9	80.0%
3	Angarsk Petrochemical Company	6	9	50.0%
4	Achinsk Refinery	5	14	180.0%
3	Syzran Refinery	5	8	60.0%
3	Novokuibyshevsk Refinery	7	13	85.7%
4	Kuibyshev Refinery	6	11	83.3%
18	Marketing business units and others[2]	24	29	20.8%
62	**Total downstream**	**118**	**170**	**44.1%**
14	**Other business[3]**	**17**	**19**	**11.8%**
264	**Subtotal, capital expenditures**	**375**	**458**	**22.1%**
-	Change in stock of materials for capital construction	16	8	(50.0)%
264	**Total capital expenditures**	**391**	**466**	**19.2%**
4	**License acquisition costs**	**7**	**4**	**(42.9)%**

1. Including: Krasnodarneftegaz, Stavropolneftegaz, Sakhalin-1, Grozneftegaz, VSNK and Dagneftegaz.
2. Companies providing refining and storage services.
3. Other service companies.

Upstream capex (RUB per boe)



Capital expenditures (RUB bln)



4. Including RUB 7.6 bln paid to LLC RN-Razvitiye which owns 1,039 mln of quasi-treasury shares

purchases for Yuganskneftegaz, Vankorneft, Purneftegaz, Severnaya Neft and Samaraneftegaz. The works were mainly related to field construction and installation of facilities for associated gas utilization.

Downstream capex in 2012 was RUB 170 bln, compared with RUB 118 bln in 2011. The increase in 2011 was associated with the ongoing programme to renovate and expand production capacities at the Tuapse, Komsomolsk, Angarsk, Achinsk, Syzran, Novokuibyshevsk and Kuibyshev refineries.

Capex in other businesses increased to RUB 19 bln in 2012, mainly due to scheduled purchases of vehicles and other equipment.

Net debt (RUB bln)

	December 31, 2011	December 31, 2012
Short-term debt	152	126
Long-term debt	596	837
Total debt	**748**	**963**
Cash and cash equivalents	166	296
Short-term financial assets	150	86
Net debt	**432**	**581**

DEBT LIABILITIES

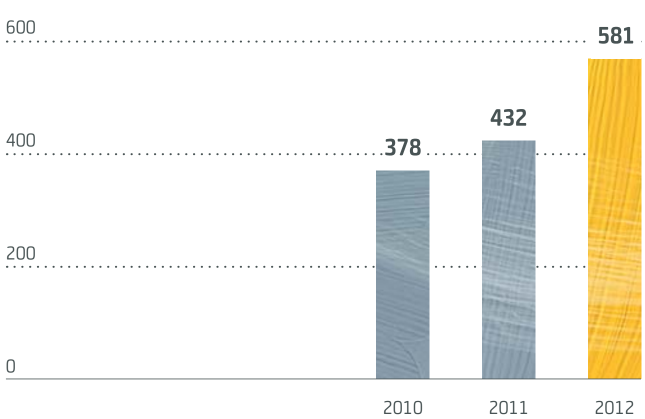
Net debt of Rosneft as of December 31, 2012 was RUB 581 bln. Total debt (credits and loans) was RUB 963 bln. Increase of debt levels was mainly due to the placement of long-term interest-bearing Eurobonds in USD, and of long-term interest-bearing non-convertible bonds nominated in Russian RUB.

A part of the Company's long-term debt is secured by assignment of rights to revenue from crude oil export contracts. Rosneft borrowing secured by oil exports (excluding exports to the CIS) accounted for 49.3% of total borrowing as of December 31, 2012 and 75.6% as of December 31, 2011.

Decline of the share in 2012 was due to increase in the share of unsecured loans in the Company's total debt.

The share of export contracts, to which creditors had claim rights, was 13.6% as of December 31, 2012 and 20.1% as of December 31, 2011, respectively[5].

Net debt at the end of the year (RUB bln)



5. Share in total export sales of crude oil in the period (not including CIS exports).

03 SCIENCE AND INNOVATION

Steady increase of investments in R&D is expanding the Company's intellectual capital, which will improve operating results in the future

ROSNEFT

RESPONSIBILITY
TO BE A LEADER

Science and Innovation

TECHNOLOGY LEVELS HAVE BECOME A DECISIVE FACTOR NOWADAYS IN MAKING AN OIL COMPANY COMPETITIVE AND ENSURING ITS SUSTAINABLE DEVELOPMENT

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

- In the upstream segment:
  - ensuring that new hydrocarbon reserves replace at least 100% of current production;
  - achieving maximum possible rates of recovery of hydrocarbons at new fields, and designing systematic measures to increase oil & gas yield at fields which are already in development;
  - making the most efficient use of associated gas;
  - devising technologies for economically efficient recovery of unconventional hydrocarbon reserves.
- In the downstream segment:
  - increase of refining depth;
  - introduction of new technologies for refining of heavy residues and for use in the petrochemical segment.

In order to address these tasks Rosneft is implementing its Innovative Development Programme, which complies with the requirements of legislative and programme documents at national, regional and corporate levels.

The Programme has the following main aspects:

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

The Company worked more closely with leading scientific institutions and oil sector organizations during 2012 in order to ensure efficient implementation of the Programme:

- Five integrated, special-purpose innovation projects were undertaken jointly with institutes and organizations of the Russian Academy of Sciences for production and refining of unconventional and hard-to-recover hydrocarbon resources.
- A project was undertaken jointly with Rostec State Corporation to create an information bank of international oil technologies, using an information-analytical system for selection, consolidation, and provision of data on technology solutions.
- The Rosneft Centre for Research and Development (abbreviated in Russian as 'RN-TsIR'), which holds more than 50 patents and know-how techniques in the fields of oil production, oil refining, petrochemicals and gas chemicals, became a resident of the Skolkovo Foundation in order to implement a project for development and application of pilot production of synthetic hydrocarbons from natural and associated gas.

9.9

RUB BLN
R&D investments in 2012

- A memorandum on cooperation was signed with the non-profit organization, the Agency of Strategic Initiatives, for joint design work in spheres that are relevant to Company business and for encouragement of new innovation projects by medium-sized businesses.

R&D investments in 2012 as part of the Innovation Development Programme totaled RUB 9.9 bln, which is 16% more than in 2011.

Special-purpose innovation projects

Work by Rosneft to create and implement new technologies can count on the support of leading Russian sector enterprises and institutes, which have the scientific and technical capacity for addressing the relevant challenges.

The design task for each new technology is allocated to a specific innovation project with its own budget. The project-based approach to innovation was developed further in 2012, with creation of a project group for each project and appointment of leaders with personal responsibility for achievement of project targets.

A total of 56 special-purpose innovation projects were being implemented at the Company by the end of 2012.

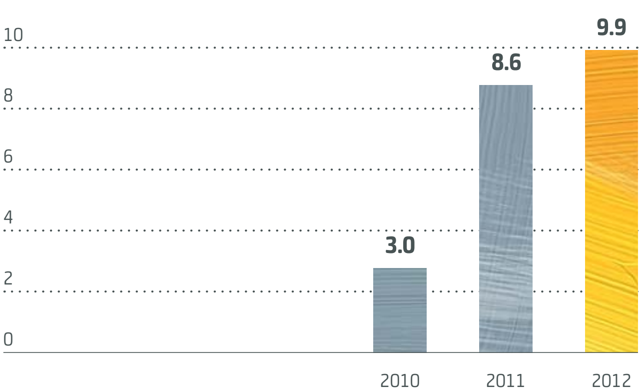

Monitoring of well pumps running

Rosneft made special efforts in 2012 to develop practical application of R&D results and to safeguard intellectual property rights. The Company submitted 18 patent applications during the year based on the outcomes of special-purpose innovation projects.

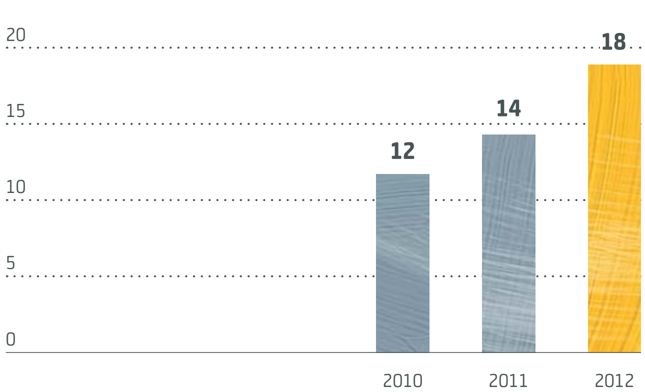
Main results achieved in key innovation projects during 2012 were as follows:

- Successful tests were carried out on a membrane gas-separation unit, which will enable utilization of associated gas from small and medium-sized fields with annual gas production levels between 10 and 200 mln cubic meters (gas containing hydrogen sul-

R&D Investments (RUB bln)



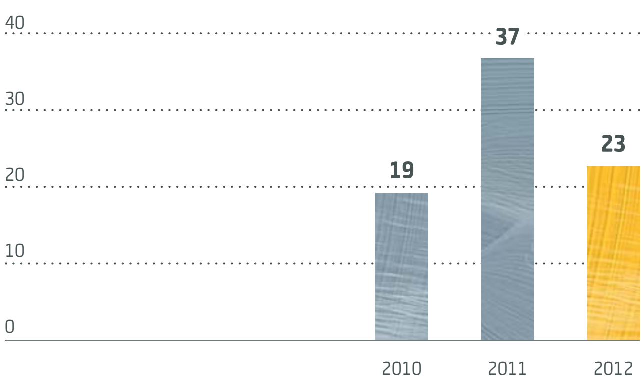
Submitted patent applications



phide). Specific advantages of the unit include simple construction, the ability to make adjustments to its functioning, and low operating and capital costs. The technology enables profitable treatment of associated gas at small fields, which could not be achieved using traditional technologies. The payback period for the project is six years. Two Rosneft production companies plan to install the new units at three sites during 2013.

- An oil engineering system ('Rosneft Oil Recovery Ratio', abbreviated in Russian as 'RN-KIN') has been designed for planning of secondary recovery work, analysis and supervision of field development, and creation of integrated field development projects. The system has been installed at all production subsidiaries and Company R&D institutes, as well as relevant departments at Company headquarters. RN-KIN reduces the time needed for design and choice of optimal field development plans, and enables specialists to reallocate their time from collection of data to its analysis. Additional production achieved thanks to use of RN-KIN is estimated at 3 mln tonnes of oil per year.
- A software package has been designed to address unique tasks of hydrodynamic modelling, including:
  — modelling of secondary recovery operations with due account for heterogeneity of reservoirs, simultaneous injection and oil production, and branched wells with differing length of the horizontal borehole;
  — sensitivity analysis and planning of computer experiments in hydrodynamic modelling;
  — account of the full tensor of absolute permeability and calculation of filtration in unstructured networks (as part of work on automated secondary recovery techniques).
- Study of the laws governing filtration in reservoirs with low permeability and work on construction of their geo-mechanical models have created technologies for the development of reservoirs with low permeability using horizontal boreholes with multiple hydrofracturing. The new technologies will be used for drilling of 293 horizontal wells in 2013-2017 at two Yuganskneftegaz fields (Priobskoye and Prirazlomnoye), which should give more than 5 mln tonnes of additional oil production.

Successfully tested technologies



Adaptation and application of new technologies in 2012

Design and implementation of projects in 2012 as part of Rosneft's New Technology System included monitoring, testing, adaptation and application of promising technologies developed by Russian and foreign companies.

A total of 23 new technologies were successfully tested during 2012 as part of 17 projects at 8 Rosneft production subsidiaries.The tests in 2012 led to 240,000 tonnes of additional oil production. All of the technologies will now be assessed for operating and financial efficiency before their mass application and replication.

Additional production in 2012 from use of new technologies that were developed in previous years is estimated at 852,000 tonnes, worth more than RUB 2.2 bln.

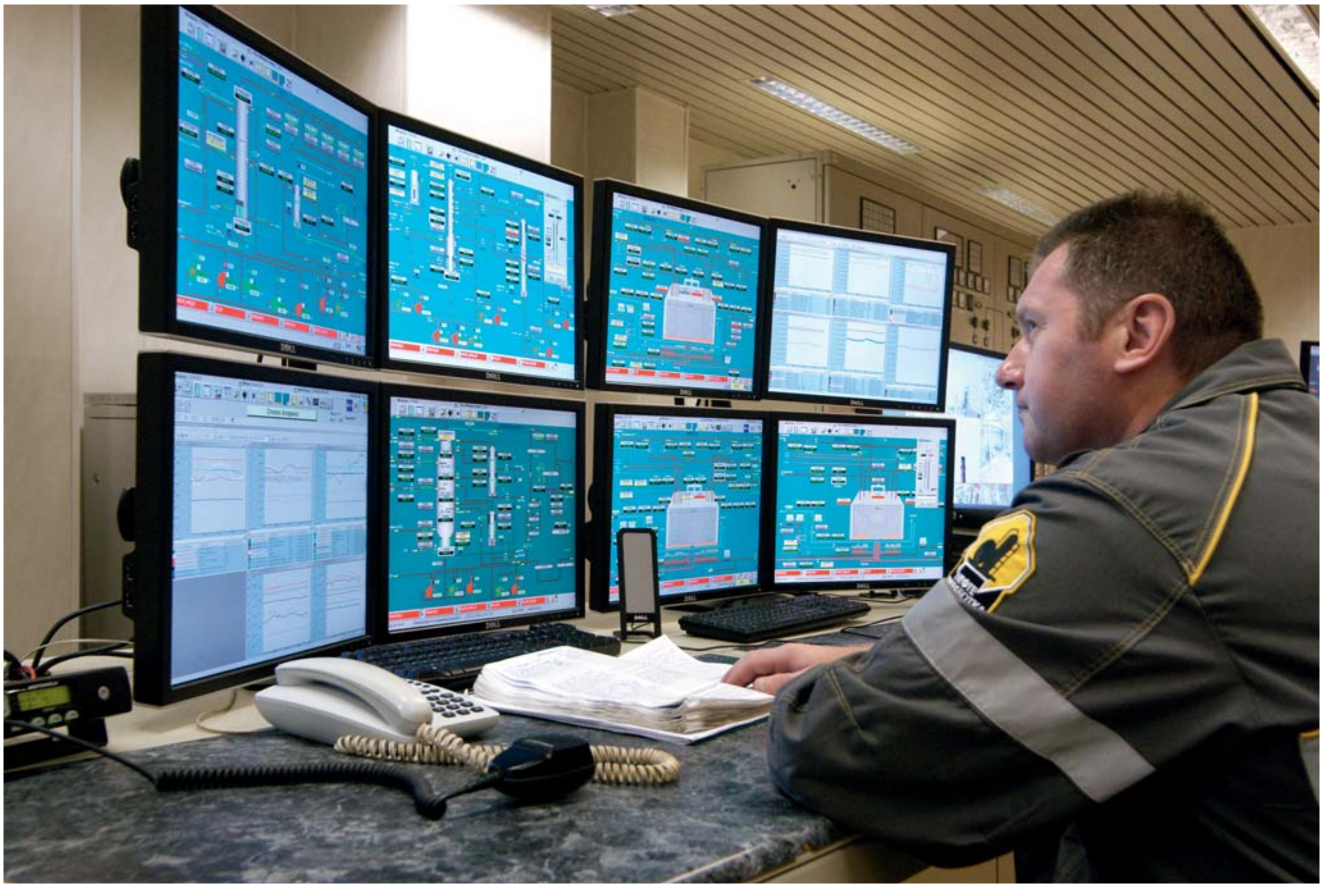
New techniques and technologies were used in test-production mode in 53 projects in 6 technology areas at 9 production subsidiaries during 2012. Projects which gave positive results in 2012 will be extended at production subsidiaries during 2013.

Modernization programmes

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

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

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



Process control room at Kuibyshev refinery

Knowledge dissemination

A system for constant integration and dissemination of knowledge and best practice is a key component of Rosneft's Innovative Development Programme. Measures in this sphere during 2012 included:

- publication of a corporate magazine, 'The Rosneft R&D Courier';
- regular publication of scientific and technical articles by Company specialists in leading Russian scientific journals;
- publication of books by eminent Russian and foreign oil-sector scientists in the 'Oil Engineering Library' series;
- holding annual corporate conferences on specific themes with participation by Russian and foreign specialists;
- participation by Rosneft specialists in Russian and international conferences;
- development and launch of two sections of the corporate information system for standard business support ('Materials for scientific and practical work' and 'Scientific and technical publications'.

International cooperation and foreign economic activity

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

On August 30, 2011, Rosneft and ExxonMobil signed an agreement on strategic cooperation, which includes large-scale scientific and technical cooperation. Work on implementation of the agreement in 2012 included environmental studies at offshore license areas in the Kara Sea and the launch of projects to create efficient technologies for the development of the Arctic shelf, with due regard for particularly stringent environmental and industrial safety requirements.

An agreement was signed in 2012 with ExxonMobil on the main terms of its participation in the Arctic Research and Design Centre for Offshore Developments , which was set up by Rosneft in 2011. Main activities of the new Center were also agreed and priority research programmes were prepared.

04 SOCIAL RESPONSIBILITY

The Company has a consistent policy of social responsibility with respect to all interested parties, acknowledging the major impact of its business in various spheres

ROSNEFT

RESPONSIBILITY TO BE A LEADER

Personnel

PROFESSIONAL AND HIGHLY QUALIFIED PERSONNEL, MOTIVATED TO WORK EFFICIENTLY IN ORDER TO ACHIEVE THE BEST RESULTS, ARE AMONG ROSNEFT'S MOST PRECIOUS ASSETS. THEY ARE ALSO CRUCIAL TO THE FUTURE DEVELOPMENT OF COMPANY BUSINESS

Rosneft therefore treats ongoing improvement of the professional, technical and management skills and productivity of its employees as a key priority throughout its business. This task is addressed by adherence to the best standards of corporate conduct, use of an integrated personnel training and development system, a modern approach to salary and motivation issues, and the implementation of a social policy, which enhances the quality of life of employees and their families. Raising the level of personal interest of each employee in achieving the best possible business results is a key Company objective.

As of December 31, 2012, Rosneft and its subsidiaries employed 166,110 people[1]. The number of Company employees increased by 5,273 in the reporting year due to commissioning of a large number of new facilities at the Company's key production subsidiaries (Vankorneft, Yuganskneftegaz and Purneftegaz) and also due to growth of the workforce at Company refineries as the programme of refinery modernization moves forward. Higher employment was also driven by the start of operations at various product marketing units (including the Knevichi refueling complex at Vladivostok airport), increase in the number of people working at some R&D institutes (in response to business needs), and the acquisition of new subsidiaries.

The average age of Company employees in 2012 was 40.1 years, and 19,400 employees held management positions.

166.1

th. employees
as of December 31, 2012

Training and development of personnel

Rosneft's corporate system for training and development of personnel is designed to efficiently address the following tasks:

- ensuring that the professional and technical skill levels of employees are adequate for the present and future needs of Company business;

1. Employee numbers are given according to International Financial Reporting Standards (IFRS) while data on personnel development are provided under Russian Accounting Standards (RAS).

- reinforcing the Company's management resource, including the creation of a talent pool;
- ensuring that skilled personnel are available to implement the Company's strategic projects;
- meeting compulsory Government requirements for skill levels of personnel in the fuel and energy sector (designed to ensure high levels of quality and safety in production processes).

For these purposes the Company provides professional training and retraining, courses for qualifications improvement, and assistance to employees in acquiring a second profession, both in combination with normal work and during a permitted absence from work. The relevant programmes are:

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

During 2012, the Company provided a total of 135,900 courses in compulsory, professional-technical, and management training. That compares with a total of 129,800 courses in 2011. A total of 502 courses were provided in 2011 as part of centralized training and qualifications improvement in priority business spheres, with 10,900 course beneficiaries, including training of project teams for the Company's strategic and international projects.

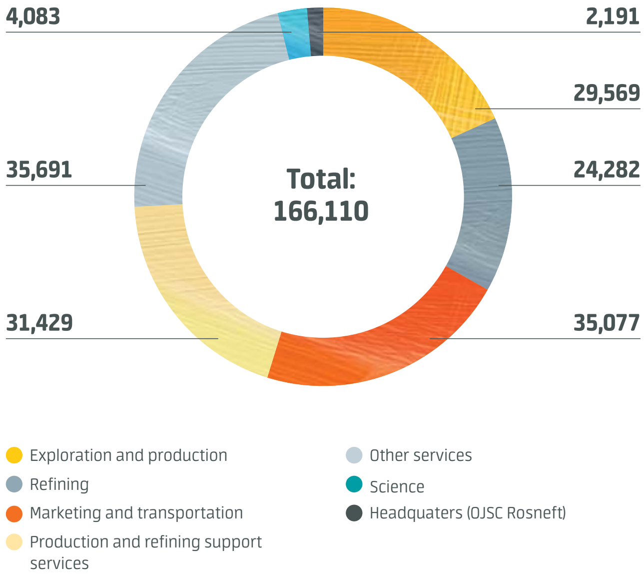
Special attention was paid in 2012 to the training of health and safety specialists, including high-quality compulsory specialized courses, provided when needed, to qualify personnel for carrying out specific jobs (113,300 course).

During 2012 the Company carried out training of personnel to operate new facilities, which will be commissioned as part of the programme of refinery modernization (affecting the Komsomolsk, Syzran and Tuapse refineries).

The Company has been providing corporate programmes of professional retraining, designed with the assistance of leading Russian higher education institutes, since 2006.

Five programmes leading to additional professional qualifications are being provided in association with the Gubkin Oil & Gas University, and 212 Company managers and specialists from the Company's talent pool followed these programmes during 2012. On the Company's initiative, the University has designed an innovative programme leading to a professional qualification for offshore drilling supervisors, with assistance from the US company Drillbert Engineering and involving practical experience at offshore drilling facilities operated by the Swedish company, Stena Drilling.

Personel structure of Rosneft as of December 31, 2013



During 2012 a group of 16 Rosneft managers and specialists entered a professional retraining course, entitled 'Technical Regulation in Government and Business', at the Russian Presidential Academy of the National Economy and Public Administration on the initiative of the Ministry of Industry and Trade.

Corporate MBA programmes are offered in partnership with Saint Petersburg State University and the International Energy Policy Institute (attached to the Institute of International Relations). The programmes include two modules of study abroad. In 2012 a total of 50 employees from the Company's talent pool followed corporate MBA programmes, and 32 employees from the Company talent pool completed the SKOLKOVO business school programme.

Rosneft's remote learning capacities are developing rapidly: the corporate library of electronic programmes was expanded to 266 courses in 2012, a total of 19 innovative technical study programmes were designed at the request of Company business units, and a training film was made. The number of company employees who underwent training by use of distance-learning technology in 2012 was 4,526.

Further work was carried out in 2012 to set up technologies for assessment and standardization of professional-technical requirements based on a skills system. A total of 424 technical skill profiles were designed for specialists and managers in main business segments (oil & gas production, geology and field development, oil refining, offshore projects, and corporate R&D institutes) as part of the special-purpose innovation project, entitled 'Implementation of a skill-based method for assessment and development of Rosneft personnel'.

The Company is constantly developing its study and training base, making intensive use of its own corporate training capacities, which include 53 study sites, including:

- 13 study centers (with 7 practice areas) for oil production skills;
- 7 study centers (with 3 practice areas) and 4 oil refining study classes;
- 10 study centers and 19 product marketing classes.

Rosneft set up 19 training complexes in the reporting year for development of practical skills among personnel, of which 11 for production and oil field services and 8 for oil refining. The Company's professional training staff (1,690 people) provided more than a half of total teaching (69,000 course) in the reporting year. During 2012 special instruction was provided to 120 professional trainers in preparation for work on new simulator equipment (including 44 trainers who will work with simulators for new units installed as part of the refinery modernization programme).

Rosneft youth policy

Rosneft implements a consistent and systematic youth policy to encourage talented young people to come and work at the Company, creating conditions for their professional development and successful integration with the Company life.

As part of this policy Rosneft implements the 'school — college — enterprise' corporate system of continuous education.

The Company has set up specialized 'Rosneft classes' at schools in regions where it has operations, providing the best pupils with high-quality education, professional orientation towards a choice of career in the oil & gas industry, and motivation to prioritize Rosneft as their future employer. In 2012 a total of 1,967 school children were studying in 78 Rosneft classes in 19 regions of Russia. New classes were opened in the cities, towns and settlements of Rostov-on-Don, Nefteyugansk, Poikovsky, Vrangel village in Primrorsky Territory and Iskateley village in Nenets Autonomous District.

Rosneft was one of the first companies to launch programmes, where teachers from sector institutes are invited to teach specialized subjects to pupils in Rosneft classes. Special courses, visits to enterprises and meetings with some of the Company's most distinguished workers encourage children in upper classes to choose professions that the Company needs and to return to the Company after completing their education.

'Stairway to success' team-building seminars are held each year for pupils of the 10-th grade of Rosneft classes: 8 such seminars were held in 2012, with 946 school-children taking part.

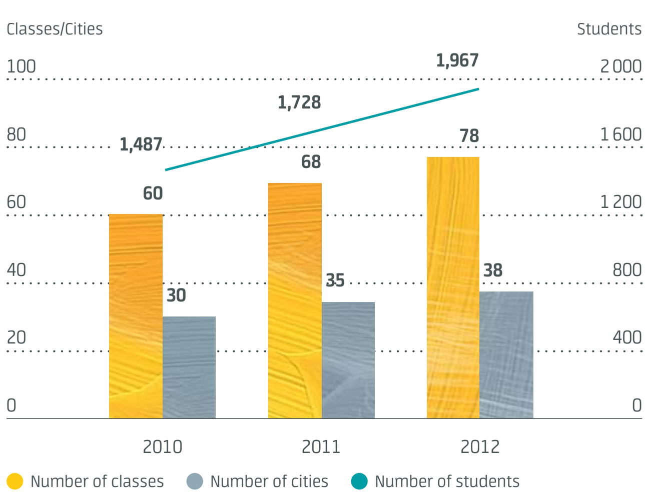
Rosneft holds seminars each year to raise the qualifications of school teachers. Seminars were held in the reporting year for form teachers, psychologists, and head teachers. A total of 114 people took part in the seminars during the reporting year.

A total of 772 school-leavers graduated from Rosneft classes in 2012, of whom 127 finished their school studies with gold or silver medals. Nearly all of the ex-pupils (756 or 98%) entered higher education, and 446 of them chose oil & gas courses or courses in related subjects.

Rosneft works with leading universities in Russia in order to create an external talent pool and generate qualified specialists to work at the Company. Rosneft cooperates with 27 higher-education institutes, which train specialists in subjects that Rosneft needs in its business. Eight of the institutes have the status of Rosneft strategic partners.

Continuity in work with school-children, students and young specialists is achieved through the holding of special events for students who completed Rosneft classes at school and are now studying at oil & gas universities. The fourth student festival under the title 'Rosneft's Future' was held in Moscow in February 2012 and 118 students from 22 institutes took part. Business games, intended to develop understanding of oil & gas professions, were held in October-November 2012 for 1st and 2nd year students at the Oil & Gas Institute of the Siberian Federal University, the National Mining University and Samara State Technical University. 223 students took part in the games.

Rosneft classes



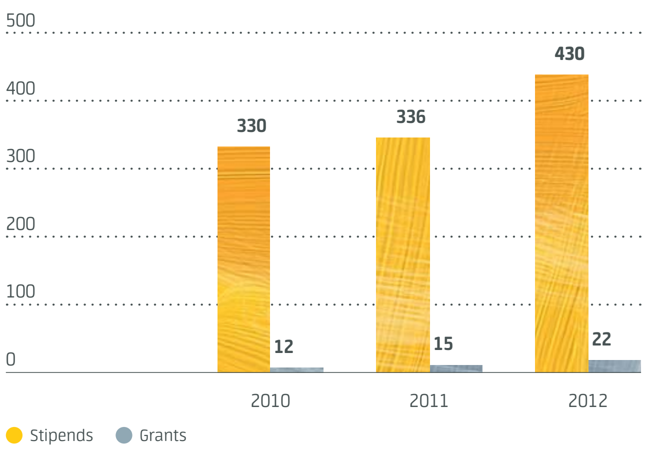
Central processing facility at Yuganskneftegaz

The Company traditionally holds special events — Rosneft Days — at partner institutes, where students are selected for spells of work experience and interviews are held. A total of 69 Rosneft Days were held in 2012 and were attended by more than 8,000 students.

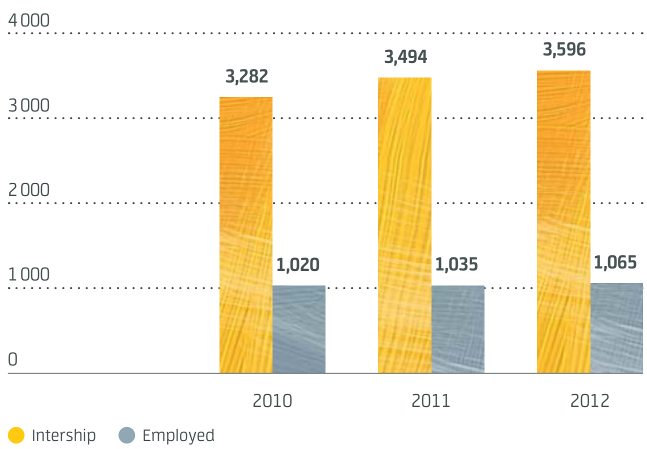
The Company supports promising teachers and gifted students through the payment of corporate grants and stipends.

This work is of great importance for ensuring a steady inflow to the Company of well-educated graduates from leading Russian universities, who are fully prepared for addressing present and future business tasks and innovation challenges.

Number of corporate stipends and grants made available by Rosneft



Share of student interns who subsequently became epmloyees of Rosneft



Work with young specialists

Work with young specialists is an important aspect of Rosneft's personnel policy. There were 2,868 young specialists in employment at Rosneft in 2012.

The Company ensures that conditions for professional growth and development of leadership potential are in place, including a personal development plan, which enables young specialists to adapt quickly to their work environment. Business games, conferences, competitions, trainings and festivals are held on a regular basis.

Councils of young specialists are in operation at 56 Company subsidiaries. The annual seminar for chairmen of these councils in 2012 focused on sharing experience and the development of unified working principles at all Company subsidiaries.

The Company operates a mentoring system to provide support to its young specialists, and regional seminars are held, at which mentors can exchange best practice.

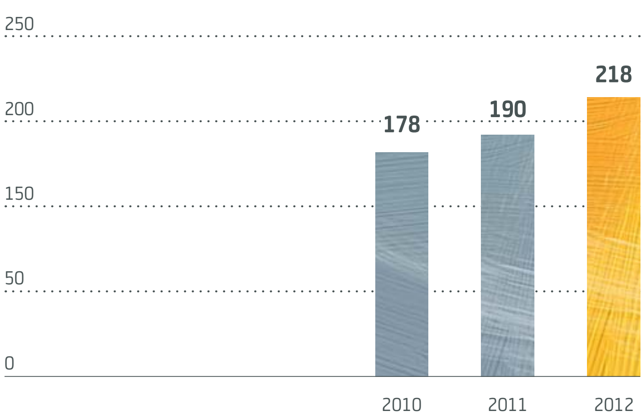
The fifth scientific and technical Cluster Conference for young specialists, focused on business processes, was held during 2012 in Krasnoyarsk, Izhevsk, Novokuibyshevsk, Samara and Tomsk. A total of 218 winners of the Cluster Conference from 51 subsidiaries took part in the seventh Inter-regional Scientific and Technical Conference for Young Specialists, at which 68 young specialists from 29 subsidiaries won prizes, and 51 of the best technical projects devised by the Conference participants were recommended for practical application. A total of 1,401 young specialists from 73 subsidiaries took part in the conferences at all levels during 2012.

Periods of work and study at Company headquarters were organized in 2012 for 48 young specialists who were prize winners at the sixth Inter-regional Scientific and Technical Conference, held in 2011.

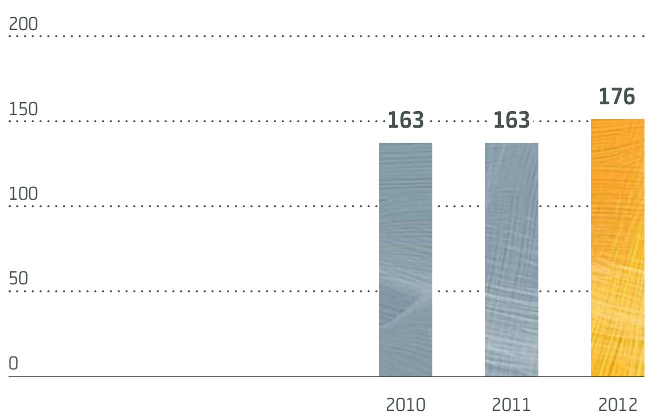
Administrating of Krasnodarneftegaz pump jack running

Each year Company specialists take part in a scientific and technical design competition for young employees at enterprises in the fuel and energy sector, which is organized by the Russian Energy Ministry. A total of 176 Rosneft specialists entered the competition in 2012 and 25 of them won prizes.

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



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



Social policy and charity

SOCIAL POLICY IS A PART OF ROSNEFT'S CORPORATE STRATEGY, AND IS DETERMINED BY THE COMPANY'S STRONGLY FELT RESPONSIBILITIES TOWARDS ALL INTERESTED PARTIES (GOVERNMENT, BUSINESS PARTNERS, COMPANY PERSONNEL, COMMUNITIES IN REGIONS WHERE THE COMPANY HAS OPERATIONS, SOCIAL ORGANIZATIONS, ETC.), BASED ON EQUALITY OF OPPORTUNITY, MUTUAL RESPECT AND THE RULE OF LAW

Rosneft views social policy as a part of its corporate strategy, aimed at ensuring favorable and competitive conditions of work and leisure for Company employees and members of their families through implementation of a range of social programmes.

The Company's main social programmes are designed to ensure safe and comfortable working conditions, a healthy lifestyle, provision of housing, and improvements in the quality of life of its employees and their families. Rosneft also aims to provide professional training for its employees, and financial support to Company veterans and pensioners. In addition the Company honours its commitments to social and economic development in Russian regions, as well as providing charity assistance.

Company spending on social programmes was RUB 22.4 bln in 2012 compared with RUB 20.3 bln in 2011.

Social payments and benefits for employees

Rosneft continued its policy of constructive social partnership with Company trade unions during the reporting year. Joint work between the Company and unions ensured that collective agreements were approved at most Company subsidiaries, strengthening the social guarantees of Rosneft employees and designed to improve their quality of life.

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

Chief provisions of the standard collective agreement, which is recommended for implementation at Company subsidiaries, are as follows:

- social support for employees' families with many children or with relatively low household incomes;
- social support for pensioners;
- creating conditions to attract and retain personnel at Company production sites in regions with severe climates and at hazardous facilities;
- support for employees suffering hardship.

Employee social packages are based on unified principles of social security, but may differ between subsidiaries, since they take account of the specifics and differing financial capacity of those subsidiaries, as well as geographical location and regional specifics. The composition and scale of these benefits are defined by the terms set out in collective agreements and other regulatory documents of Company subsidiaries.

Improvement of work and leisure conditions

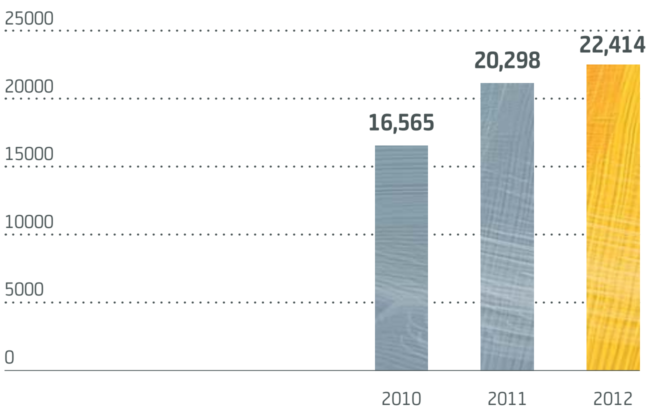
Rosneft pays much attention to the organization and conduct of events for improving the working conditions and living standards of its employees, as well as actions to ensure maximum labor productivity and the reduction of unproductive labor time.

For this purpose the Company has developed single standards for workplace and welfare provision to its employees and carries out systematic work to ensure that the standards are observed. This work includes the construction and development of shift camps (accommodation and living facilities for workers at remote production locations), which now provide living arrangements for more than 16,000 of the Company's employees when they are on duty. The Company currently has 65 shift camps in operation, supporting more than 18,000 work places, as well as 47 mobile accommodation facilities for Company employees working at contractor organizations (more than 2000 work places). The Company's up-to-date shift camps include accommodation, leisure and administrative buildings as well as catering and medical facilities for day-to-day use by Rosneft employees who work on a shift system

A canteen was completed and brought into operation in 2012 at the USPV-Sever shift camp at the Vankor field and work was begun on a 140-bed hostel with a canteen at the Malo-Balykskoye field. Company spending on construction and fit-out of shift camps and support bases during 2012 totaled RUB 2 bln.

Overall investments by Rosneft for improving the work and leisure conditions of its employees during 2012 were RUB 6.3 bln.

Spending on social programs (RUB mln)



Medical care and healthy lifestyle

The Company makes special efforts to ensure that its workforce remains in good health. Specific health-related objectives are as follows:

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

The principal means of achieving these objectives are as follows:

- voluntary medical insurance for employees, ensuring the availability of timely and high-quality medical care to international standards;
- provision of convalescent care and rest for employees at sanatoria and resorts;
- operating medical centers at the Company's industrial facilities and shift camps;
- preventative medical care (vaccination, outpatient care) in order to reduce sickness rates among employees;
- organizing and holding sport and fitness events for Company employees;
- reimbursement of subscriptions to fitness and sports clubs.

The Company carries out systematic monitoring of the state of health of its employees and analysis of illness incidence. Annual medical examinations, vaccinations and other preventative actions are carried out in order to reduce sickness rates (taking account of climate zones and other specifics of production). Health centers are maintained and developed in regions where the Company has operations, and systematic work is carried out to ensure that standards of hygiene are maintained in the work place.

Spending by the Company on employee healthcare and support for healthy lifestyles amounted to RUB 1.4 bln in 2012.

Voluntary medical insurance

In addition to government programmes of compulsory medical insurance, more than 125,000 Company employees can obtain medical services under collective voluntary medical insurance programmes, including full general medical services, hospitalization, dentistry, consultative-diagnostic services, and convalescent care.

Rosneft calls on leading Russian insurance companies in making voluntary medical insurance contracts with employees. Voluntary medical insurance was provided in 2012 by the insurance company SOGAZ-MED, based on the outcome of a tendering competition.

A total of RUB 741 mln was spent on voluntary medical insurance for Company employees in 2012.

Treatment and convalescent care at sanatoria and resorts

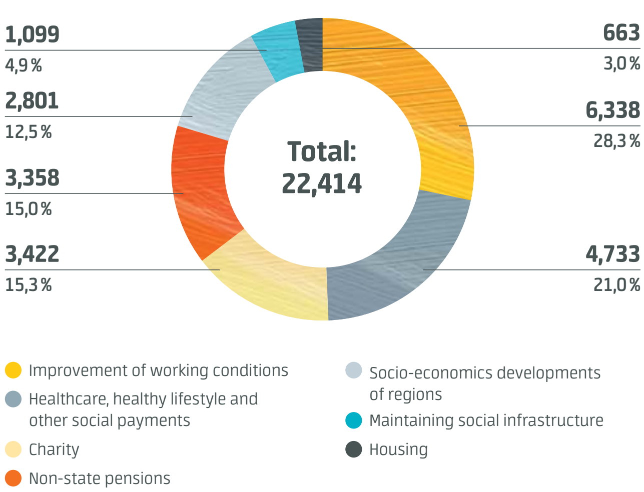
The Company arranges treatment and rest for its employees at sanatoria and resorts as a part of its efforts to protect and improve the health of its employees, members of their families and Company pensioners. A regulation on treatment and convalescent care at sanatoria and resorts for employees and their families has been designed and implemented in order to ensure unified standards. The Company is particularly attentive to levels of care for children, veterans and pensioners.

In 2012, tickets to sanatoria, resorts and other health facilities were distributed to a total of 43,000 employees and members of their families, of whom 28,000 visited facilities that are in Rosneft ownership. Spending for these purposes was RUB 600 mln.

Sport

In order to stimulate health and corporate culture in 2012 the Company held its second winter and eighth summer Spartakiadas (amateur sports tournaments) in 2012. About 20,000 people took part in qualifying rounds, at which teams were selected to represent Company subsidiaries. The winter Spartakiada was held in February in Moscow. The first (zonal) rounds of the summer Spartakiada were held in June in Nakhodka, Angarsk, Krasnoyarsk, Samara, Krasnodar and Tuapse, with employees from more than 60 subsidiaries taking part. The 16 best teams met at the final in Moscow.

Social spending by area of activity in 2012 (RUB mln, %)



54.5

th. pensioners and veterans received corporate pensions in 2012

Housing programmes

Provision of housing to employees at Rosneft subsidiaries by means of corporate mortgages, new construction, and use of accommodation in Company ownership is a key aspect of social policy at Rosneft.

The Company provided accommodation for the families of 477 employees during 2012, spending RUB 663 mln for the purpose, as follows:

- RUB 403.5 mln as special-purpose loans to employees;
- RUB 251.6 mln for new housing construction;
- RUB 7.8 mln for fit-out of Company accommodation.

Corporate pension provision

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

To date Rosneft subsidiaries have made more than 250 currently operative agreements with the Neftegarant non-government pension fund on corporate pension provision for employees and veterans.

Pension contributions by Rosneft and its subsidiaries to the Neftegarant fund in 2012 totaled RUB 3.36 bln, of which RUB 412 mln were paid as part of a project for social support to veterans.

Spartakiada

Total pension payments in 2012 were more than RUB 1.12 bln, and the average monthly payout was RUB 3,200 per pensioner and RUB 1,100 per veteran. More than 54,000 people receive Rosneft corporate pensions (24,000 pensioners and 30,000 veterans).

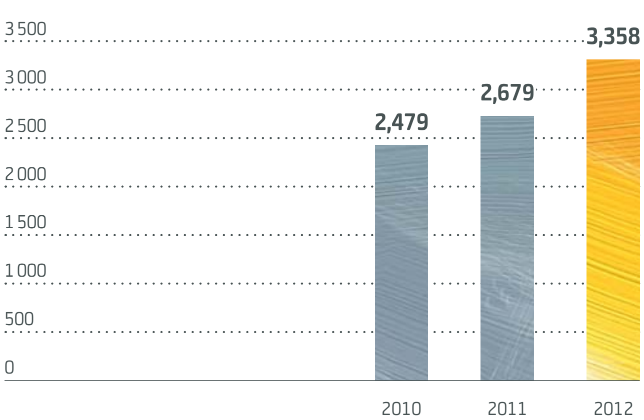
Company workers are taking steps to provide for their own retirement by making voluntary contributions to the Fund, which will count towards their future pensions. By the end of 2012 company workers had made about 35,000 individual pension agreements with total value in excess of RUB 1.7 bln.

Socio-economic development in Russian regions

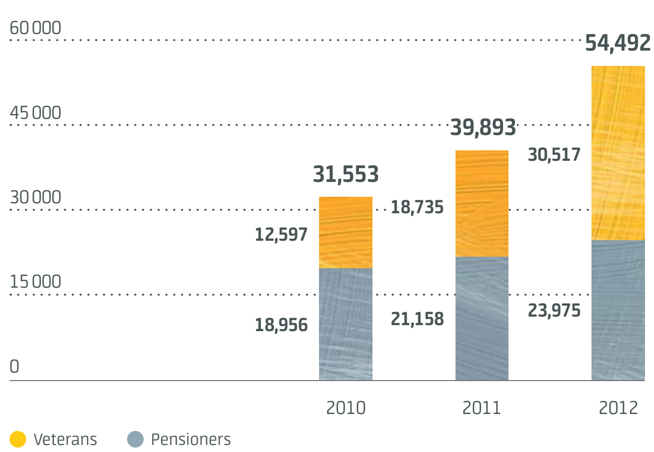
As one of Russia's leading companies, Rosneft works consistently to implement a range of socio-economic programmes in regions where the Company has industrial operations.

The Company provides funding for development of social infrastructure in the framework of agreements with executive and municipal government on a mutually beneficial

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



Number of pensioners and veterans receiving corporate pensions



basis, and the Company obtains tax preferences in a number of regions in compliance with federal and regional legislation.

Rosneft spent a total of RUB 2.8 bln in 2012 to finance social and economic cooperation agreements with regions.

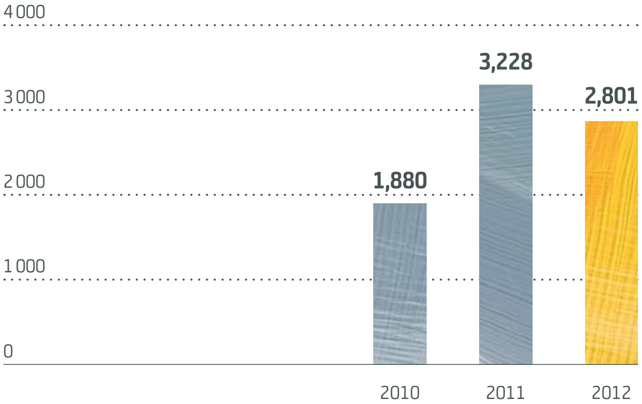
Implementation of long-term social programmes in Khanty-Mansiysk Autonomous District continued during the reporting year, as follows:

- upgrading of territories and landscaping (modernization of a non-residential building at the iron-removal station in Nefteyugansk, reconstruction of the main square and fountain in the town of Pyt-Yakh);
- development of pre-school education (construction of kindergartens in Poikovsky village and the town of Nefteyugansk);
- construction and maintenance of culture and sports facilities (reconstruction of the Rossiya house of culture in the town of Pyt-Yakh, construction of a culture and sports complex in the town of Nefteyugansk);
- construction of health facilities (rebuilding and conversion of a treatment unit into a cardiology center in Nefteyugansk, purchase of equipment).

The Company spent more than RUB 1.5 bln on this work during 2012.

Social and economic support to Samara Region, provided in association with the regional administration, was focused on development of the social sphere at local level, including repairs and reconstruction work at kindergartens, schools, cultural centers and mains water systems, as well as purchases of essential equipment and transport for district needs. Substantial sums were provided for the construction of a covered ice rink (the Rosneft Arena) in the town of Otradny and a kindergarten in Syzran. Total financing for works in Samara Region was RUB 490 mln.

Financing of socio-economic cooperation agreements (RUB mln)



Church of St Nicolay in Gubkinsk

Financing was provided in Stavropol Territory for the development and maintenance of social infrastructure and cultural facilities and of schools, repairs to public roads, purchases of special equipment for shared use, construction of pedestrian paths, and landscaping of municipal districts. A total of RUB 70 mln was spent on construction of the Yuny Neftyanik ('Young Oil Worker') health and fitness center in the village of Levokumskoye, a new district polyclinic was brought into use in the town of Neftekumsk, and major repairs and fit-out were completed at School №3 in Neftekumsk.

Charity

In the charity field the Company works mainly with regional administrations for the development of social and economic resources in Russian regions, and helps to finance socially important programmes implemented by public organizations and charity foundations, which are targeted at spiritual revival, the development of sport, assistance to healthcare institutions and children's homes, and strengthening of the cultural and moral foundations of Russian society.

Social support afforded by the Company in its regions of presence is particularly important for small ethnic groups in Russia's Far North. These groups receive compensation for

Playground in Gubkinsk, built by RN Purneftegaz Ltd.

use of land in oil & gas operations, as well as receiving equipment and fuel from the Company to assist them in hunting and craft activities, summer health programmes for children, financing of exhibitions, competitions and other events, and tuition costs for students. Rosneft provided a total of RUB 3.7 mln for the support of small indigenous groups in the Far North during 2012.

Spiritual heritage sites are being built and rebuilt at the Company's expense in many parts of Russia. Financing was continued in the reporting year for construction of the Cathedral Church of Christ's Nativity in the city of Yuzhno-Sakhalinsk, the Church of the Neopalimaya Kupina Icon of the Mother of God in Smolensk Region, and the Church of the Kazan Icon of the Mother of God in the city of Nakhodka. Funds were also provided for restoration work at the Church of Antipa the Holy Martyr at Kolymazhny Yard in Moscow.

Total charity spending by the Company in 2012 was RUB 3.4 bln, increased from RUB 2.9 bln in 2011. Financing of charity projects is based on decisions by the Rosneft Board of Directors and the Management Board.

In total during 2012 the Company provided funding for the construction, repair and equipping of 114 kindergartens and pre-school facilities, 211 schools, 84 cultural and 82 sports facilities, 43 health facilities and 49 places of worship.

Support for education

Broad support for education is another important aspect of Rosneft social policy. The Company helps to ensure future human resource inputs for its business by providing materials and learning resources to educational institutions, which specialize in the oil & gas sector and are Company partners. Provisions includes laboratories, faculty buildings, classrooms and study rooms equipped with up-to-date interactive computer equipment. By these actions the Company is helping to improve the quality of education. Targeted assistance to universities is provided annually and totaled RUB to around 200 mln in 2012. Rosneft also gave study bursaries to 81 of its employees during the reporting year at total cost of RUB 3.7 mln.

Maintenance of Rosneft social infrastructure

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

Spending by Rosneft in 2012 on maintenance of social infrastructure was RUB 1.1 bln.

Health, Safety and Environment

THE COMPANY APPLIES THE LATEST TECHNOLOGIES AND UP-TO-DATE PRODUCTION METHODS TO ENSURE A SAFE AND HEALTHY WORKING ENVIRONMENT FOR ITS EMPLOYEES AND TO MINIMIZE THE RISK OF ACCIDENTS AND EMERGENCIES

Following the requirements of Russian and international law Rosneft identified the following main HSE objectives in its operations:

- ensuring that the Company takes proper account of the nature and the scale of HSE risks, which are inherent to its business;
- constant improvement of the Company's Integrated Management System for HSE;
- ensuring that HSE activities by the Company are in compliance with laws and other requirements applicable to its business.

Rosneft operates an Integrated Management System for HSE, which enables the Company to manage and supervise its work in this sphere and to ensure that such work is efficient. The System is built on principles of constant improvement, preventative measures, and the involvement of personnel at all levels in ensuring industrial safety and reducing negative impact on the environment. Standards have been designed to guarantee proper functioning of core elements of the HSE Management System, and work is being carried out on additional standards to optimize the System.

In 2012 CJSC Bureau Veritas Certification Rus carried out a recertification audit of the Company's Integrated System for HSE Management. Certificates of compliance with the international standards, ISO 14001:2004 (for environmental management systems) and OHSAS 18001:2007 (for occupational health and safety systems) for the period from 2012 to 2015 were issued on the basis of the audit results.

28%

decrease in number of industrial injuries in 2012

HSE work in the reporting year was focused on reducing injury rates and the rate of occurrence of accidents, fires and other incidents, and on prevention of emergency situations. Achievements as a result of these efforts were as follows:

- The absolute number of industrial injuries at the Company was reduced by nearly 30%, from 47 cases of injury in 2011 to 34 in 2012;
- Fatal injuries were reduced by 25% (there were 6 instances of fatal injury during 2012);

- The rate of accidents of gas, oil and water blow-outs at Rosneft production subsidiaries decreased by 2.3 times, from 7 to 3;
- No emergency situations arose at any of Rosneft's subsidiaries in the course of 2012.

More than 19,000 checks to ensure observance of road safety rules were carried out at Company subsidiaries during 2012 as part of efforts to reduce rates of injury due to traffic accidents, and 600 road transport violations were dealt with. Thanks to these efforts the number of injuries sustained in traffic accidents was almost halved in 2012 in comparison with 2011.

Funding of work to enhance safety in the workplace amounted to more than RUB 3.5 bln in 2012.

Rosneft has a corporate system of emergency prevention and reaction. The system was kept in constant readiness during 2012 with 190 trainings to prepare personnel for dealing with oil spillages, extinguishing fires, and localizing potential accidents. More than 8,000 employees at Rosneft subsidiaries took part in the trainings.

Rosneft selects subsidiaries for conduct of emergency response exercises in a way that takes account of the specific conditions associated with Company production, refining and marketing operations in diverse geographical areas.

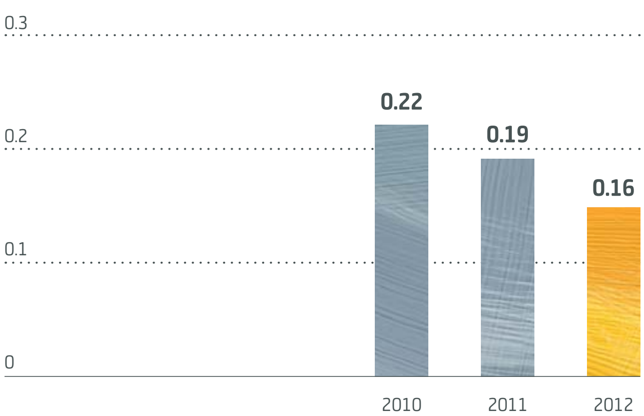
Reorganization of fire safety measures at key subsidiaries was successfully completed in 2012, including expansion of existing branches of RN-Fire Safety ('RN-Pozharnaya Bezopasnost') and creation of three new branches. These changes substantially improved the system for preventing and combating fires at the facilities of Company subsidiaries.

Spending by Rosneft on preventing and dealing with emergencies and on fire and radiation safety amounted to RUB 4.4 bln in 2012.

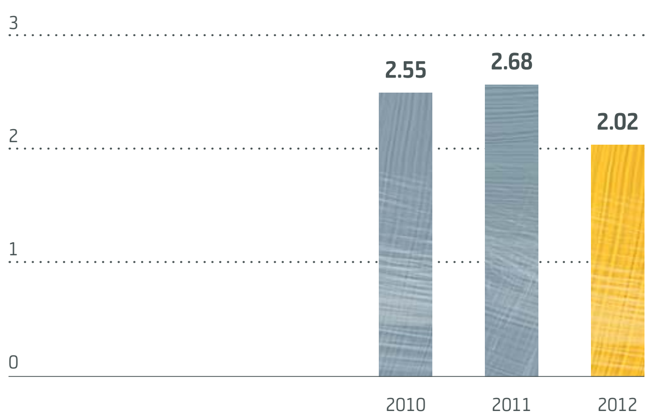
In its efforts to minimize impact on the environment, Rosneft focuses particularly on prevention. The Company is implementing an environmental programme for the period 2009-2014, involving modernization of environmental facilities and equipment. The programme includes the construction and rehabilitation of landfills, installation of modern technology and equipment for processing oil sludge and dealing with oil spills at subsidiaries, as well as the installation of new purification equipment and reconstruction of equipment that is already in place. In the course of the year new purification equipment plants and landfills were created at Yuganskneftegaz, Samaraneftegaz and Sakhalinmorneftegaz. Total spending on measures as part of the environmental programme in 2012 was RUB 1,161 mln. A programme of environmental work for the Arctic Research and Design Center for Offshore Development was drawn up in 2012 to assist the start of development work by Rosneft on the Russian continental shelf, and draft agreements were prepared for work with the Ministry for Emergency Situations, the Russian Space Agency and the Ministry of Transport of the Russian Federation.

Rosneft and its partners signed the 'Declaration on protection of the environment and conservation of biodiversity during exploration and development of mineral resources on the Arctic continental shelf of the Russian Federation'. Environmental studies were prepared and approved by Government environmental agencies, and permits were obtained for the conduct of geophysical work and engineering research in the Barents and Kara Seas, the Sea of Okhotsk, and the Azov and Black Seas.

Industrial injury rate (per 1 mln hours worked)



Fatal injury rate (per 100 mln hours worked)



Tank farm of Sakhalinmorneftegaz

The Company has a programme for the elimination of environmental damage from previous periods. A number of actions were carried out in 2012 as part of this programme:

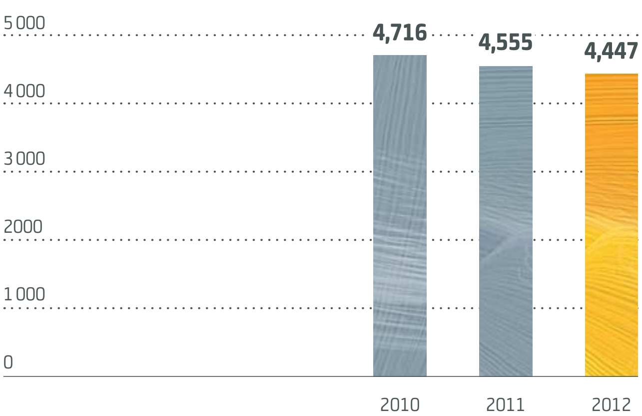
- RN-Yuganskneftegaz reclaimed 391 hectares of contaminated land, and processed 97,000 tonnes of oil sludge and 516,000 tonnes of drill sludge;
- RN-Purneftegaz recycled 16,000 tonnes of drill sludge and reclaimed 14.2 hectares of contaminated land;
- RN-Stavropolneftegaz processed 24,500 tonnes of oil sludge;
- RN Krasnodarneftegaz processed 37,000 tonnes of oil sludge;
- RN-Sakhalinmorneftegaz reclaimed 10 hectares of contaminated land, and processed 14,000 tonnes of oil sludge and 11,000 tonnes of drill sludge.

Total spending on these actions in 2012 was RUB 1,199 bln.

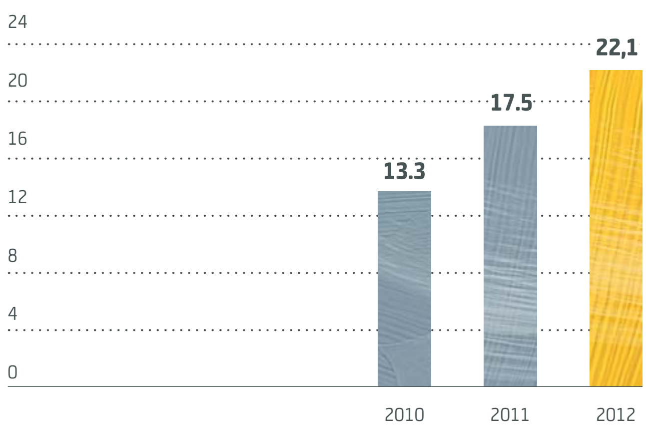
Rosneft made an estimate of its greenhouse gas emissions for the first time in 2012, and is now developing standard guidelines for measurement of total greenhouse gas emissions by the Company.

Company subsidiaries took an active part and were among prize winners in annual competitions held during 2012 in the field of ecology and environmental protection. Rosneft-Smolensknefteprodukt took part in the sixth national conference 'Ecology and production: prospects for the development of economic instruments for environmental protection'. The enterprise won a diploma as one of the 100 Best Companies in Russia for Ecology and Environmental Management.

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



Investiments and current spending on environmental protection (RUB mln)



05 CORPORATE GOVERNANCE

An up-to-date system of corporate governance at Rosneft enables efficient management of the existing asset portfolio and achievement of the Company's strategic goals according to schedule

ROSNEFT

RESPONSIBILITY
TO BE A LEADER

System of Corporate Governance

THE SUSTAINABLE DEVELOPMENT OF ROSNEFT, ENHANCEMENT OF SOCIAL RESPONSIBILITY WITH RESPECT TO ALL INTERESTED PARTIES, AS WELL AS ITS ATTRACTIVENESS TO INVESTORS DEPEND TO A GREAT EXTENT ON A TRANSPARENT SYSTEM OF CORPORATE GOVERNANCE

As a public company, Rosneft does all it can to consistently improve the efficiency of its corporate governance system, monitoring and applying the latest international practice.

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

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

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

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

- Regulation on the General Shareholders Meeting;
- Regulation on the Board of Directors;
- Regulation on the Collegial Executive Body (the Management Board);
- Regulation on the sole Executive Body (the Company President);
- Regulation on the formation and work structure of the Board of Directors Committees;
- Regulation on the Board of Directors Audit Committee;
- Regulation on the Board of Directors Human Resources and Remuneration Committee;
- Regulation on the Board of Directors Strategic Planning Committee;
- Regulation on the Corporate Secretary;
- Regulation on Dividend Policy;
- Regulation on Insider Information;
- Regulation on Information Policy;
- Regulation on Internal Control of Operations and Finances;
- Regulation on the Accounting Commission;

- Code of Business Ethics;
- Regulation on Provision of Information to Shareholders.

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

The General Meeting of Shareholders

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

THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders to review Company results in 2011 was held on June 20, 2012 in St. Petersburg (unnumbered minutes, 25.06.2012). The meeting was attended by 97.18 % of Company shareholders.

Showing of a live broadcast of the Meeting was arranged in Moscow, Krasnodar, Krasnoyarsk, Nefteyugansk, Samara, Neftekumsk and Komsomolsk-on-Amur for individuals in those cities who had the right to take part in the Meeting.

The Meeting approved the following items: the Company's Annual Report and financial accounts for 2011; distribution of Company income for 2011; the amount, schedule and form of payment of dividends for 2011; and remuneration and compensation of expenses for members of the Company Board of Directors. Decisions were also taken on election of members of the Board of Directors and of the Audit Commission, approval of the Company Auditor, and approval of related-party transactions. Decisions taken by the General Meeting of Shareholders had been fully executed as of December 31, 2012.

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

4

independent directors on the BoD at the end of 2012

EXTRAORDINARY GENERAL MEETINGS OF SHAREHOLDERS

Two Extraordinary General Meetings (EGMs) of Rosneft Shareholders were held in 2012.

The EGM held in absentia on April 10, 2012 (unnumbered minutes, 13.04.2012) approved an amendment to the previously completed transaction with the Chinese National Petroleum Corporation, and also approved completion of an amendment to related-party transactions (transactions of Rosneft with OJSC Transneft and CJSC Vankorneft).

The second EGM took place in Khabarovsk on November 30, 2012 (unnumbered minutes, 05.12.2012), and 97.64 % of Company shares were represented at the Meeting[1].

The Meeting decided on distribution of income and additional payment of dividends for 2011, on early termination of the authorities of the Board of Directors and election of new Board members, and also approved a number of related-party transactions. At the end of the Meeting the newly elected Board of Directors met to elect the Board Chairman and his deputies. The Board also confirmed the membership of its three committees, each of them headed by an independent director, and appointed a new member of the Management Board to replace a member who had stepped down.

The Board of Directors

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

1. The figure reflects the share of the total number of votes, which were entitled to participate in the EGM. Clause 6 of Article 76 of the Federal Law on Joint Stock Companies (26.12.1995, №208) states that shares, which have been purchased by the Company and are at its disposal, do not carry voting rights and are not entitled to participate in voting.

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

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

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

In carrying out these functions the Board of Directors works closely with the Company's external auditor, with management and structural sub-divisions of the Company, and with Company officials.

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

- that decisions should be taken based on accurate information about Company business;
- that no limitations should be placed on the rights of shareholders, including the right to participate in management of Company affairs, and to receive dividends and information about the Company;
- the achievement of a balance between the interests of various groups of shareholders to ensure the greatest possible objectivity in decision-making for the benefit of all Company shareholders.

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

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

The composition of the current Board of Directors corresponds to standards set out in Rosneft's Code of Corporate Conduct and to international corporate governance practice. As of December 31, 2012 eight of the nine directors were non-executives and four of them were independent.

MEMBERS OF THE BOARD OF DIRECTORS (AS OF 31.12.2012)

From January 1, 2012 to June 20, 2012 the authorities of the Board of Directors were exercised by the membership, which was elected by the Extraordinary General Meeting of Shareholders on September 13, 2011. From June 20, 2012 to November 30, 2012 the authorities of the Board of Directors were exercised by the membership, which was elected by the Annual General Meeting of Shareholders on June 20, 2012. From November 30, 2012 the authorities of the Board of Directors were exercised by the membership, which was elected by the Extraordinary General Meeting of Shareholders on November 30, 2012.

Attendance of Board members at Board meetings and meetings of Board Committees in 2012

Board of Directors					Audit Committee	HR and Remuneration Committee	Strategic Planning Committee
Members	Executive	Non-executive	Independent	Attendance at meetings			
PERSONS WHO WERE MEMBERS OF THE BOARD OF DIRECTORS THROUGHOUT 2012							
Matthias Warnig		X	X	36/36	9/9	9/9	
Alexander Nekipelov		X		36/36			8/8
Hans-Joerg Rudloff		X	X	36/36	9/9	9/9	
Sergey Shishin		X	X	36/36	4/4	4/4	4/4
Dmitry Shugaev		X		36/36			8/8
PERSONS WHO LEFT THE BOARD OF DIRECTORS ON 20.06.2012							
Vladimir Bogdanov		X		12/14			
Andrey Kostin		X	X	14/14	5/5	5/5	
Nikolay Tokarev		X		14/14			4/4
PERSONS WHO JOINED THE BOARD OF DIRECTORS ON 20.06.2012							
Mikhail Kuzovlev		X		22/22		4/4	4/4
Nikolay Laverov		X	X	22/22			4/4
Ilya Shcherbovich		X		22/22			4/4
PERSONS WHO LEFT THE BOARD OF DIRECTORS ON 30.11.2012							
Eduard Khudainatov	X			29/29			2/2
PERSONS WHO JOINED THE BOARD OF DIRECTORS ON 30.11.2012							
Igor Sechin	X			7/7			

Note: the first figure shows the number of meetings that a member of the Board of Directors attended; the second figure shows the total number of meetings that the member could have attended in 2012.

Rosneft's annual general shareholders meeting

Members of the Board of Directors

(as of 31.12.2012)

Alexander Nekipelov

Chairman of the Board of Directors of Rosneft, Member of the BoD Strategic Planning Committee.

Born in 1951. Graduated from the Economics Faculty of Lomonosov Moscow State University in 1973. Doctor of Economic Science. Member of the Russian Academy of Sciences. Author of 3 monographs and more than 200 scientific articles published in Russia and abroad. Awarded state and industry prizes.

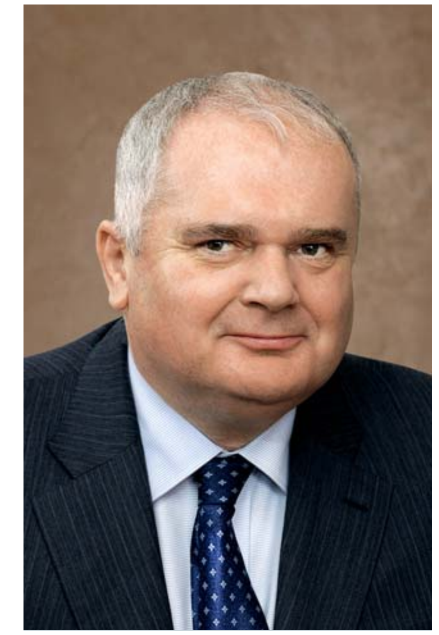
From 1998 to 2001 – Director of the Institute of International Economic and Political Studies at the Russian Academy of Sciences.
From 2001 – Vice President of the Russian Academy of Sciences, Presidium Member of the Russian Academy of Sciences.
From 2004 – Director of the Moscow School of Economics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

Igor Sechin

Chairman of the Management Board, President of Rosneft

Born in 1960. Graduated in 1984 from Leningrad State University. Ph.D in Economics. Awarded state and industry prizes.

From 2000 to 2004 – Deputy Head of the Administration of the President of the Russian Federation.
From 2004 to 2008 – Deputy Head of the Administration of the President of the Russian Federation, Aide to the President of the Russian Federation.
From 2008 to 2012 – Deputy Chairman of the Government of the Russian Federation.
From 2004 to 2011 – Chairman of the Board of Directors of Rosneft.
Holds positions on supervisory boards of several large Russian companies i.e. Chairman of BoD of OJSC Rosneftegaz and National Oil Consorcium Ltd., Chairman of Supervision Board of Professional hockey club CSKA Ltd.
From 2012 – Member of the Board of Directors of Rosneft.



Matthias Warnig

Independent member of the Board of Directors of Rosneft, member of the Strategic Planning Committee, member of the Audit Committee

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

From 2006 – Managing Director of Nord-Stream AG (Switzerland).
Holds posts in the governing bodies of several Russian and foreign companies, including positions as member of the Board of Directors of OJSC Bank Rossiya, member of the Supervisory Boards of OJSC VTB Bank and Verbundnetz Gas Aktiengesellschaft, Chairman of the Administrative Board of GAZPROM Schweiz AG, Chairman of the Board of Directors of OJSC Transneft and Chairman of the Board of Directors of Russian Aluminum.
From 2011 – Member of the Board of Directors of Rosneft.

Mikhail Kuzovlev

Member of the Board of Directors of Rosneft, member of the BoD Committee for HR and Remuneration, member of the BoD Committee for Strategic Planning

Born in 1966. Graduated in 1988 from Moscow State Institute of International Affairs, attached to the Ministry of Foreign Affairs of the USSR.

From 2005 to 2008 – Managing Director of Russian Commercial Bank (Cyprus) Ltd.
From 2008 to 2011 – First Deputy President, Chairman of the Executive Board of VTB Bank.
From 2011 – President – Chairman of the Executive Board of Bank of Moscow.
Holds positions in the governing bodies of a number of commercial organizations (Chairman of the Board of Directors of Russian Commercial Bank (Cyprus) Ltd., member of the Board of Directors of OJSC VTB-Leasing and OJSC Stolichnaya Insurance Group) and OJSC Insurance Group MSK.
From 2012 – Vice President, member of the Executive Board of the Russian Union of Industrialists and Entrepreneurs.
From 2012 – member of the Board of Directors of Rosneft.

ROSNEFT

RESPONSIBILITY TO BE A LEADER

Nikolay Laverov

Independent member of the Board of Directors of Rosneft, Deputy Chairman of the Board of Directors, Chairman of the BoD Strategic Planning Committee

Born in 1930. Graduated in 1954 from Moscow Institute of Non-ferrous Metals and Gold. Doctor of Geology and Mineral Science. Member of the Russian Academy of Sciences. Professor. Publications include 25 monographs and more than 700 articles and scientific publications in Russia and abroad. Originator of scientific work and inventions. Holds orders of distinction, state and industry prizes and awards, and medals and orders of other countries.

From 1991 — Vice President of the Russian Academy of Sciences.
From 2012 — member of the Board of Directors of OJSC Rosgeologia.
From 2012 — member of the Board of Directors of OJSC Rosneft.

Hans-Joerg Rudloff

Independent Member of the Board of Directors of Rosneft, Deputy Chairman of the Board of Directors, Chairman of the Audit Committee, Member of the HR and Remuneration Committee

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

From 1998 — Chairman of the Supervisory Board of Barclays Capital.
From 2012 — Chairman of Barclays Investment Bank.
Holds positions in the governing bodies of several major foreign companies.
From 2006 — Member of the Board of Directors of Rosneft.

Sergey Shishin

Independent member of the Board of Directors of Rosneft, Deputy Chairman of the Board of Directors, Chairman of the BoD HR and Remuneration Committee, Member of the Audit Committee

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

From 1980 to 2007 — service in the Committee for State Security of the USSR and the Russian Federal Security Service.
From 2007 — Senior Vice President of VTB Bank.
Holds positions in the governing bodies of a number of commercial organizations (member of the Board of Directors of OJSC RusHydro and member of the Supervisory Board of OJSC VBRR).
From 2011– member of the Board of Directors of Rosneft.

Dmitry Shugaev

Member of the Board of Directors of Rosneft, member of the Strategic Planning Committee

Born in 1965. Graduated in 1987 from the Moscow State Institute of International Affairs, attached to the Ministry of Foreign Affairs of the USSR. Ph.D in Economic Science.

From 2001 to 2008 — various posts at State Unitary Enterprise, Rosoboronexport.
From 2008 to 2009 — Head of the CEO's Office at the State Corporation, Rostec.
From 2009 — Deputy CEO of the State Corporation, Rostec.
Holds positions in the management bodies of several commercial organizations (member of the Boards of Directors of OJSC INTER RAO UES and NPO Saturn).
From 2011 — member of the Board of Directors of Rosneft.

Ilya Shcherbovich

Member of the Board of Directors of Rosneft, member of the BoD Committee for Strategic Planning

Born in 1974. Graduated in 1995 from the Plekhanov Russian University of Economics.

From 2007 — President of UCP Group of companies.
Holds positions in the governing bodies of several commercial organizations (member of the Board of Directors of OJSC Transneft, OJSC Federal Grid Company, Uralmash Oil & Gas Equipment Holding LLC.
From 2012 — member of the Board of Directors of OJSC Rosneft.

ACTIVITY OF THE BOARD OF DIRECTORS IN 2012

The Board of Directors held 36 meetings during 2012 (9 in the form of joint presence and 27 by voting in absentia), at which it reviewed and took decisions on various aspects of Company business[1].

Matters considered by the Board of Directors during the reporting period (matters in the competence of the Board of Directors in accordance with Article 65 of the Federal Law on Joint-Stock Companies as well as other matters concerning the Company's current business, which are in the Board's competence) were as follows:[2]

- organization of work by the Board of Directors and committees of the Board of Directors (12);
- cooperation and implementation of business projects (22);
- work of the Management Board (1);
- membership of the Management Board and members of the Management Board who are concurrently members of the management bodies of other organizations (6);
- approval of performance criteria and satisfaction of performance criteria by senior managers (2);
- the carrying out/approval of transactions, which fall within the competence of the Board of Directors in accordance with the Company Charter (53);
- bonds placement and issue documents approval (on approval of bonds issue and listing prospectus) (1);
- approval of performance indicators for CEOs of key Group companies (2);
- approval, adjustment, and implementation of Company business plans (4);
- amendments to organizational structure (2);
- design of strategic programmes of the Company (6);
- defining the position of the Company with respect to election (appointment) and early termination of the authorities of CEOs of key companies within the Group (7);
- preparations for and holding of the Annual General and Extraordinary General Meetings of Shareholders (21);
- approval of internal regulatory documents of the Company (6);
- decisions on the making of amendments to the Company Charter as regards the creation of subsidiaries, and the opening and closing of Company representative offices (3).

Information concerning the most important issues has been disclosed by the Company in press-releases[3] and in the form of communications on material facts/information, which may have substantial impact on the price of Company securities[4].

COMMITTEES OF THE BOARD OF DIRECTORS

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

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

The Committees consist of non-executive members of the Board of Directors of Rosneft and are headed by independent directors as of December 31, 2012.

Memberships of the Committees in the reporting year were determined by decisions of the Board of Directors of Rosneft in September 2011, June 2012 and November 2012.

ACTIVITY OF COMMITTEES OF THE BOARD OF DIRECTORS IN 2012

Audit Committee

Activities of the Audit Committee were based on six-month plans. The Committee met 9 times in the course of the year, including five meetings in the form of joint presence and four meetings in absentia.

In each quarter, the Audit Committee carried out preliminary reviews of the consolidated financial accounts of Rosneft prepared in accordance with US GAAP (later IFRS) and also reviewed audits or overviews of these accounts.

1. The procedure for calling BoD meetings and for decision-taking by voting in absentia is governed by the Regulation on the Board of Directors of Rosneft.
2. Date of meeting, number of minutes: 13.02.2012 № 12;28.02.2012 №13; 05.03.2012№14; 26.03.2012 №15; 30.03.2012 №16; 16.04.2012 №17; 24.04.2012 №18; 27.04.2012 №19; 05.05.2012 №20; 17.05.2012 №21; 23.05.2012 №22; 24.05.2012 №23; 30.05.2012 №24; 09.06.2012 №25; 20.06.2012 №1; 28.06.2012 №2; 02.07.2012 №3; 07.08.2012 №4; 15.08.2012 №5; 24.08.2012 №6; 31.08.2012 №7; 17.09.2012 №8; 28.09.2012 №9; 24.10.2012 №10; 01.11.2012 №11; 02.11.2012 №12; 15.11.2012 №13; 20.11.2012 №14; 27.11.2012 №15; 30.11.2012 №1; 11.12.2012 №2; 21.12.2012 №3; 24.12.2012 №4; 27.12.2012 №5; 28.12.2012 №6; 29.12.2012 №7.
3. www.rosneft.ru/news/pressrelease/
4. www.rosneft.ru/Investors/information/

The Committee approved the work plan of the Internal Audit Department for 2012 and a report on the results of its work in 2011.

The Committee also gave consideration in the reporting year to:

- resolution on the Internal Audit Department of OJSC Rosneft;
- setting the price for ordinary shares of OJSC Rosneft for purposes of a buy-back of shares by the Company in line with the norms of the Federal law on Joint-Stock Companies, in accordance with the Extraordinary Shareholders Meeting decision dated April 30, 2012 on major transactions approval;
- anti-corruption policy. The policy sets out main goals and tasks, and approaches for achieving them, as well as main risks associated with anti-corruption work and actions to manage such risk. The Committee recommended the Board of Directors to approve the document, which was prepared in compliance with the requirements of acting Russian law and applicable anti-corruption laws of Great Britain and any other country where the Company does business or is planning to do business.

	Audit Committee	HR and Remuneration Committee	Strategic Planning Committee
Membership on 31.12.2012	Hans-Joerg Rudloff (Chairman); Sergey Shishin; Matthias Warnig.	Sergey Shishin (Chairman); Matthias Warnig; Hans-Joerg Rudloff; Mikhail Kuzovlev. Members of the HR and Remuneration Committee are not entitled to participate in evaluation of their own performance and decisions about their remuneration.	Nikolay Laverov (Chairman); Alexander Nekipelov; Mikhail Kuzovlev; Dmitry Shugaev; Ilya Shcherbovich.
Committee Functions	• ensuring BoD participation in control over the Company's financial and operating activity; • assessment of candidates to be Rosneft's external auditor, assessment of the auditor's opinion, of the quality of auditing services provided and observance by the auditor of auditing independence; • assessment of the efficiency of procedures for internal control and risk management, and preparing proposals for their improvement; • preliminary review of the Company's financial accounts; • oversight of the completeness and accuracy of Rosneft's tax, financial and management accounting; • oversight of the efficiency of work by structural subdivisions that carry out internal control and audit functions.	• ensuring that highly qualified specialists are hired to work as Company managers and creating necessary incentives for them to work successfully; • participation in HR policy formation, design of principles and criteria for determining the scale of remuneration and compensation to members of the Board of Directors, Management Board, and senior executives of Rosneft; • development of long-term remuneration programmes for Company employees; • reviewing reports on sustainable development by the Company, prepared in compliance with international standards; • jointly with the personnel department: preliminary assessment of candidates to key positions, and also preliminary approval of the forms and amounts of remuneration, compensation and other payments to such persons.	• defining strategic goals and developing business priorities of Rosneft; • business planning, design of budgets and other business plans, and monitoring of their implementation; • review and preparation for the Board of Directors of recommendations on issues concerning strategic development and management of the Company; • monitoring and assessment of efficiency in the implementation of strategy, which has been approved by the Board of Directors; • assessment of the efficiency of Company interaction with investors; • analysis and provision of information to the Board of Directors concerning the main aspects of economic policy of the Russian Government in the Company's sphere of business; • analysis of proposals by structural subdivisions responsible for strategic planning concerning approval, amendment, and implementation of Company development strategy; • review of strategic investment projects.
The Committee ensures interaction between the BoD and the following groups	• external auditors; • the Internal Audit Commission; • structural sub-divisions carrying out internal control and audit functions; • executive bodies.	• structural sub-divisions responsible for personnel policy; • executive bodies.	• structural sub-divisions responsible for strategic planning; • executive bodies.

- company policy for combatting corporate fraud. The policy sets goals and tasks for the Company and defines main approaches for carrying them out, as well as main risks associated with combatting corporate fraud and actions to manage such risks. The Committee recommended the Board of Directors to approve a document prepared in compliance with the requirements of current Russian law and with applicable anti-corruption law of Great Britain and any other country, where the Company does business or intends to do business;

- reviewing the tender results among auditing organizations and giving an assessment of candidates to carry out audit of financial accounts of Rosneft and its subsidiaries, and of consolidated financial accounts in accordance with RAS. Recommendations were made on remuneration for the auditor's services in 2012.

- (on a preliminary basis jointly with the Audit Commission) reviewing: conclusions of the Internal Audit Commission for 2011 (based on checks of Company operations and finances; checks of annual accounts; and of the accuracy of data in the Annual Report); recommendations to the Annual General Meeting of Shareholders concerning the procedure for distribution of Company income, the amount of dividends to be paid for 2011, and the procedure for their payment; an assessment of the opinion of the Rosneft auditor concerning the Company's financial accounts for 2011 (including sub-divisions and subsidiaries);

- recommending the Board of Directors to approve a method for calculation of a cost reduction applicable to procurement of goods (works, services) per unit of production by at least 10% annually for three years in real terms in 2010 prices, compliant with instructions issued by the President and Government of the Russian Federation.

The Audit Committee also prepared recommendations to the Rosneft Board of Directors on the following issues: preliminary approval of the Rosneft Annual Report for 2011 and of financial accounts for 2011.

In the course of 2012, the Chairman of the Audit Committee held regular meetings with senior managers of Rosneft, with representatives of external auditors, and with the head of the Internal Audit Department.

HR AND REMUNERATION COMMITTEE

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

The Committee prepared recommendations to the Board of Directors for the decisions on the following issues:

- approval of performance indicators for senior managers of Rosneft in 2012;
- achievement of performance targets by senior managers of Rosneft and amounts of their annual remuneration for 2011;
- approval of individual performance indicators of CEOs and collective indicators for key companies in the Group for 2012;
- defining the Company position in setting of annual bonuses for CEOs of key companies in the Group;
- approving the Regulation on the Rosneft Council for Business Ethics;
- reviewing the Company's sustainability report for 2011.

The Committee also reviewed the early termination of authorities of the Company President and appointment of a new President and members of the Company's Management Board.

The Chairman of the HR and Remuneration Committee met regularly with senior Company managers and the head of the HR Department as part of work for creation of a new organizational structure, and as part of joint design of an annual incentive system for Company personnel, based on performance indicators. Use of the new system will enable greater objectivity in assessing levels of achievement.

STRATEGIC PLANNING COMMITTEE

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

The Committee prepared recommendations to the Board of Directors on the following issues:

- approval of the full list of Group companies and programme (plan) for liquidation of companies;
- review of the report on results of innovation work by Rosneft;
- placement of securities;
- on the expected results of the financinal and operational activities of Rosneft in first quarter 2012;
- review of the development concept for CJSC RN-Energoneft up to 2014;
- approval of the Company's Innovation Policy.

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

Management Bodies of Rosneft

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

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

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

THE MANAGEMENT BOARD OF ROSNEFT

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

The following changes were made during 2012 to membership of the Company's Management Board:

- the authorities of Pavel Fedorov as member of the Management Board were terminated ahead of schedule as from 24.04.2012 (minutes №18, dated 25.04.2012, of the Board of Directors meeting on 24.04.2012);

- the authorities of Larisa Kalanda as Deputy Chairman of the Management Board were terminated as from 24.05.2012 without termination of her authorities as a member of the Management Board and Eduard Khudainatov was appointed as a member of the Management Board (he was appointed Deputy Chairman of the Management Board as from 25.05.2012) (minutes №23, dated 28.05.2012, of the Board of Directors meeting on 24.05.2012);

- the number of members of the Management Board was increased from 5 to 11 as from 09.06.2012 and the following new members of the Management Board were appointed: Dmitry Avdeyev, Igor Pavlov, Didier Casimiro, Nail Mukhitov, Alexey Perepelkin (minutes №25, dated 13.06.2012, of the Board of Directors meeting on 09.06.2012);

- the authorities of Alexey Perepelkin as member of the Management Board were terminated ahead of schedule as of 30.11.2012 and Zeljko Runje was appointed to the Board (minutes №1, dated 03.12.2012, of the Board of Directors meeting on 30.11.2012);

- membership of the Management Board remained unchanged from December 1, 2012 to December 31, 2012.

THE PRESIDENT OF ROSNEFT

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

The authorities of the President of Rosneft, Eduard Khudainatov, were terminated ahead of schedule with effect from May 23, 2012 by a resolution of the Board of Directors of the Company on May 23, 2012 (minutes №22, 23.05.2012); Igor Sechin was appointed President of the Company for a period of three years with effect from May 24, 2012.

Members of the Management Board* of Rosneft

(as of December 31, 2012)

Igor Sechin

Chairman of the Management Board, President of Rosneft

Born in 1960. Graduated in 1984 from Leningrad State University. Ph.D in Economics. Awarded state and industry prizes.

From 2000 to 2004 – Deputy Head of the Administration of the President of the Russian Federation.
From 2004 to 2008 – Deputy Head of the Administration of the President of the Russian Federation, Aide to the President of the Russian Federation.
From 2008 to 2012 – Deputy Chairman of the Government of the Russian Federation.
From 2004 to 2011 – Chairman of the Board of Directors of Rosneft.
From May 2012 – President, Chairman of the Management Board of Rosneft.
From November 2012 – member of the Board of Directors of Rosneft.

ROSNEFT

RESPONSIBILITY
TO BE A LEADER

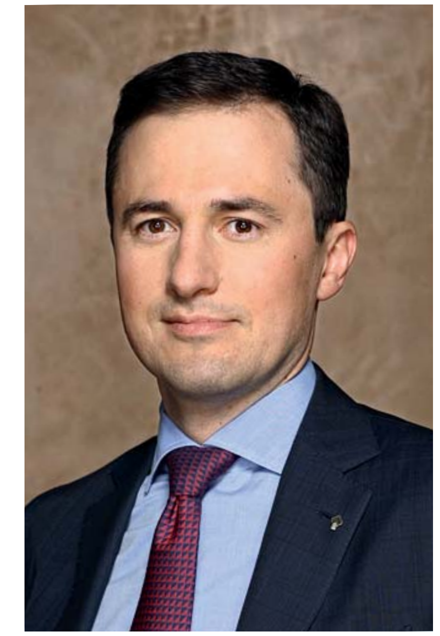
* In 2012 Nail Mukhitov was appointed as the member of the Management Board, Vice President – Head of the Security service of OJSC Rosneft

Eduard Khudainatov

Deputy Chairman of the Management Board

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

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



Dmitry Avdeyev

Vice President of Rosneft

Born in 1973. Graduated in 1995 from Lomonosov Moscow State University, specializing in Applied Mathematics.

From 2006 to 2008 – Executive Director of Investment Banking at Morgan Stanley Bank LLC.
From 2008 to 2010 – Chief Financial Director of CJSC Integra Management.
From 2010 to 2012 – Managing Director of Investment Banking at Morgan Stanley Bank LLC.
From June 2012 to March 2013– Vice President for Economics and Finance, member of the Management Board.

Gani Gilayev

Vice President of Rosneft

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

From 1975 – Drilling Assistant at Vostokneft production unit (part of the Sakhalinneft conglomerate).
From 1993 to 2006 – management positions at Sakhalinmorneftegaz, Rosneft-Termneft and RN-Krasnodarneftegaz.
From 2006 to 2008 – CEO of Udmurtneft.
From 2008 to 2010 – Director of the Oil & Gas Production Department of Rosneft.
From 2010 to 2011 – Acting Vice President of Rosneft with responsibility for production.
From November 2010 – member of the Management Board.
From September 2011 until December 2012 – Vice President of Rosneft with responsibility for exploration and production.

Larisa Kalanda

State Secretary,
Vice President of Rosneft

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

From 1997 — Deputy Head of the Legal Service of OJSC TNK and OJSC TNK-BP Management. From 2004 to 2006 — Vice President of OJSC TNK-BP Management, responsible for legal support.
From 2006 to 2012 — Vice President of Rosneft, responsible for legal support of Company business, and for designing and implementing legal policy to protect the assets and interests of the Company (of Company shareholders) and of subsidiary companies (affiliates). Also responsible for corporate governance since February 2011.
From 2009 until May 2012 — Deputy Chairman of the Management Board of Rosneft.
From May 2012 — member of the Management Board.
From December 2012 — State Secretary, Vice President of Rosneft.

Didier Casimiro

Vice President of Rosneft

Born in 1966. Graduated with distinction in 1991 from the University of Ghent (Belgium), and in 1992 from the University of Ghent (Belgium)/ University of Lisbon (Portugal). Fluent in seven languages.

From 1996 — Senior positions at BP.
From 2005 to 2012 — Senior positions at TNK-BP.
From May 2012 — Vice President of Rosneft for Commerce and Logistics
From June 2012 — member of the Management Board of Rosneft.

Petr Lazarev

Financial Director of Rosneft

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

From 1990 to 1993 — occupied various posts at the USSR Ministry of Finance and the Russian Ministry of Economics and Finance.
From 1993 to 1995 — occupied various posts at the Securities Department of the International Joint-Stock Bank of Savings Banks.
From 1995 to 1996 — member of the Executive Board, Head of the Securities Department at the International Joint-Stock Bank of Savings Banks.
From 1996 to 1999 — occupied senior positions at ACB Center, CJSC Finco-Invest Finance Company, and Russian Industrial Bank.
From 2000 to 2004 — Head of Promissory Note and Investment Programmes in the Finance Department of OJSC Rosneft, Deputy Director, Head of the Securities Section of the Finance Department.
From June 2004 to 2012 — Head of Treasury at Rosneft.
From 2011 — member of the Management Board of Rosneft.
From February 2012 — Financial Director of Rosneft.

Igor Pavlov

Vice President of Rosneft

Born in 1967. Graduated in 1995 from Angarsk Technology Institute, in 2001 from Irkutsk State Academy of Economics, in 2011 from the Moscow State Institute of International Relations attached to the Ministry of Internal Affairs of Russia.

From 1989 to 2008 — series of promotions at OJSC Angarsk Petrochemical Company (from equipment operator to Head of the Lubricants Plant).
From 2008 to 2012 — CEO of OJSC Achinsk Refinery (Eastern Oil Company).
In March 2012 — appointed as Vice President of Rosneft for Refining.
In June 2012 — appointed as the member of the Management Board of Rosneft.

Zeljko Runje

Vice President of Rosneft

Born in 1954. Graduated with distinction from Alaska State University

From 1979 to 1993 — Management positions in drilling and production projects in the Arctic region of Alaska.
From 1993 to 1997 — Worked in oil projects in Yemen, Algeria, Australia, Thailand, Japan, Angola, Azerbaijan and Turkmenistan.
From 1997 to October 2012 — Senior posts in the Sakhalin-1 project, Vice President of ExxonMobil Russia Inc.
From October 2012 — Vice President of Rosneft for Offshore Projects.
In November 2012 — appointed as the member of the Management Board of Rosneft.

Remuneration of Members of the Board of Directors and Management

THE PROCEDURE FOR SETTING LEVELS OF REMUNERATION AND FOR PAYING SUCH REMUNERATION TO MEMBERS OF THE BOARD OF DIRECTORS AND TO MANAGEMENT COMPLIES WITH INTERNATIONAL PRACTICES AND THE PROVISIONS OF RUSSIAN LAW

Remuneration of Members of the Board of Directors

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

CRITERIA FOR LEVELS OF REMUNERATION

Criteria for setting levels of remuneration to members of the Board of Directors are established by the Regulation on the procedure for calculation and payment of remuneration to members of the Board of Directors and compensation of their expenses, which was approved by the Rosneft Board of Directors on April 28, 2009 (minutes №4), with amendments approved by the Board of Directors on April 27, 2012 (minutes №19).

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

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

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

- actual participation in work as Chairman of the Board of Directors and as a member of the Board of Directors;
- actual participation in work of the Board of Directors Committee as the Chairman and as a member of the Committee.

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

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

Based on a recommendation of the Board of Directors of Rosneft dated April 27, 2012 (minutes №19, 02.05.2012) the General Meeting of Shareholders on June 20, 2012 resolved to approve remuneration to the following members of the Board of Directors for the period of execution of their duties by transfer of the following amounts of Rosneft shares:

- Alexander Nekipelov — 28,944 shares (for the periods from 10.06.2011 to 13.09.2011 and from 13.09.2011 to 20.06.2012);
- Andrey Kostin — 26,925 shares (for the periods from 10.06.2011 to 13.09.2011 and from 13.09.2011 to 20.06.2012);
- Hans-Joerg Rudloff — 26,925 shares (for the periods from 10.06.2011 to 13.09.2011 and from 13.09.2011 to 20.06.2012);
- Sergey Shishin — 24,906 shares (for the periods from 10.06.2011 to 13.09.2011 and from 13.09.2011 to 20.06.2012);
- Nikolay Tokarev — 22,213 shares (for the periods from 10.06.2011 to 13.09.2011 and from 13.09.2011 to 20.06.2012);
- Dmitry Shugaev — 22,213 shares (for the periods from 10.06.2011 to 13.09.2011 and from 13.09.2011 to 20.06.2012);
- Vladimir Bogdanov — 17,408 shares (for the periods from 10.06.2011 to 13.09.2011 and from 13.09.2011 to 20.06.2012);
- Matthias Warnig — 16,260 shares (for the period from 13.09.2011 to 20.06.2012).

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

185.5

THOUSANDS SHARES

transferred as remuneration to members of the Board of Directors

Remuneration of Management

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

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

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

An annual bonus is paid to managers only after approval by the Board of Directors of a relevant decision based on Company performance in the reporting year. The bonus consists of two parts: a part referring to the manager's individual results and a part referring to team results (in the manager's sphere of business and for the Company as a whole).The annual bonus of the Company President is established depending on achievement by him or her of individual performance indicators, which correspond to key indicators of Company performance.

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

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

Headquarters of OJSC Rosneft

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

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

A bonus may be paid to senior managers and to other personnel for outstanding contributions to Company development during the reporting period.

Internal Control and Audit

ROSNEFT HAS A SYSTEM OF SUPERVISORY CONTROL OVER ITS BUSINESS, CONSISTING OF THE AUDIT COMMISSION, THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS, COMPANY GOVERNING BODIES, COMPANY MANAGEMENT, THE INTERNAL AUDIT DEPARTMENT

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

Audit Commission

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

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

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

The following tasks fall within the scope of the Audit Commission:

- review of the Company's financial documents, financial accounts, reports by inventory commissions, and comparison of these documents with primary book-keeping data;
- analysis of accuracy and completeness of financial, tax, management and statistical accounting;
- audit of correct execution of the Company's operating and financial planning, as approved by the Board of Directors;
- audit of correct execution of the procedure, approved by the General Meeting of Shareholders, for distribution of Company income for the financial year;
- analysis of the financial position of the Company, its solvency, asset liquidity, gearing ratio, net assets, and charter capital, identification of ways of improving the financial position of the Company, and preparing recommendations to management bodies;

- audit of timeliness and correctness of payments to suppliers of goods and services, of payments to the state budget and to non-budget funds, accrual and payment of dividends and bond interest, and settlement of other liabilities;
- confirmation of the accuracy of data in the Company's Annual Report(s), in annual financial accounts, and in accounting documentation prepared for tax and statistics agencies and for executive government bodies;
- audit of competence of the President to make agreements in the Company's name;
- audit of competence in decisions taken by the Board of Directors, the President, Management Board and the Liquidation Commission, and their compliance with the Company Charter and decisions by the General Meeting of Shareholders;
- analysis of decisions by the General Meeting of Shareholders to determine their compliance with law and with the Company Charter.

In accordance with its approved work schedule for 2012-2013, the Audit Commission carried out two audits: on implementation of refinery modernization program in the frames of obligation execution, prescribed by the Agreement, and on audit (examination) of Company financial and operational activities; prepared reports on audit results, accounts for the year, and also concerning the accuracy of information in the Annual Report.

MEMBERSHIP OF THE AUDIT COMMISSION (AS OF DECEMBER 31, 2012)

The following membership of the Audit Commission was elected by resolution of the General Meeting of Shareholders of Rosneft on June 20, 2012:

Georgy Nozadze
Chairman of the Audit Commission
Year of birth: 1979
Education: Higher
Organization: Administration of the President of the Russian Federation
Official post: Referent of the Expert Directorate of the President of the Russian Federation

Elena Litvina
Year of birth: 1987
Education: Higher

Sergey Pakhomov
Year of birth: 1983
Education: Higher
Organization: Chief Control Directorate for the City of Moscow
Official post: Deputy Head

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

Alexander Yugov
Year of birth: 1981
Education: Higher professional
Organization: Federal Agency for State Property Management
Official post: Head of Directorate

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

Audit Committee of the Board of Directors

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

In addition to its principal functions, set out in the table on page 115 of the present Report, the Committee also carries out preliminary review and preparation of draft resolutions of the Board of Directors on the following matters:

- preliminary approval of the Company Annual Report;
- setting the level of remuneration for the services of the external auditor;
- recommendations to the General Meeting of Shareholders concerning distribution of profit and loss from business in the financial year, and the amount of dividends and the procedure for their payment;
- coordination of internal procedures for risk management, analysis of their efficiency, ensuring their observance;
- approval of the Regulation on internal control over Company business including approval of the Regulation on internal control, document audits and reviews;
- approval of major transactions in the instances specified by the Federal Law on Joint-stock Companies and of non-standard operations and transactions (transactions not foreseen in Company business plans), which entail or may entail adjustments to the Company business plan;
- a decision on audit of Company business by the Audit Commission;

Internal Audit Department

The Internal Audit Department was set up in 2011 and combines Control and Audit Division, the Directorate for Internal Audit and Directorate for Internal Audit Methodology.

The Department reports directly to the Company President and accountable to the Board of Directors through the Board's Audit Committee.

The main tasks of the Internal Audit Department are:

- assessing efficiency of the internal control system of the Company at the corporate level and the level of business processes, and consultation with Company management regarding the efficiency of the system;
- control over the efficiency of Company investment projects;
- conduct of reviews of Company business and of the business of subsidiaries and equity affiliates;
- assessing risk management efficiency and design of recommendations for improving risk management processes;
- assessing the efficiency of management processes at the Company and its subsidiaries (equity affiliates) and designing recommendations for their improvement.

The Department collaborates with Company management bodies and with the Audit Commission and external auditors of the Company, and with audit commissions (internal auditors) and external auditors of subsidiaries (equity affiliates) of the Company.

The results of internal audit are presented for review by the Company President, who is also the Chairman of the Management Board.

The Internal Audit Department works with the heads of structural sub-divisions on ways of dealing with violations and failures, which have been identified, and on design of measures to avoid risks.

The Director of the Internal Audit Department reports periodically to the Audit Committee of the Board of Directors and the Company President concerning the objectives, authorities and duties of internal auditors, and also concerning the schedule for audit, supervision and control work.

Company Auditors

CJSC ACG RBS

By decision of the General Meeting of Company Shareholders, Closed Joint-stock Company Auditing and Consulting Group Business Systems Development (CJSC ACG RBS) was appointed to carry out independent audit of book-keeping and financial accounts of Rosneft for 2012, prepared in accordance with Russian Accounting Standards.

5

members of the Audit Commission as of December 31, 2012.

Procedure for selection of the external auditor

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

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

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

Payment for the services of the external auditor

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

Based on the recommendation of the BoD Audit Committee, the Board of Directors set the price for audit by CJSC ACG RBS of Rosneft annual financial accounts to Russian Accounting Standards for 2011 at RUB 2,823,150 including VAT.

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

LLC ERNST & YOUNG

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

Procedure for selection of the external auditor

The auditor is selected through a closed tender, carried out by the Company among the Big 4[1] auditing firms . The selection is made on the basis of a thorough analysis of tendering proposals in order to establish their suitability for Company needs.

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

Based on the analysis of proposals, the BoD Audit Committee decided to appoint the company Ernst & Young LLC as the auditor of Rosneft's consolidated annual accounts for 2012 prepared in accordance with international accounting standards.

Payment for services of the external auditor

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

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

Share Capital

THE AUTHORIZED CAPITAL OF ROSNEFT AS OF DECEMBER 31, 2012, WAS RUB 105,981,778.17 AND WAS DIVIDED INTO 10,598,177,817 ORDINARY SHARES WITH PAR VALUE OF RUB 0.01 EACH

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

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

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

No issues or placement of additional shares of Rosneft were carried out in 2012.

The number of shareholders registered in the shareholder register of Rosneft as of December 31, 2012 (without disclosure of information by nominee shareholders) was 30,966 (including 12 nominee shareholders). The number of nominee shareholders decreased by three in comparison with December 31, 2011.

35%

price growth for Company GDRs in 2012

Rosneft had no preferred shares as of December 31, 2012.

In 2007-2012 the Russian Government owned 75.16 % of shares in Rosneft through OJSC ROSNEFTEGAZ, which is in 100 % federal ownership. The stake in OJSC Rosneft Oil Company owned directly by the Russian Government (in the person of the Federal Agency for State Property Management) was 0.000000009 %. The Russian Federation did not have a special right to participation in management of Rosneft (a 'golden share').

Rosneft updated information each month during 2012 on its corporate Internet site concerning shareholders who own more than 1 % of its Charter capital. Rosneft's management has no information about any shareholders with equity stakes exceeding 1 % (shareholders of Rosneft with equity stakes exceeding 1 % of total outstanding shares), other than those listed above.

Shareholders of Rosneft owning more than 1 % of share capital

Shareholders	December 31, 2011		December 31, 2012	
	Number of shares	Stake in share capital, %	Number of shares	Stake in share capital, %
OJSC ROSNEFTEGAZ*	7,965,816,383	75.16	7,965,816,383	75.16
LLC RN-Razvitie**	1,010,158,003	9.53	1,038,671,642	9.80
OJSC Sberbank of Russia (nominee)	1,343,007,712	12.67	1,079,159,409	10.18
Other legal entities owning more than 1 % of shares	229,595,839	2.17	139,741,822	1.32
The Russian Federation in the person of the Federal Agency for State Property Management	1	less than 0.01	1	less than 0.01
Individuals	49,599,879	0.47	53,010,405	0.50
Treasury shares on the balance sheet of Rosneft	0	0.00	321,778,155***	3.04
TOTAL	**10,598,177,817**	**100.00**	**10,598,177,817**	**100.00**

* OJSC ROSNEFTEGAZ is in 100 % federal ownership. The stake in OJSC Rosneft Oil Company owned directly by the Russian Government (in the person of the Federal Agency for State Property Management) is 0.000000009 % (one share).
** 100 % in LLC RN-Razvitie is held by LLC RN-Trade. 99.9999 % in LLC RN-Trade is held by OJSC Rosneft and 0.0001 % is held by LLC Neft-Aktiv, which is a 100 % subsidiary of OJSC Rosneft. Consequently OJSC Rosneft indirectly holds a 100 % stake in LLC RN-Razvitie. Rosneft shares owned by LLC RN-Razvitie are reflected as treasury shares in the Company's consolidated financial statements under IFRS.
*** Shares purchased at the request of shareholders in 2012 in accordance with Articles 75 and 76 of the Federal Law on Joint-Stock Companies.

Rosneft's shares are traded on an organized securities market in Russia: CJSC MICEX Stock Exchange (B List). The rights of a shareholder (owner of ordinary shares), including voting rights on each voting share of Rosneft, are specified by Article 5.8 of the Company Charter.

Order № 06-1380/pz-i of the Federal Service for Financial Markets dated June 20, 2006, permits placement and trading of 2,140,000,000 ordinary shares of Rosneft outside the Russian Federation.

In July 2006, Rosneft carried out listing of Global Depositary Receipts (GDRs) on the London Stock Exchange. The issue of GDRs, which certify rights in respect of ordinary shares of Rosneft in accordance with foreign law, was carried out by J.P. Morgan Europe Limited. One Global Depositary Receipt is equivalent to one ordinary share of Rosneft. As of December 31, 2012, GDRs were issued for 978 mln ordinary shares, representing 9.2 % of total outstanding shares.

A list of the rights of owners of common shares of OJSC Rosneft Oil Company is presented in Paragraph 5.8 of the Company Charter, which is posted on the Rosneft website (www.rosneft.ru).

Transactions by members of the Board of Directors and Management Board with securities of Rosneft

The Company's Regulation on insider information obliges members of the Board of Directors, the Management Board, and the Company President to disclose information on any transactions which they carry out with Rosneft securities.

Transactions were carried out with Company securities in 2012 by members of the Board of Directors and Management Board of Rosneft. Details of such transactions were presented to the Company in compliance with the procedure and time limits stipulated by internal documents and were disclosed on the securities market in compliance with acting legislation.

Information on ownership of Rosneft shares by members of the Board of Directors and Management Board of the Company

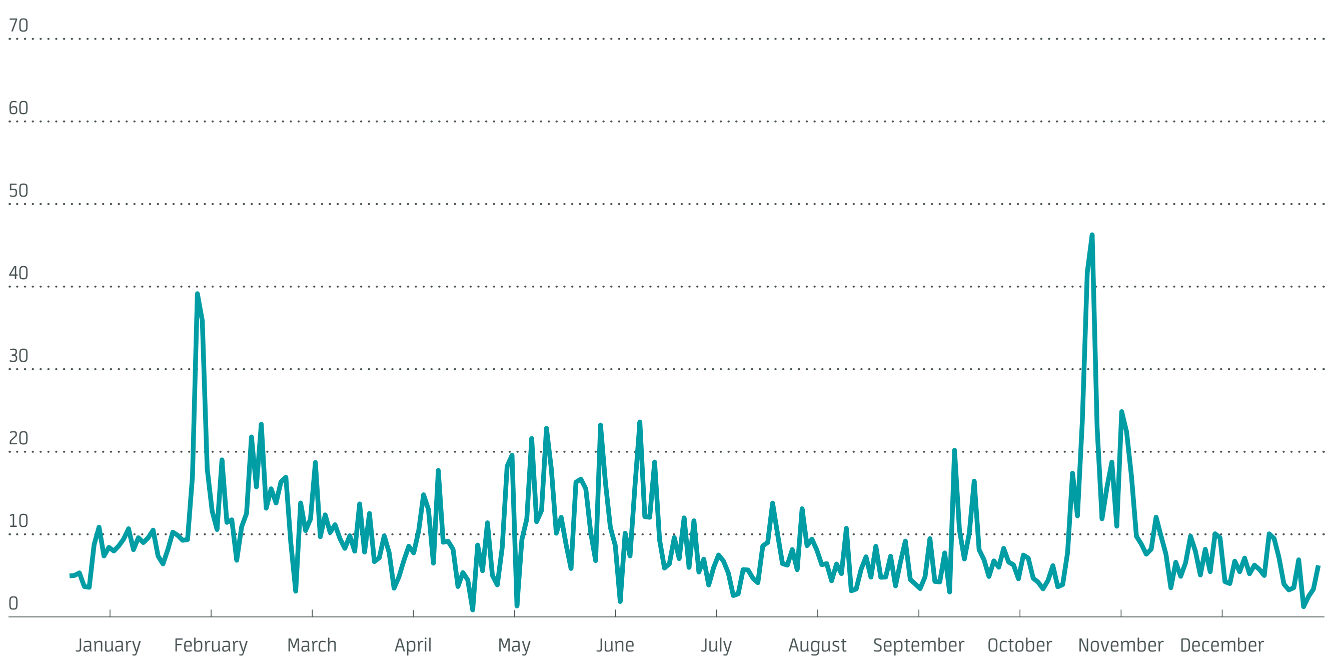
Members of the Board of Directors and Management Board	Number of common shares (as of December 31, 2012)	Stake in share capital, %
Alexander Nekipelov	28,944	0.0003 %
Nikolay Laverov	-	-
Hans-Joerg Rudloff	511,876 (shares and GDRs)	0.0048 %
Sergey Shishin	24,906	0.0002 %
Mikhail Kuzovlev	-	-
Ilya Shcherbovich	-	-
Dmitry Shugaev	22,213	0.0002 %
Matthias Warnig	16,260	0.0002 %
Igor Sechin	-	-
Eduard Khudainatov	6,414,330	0.0605 %
Dmitry Avdeyev	393,770	0.0037 %
Didier Casimiro	-	-
Gani Gilaev	337,832	0.0032 %
Larisa Kalanda	1,250,958	0.0118 %
Petr Lazarev	111,575	0.0011 %
Nail Mukhitov	-	-
Igor Pavlov	295	0.000003 %
Zeljko Runje	-	-

Members of the Board of Directors and Management Board	Transaction date	Number of shares/ GDRs bought or sold	Transaction type
Alexander Nekipelov	August 2012	25,852	Disposal
Eduard Khudainatov	June 2012	844,270	Purchase
Dmitry Avdeyev	August 2012	393,770	Purchase
Gani Gilaev	June 2012	214,040	Purchase
Larisa Kalanda	June 2012	376,790	Purchase
Petr Lazarev	June 2012	40,680	Purchase

ROSNEFT SHARE QUOTES AND TRADE VOLUMES IN 2012 AT MICEX

Share quotes (RUB)

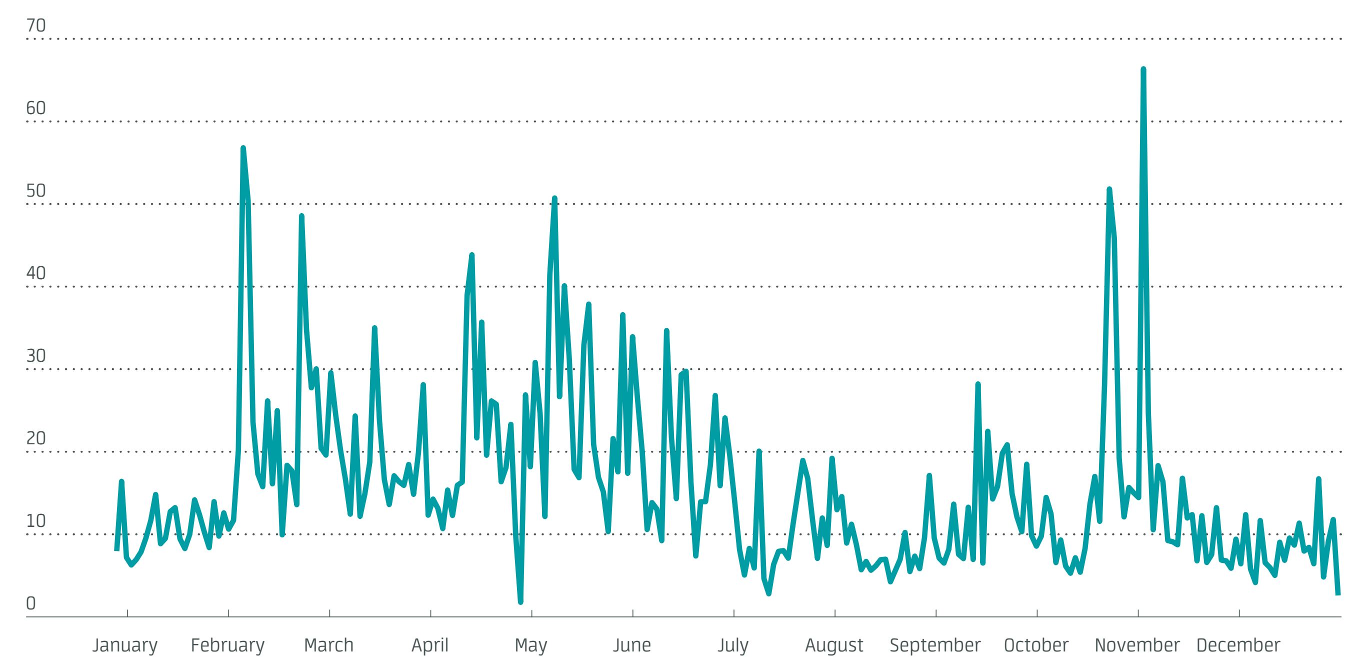
Trade volumes (mln shares)



ROSNEFT GDR QUOTES AND TRADE VOLUMES IN 2012 AT LSE

GDR quotes (USD)

Trade volumes (mln GRDs)



Dividend Policy

ROSNEFT'S DIVIDEND POLICY STRIKES A BALANCE BETWEEN SHAREHOLDERS' INTERESTS AND THE COMPANY'S BUSINESS NEEDS, AND IS INTENDED TO IMPROVE ROSNEFT'S INVESTMENT ATTRACTIVENESS AND SHAREHOLDER VALUE

On May 17, 2006 Rosneft's Board of Directors voted to approve the Regulation on dividend policy[1], which was developed in accordance with Russian legislation, the Company Charter, and the Code of Corporate Conduct.

Rosneft's dividend policy strikes a balance between shareholders' interests and the Company's business needs, and is intended to improve Rosneft's investment attractiveness and shareholder value. The Company strictly observes the rights, and does all it can to increase the returns of its shareholders.

On June 10, 2011, the General Meeting of Shareholders approved amendments to the Rosneft Charter, reducing the period for payment of dividends to 60 days (from the date of the decision to pay dividends). It was also established that payment of dividends on shares of each category is carried out simultaneously to all holders of shares in that category.

The decision to pay dividends (and the amount of dividends and the form of payment) is taken by the General Meeting of Shareholders of Rosneft, based on recommendations of the Board of Directors. As stated in the Regulation on Dividend Policy, the Board is guided in its decisions on dividend amounts by the level of net income, as reflected in the non-consolidated financial accounts of Rosneft to Russian Accounting Standards. Recommendations by the Board of Directors on the amount of dividends to be paid are determined by the Company's financial results for the year, but are usually equal to at least 10% of net income.

On April 27, 2012 the Board of Directors recommended the General Meeting of Shareholders to allocate 15.4% of non-consolidated net income of Rosneft in 2011, or RUB 36,563.7 mln, for the payment of dividends. The recommended payment was RUB 3.45 per ordinary share, exceeding the level in the previous year by 25%. On June 20, 2012 the Annual General Meeting of Shareholders accepted the Board recommendation for payment of dividends. A total of RUB 36,530.8 mln were paid to shareholders.

Rosneft pursues a strategy of steady increase in the amount of its dividend payments. In determining the amount of annual dividends, the Board of Directors takes account of the dividend policy of other leading oil & gas companies. A number of other factors may also have an impact on the size of dividend payments, including: the Company's business prospects, its financial situation and financing needs, and the overall macroeconomic situation and market environment, as well as other factors, including aspects connected with tax and legislation.

1. A resolution by the Company's Board of Directors on March 3, 2011 supplemented Rosneft's Dividend Policy with a commitment to try to achieve year-on-year growth of dividends proportional to growth of net income, the Company's financial situation and its investment projects.

On September 17, 2012 the Board of Directors recommended the General Meeting of Shareholders to allocate a further RUB 41,927.7 mln for the payment of dividends on business results in 2011, representing RUB 4.08 per ordinary share. An Extraordinary Meeting of Shareholders on November 30, 2012 decided to pay dividends in accordance with the recommendations of the Board of Directors.

As a result the total amount of net income allocated for payment of dividends on business results in 2011 was RUB 78,491.4 mln (25 % of IFRS net income), and the total dividend per ordinary share was RUB 7.53. A sum of RUB 7.53 was paid to the Russian Federal Budget and RUB 59,983 mln were paid to OJSC ROSNEFTEGAZ (in 100 % federal ownership).

Rosneft had no dividend payments outstanding to the Federal Budget and to OJSC ROSNEFTEGAZ at the end of 2012.

Dividends were paid to all persons recorded in the Rosneft register of shareholders, except for persons, information on whom was not provided in full by a nominee shareholder, and persons who had not informed the register holder in a timely fashion of a change in the data recorded on their registration form.

78.4

RUB BLN
paid as dividends in 2012

Rosneft has carried out the instruction of the President of the Russian Federation to increase dividend payments for 2011 to 25 % of net income to international accounting standards.

On April 30, 2013 the Board of Directors of Rosneft recommended the General Meeting of Shareholders to approve dividends for 2012 at a level of RUB 8.05 per share, which is 6.9 % higher than the amount approved for 2011. Total recommended dividends for 2012 are RUB 85,315 mln. The ratio of dividends to non-consolidated net income to Russian accounting standards for 2012 is 28.2 %. The raito of dividends to consolidated IFRS net income is 25 %.

Dividend history of Rosneft

	Dividends per share[1], RUB	Total dividends announced, RUB mln	Total dividends paid, RUB mln	Payout ratio under RAS, %
1999	0.0221	200	200	3.4 %
2000	0.0887	800	800	5.3 %
2001	0.1219	1,100	1,100	11.0 %
2002	0.1663	1,500	1,500	16.8 %
2003	0.1650	1,500	1,500	8.1 %
2004	0.1931	1,775	1,775	10.0 %
DIVIDENDS PAID OUT AFTER THE IPO, WHICH CLOSED ON JULY 18, 2006				
2005	1.25	11,335	11,336	20.0 %
2006	1.33	14,096	14,079	13.3 %[2]
2007	1.60	16,957	16,936	10.5 %
2008	1.92	20,349	20,326	14.4 %
2009	2.30	24,376	24,341	11.7 %
2010	2.76	29,251	29,218	15.2 %
2011	3.45	36,564	36,531	33.1 %
	4.08	41,928	41,881	
2012[3]	8.05	85,315		28.2 %

1. The dividend amounts, which are shown, take account of the 1:100 share split carried out in September 2005
2. Net income for 2006 corrected for non-recurring items.
3. Dividends recommended by the Board of Directors for approval by the Annual General Meeting of Shareholders in June 2013

Information Disclosure

INFORMATION DISCLOSURE POLICY IS BASED ON THE PRINCIPLES OF REGULARITY, TIMELINESS, ACCESSIBILITY, ACCURACY, AND COMPLETENESS

Rosneft policy on information disclosure is governed by the requirements of the Federal Law on the Securities Market, the Federal Law on Joint-Stock Companies, and the Regulation on Information Disclosure by Issuers of Securities, as approved by the Order No.11-46/pz-n of the Federal Financial Markets Service, dated October 4, 2011 ('the Regulation on Information Disclosure'). Company policy in this sphere is also guided by the requirements of stock exchanges where the Company's shares are listed, Rosneft's own Regulation on Information Policy, and other requirements and regulatory acts.

Rosneft's information disclosure policy is based on the principles of regularity, timeliness, accessibility, accuracy, and completeness. The Company provides timely and full disclosure of information to interested parties on all aspects of its business (except for instances where the information represents a commercial secret).

The main disclosure mechanism is the Rosneft website, which provides information on material facts and events, management structure, and the Company's business results. The Rosneft website presents the Charter and other internal documents, annual reports and sustainable development reports, quarterly reports to Russian accounting standards and quarterly reports to IFRS standards as well as management discussion and analysis (MD&A), the Analyst Data Book, presentations, press releases, and information on affiliated entities and other information, which may influence prices for Company shares. Rosneft's corporate website is updated regularly, in accordance with the Company's internal regulations.

In compliance with the requirements of the Regulation on information disclosure, the Company also uses the Internet page provided by CJSC Interfax (a distributor of securities market information) for the publication of information in the Internet.

The Company also provides information in the form of brochures and booklets, and through regular meetings, conference calls and press conferences with interested parties. At the request of shareholders, the Company provides copies of main internal documents, documentation connected with holding of the General Meeting of Shareholders, lists of affiliated entities and other documents in accordance with the standards set out in the Federal Law on Joint-Stock Companies.

Enhancing information transparency

Information transparency is among the chief corporate governance principles at Rosneft. The latest study by the international rating agency Standard & Poor's found Rosneft to be the leader among Russian companies in the sphere of information transparency. During 2012 the Company continued to work intensively to raise levels of information transparency and to ensure an efficient system of shareholder and investor relations, as evidenced by the following facts:

- the Company took first place in the nomination 'Best annual report in the oil & gas sector' and third place in the nomination 'Best design and production of an annual report' at the 15th Annual Reports Competition held in 2012 by the Joint RTS-MICEX Stock Exchange;
- Rosneft was a prize winner in the competition 'Best Annual Reports in 2011', organized by Expert RA rating agency, in the category 'Best level of information disclosure on corporate governance in an annual report' and was short-listed in the category 'Best design and production of an annual report';
- Rosneft won a prize for 'Best work with investors by the CFO of a large-cap company' in the competition held annually by IR Magazine among Russian companies.

The Company devotes particular attention to raising the efficiency of its interactions with shareholders and investors as part of its efforts to further increase information transparency and openness. Telephone numbers and electronic mail boxes are constantly available for enquires by shareholders and investors. A call center (including a hot line) has also been set up for shareholders.

In 2012, as part of its interaction with institutional investors and analysts, Rosneft held regular presentations of its financial results under IFRS, as well as meetings in Russia and main international financial centers, and teleconferences.

Transparency of financial information is another important element of corporate governance. On February 1, 2013 Rosneft was the first large international oil & gas company to publish audited consolidated financial accounts under IFRS for 2012.

As part of its interaction with interested parties and in compliance with the Company's sustainable development policy, Rosneft has held round tables every year since 2007 in regions where it has operations (15 round tables were held in the course of 2012). The themes of the round tables are as follows:

- Socio-economic cooperation;
- Cooperation with respect to the environment and protection of the environment;
- Cooperation in the sphere of health & safety;
- Cooperation in the sphere of charity and sponsorship.

15

round tables held in regions of presence during 2012

In addition to round tables, held by the Company on a voluntary basis, Rosneft subsidiaries comply with legislation by holding obligatory social and environmental hearings regarding new projects and projects associated with the modernization and restructuring of production capacities.

Rosneft pays special attention to improving information disclosure in preparation of its Sustainable Development Report. In 2012 the Report was prepared at level A+ (the highest level for information disclosure under the international GRI sustainability reporting guidelines) and passed an independent audit by Ernst & Young as well as public affirmation by a council of experts.

Appendix 1

Consolidated Financial Statements of OJSC Rosneft

Independent auditor’s report

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF ROSNEFT OIL COMPANY

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Rosneft Oil Company and its subsidiaries 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 2012, and a summary of significant accounting policies and other explanatory information.

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.

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 of 2012 in accordance with International Financial Reporting Standards.

Roman Romanenko
Partner, Ernst & Young LLC

February 1, 2013

Consolidated Balance Sheet

Organization: Rosneft Oil Company
Units: in billions 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

Consolidated Statement of Comprehensive Income

Organization: Rosneft Oil Company
Units: in billions of Russian rubles,
except earnings per share data, and share amounts

	Notes	2012	2011 (reclassified)	2010 (reclassified)
		For the years ended December 31,		
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

Consolidated Statement of Changes in Shareholders' Equity

Organization: Rosneft Oil Company
Units: in billions Russian rubles, except share amounts

	Number of shares (millions)	Share capital	Additional paid-in capital	Treasury shares	Other reserves	Retained earnings	Total share-holders' equity	Non-con-trolling 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**

Consolidated Statement of Cash Flows

Organization: Rosneft Oil Company
Units: 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**
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)

Consolidated Statement of Cash Flows

Organization: Rosneft Oil Company
Units: in billions of Russian rubles

		For the years ended December 31,		
	Notes	2012	2011	2010
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**

Notes to the Consolidated Financial Statements December 31, 2012

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).

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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 as of December 31			Liabilities as of December 31		
	2012	2011	2010	2012	2011	2010
USD	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 USD and Euro.

	USD - 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.

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, basis points	Effect on income before income tax, 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.

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.

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

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

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Other expenses					(48)
Foreign exchange differences					(22)
Income before income tax					**405**
Income tax					(86)
Net income					**319**

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)**

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	Noncontrolling 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	–

	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	Noncontrol-ling interest in net income	Non-controlling interest (%)	Non-control-ling interest in net assets	Non-controlling interest in net income
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**

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

Type of security	2012			2011		
	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.

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

Type of security	2012			2011		
	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	–	–	–

Type of security	2012			2011		
	Balance	Interest rate p.a.	Date of maturity	Balance	Interest rate p.a.	Date of maturity
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**

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)

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
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**

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**

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.

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.

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 December 31	
			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 Verkhnechonsk-neftegaz	Taihu Ltd	Ruhr Oel GmbH	NGK ITERA LLC	Taas-Yuryakh Neftegazodobycha 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 Verkhnechonsk-neftegaz	Taihu Ltd	Ruhr Oel GmbH	NGK ITERA LLC	Taas-Yuryakh Neftegazodobycha 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**	**–**	**–**

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 Verkhnechonskneftegaz	Taihu Ltd	Ruhr Oel GmbH
Current assets	11	2	11	8
Non-current assets	52	17	42	16
Total assets	63	19	53	24

The Company's share in net assets	OJSC Tomskneft VNK	OJSC Verkhne-chonsknefte-gaz	Taihu Ltd	Ruhr Oel GmbH
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	2011
OJSC Kubanenergo	**–**	**2**

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%.

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.

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	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	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**

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 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.

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 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.

Finance lease

	As of December 31,	
	2012	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	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.

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)**

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 as of December 31		Fair value 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

	Carrying value as of December 31		Fair value as of December 31	
	2012	2011	2012	2011
Loans issued:				
Bank deposits	–	52	–	52
Loans issued to associates	12	17	12	17
Other	1	1	1	1

	Carrying value as of December 31		Fair value 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.

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	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

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	2011
ASSETS		
Accounts receivable, net of allowance	–	1
Prepayments and other current assets	–	–
Financial assets	–	6
	–	7

	December 31	
	2012	2011
LIABILITIES		
Accounts payable and accrued liabilities	7	1
Loans and borrowings	5	7
	12	8

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	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)

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		2011	
			Preferred and common shares, %	Voting shares, %	Preferred and common shares, %	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
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

Name	Country of incorporation	Core activity	2012		2011	
			Preferred and common shares, %	Voting shares, %	Preferred and common shares, %	Voting shares, %
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
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

Name	Country of incorporation	Core activity	2012		2011	
			Preferred and common shares, %	Voting shares, %	Preferred and common shares, %	Voting shares, %
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.

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.

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.

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.

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**

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).

	2012, mln boe	2011, mln boe	2010, 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.

	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

	2012	2011	2010
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

Appendix 2

Main Factors of Risk

Main Factors of Risk

Type of risk	Description and ways of minimizing the risk
INDUSTRY RISKS	
Prices for crude oil, gas and petroleum products	Prices for crude oil, gas and petroleum products are the main factor determining financial and, indirectly, operational indicators of Rosneft's business. Prices for Company outputs depend mainly on world market conditions, and the balance of supply and demand in various Russian regions. Ability of the Company to control prices for its outputs is very limited. Fall in prices for crude oil, gas or petroleum products has negative impact on the business results and financial position of Rosneft. Decline of prices may lead to reduction in volumes of crude oil and gas, which the Company can produce profitably, and this may in turn lead to reduction in the volume of reserves, which can be efficiently developed, and to lower economic efficiency of prospecting and exploration programs. Rosneft has sufficient opportunities for reallocating goods flows in case of significant price difference between domestic and international markets. The Company is also able to reduce capital and operating expenses quickly in order to meet its commitments in case of a sharp decline in prices for crude oil, gas and petroleum products.
Dependence on monopolistic providers of services for the transportation of crude oil, gas and petroleum products and on their tariffs	Rosneft depends on monopolistic providers for transportation of oil and oil products, and has no control over the infrastructure which they use and the charges which they levy. Rosneft transports the greater part of the crude oil, which it produces, as well as some types of light petroleum products through the system of trunk pipelines owned and operated by OJSC Transneft, which is a state-owned natural monopoly. No serious failures of the Transneft pipeline system have occurred to date and Rosneft has not incurred any serious losses due to breakdown or leakages from the pipeline system. However, any serious disruption in operation of the Transneft pipeline system or restriction on access to its capacities could prevent transportation of crude oil and petroleum products, with adverse effect on Rosneft's operating results and financial position. The level of tariffs charged by Transneft for its transport services is regulated by the Federal Tariff Service ('FTS'). Transneft periodically raises the level of tariffs for use of its pipeline system, increasing Rosneft's expenses, and this has adverse effect on business results and financial position of the Company. Similar risks attach to use of the pipeline system of OJSC Gazprom. Rosneft also transports crude oil and petroleum products by railway. The railway network in Russia belongs to the state-owned natural monopoly OJSC Russian Railways ('RZhD'). Use of railway services exposes Rosneft to risks, such as potential failure of deliveries due to deterioration of railway infrastructure in Russia. Incompatibility of Russia's wide-gauge track with rail track in most foreign countries leads to additional expenses and logistical limitations, associated with ability of the Company to export its production via the RZhD rail network. Moreover, although RZhD tariffs are subject to antimonopoly control, they have been on a rising trend. Regular tariff increases lead to increase of expenses for crude oil and petroleum product transportation, and may have adverse effect on the Company's business results and financial position. Other substantial risks are associated with high levels of traffic on rail routes to the Far East due to growth in exports of coal from Western Siberia and Krasnoyarsk Territory, and also on routes to Russia's Black Sea ports due to delivery of Olympic cargoes.
Geographical and climate conditions	Rosneft operates in regions that have stable climates and are not generally subject to natural hazards and disasters. However, abnormally low temperatures during the winter in a number of northern regions may complicate operations of the Company's oil production enterprises. Exports via Black Sea terminals to Mediterranean ports may be restricted by throughput capacity of the Bosphorus Strait and by weather conditions (storm winds) in the Black Sea during the autumn. Also, severe ice conditions may lead to closure of export terminals on the Baltic Sea and at De-Kastri during the winter. Any extended hold-ups in functioning of export terminals may have adverse effect on the Company's operating results and financial position. Rosneft minimizes these risks by taking account of complex climate conditions when planning field construction. Ability to reallocate goods flows enables Rosneft to minimize a part of its logistics risks.
Sale of gas output	Rosneft is exposed to several risks in connection with sale of the gas it produces. The Unified Gas Supply System ('UGSS') is owned and operated by OJSC Gazprom and transports practically all gas in Russia. Under existing regulations, Gazprom should provide access to UGSS for all internal independent suppliers on an equal basis, since Gazprom itself does not fully use capacity of the system. However, these 'equal access' regulations may not operate and OJSC Gazprom may fail to observe them in the future. Moreover, by virtue of its priority right to use of UGSS capacities, OJSC Gazprom has substantial freedom in assigning third-party access to the system.

Type of risk	Description and ways of minimizing the risk
	OJSC Gazprom is a monopolistic supplier of gas in Russia and prices for gas sold by the company in Russia are regulated by the Government. Regulated gas prices in Russia are rising and it is probable that this trend will continue in the future until they attain parity with the export alternative. However, at present prices are substantially below that level. Regulated prices are reflected and, possibly, will continue to be reflected in the price for gas, which Rosneft sells to OJSC Gazprom or its subsidiaries. If rates of increase of regulated gas prices are lower than expected, this may have adverse effect on business results and the financial position of the Company. Further growth in gas output as well as increasing gas sales to independent regional traders and independent industrial consumers will depend on sufficient access to UGSS capacities, which are not guaranteed at present. The Company minimizes these risks by reaching agreements with Gazprom and by using conservative forecasts for gas price growth when taking decisions on implementation of gas projects.
Factual amounts of reserves	Crude oil and gas reserve data are only estimates and are inherently uncertain and the actual size of reserves may differ materially from these estimates. Data on oil & gas reserves in the present report are estimative and are based mainly on the results of internal analytical work by the company DeGolyer&MacNaughton, which is an independent consultant to Rosneft on petroleum engineering issues. Petroleum engineering is a subjective process of estimating underground accumulations of crude oil and gas that cannot be measured in an exact manner. Estimates of the value and amount of economically recoverable crude oil and gas reserves, rates of production, net present value of future cash flows and the timing of development expenditures necessarily depend upon several variables and assumptions. Many of the assumptions, which have been used in reserve estimation, do not depend on the Company and may turn out to be inaccurate over time. Estimate of reserves and use of alternative systems of reserve calculation in accordance with the Russian system of reserve classification are inevitably subject to many uncertainties. Accurate estimation of any reserves and resources depend on the quality of available information and interpretation of petroleum engineering and geological data. Exploration drilling, interpretation of data, testing and production, which are carried out after the estimates are made, could require significant upward or downward adjustment of data on Rosneft's reserves and resources. Moreover, different reserve assessment specialists may give differing estimates of reserves and of potential income from those reserves on the basis of the same data. Factual amounts of production, revenues and expenses associated with reserves and resources will differ from estimative figures, and these differences may be substantial. There are also various uncertainties associated with the Russian system of reserve classification, which takes only geological factors into consideration and does not consider financial viability of extracting reserves.. Exploration drilling is also associated with numerous risks, including the risk that oil & gas companies will not discover oil & gas reserves that are commercially productive. Rosneft carries out exploration work in various geographical regions, including territories with unfavorable climatic conditions and high levels of expenses. Expenses for drilling, construction and operation of wells are often partially undefined. As a result, Rosneft may incur additional costs or be constrained to downsize, suspend or cease drilling work due to a variety of factors, including: unforeseen geological conditions, encountered during drilling work; anomalous levels of formation pressure (either high or low), heterogeneity in geological formations, equipment breakdowns and accidents, unfavorable weather, the need to observe environmental law and prescriptions by Government agencies, and shortages or late delivery of drilling rigs and equipment. If Rosneft is unable to carry out efficient exploration work or acquire assets, which contain confirmed reserves, the amount of its confirmed reserves will diminish proportionally to production as those reserves are exhausted. Future production by the Company depends to a significant extent on successful discovery, acquisition and development of oil & gas fields. If efforts by Rosneft do not prove successful, this will lead to reduction in the total amount of the Company's confirmed reserves and lowering of production volumes, which will have adverse effect on business results and the financial position of the Company. Rosneft is a world leader by amounts of oil reserves and has an enormous resource base, which minimizes risks associated with decline of oil production due to future revision of reserve amounts.
Competition risks	The oil & gas industry is intensely competitive. Rosneft competes mainly with other leading Russian oil & gas companies in the following areas of business: • purchase of exploration and production licenses at auctions and sales held by Russian Government agencies; • acquisition of other Russian companies, that may already own mineral licenses or existing assets associated with hydrocarbon production; • engaging the services of leading independent service companies, whose capacity to render the required services may be limited; • obtaining equipment for capital projects, which may be in short supply; • employment of highly skilled and experienced staff; • acquisition of existing retail enterprises and of land plots to develop new retail enterprises; • acquisition of, or gaining access to, oil refining facilities. Rosneft is among industry leaders in Russia and globally, which substantially improves its competitive positions. The Company has a substantial portfolio of new projects to maintain and strengthen its competitive positions in the future.

Type of risk	Description and ways of minimizing the risk
	Rosneft may encounter risks arising from intensification of competition in sale of its production on domestic and external markets. The following steps are being taken to minimize risks in sale of petroleum products on the domestic market in a context of intense competition: • capacity loading of Company refineries is planned with due regard to market forecasts in order to avoid inventory build-up of certain petroleum products; • the Company uses the Russia-wide structure of its oil refining and oil product wholesaling business and system of counterparties to best advantage in order to quickly reallocate regional goods flows on the domestic market and to ensure rapid adjustment of volumes between the domestic market and export. • upgrading work, which is being carried out at refineries, will increase refining depth, helping to meet growing demand for high-octane gasolines and petroleum products with low sulphur content; • the Company is working continuously to develop its own network of filling stations and refueling complexes meeting the latest European standards, since retail is the most stable segment for petroleum product sales on the domestic market, being less subject to sudden price fluctuations and falls in demand in comparison with other segments. A system of payment for fuel sales at filling stations using electronic cards is widely used in order to attract more customers (particularly corporate customers) and Rosneft stations can also serve cards of other providers. In case of emergency needs, ownership by the Company of four sea terminals for transhipment at the ports of Arkhangelsk, Nakhodka, De-Kastri and Tuapse enables quick reallocation of Company products in favor of the export market; Geographical diversity, which enables reallocation of crude oil and petroleum product deliveries from one region to another, is one of the most effective means of managing competition risk on export markets. For example, opening of an export route via Arkhangelsk and Murmansk and arrangements for crude oil deliveries by railway to China have created more opportunity for adjusting export flows by opening markets in the Far East, South-East Asia and the USA. This has been done by reducing traditional export flows through Black and Baltic Sea ports and Transneft's Druzhba pipeline, all of which are oriented to Europe. Increase of capacities for pipeline-to-rail transhipment and commissioning of the Eastern Siberia–Pacific Ocean pipeline adds to these opportunities.
COUNTRY AND REGIONAL RISKS	
Country and region	Rosneft has operations in all Federal Districts of the Russian Federation. Development prospects for the Federal Districts are discussed in the Program for Medium-term Socio-Economic Development of the Russian Federation. Risks of military conflicts, public disturbance, strikes and declaration of a state of emergency in regions of Company operations are negligible The Company is also exposed to risks related to its international operations. These are countries with developing markets and are more prone to political, economic, social and legal risks than countries with more developed markets. Overall, the risks related to carrying out business activities in these countries are comparable or higher than those related to business operations in Russia. In order to minimize its economic and financial risks Rosneft strives to diversify its types of business and the regions where it carries out investment projects, expanding the geography of its business and the nature of its various projects. In case of the occurrence of risks, which are connected with the political, economic and social situation in Russia as a whole or in certain parts of it, and risks connected with fluctuations in the global economy, the Company will take all possible measures to limit their negative impact. The parameters of such measures will depend on the specifics of the situation, in each case. The Company plans to carry out the following measures of a general nature to maintain its business in case of negative impact due to country or regional changes: • to carry out all possible measures to support projects, which are already being developed with the Company's support; • to work closely with executive bodies of the Government of the Russian Federation, administrative regions of the Russian Federation and municipal government bodies; • to optimize and limit expenses.
FINANCIAL RISKS	
Currency	Most of Rosneft's gross revenue is generated from export of crude oil and petroleum products. Consequently, fluctuations in exchange rates of currencies against the rouble have impact on the Company's business results, subjecting the Company to currency risk. The Company's currency risk is substantially reduced by the existence of expenses that are denominated in foreign currency. Rosneft is a large borrower in the international debt capital markets, and the bulk of its loans are denominated in US dollars. Current liabilities for servicing of these loans are also denominated in dollars. This currency structure of revenues and liabilities acts as an in-built hedging mechanism, where factors compensate one another by acting in opposite directions. A balanced structure of claims and liabilities in foreign currency minimizes the impact of currency risk on the Company's business results.

Type of risk	Description and ways of minimizing the risk
Changes in interest rates	As a major borrower, Rosneft is exposed to risks associated with changes in interest rates. The Company's primary source of debt financing is international debt capital markets. The majority of its debt portfolio is represented by US dollar-denominated loans that bear interest at rates determined with reference to LIBOR and EURIBOR interbank loan rates. Accordingly, an increase in LIBOR/EURIBOR rates can lead to higher costs of debt servicing, which, in turn, may adversely affect the Company's solvency and liquidity. The Company has a balanced policy for use of internal and loan financing and has active ratings from Moody's (Baa1), Fitch (BBB) and S&P (BBB-). Rosneft carries out transactions with derivative financial instruments in order to obtain a fixed rate of interest on a part of its loan portfolio. Growth of the Company's credit rating and that of the Russian Federation are important factors in reducing the cost of borrowing for the Company in the future, and also help to keep down the cost of hedging risks associated with changes of interest rates.
Inflation	Change in the consumer price index has some impact on the Company's financial position. However, existing and forecast levels of inflation are far from critical for the Company and the oil & gas industry as a whole. The Company defines as critical a level of inflation, which is double the level forecast by the Ministry of Economic Development for the current year. Rosneft is not taking any special measures to reduce this risk, viewing it as insignificant.
LEGAL RISKS	
Changes to currency regulation	Rosneft is heavily involved in foreign economic relations. Part of the Company's assets and liabilities are denominated in foreign currency. So the Government mechanism of currency regulation has impact on Company business. A number of regulatory acts were approved in 2012 to optimize and simplify currency control procedures. Overall, Russian legislation governing currency regulation and currency control did not undergo substantial changes having impact on the business of Rosneft during the reporting period. Federal Law № 194-FZ (12.11.2012) on Amendments to Articles 3.5 and 15.25 of the Code of the Russian Federation on Administrative Violations expands the list of administrative violations associated with failure to observe currency legislation of the Russian Federation and the acts of bodies responsible for currency regulation. Rosneft constantly monitors changes in currency legislation and strictly adheres to the provisions of legislation in the sphere of foreign currency.
Changes to tax legislation	The most substantial changes to tax legislation in the reporting period are: • indexation of excise rates for automotive gasoline, diesel fuel, straight-run gasoline and engine oils for gasoline and (or) carburettor (injection) engines for the period 2013-2014, setting of new excise rates for 2015, and additions to the list of goods that are subject to excises; • indexation of rates of mineral extraction tax for natural gas and gas condensate in 2013-2015; • amendments and clarifications to tax accounting of property in the process of amortization; • exemption from property tax for movable property of organizations, which was recorded in accounts from 01.01.2013; • Cancellation of preferences in taxation of the property of organizations and setting of maximum tax rates with respect to railways in public use, federal roads in public use, trunk pipelines, electricity transmission cables, and structures, which are an integral functioning part of these facilities. Tax legislation is a particularly changeable branch of law, where legal statutes are subject to frequent amendments, additions and clarifications. In order to reduce risks associated with changes in tax law the Company carries out careful analysis of law drafts and newly passed legal acts in the field of taxation. Rosneft constantly monitors changes to tax legislation and assesses and forecasts the impact of such changes on its business, so that likelihood of risks arising in connection with amendments to legislation on tax and duties that have come into force is not high.:
Changes to rules for customs control and duties	Rosneft is involved in foreign economic relations, and is therefore subject to several risks that arise from changes to legislation governing foreign economic relations, and to customs legislation governing procedures for transportation of goods across the customs border, the establishment and application of customs regimes, and the setting, introduction and levying of customs charges. Customs regulation is carried out in accordance with international agreements of the Russian Federation in the area of customs issues, with the provisions of the Customs Code of the Customs Union, the Federal Law on Customs Regulation, the Customs Code of the Russian Federation, the Federal Law on the Customs Tariff and other federal laws and legal acts adopted in accordance with such laws in the sphere of Government regulation of foreign trade. The Agreement on the Customs Code of the Eurasian Economic Union was approved by Decree № 17 of the Intergovernmental Council of the Eurasian Economic Union on 27.11.2009, and the Agreement has been in force in the Russian Federation since 01.07.2010. Federal Law № 311 setting out procedures and rules for customs regulation in the Russian Federation, dated 27.11.20120, was passed and is in force for purposes of execution in the Russian Federation of the international agreements, which constitute the contractual and legal basis of the Customs Union of the Eurasian Economic Union. Decree №54 (dated 16.07.2012) of the Council of the Eurasian Economic Commission approved a single list of goods for foreign trade activities of the Customs Union and a single customs tariff for the Customs Union, and the previous versions of the list of goods and customs tariff were declared to be no longer in force. At the present time, in accordance with the Federal Law № 164-FZ on the Principles of Government Regulation of Foreign Trade Activity (dated 08.12.2003), crude oil can be exported without quantitative limitations or export licensing.

Type of risk	Description and ways of minimizing the risk
	Quantitative limitations on exports can only be introduced by decision of the Government of the Russian Federation in exceptional cases. Rosneft uses the services of professional organizations – customs brokers, acting in the Company's name and on its instructions – for documentation of customs operations, payment of customs duties and other actions connected with observance of the customs regime for export of the Company's crude oil and petroleum products and for representation of the Company's interests in customs matters. However, it should be noted that delegation of customs operations to customs brokers does not exempt Rosneft from potential risk of civil liability in case of violations of customs legislation. In order to avoid such eventualities Rosneft constantly works with and monitors the actions of customs brokers. The procedure for setting rates of export customs duties on crude oil and specific goods categories, produced from crude oil, as listed by the Russian Government, is described in clause 4 of Article 3 of the Federal Law № 5003-I on Customs Tariffs (dated 21.05.1993). According to this procedure export duty rates on crude oil and petroleum products are set for a period of one month taking account of the average price for Urals crude oil on international commodity markets (Mediterranean and Rotterdam) during the most recent monitoring period. In order to improve efficiency in development of operating fields, maintain the rates of modernization of Russian oil refineries and increase levels of output of high-quality, in May 2011 the export duty on gasoline was set at 90% of the duty rate for crude oil, in October 2011 the 60/66 regime was introduced, stipulating reduction of the percentage of the difference between the monitoring price of crude oil and the cut-off price from 65% to 60% and unification of the rate for dark and light products at a level of 66% of the export duty for crude oil. It should be noted that, in accordance with Federal Law № 239-FZ (03.12.2012) the procedure for the setting of export duties on crude oil and certain categories of goods obtained from crude oil is changed with effect from 01.04.2013. Under the new procedure the Government will define a formula for the calculation of export duties, taking account of the average price of Urals crude, and an authorized Government body will use the formulas to calculate the duty rates, and the rates will be recalculated each month and made known to participants in international trade operations through official sources. Maximum levels of the calculated export duty rates are set depending on prices for crude oil on international markets. Special formulas are established by the Russian Government for calculating export duty rates on high-viscosity crude oil and crude oil with particular physical and chemical features.
Changes to antimonopoly legislation	Rosneft has significant shares of wholesale markets in the Russian Federation for motor gasoline, diesel fuel, jet fuel and fuel oil, so Company business in this sphere is subject to additional requirements designed to protect competition, entailing risks associated with changes to antimonopoly legislation. Antimonopoly regulation is carried out in accordance with Russian federal laws and legal acts associated with these laws. The principal law governing antimonopoly regulation is the Federal Law on Protection of Competition. At the end of 2011 substantial amendments were made to antimonopoly legislation, having impact on Company business. The amendments came into force in January 2012. Amendments which could have positive impact on Company business include: clarification of the concept of coordinated actions and their decriminalization, which will minimize the number of antimonopoly actions initiated by territorial antimonopoly agencies in respect of Rosneft's sales companies; establishment of conditions in which a price cannot be recognized as monopolistically high; and differentiation of administrative liability for abuse of dominant position (Article 14.31 of the Administrative Code of the Russian Federation) depending on consequences of the abuse. Inclusion in the Administrative Code of a procedure for setting fines for violations described in Articles 14.31 and 14.32 of the Code and a list of circumstances that mitigate and aggravate responsibility can be seen as a negative amendment, since its application will substantially increase the level of fines for antimonopoly violations (by eight times on average). Rosneft constantly monitors both amendments to existing legislation and law drafts, which are in preparation, assessing the nature of any amendments and taking account of them in its business in order to minimize risks arising from changes in antimonopoly requirements. The Company takes all necessary measures in its business selling petroleum products on the domestic market to minimize the risks indicated above, constantly monitoring market price levels and making full use of market instruments when carrying out sales of petroleum products, and also implementing other recommendations of antimonopoly bodies which are intended to ensure that petroleum product pricing is economically justified.
Legal regulation of sub-soil use	During 2012 a Resolution on the establishment of and change to the boundaries of sub-soil areas provided for use was approved by Russian Government Decree № 429 (03.05.2012) for the purpose of amendments to the Russian Federal Law on Sub-Soil Resources, in order to enable adjustment of the boundary of a sub-surface area, which is provided for use on a paid basis, to ensure completeness in geological study, rational use and protection of sub-soil resources. The Resolution states that the establishment of and change to the boundaries of sub-soil areas provided for use on a paid basis are carried out by the Federal Agency for Sub-Soil Resources ('Rosnedra') and its territorial bodies, and by executive government bodies in administrative regions of the Russian Federation in the limits of their authorities. Definition of the boundaries of a sub-soil area, fixed by the use of geographical coordinates, is included in the license for sub-soil use as an integral part of that license. The following factors are taken into account when establishing the borders of sub-soil areas: geological and other information on mineral resources; data from expert government study of mineral reserves, geological, economic and environmental information on sub-soil areas (if such study has been carried out); the boundaries of specially protected natural territories (governed by rules, which do not permit sub-soil use); and proposals by the Russian Ministry of Defence, the Federal Security Service, the Russian Nature Agency ('Rosprirodnadzor') and the Russian Fisheries Agency ('Rosrybolovstva'). It is also stated the boundaries of an area may be expanded on a single occasion (regardless of how

Type of risk	Description and ways of minimizing the risk
	many times sub-soil usage rights have been transferred and a license has been re-issued) in case of technical needs for expansion of the area's boundaries without increase of mineral reserves or confirmation of data that minerals outside the boundaries of the areas are part of the same field. The Resolution sets out the content of an application for change to the boundaries of a sub-soil area, a list of documents to support such an application, and the procedure for its consideration, including the procedure for its agreement with the above-mentioned Federal Government bodies. Rosneft takes a positive view of the proposed plans for greater efficiency in use of sub-soil resources at areas that have been allocated from the Government fund and is taking account of these changes to legislation in its business. Provisions came into force in the reporting period, which establish a new procedure for the organisation and conduct of competitions and auctions for usage rights at sub-soil areas. Specifically, it has been established that tendering for usage rights at areas with federal status must be carried out through an auction process. Such areas could previously also be provided for use on the basis of a competition. These amendments refer to sub-soil areas with federal status, with the exception of sub-soil areas with federal status on the continental shelf of the Russian Federation. In essence, these amendments deprive the Company of the opportunity of obtaining sub-soil usage rights to areas of federal status on a competition basis, but leave the possibility of obtaining sub-soil usage rights by offering the largest single payment (auction). In evaluating these amendments it is important to take account of the small number of unallocated hydrocarbon sub-soil areas with federal status, as well as the fact that competitions organised by government bodies for hydrocarbon fields have very rarely been held using a tendering format. Risks associated with the above-mentioned changes will not have substantial impact on the business of Rosneft since the Company monitors amendments to current Russian legislation and takes account of them in its business.
Legislation regarding property relations	Federal Law № 302-FZ (30.12.2012) on Amendments to Chapters 1, 2, 3 and 4 of Part One of the Civil Code of the Russian Federation was approved during the reporting period and its provisions come into force on March 1, 2013. This Federal Law clarifies and supplements the provisions of legislation on state registration of property rights. In particular, obligatory registration by a notary may be established by law or by agreement between the parties in transactions, which entail the creation, amendment or termination of property rights that are subject to state registration. In such an instance a record may be made in the state register on the application of any of the transaction parties, and this may be done through a notary. At the present time there are no federal laws establishing obligatory registration by a notary for transactions with real estate, so this provision will not have substantial impact on the Company's interests at the present time. The above-mentioned Federal Law also introduces a new institution, making it possible for a notice of objection in respect of a registered right to be entered in the state register by a person, whose respective right was registered earlier. The procedure for entering such a notice is regulated by a federal law, which has not yet been enacted. The legal significance of entering such a notice has not been established, so the notice will effectively be in the nature of information of the existence of certain assertions of legal rights by previously registered rights-holders. Due to the lack of a legal procedure for entering such a notice, we suppose that the innovation will not have any substantial impact on Company interests at the present time. In addition the Federal Law cancels the requirement for obligatory state registration of a series of transactions with real estate, i.e. sale-and-purchase agreements for residential premises, sale of enterprises, making of gifts, and leasing (of buildings, facilities and enterprises). This innovation excludes unnecessary 'dual' registration in carrying out such transactions – simultaneous registration of an agreement and the transfer of rights under the agreement, – which will entail a reduction of expenses when the Company registers such transactions.
Legislation regarding land use and urban construction	The Federal Law № 289 (30.12.2012) on Amendments to the Urban Construction Code of the Russian Federation and to Certain Legal Acts of the Russian Federation came into force in the reporting period. The Law extends until June 30, 2013 for municipal districts, December 31, 2013 for urban settlements and urban districts and June 1, 2014 for rural districts the legal rules that permit the provision of land plots, issue of construction permits, and the issue on a specific (transitional) basis of urban construction plans for land plots and the making of decisions on change from one type to another type of permitted use of land plots and sites for capital construction in the absence of rules for land use and development. The above-mentioned Federal Law also extends until December 31, 2013 the force of the rule, which permits urban construction plans for land plots to be submitted instead of planning documentation with respect to land plots that have been designated for the construction or reconstruction of lines of utility transportation. In the absence (in most cases) of approved rules for land use and development, the above-mentioned rules will allow the present practise of obtaining permissions and documentation regarding land and urban construction to be maintained, which will be positive for Company business.
Health, safety and environment	The following legal and regulatory acts were passed during the reporting period in the sphere of health, safety and protection of the environment: The Federal Law N 93 (25.06.12) on Amendments to Specific Legal Acts of the Russian Federation regarding State Control (Supervision) and Municipal Control amends the Federal Law № 99- on Licensing of Certain Types of Activity, of May 4, 2011, by making voluntary fire-safety measures and the collection and use of waste in hazard classes I-IV exempt from licensing. The Company will take account of the above-mentioned changes when obtaining permit-documents.

Type of risk	Description and ways of minimizing the risk
	The Government Decree N 1148 (08.11.12) on aspects of payment for emission of pollutants due to flare combustion and (or) dispersion of associated petroleum gas, effective from January 1, 2013 raises the payment for emission of pollutants due to flare combustion and (or) dispersion of associated petroleum gas in excess of established limits. The permissible level for flare combustion and (or) dispersion has remained unchanged at 5% of gas production, but this limit is not applicable at fields with a low level of depletion. Payment for exceeding the limit on flare combustion and (or) dispersion is calculated using an additional coefficient, which was set at 12 for 2013 and will rise to 25 from 2014. Increasing coefficients will not be used if annual gas production does not exceed 5 mln cubic meters or if the volume content of the non-hydrocarbon component is greater than 50%. The Company is carrying out detailed analysis of the measures applied by the Russian Government to stimulate use of associated gas and is taking account of them in implementation of its gas programme. Government Decree N 1193 (19.11.12) on approval of a list of violations of laws for protection of the environment, which cause a risk of harm to the environment, for the purposes of state environmental supervision, defines violations, which represent a risk of harm to the environment, for the purposes of state environmental supervision in compliance with Article 65 of the Federal Law N 7 (10.01.2002) on Protection of the Environment. The Federal Law N 287 (30.12.12) on Amendments to the Federal Law on the Continental Shelf of the Russian Federation and the Federal Law on Inland Seas, Territorial Waters and the Zone Adjoining the Russian Federation sets out the specifics of exploitation and use of artificial islands, units, facilities, underwater pipelines, and the conduct of drilling in inland seas and territorial waters. The Federal Law comes into force from July 1, 2013. These forms of activity can only be carried out as part of regional geological study, geological study, exploration and production of raw hydrocarbons, and also in respect of storage of crude oil and petroleum products on the basis of a plan, which includes actions for prevention and elimination of spillages of oil and petroleum products in the maritime environment. The plan is approved by the operating organization on the basis of a positive assessment by a Government environmental panel with subsequent notification of federal bodies, nominated for that purpose by the Russian President and the Russian Government. The duties of the operating organization are to implement the plan, create a system for monitoring of the state of the maritime environment in the area where works are being carried out, to maintain its own emergency and rescue services and (or) formations, capacities and resources. Financial support for the plan is also required. This may be in the form of a bank guarantee, insurance agreement or document, confirming the creation of a reserve fund. If a spillage cannot be overcome by implementation of the plan, the organization requests the mobilization of additional capacities and resources of the unified state system for prevention and elimination of emergency situations. The organization must compensate the respective costs. The duties of the operating organizations in instances of oil and petroleum product spillages are defined. Specifically, the organization must fully compensate the harm, which has been caused to the environment. The legislative amendments, which have been described require the approval of respective subordinate legislation, after consideration of which it will possible to assess the scale and character of the Company's additional obligations, arising as a result of the development of mineral areas on the continental shelf
Current court cases in which the Company is involved	Rosneft has previously participated or is currently participating in the following court cases, which may have substantial impact on the Company's financial results: **1.** In 2006 the International Commercial Arbitrage Court of the Russian Chamber of Commerce upheld claims by Yukos Capital S.a.r.l. for recovery of debt from OJSC Yuganskneftegaz (the legal predecessor of OJSC Rosneft Oil Company) under four loan agreements. These court decisions are hereafter referred to as the 'Arbitrage Verdicts'. The sum to be recovered consisted of RUB 11,233.0 mln loan principal, RUB 1,702.9 mln accrued interest and USD 0.9 mln arbitrage fees and court costs. Yukos Capital S.a.r.l. made an application to the Court of Amsterdam (Netherlands) for the Arbitrage Verdicts to be upheld and implemented in the Netherlands. In May 2007 Rosneft successfully contested the Arbitrage Verdicts in the Moscow Arbitrage Court based on procedural violations in the earlier court case. This decision was upheld by appeal and supervisory courts in the Russian Federation. On 28.02.2008 the Amsterdam Court refused to uphold the Arbitrage Verdicts and order their execution in the Netherlands. On 28.04.2009 the Amsterdam Appeal Court overturned the ruling of the Amsterdam Court and ordered that the Arbitrage Verdicts should be executed in the Netherlands. The Supreme Court of the Netherlands ruled on 25.06.2010 that an appeal by the Company against the ruling of the Amsterdam Appeal Court of 28.04.2009 should not be heard. In addition to the legal case in the Netherlands, Yukos Capital S.a.r.l. made a further claim in 2009 and at the start of 2010 for the Arbitrage Verdicts to be upheld and implemented in the USA, and in England and Wales, Ireland, and Jersey, and also for awarding of interest on the sums referred to in the Arbitrage Verdicts. In accordance with a court order by the English court on 06.04.2010, the Company agreed to provide security agreed by the parties for purposes of the courts cases in England and the Netherlands, and the court cases in the USA, Ireland, and Jersey were terminated. As stated above, on 28.06.2010 the Supreme Court of the Netherlands ruled that the appeal by the Company against the verdict of the Amsterdam Appeal Court from April 28, 2010 should not be heard. Although Rosneft disagrees with the rulings of the aforementioned Dutch courts, on 11.08.2010 it made a payment equivalent to the sum indicated in the Arbitrage Verdicts. Apart from the above-mentioned payments, Yukos Capital S.a.r.l. is maintaining its application to the High Court of Justice in London for payment of interest, calculated by reference to legal statutes, amounting to USD 160 mln at the time when the application was made. On 14.06.2011 the London High Court delivered a provisional verdict on

Type of risk	Description and ways of minimizing the risk
	two preliminary matters, which it had agreed to consider before delivering a verdict on the substance of the claim. Although the Court found in favour of Yukos Capital S.a.r.l. in both instances, it allowed Rosneft to appeal against the decisions. The English Appeal Court delivered a verdict in favour of Rosneft on one of the two preliminary matters. Neither of the sides sought any further appeal. After the case was returned to the High Court, the Court delivered a procedural verdict on 27.02.2013 calling for hearings on further preliminary matters of the competence of the Court to enact cancelled verdicts of the International Commercial Arbitrage Court in accordance with the standards of English common law and to decide whether Yukos Capital S.a.r.l. in principle has the right to seek payment of interest on sums awarded by the International Commercial Arbitrage Court in English courts. The High Court stated that the sides must agree a date after 07.10.2013 for hearings on the further preliminary matters. The Company intends to make every effort to defend its position in the remaining court proceedings in England. **2.** In 2007 CJSC Vesta Investment Company, which is a shareholder of Rosneft, brought a claim in the Moscow Arbitrage Court for four loan agreements between the company Yukos Capital S.a.r.l. as lender and OJSC Yuganskneftegaz as borrower to be declared void (fictitious). Total amount of the borrowing under the terms of the disputed agreements is RUB 11.2 bln. Rosneft, as the legal successor of OJSC Yuganskneftegaz, is participating in the proceedings as co-defendant. On 11.07.2012 the Moscow Arbitrage Court ruled the loans to be invalid. On 15.10.2012 the Ninth Arbitrage Appeal Court ruled that the verdict of the first-level court should be left unchanged. An appeal by Yukos Capital S.a.r.l. contesting these verdicts has not been upheld. **3.** In 2007 the company Glendale Group Ltd. presented a claim against Rosneft to the Court in Amsterdam (the Netherlands) for RUB 3.53 bln of debt principal, interest on promissory notes (18% annualized), interest and late payment charges, justifying the application by the existence of a RUB 3.53 bln debt on eight promissory notes issued by OJSC Yuganskneftegaz in 2003. Rosneft contests legality of the declared claims on various grounds. Hearings on the merits of the case were held on 30.08.2012 and 19.11.2012, and the Amsterdam Court set a date of 06.02.2013 for the delivery of a verdict. However, on 04.02.2013 the Court postponed the delivery of a verdict until a later time without specification of the exact date. **4.** The company Yukos International UK BV has initiated court proceedings against Rosneft and other co-defendants not affiliated with Rosneft in the Amsterdam District Court, demanding the compensation of losses amounting to USD 333 mln as well as interest accrued as established by law since February 7, 2011, together with costs. In these proceedings Yukos International UK BV is claiming damages, which it asserts to have been caused as a result of delivery by the Amsterdam Court in 2007 of an order for the arrest of a bank account, which, as Yukos International UK BV asserts, limited its ability to invest certain sums at its discretion. The first court hearings on this matter were held on June 27, 2012. On October 3, 2012 Rosneft submitted an objection to the claim. The objection includes various grounds of defence, including the fact that the Court issued the arrest order in a proper manner, and that Yukos International UK BV did not suffer any losses since its funds were placed on an interest-bearing account of its choice. Yukos International UK BV submitted an application in response to the objection on February 20, 2013 and Rosneft must submit additions to its objections by 15.05.2013. Rosneft is also involved in a number of other courts cases, which arise in the course of its ordinary business and do not entail substantial financial risk for the Company. Rosneft regularly monitors verdicts delivered by higher courts and assesses trends in the interpretation of laws at the level of regional arbitrage courts, making full use of its monitoring data both for the purposes of defending its rights and lawful interests in court and for regulation of issues that arise in the course of Company business. Risks associated with changes in court practice are therefore believed to be insignificant

Appendix 3

Information on Observance by OJSC Rosneft of the Code of Corporate Conduct

Prepared in accordance with Guidelines regarding Composition and Form of Presentation of Information on Observance of the Code of Corporate Conduct in Annual Reports of Joint-stock Companies, as approved by Resolution № 03-849/p of the Federal Commission for the Securities Market, dated April 30, 2003

Information on Observance by OJSC Rosneft of the Code of Corporate Conduct

№	Code provision	Observed/ Not observed	Notes
GENERAL MEETING OF SHAREHOLDERS			
1	Shareholders shall be notified of holding of the general meeting of shareholders at least 30 days before the date when it is scheduled to be held, regardless of the nature of business included on its agenda, unless a longer notification period is required by law	Observed	Sub-clause 9.4.1 of clause 9.4, 'Notice of the General Meeting of Shareholders' of Article 9 of the Charter of OJSC Rosneft, 'General Meeting of Shareholders'; Clause 1 of Article 13, 'Convening and preparing for a General Meeting of Shareholders' of Chapter 3, 'General Meeting of Shareholders', of the Code of Corporate Conduct of OJSC Rosneft.
2	The list of persons eligible to attend the general meeting of shareholders shall be available to shareholders for viewing from the date when notice of the general meeting of shareholders is given and until the meeting is closed, or, in the case of a meeting in absentia, until the final date for acceptance of ballots	Observed	Clause 4 of Article 51 of the Federal Law on Joint-stock Companies requires that the list of persons entitled to participate in the general meeting of shareholders shall be provided upon request to persons who are included in that list and who control no less than 1 percent of votes. Sub-clause 5.8.1 of clause 5.8, 'Shareholder Rights', of Article 5, 'Authorised Capital. Shares. Shareholder Rights', of the Charter of OJSC Rosneft; Clause 4.3., 'Viewing the list of persons who have the right to attend the General Meeting of Shareholders', of Article 4, 'Preparation for holding of a General Meeting of Shareholders', of the Regulation on the General Meeting of Shareholders.
3	Information (materials) that must be provided during the period of preparation for the General Meeting of Shareholders shall be available to Shareholders via electronic communication facilities, including the Internet	Observed	Clause 9.5, 'Information (materials) for the General Meeting of Shareholders', of Article 9, 'The General Meeting of Shareholders', of the Charter of OJSC Rosneft; Clause 4.6., 'Provision of information (materials) that must be provided to persons eligible to attend the General Meeting of Shareholders', of Article 4, 'Preparations for holding of a General Meeting of Shareholders', of the Regulation on the General Meeting of Shareholders. Clause 3 of Article 6, 'Placement of information in the Internet', of the Regulation on Information Policy of OJSC Rosneft.
4	Any shareholder should be able to propose any business to be included on the agenda of a general meeting of shareholders or to request convening of a general meeting of shareholders without presentation of an extract from the shareholder register, if his/her/its title to stocks is recorded in the system for maintaining the shareholder register. If his/her/its title to stocks is recorded on a securities account, an extract from the securities account will be sufficient for exercise of the aforementioned title	Observed	Sub-clause 2.2.1 of clause 2.2, 'Reviewing proposals and requests of Shareholders', of Article 2, 'Proposals and Requests' of the Regulation on the General Meeting of Shareholders of OJSC Rosneft; Clause 5 of Article 13, 'Convening and preparing for a General Meeting of Shareholders', of Chapter 3, 'The General Meeting of Shareholders' of the Code of Corporate Conduct of OJSC Rosneft.
5	The charter or corporate documents of the joint stock company should require presence of the general director, management board members, members of the board of directors, members of the internal audit commission, and certified public accountants of the company at the general meeting of shareholders	Observed	Clause 5.5, 'Persons attending the General Meeting of Shareholders', of Article 5, 'Holding of a General Meeting of Shareholders in the form of joint presence', of the Regulation on the General Meeting of Shareholders of OJSC Rosneft; Sub-clause 3.2.18 of clause 3.2, 'Responsibilities of a Management Board member', of Article 3, 'Rights, obligations, and responsibilities of Management Board members', of the Regulation on the Collegiate Executive Body (Management Board) of OJSC Rosneft; Sub-clause 4.3.15 of clause 4.3, 'Responsibilities of the President', of Article 4, 'Powers and responsibility of the President', of the Regulation on the Individual Executive Body (President) of OJSC Rosneft; Sub-clause 3.1.2 of clause 3.1, 'Rights and obligations of the Internal Audit Commission', of Article 3, 'Rights and obligations of the Internal Audit Commission. Responsibility of members of the Internal Audit Commission', of the Regulation on the Internal Audit Commission of OJSC Rosneft;

№	Code provision	Observed/ Not observed	Notes
			Clause 2 of Article 14, 'Holding of a General Meeting of Shareholders', of Chapter 3, 'General Meeting of Shareholders'; clause 1 of Article 19, 'Obligations of executive bodies', of Chapter 4, 'Executive Bodies of the Company'; clause 3 of Article 27, 'Certified public accountants of the Company. Auditing', of Chapter 5, 'Monitoring of financial and business activities of the Company', of the Code of Corporate Conduct of OJSC Rosneft.
6	Candidates should be present when the general meeting of shareholders elects members of the board of directors, the general director, members of management board, and members of the internal audit commission, and also when the certified public accountant of the joint-stock company is appointed	Observed	This requirement is met in practice. Pursuant to clause 5.5, 'Persons attending General Meetings of Shareholders', of Article 5, 'Holding of a General Meeting of Shareholders in the form of joint presence', of the Regulation on the General Meeting of Shareholders of OJSC Rosneft, candidates included in ballots for election of various Company bodies may attend the General Meeting of Shareholders. Such candidates are sent notification with information on holding of the General Meeting of Shareholders.
7	Internal documents of the joint-stock company should contain a procedure for registration of persons attending the general meeting of shareholders	Observed	Clause 5.6, 'Registration of persons attending the General Meeting of Shareholders held in the form of joint presence', of Article 5, 'Holding of a General Meeting of Shareholders in the form of joint presence', of the Regulation on the General Meeting of Shareholders of OJSC Rosneft; Clause 1 of Article 14, 'Holding of a General Meeting of Shareholders', of Chapter 3, 'General Meeting of Shareholders', of the Code of Corporate Conduct of OJSC Rosneft.
BOARD OF DIRECTORS			
8	The charter of the joint-stock company should include authority of the board of directors to approve financial and business plans of the joint-stock company on an annual basis	Observed	Clause 10.1.2 (3), 'Competences of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft.
9	A risk management procedure for the joint-stock company, approved by the board of directors, should be in place	Not observed	In 2012 the management of OJSC Rosneft designed a Company Policy, 'System of internal control and risk management'. The document was examined by the Audit Committee of the Board of Directors of OJSC Rosneft at the start of 2013 and recommended for approval by the Board of Directors.
10	The charter of the joint-stock company should include the right of the board of directors to suspend the authority of the general director, who was appointed by the general meeting of shareholders	Observed	Pursuant to sub-clause 10.1.3 of clause 10.1, 'Competences of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft, appointment of the Company's President or early termination of his/her authority is in the competence of the Board of Directors.
11	The charter of the joint-stock company should include the right of the board of directors to set requirements as to the level of qualifications and amount of remuneration payable to the general director, members of the management board, and managers of main structural divisions of the company	Observed	The Board of Directors, in accordance with: • sub-clause 10.1.2 (19) of clause 10.1, 'Competences of the Board of Directors', of Article 10, 'The Board of Directors', defines performance indicators and approves the amount of annual bonuses (premiums) for the Company's managerial staff (senior managers); • sub-clause 10.1.3 (3) of clause 10.1, 'Competences of the Board of Directors', of Article 10, 'The Board of Directors', of the Charter of OJSC Rosneft, approves terms and conditions of agreements with the President of the Company and members of Management Board, and approves changes and amendments to such agreements; Pursuant to clause 5 of Article 3 of the Regulation on the HR and Remuneration Committee of the Board of Directors of OJSC Rosneft, the HR and Remuneration Committee develops principles and criteria for defining amounts of remuneration paid to such persons. In accordance with clause 2 of Article 16 of the Code of Corporate Conduct of OJSC Rosneft, specific requirements for professional qualifications of members of executive bodies are stipulated by internal documents of the Company. Additional criteria for selection of candidates to occupy such posts are defined by the HR and Remuneration Committee of the Board of Directors in accordance with clause 3 of Article 3 of the Regulation on the HR and Remuneration Committee.

№	Code provision	Observed/ Not observed	Notes
12	The charter of the joint-stock company should include the right of the board of directors to approve terms and conditions of agreements with the general director and members of the management board	Observed	Sub-clause 10.1.3 (3) of clause 10.1, 'Competences of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft. The Board of Directors approves the terms of agreements with the Company President and members of the Management Board, and approves amendments and additions to such agreements.
13	The charter or internal documents of the joint-stock company should require that board votes of the general director and members of the management board are not taken into account in voting on terms and conditions of agreements with the general director and members of the management board	Observed	Sub-clause 3.2.1. of clause 3.2, 'Duties of a member of the Board of Directors', of Article 3, 'Rights and duties of members of the Board of Directors' of the Regulation on the Board of Directors of OJSC Rosneft.
14	The board of directors of the joint-stock company should include at least 3 independent directors who meet the requirements of the Code of Corporate Conduct	Observed	Clause 1 of Article 7, 'Independent members of the Board of Directors', of Chapter 2, 'The Board of Directors', of the Code of Corporate Conduct of OJSC Rosneft. Sub-clause 2.1.2 of clause 2.1, 'Procedure for creation and composition of the Board of Directors', of Article 2, 'Structure of the Board of Directors', of the Regulation of the Board of Directors of OJSC Rosneft.
15	Persons should be disqualified from serving on the board of directors of the joint-stock company, if they were ever found guilty of any economic crime or crime against government, the interests of government or local authorities, or if they have been subject to any administrative penalties for violations in the sphere of business and finance, taxation, or the securities market	Observed	Complied with in practice
16	Persons should be disqualified from serving on the board of directors of the joint-stock company if they are a shareholder, general director (manager), member of any management body or employee of a legal entity, which is a competitor of the joint-stock company	Observed	Complied with in practice
17	The charter of the joint-stock company should require the board of directors to be elected by cumulative voting	Observed	Sub-clause 10.2.4 of clause 10.2, 'Election of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft states that the Board of Directors is elected by cumulative voting at the General Meeting of Shareholders of the Company and consists of 9 members.
18	Internal documents of the joint-stock company should require members of the board of directors to refrain from any actions that will or may potentially cause a conflict between their interests and interests of the company, and to disclose information concerning such a conflict, should it occur	Observed	Clause 3.2., 'Obligations of a member of the Board of Directors', of Article 3, 'Rights and obligations of members of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft. Clause 3 of Article 6, 'The Board of Directors in the system of corporate conduct (management) of the Company', of Chapter 2, 'The Board of Directors', of the Code of Corporate Conduct of OJSC Rosneft.
19	The internal documents of the joint-stock company should require members of the board of directors to notify the board in writing of their intention to close any transactions with securities of the company or of its subsidiaries (affiliates), and to disclose any information on transactions closed by them with such securities	Observed	Clause 4 of Article 6, 'The Board of Directors in the system of corporate conduct (management) of the Com pany', of Chapter 2, 'The Board of Directors', of the Code of Corporate Conduct of OJSC Rosneft. Clause 3.2, 'Responsibilities of members of the Board of Directors', of Article 3, 'Rights and obligations of members of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft. Article 6 of the Regulation on Insider Information of OJSC Rosneft.
20	The internal documents of the joint-stock company should require the board of directors to hold meetings at least once every six weeks	Observed	Sub-clause 4.1.1. of Article 4, 'Convening and preparing for a meeting of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft.
21	The board of directors of the joint-stock company should meet at least once every six weeks in any year, for which a company annual report is compiled	Observed	Meetings of the Board of Directors of OJSC Rosneft were held at least once every 6 weeks during 2012 (36 meetings were held in total).

№	Code provision	Observed/ Not observed	Notes
22	The internal documents of the joint-stock company should contain procedures to be followed at meetings of the board of directors	Observed	• Clause 10.4, 'Meeting of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft; • Article 4, 'Convening and preparing for a meeting of the Board of Directors'. Article 5, 'Holding of a meeting of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft.
23	Internal documents of the joint-stock company should stipulate that any transactions by the company with value in excess of 10 percent of company assets should be approved by the board of directors, except for transactions in the normal course of business	Observed	In accordance with clause 10.1, 'Competences of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft, it is within the competence of the Board of Directors to take decisions whether to close, modify, or terminate any transactions ahead of time, if such transactions cause or may cause liabilities equal to or exceeding the cash equivalent of USD 500,000,000, which is less than 10% of the value of Company assets.
24	Internal documents of the joint-stock company should include the right of members of the board of directors to receive information from executive bodies and managers of structural divisions of the company, which is necessary for them to discharge their functions, as well as sanctions for failure to provide such information	Observed	Article 7, 'Provision of information to members of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft.
25	A committee of the board of directors in charge of strategic planning should be created, or the function of such a committee should be vested in another committee (other than the audit committee and HR and remuneration committee)	Observed	The Strategic Planning Committee of OJSC Rosneft, formed in accordance with resolutions of the Board of Directors, based on the Regulation on creation and functioning of Committees of the Board of Directors and the Regulation on the Strategic Planning Committee of the Board of Directors, continued to operate during the accounting period.
26	A committee of the board of directors in charge of audit (audit committee) should be created, which makes recommendations to the board of directors on choice of a certified public accountant for the joint-stock company and liaises with the accountant and with the internal audit commission of the company	Observed	The Audit Committee of OJSC Rosneft, formed in accordance with resolutions of the Board of Directors, based on the Regulation on Creation and Functioning of Committees of the Board of Directors and the Regulation on the Audit Committee of the Board of Directors, continued to operate during the accounting period.
27	The audit committee should include only independent and non-executive directors	Observed	The Audit Committee of the Board of Directors of OJSC Rosneft consists of: 1. Hans-Joerg Rudloff, Chairman of Committee (independent non-executive director). 2. Sergey Vladimirovich Shishin (independent non-executive director) 3. Matthias Warnig (independent non-executive director). Internal Company documents state that the Audit Committee shall consist only of members of the Board of Directors who are not executive directors of the Company, and shall be headed by an independent director. This is specified in: • clause 4 of Article 9, 'Audit Committee of the Board of Directors', of Chapter 2, 'The Board of Directors', of the Code of Corporate Conduct of OJSC Rosneft; • clause 2.7, 'Creation of Committees of the Board of Directors', of Article 2, 'Structure of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft; • clause 4 of Article 2, 'Creation of Committees of the Board of Directors', of the Regulation on Procedures for Creation and Functioning of BoD Committees of OJSC Rosneft; • clause 2 of Article 2, 'General provisions regarding the Committee', of the Regulation on the Audit Committee of the BoD of OJSC Rosneft.
28	The audit committee should be headed by an independent director	Observed	The Chairman of the BoD Audit Committee of OJSC Rosneft is Hans-Joerg Rudloff (independent director). This stipulation is declared in the following internal documents of the Company: • clause 4 of Article 9, 'The Audit Committee of the Board of Directors', of Chapter 2, 'The Board of Directors', of the Code of Corporate Conduct of OJSC Rosneft; • sub-clause 2.7.6. of clause 2.7, 'Creation of Committees of the Board of Directors', of Article 2, 'Structure of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft;.

№	Code provision	Observed/ Not observed	Notes
			• clause 4 of Article 2, 'Creation of Committees of the Board of Directors', of the Regulation on the procedure for creation and functioning of Committees of the Board of Directors of OJSC Rosneft; • clause 2 of Article 2, 'General provisions concerning the Committee', of the Regulation on the Audit Committee of the Board of Directors of OJSC Rosneft.
29	The internal documents of the joint-stock company should stipulate the right of access for all members of the audit committee to any company documents and information, on condition that they do not disclose confidential information	Observed	Clause 2 of Article 8, 'Support for activities of Committees of the Board of Directors', of the Regulation on the Procedure for Creation and Functioning of Committees of the Board of Directors of OJSC Rosneft; Article 6, 'Interaction of the Committee with executive bodies of the Company', of the Regulation on the Audit Committee of the Board of Directors of OJSC Rosneft.
30	A committee of the board of directors for human resources and remuneration should be created, with the functions of identifying criteria for selection of candidates to the board of directors and developing a remuneration policy	Observed	Work continued during the accounting period by the HR and Remuneration Committee of OJSC Rosneft, created by resolutions of the Board of Directors in accordance with the Regulation on the Procedure for Creation and Functioning of Committees of the Board of Directors of the Company and the Regulation on the HR and Remuneration Committee of the Board of Directors.
31	The HR and remuneration committee should be headed by an independent director	Observed	The Chairman of the HR and Remuneration Committee of the Board of Directors of OJSC Rosneft is Sergey Vladimirovich Shishin (independent director). This requirement is stipulated in the following internal documents of the Company: • clause 4 of Article 10, 'The HR and Remuneration Committee of the Board of Directors', of Chapter 2, 'The Board of Directors', of the Code of Corporate Conduct of OJSC Rosneft; • sub-clause 2.7.6. of clause 2.7, 'Creation of Committees of the Board of Directors', of Article 2, 'The structure of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft; • clause 4 of Article 2, 'Creation of Committees of the Board of Directors', of the Regulation on the Procedure for Creation and Functioning of Committees of the Board of Directors of OJSC Rosneft; • clause 2 of Article 2, 'General provisions concerning the Committee', of the Regulation on the HR and Remuneration Committee of the Board of Directors of OJSC Rosneft.
32	No officers of the joint-stock company should serve on the HR and remuneration committee	Observed	The HR and Remuneration Committee of the Board of Directors of OJSC Rosneft consists of: 1. Sergey Vladimirovich Shishin, Chairman of the Committee (independent, non-executive director); 2. Matthias Warnig (independent, non-executive director); 3. Hans-Joerg Rudloff (independent, non-executive director); 4. Mikhail Valerievich Kuzovlev (non-executive director). This requirement is stipulated in the following documents of the Company: • clause 4 of Article 10, 'The HR and Remuneration Committee of the Board of Directors', of Chapter 2, 'The Board of Directors', of the Code of Corporate Conduct of OJSC Rosneft; • clause 2.7, 'Creation of Committees of the Board of Directors', of Article 2, 'The structure of the Board of Directors', of the Regulation on the Board of Directors of OJSC Rosneft; • clause 4 of Article 2, 'Creation of Committees of the Board of Directors', of the Regulation on the Procedure for Creation and Functioning of Committees of the Board of Directors of OJSC Rosneft; • clause 2 of Article 2, 'General Provisions concerning the Committee', of the Regulation on the HR and Remuneration Committee of the Board of Directors of OJSC Rosneft.
33	A committee of the board of directors in charge of risk should be created or the functions of such a committee should be vested in another committee (other than the audit committee and the HR and remunerations committee)	Observed	This function is vested in the Audit Committee of the Board of Directors of OJSC Rosneft: • clause 1 of Article 2, 'General provisions concerning the Committee', clause 1 of Article 3, 'Functions of the Committee', and clause 2 of Article 7, 'Interaction of the Committee with structural divisions in charge of internal control and internal audit', of the Regulation on the Audit Committee of the Board of Directors of OJSC Rosneft.

№	Code provision	Observed/ Not observed	Notes
34	A committee of the board of directors should be created for settlement of corporate conflicts or the functions of such a committee should be vested in another committee (other than the audit committee and the HR and remuneration committee)	Not observed	Article 12 of the Code of Corporate Conduct of OJSC Rosneft defines main principles for the regulation of corporate conflicts. Clause 6 of Article 12 of the Code of Corporate Conduct of OJSC Rosneft provides for the possibility of such a committee being created to help prevent and achieve efficient out-of-court settlement of corporate conflicts involving the Company and its Shareholders. No committee of the Board of Directors for settlement of corporate conflicts has been created at OJSC Rosneft. The issue is under consideration.
35	No officers of the joint-stock company should serve on the committee for settlement of corporate conflicts	Not observed	No committee of the Board of Directors for settlement of corporate conflicts has been created at OJSC Rosneft. The issue is under consideration.
36	The committee for settlement of corporate conflicts should be managed by an independent director	Not observed	No committee of the Board of Directors for settlement of corporate conflicts has been created at OJSC Rosneft. The issue is under consideration.
37	There should be internal documents approved by the board of directors of the joint-stock company, setting out a procedure for creation and functioning of committees of the board of directors	Observed	Revised versions of the following documents were approved by the Board of Directors of OJSC Rosneft in October 2008: 1. Regulation on the Procedure for Creation and Functioning of Committees of the Board of Directors of OJSC Rosneft; 2. Regulation on the Audit Committee of the Board of Directors of OJSC Rosneft; 3. Regulation on the HR and Remuneration Committee of the Board of Directors of OJSC Rosneft; 4. Regulation on the Strategic Planning Committee of the Board of Directors of OJSC Rosneft.
38	The charter of the joint-stock company should define a quorum of the board of directors in such a way that attendance of independent directors at meetings of the board of directors is obligatory	Not observed	In accordance with sub-clause 10.4.2. of clause 10.4, 'Meeting of the Board of Directors', of Article 10, 'The Board of Directors of the Company', of the Charter of OJSC Rosneft, a quorum for convening a meeting of the Board of Directors must be more than half the number of elected members of the Board of Directors.
EXECUTIVE BODIES			
39	There should be a collegiate executive body (executive board) of the joint-stock company	Observed	Clause 8.1 of Article 8, 'Management Bodies of the Company', and Article 12, 'Management Board of the Company', of the Charter of OJSC Rosneft.
40	The charter or internal documents of the joint-stock company should require that any transactions with real estate and obtaining of loans by the company must be approved by the executive board, unless such transactions are classified as large transactions and treated as normal business of the company	Observed	Sub-clause 12.8.10 of clause 12.8 of Article 12, 'The Management Board of the Company', of the Charter of OJSC Rosneft makes the following matters the responsibility of the Management Board: decisions on whether any of the following transactions (or number of inter-related transactions) should be closed, modified, or terminated ahead of time: 1. any transaction involving real estate, when aggregate book value of the real estate or value of the transaction is up to the equivalent in cash of USD 500,000,000 (five hundred million U.S. dollars), except for lease agreements in respect of real estate closed as part of normal business, which are within the competence of the President, in accordance with provisions of clause 11.6 of the Charter; 2. any transaction related to purchase, disposal, or possible disposal of assets that are not directly used for core business activities of the Company (non-core assets), if such a transaction(s) implies or may imply accrual of liabilities to the Company up to the equivalent in cash of USD 500,000,000 (five hundred million U.S. dollars); 3. any transaction related to purchase or disposal, or possible disposal of property that is vital for the Company's business (tangible and intangible assets used for extraction and processing of oil, natural gas, and gas condensate, and also capacities for sale, storage, processing and transportation of hydrocarbons, disposal of which will materially affect carrying out of such business by the Company), if such a transaction(s) implies or may imply accrual of liabilities to the Company up to the equivalent in cash of USD 500,000,000 (five hundred million U.S. dollars); 4. any gratis transaction (including charity, benefaction, donation), payment of membership fees (other expenses) related to membership of the Company in non-profit organizations, up to the equivalent in cash of USD 25,000,000 (twenty-five million U.S. dollars);

№	Code provision	Observed/ Not observed	Notes
			5. agreements with constituent entities of the Russian Federation and municipalities, which imply or may imply accrual of liabilities to the Company up to the equivalent in cash of USD 25,000,000 (twenty-five million U.S. dollars); 6. any other transaction, including a transaction in the normal course of business (other than a conversion transaction), which implies or may imply accrual of liabilities to the Company in an amount between the equivalent of USD 50,000,000 (fifty million U.S. dollars) and the equivalent of 500,000,000 (five hundred million U.S. dollars), unless such transactions are within the competence of the Board of Directors of the Company.
41	Internal documents of the joint-stock company should contain a procedure for approval of operations, which are beyond the bounds of the company's business plan	Observed	Sub-clause 10.1.8 of clause 10.1, 'Competence of the Board of Directors', of Article 10, 'The Board of Directors', of the Charter of OJSC Rosneft states that: The Board of Directors decides whether to implement, modify, or terminate ahead of time the following transactions (or number of interrelated transactions): 1. non-standard operations (operations not envisaged by the Company business pl2 or transactions, which imply or may imply any adjustments of the business plan. Sub-clause 12.8.6 of clause 12.8 of the Charter of OJSC Rosneft, regarding competence of the Management Board, states that: Preliminary consideration (prior to submission for consideration by the Board of Directors) and approval of costs that are not envisaged by the Company business plan are in the competence of the Management Board.
42	Executive bodies should not include any person who is a shareholder, CEO (manager), member of any management body, or employee of a legal entity, which is a competitor of the joint-stock company	Observed	Clause 3.3, 'Conflict of interests of members of the Management Board with interests of the Company', of Article 3, 'Rights, obligations, and responsibilities of members of the Management Board', of the Regulation on the Collegiate Executive Body (Management Board) of OJSC Rosneft. Clause 2.4, 'Conflict of interests of the President with interests of the Company', of Article 2, 'Purpose and principles of activities of the President', of the Regulation on the Individual Executive Body (President) of OJSC Rosneft.
43	Executive bodies of the joint-stock company should not include any person who has been found guilty of any economic crime or crime against government, the interests of government or local authorities, or any person who has been subject to any administrative penalties for violations in the sphere of business and finance, taxation, or the securities market. If the office of the individual executive body is executed by a management organization or a manager, the general director and executive board members of the management organization or the manager should meet the aforementioned requirements for the general director and members of the executive board of the joint-stock company itself	Observed	Complied with in practice.
44	The Charter or internal documents of the joint-stock company should prohibit any management organization (manager) from exercising analogous functions in a competitor company or from being involved in any property relationships with the company, other than providing management services	Observed	Clause 2.4. 'Conflict between interests of the President and of the Company', of Article 2, 'Appointment and activities of the President', of the Regulation on the Individual Executive Body (President) of OJSC Rosneft.
45	Internal documents of the joint-stock company should include the obligation of executive bodies to avoid any acts, which will or may cause a conflict between their interests and interests of the company, as well as the obligation to notify the Board of Directors should such a conflict arise	Observed	Clause 1 of Article 19, 'Responsibilities of executive bodies', of Chapter 4, 'Executive bodies of the Company', of the Code of Corporate Conduct of OJSC Rosneft. Clause 3.2, 'Responsibilities of members of the Management Board', of Article 3, 'Rights, obligations, and responsibilities of members of Management Board', of the Regulation on the Collegiate Executive Body (Management Board) of OJSC Rosneft; Clause 4.3, 'Obligations of the President', of Article 4, 'Powers and responsibilities of the President', of the Regulation on the Individual Executive Body (President) of OJSC Rosneft.

№	Code provision	Observed/ Not observed	Notes
46	The charter or internal documents of the joint-stock company should include criteria for selection of a management organization (a manager)	Not observed	This requirement is not applicable to management of the business of OJSC Rosneft. There are no regulations concerning a management organization (manager) in the Company Charter.
47	Executive bodies of the joint-stock company shall provide monthly reports on their work to the board of directors	Partially observed	Clause 3 of Article 19 of the Code of Corporate Conduct of OJSC Rosneft and Article 8 of the Regulation on the Collegiate Executive Body (Management Board) of OJSC Rosneft call for annual provision by executive bodies of reports on their activities to the Board of Directors and such other reports as may be requested by the Board of Directors. Work plans of the Management Board include review of monthly reports by senior managers of Rosneft concerning execution of instructions of the Board of Directors.
48	Agreements between the joint-stock company, on one hand, and the general director (management organization, manager) and members of the management board, on the other hand, should assign liability for violation of regulations concerning use of confidential and official information	Observed	Article 7, 'Procedure for access to insider information of the Company', Article 8, 'Procedure for use of insider information', of the Regulation on Insider Information of OJSC Rosneft. Sub-clause 4.3.5. of clause 4.3., 'Duties of the President', of Article 4 of the Regulation on the Individual Executive Body (President) of OJSC Rosneft. Sub-clause 3.2.5. of clause 3.2., 'Duties of a member of the Management Board', of Article 3 of the Regulation on the Collegiate Executive Body (Management Board) of OJSC Rosneft.
SECRETARY OF THE COMPANY			
49	The joint-stock company should have a special officer (company secretary), whose job is to ensure the compliance of bodies and officers of the company with procedural requirements that guarantee exercise of rights and lawful interests of company shareholders	Observed	Article 15, 'The Corporate Secretary', of the Charter of the Company, Article 20 of the Code of Corporate Conduct of OJSC Rosneft, and the Regulation on the Corporate Secretary of OJSC Rosneft provide for the existence of a special officer in the Company, i.e. the Corporate Secretary, whose task is to ensure compliance with procedures that guarantee the exercise of rights and lawful interests of shareholders. The Board of Directors of OJSC Rosneft has appointed a Corporate Secretary of OJSC Rosneft.
50	The charter or internal documents of the joint-stock company should include a procedure for appointment (election) and specify responsibilities of the company secretary	Observed	Article 15, 'The Corporate Secretary of the Company', of the Charter of OJSC Rosneft. Articles 21-23 of Chapter 4, 'The Corporate Secretary of the Company' of the Code of Corporate Conduct of OJSC Rosneft. Articles 3, and 6-11 of the Regulation on the Corporate Secretary of OJSC Rosneft.
51	The charter of the joint-stock company should specify requirements for any candidate to the post of company secretary	Partially observed	Requirements for any candidate to the post of Corporate Secretary of the Company are set out in Article 5, 'Requirements for the Corporate Secretary', of the Regulation on the Corporate Secretary of OJSC Rosneft.
IMPORTANT CORPORATE ACTS			
52	The charter or internal documents of the joint-stock company should require approval of any major transaction prior to execution thereof	Observed	Complied with in practice.
53	It should be obligatory for the joint-stock company to hire an independent appraiser to assess the market value of property, which is the subject of a major transaction	Observed	Complied with in practice.
54	The charter of the joint-stock company should prohibit any actions during the process of acquisition of large share stakes in the company (takeover), which aim to protect the interests of executive bodies (members thereof) and members of the board of directors, and should also prohibit any actions that tend to worsen the situation of shareholders. In particular, the board of directors should not be allowed to issue any additional stocks, securities convertible into stocks, or to purchase stocks or securities granting the right to purchase stocks of the company, until the proposed final date for acquisition of stocks or securities, even if the right to take such a decision is granted to the board by the charter	Not observed	Article 84.6 of the Federal Law on Joint-stock Companies states that, from the time when a company receives a compulsory or voluntary offer, decisions on a number of matters, including those indicated in clause 54 of the present Article, can only be taken by the general meeting of shareholders. These limitations cease to be effective 20 days after expiry of the period for acceptance of the voluntary or compulsory offer.

№	Code provision	Observed/ Not observed	Notes
55	The charter of the joint-stock company should require an independent appraiser to be hired for assessment of current market value of stocks and possible changes in their market value that may result from any merger	Not observed	Not applicable to the Company, since the shares of OJSC Rosneft are traded on the Russian Stock Exchange (the MICEX) and also as global depositary receipts (GDRs) on the London Stock Exchange, and their current market value is determined by trading on these exchanges.
56	The charter of the joint-stock company should not exempt a purchaser from the obligation to make an offer to shareholders to sell ordinary stocks of the company held by them (and securities convertible into ordinary stocks) in the case of a merger	Observed	
57	The charter or internal documents of the joint stock company should include a requirement to engage an independent appraiser to determine the conversion rate of stocks in case of reorganization	Not observed	Reorganization procedures, including conversion carried out as part of reorganization, are regulated in detail by the Federal Law on Joint-stock Companies and by standards for securities issue and registration of issue prospectuses approved by Decree No. 07-4 of the Russian Federal Service for Financial Markets, dated 25.01.2007.
DISCLOSURE OF INFORMATION			
58	There should be an internal document approved by the board of directors that determines rules and approaches of the joint-stock company to disclosure of information (a regulation on information policy)	Observed	The Regulation on Information Policy of OJSC Rosneft (approved by the Board of Directors of OJSC Rosneft on May 17, 2006, and approved in a revised version on April 14, 2011).
59	Internal documents of the joint-stock company should require disclosure of information concerning the purpose of stock placements, persons intending to purchase the stocks, including large shareholdings, and information as to whether senior executive officers of the company will take part in acquisition of the stocks to be placed	Not observed	Disclosure of information, including disclosure of information at various stages of the issue procedure, is in accordance with the requirements of Russian law and the Regulation on Information Policy of OJSC Rosneft.
60	Internal documents of the joint-stock company should contain a list of information, documents, and materials, to be provided to shareholders for the transaction of business included on the agenda of the general meeting of shareholders	Observed	Clause 9.5, 'Information (materials) for the General Meeting of Shareholders', of Article 9, 'The General Meeting of Shareholders', of the Charter of OJSC Rosneft.
61	The joint-stock company should have a web site in the Internet and disclose information about itself on this site on a regular basis	Observed	www.rosneft.ru In accordance with Article 4 of the Regulation on Information Policy of OJSC Rosneft, disclosure of information on the Company in the Internet is one method of disseminating information about the Company.
62	Internal documents of the joint-stock company should require disclosure of information on transactions by the company with persons who are, pursuant to the charter, senior executive officers of the company, as well as on transactions of the company with organizations, in which senior executive officers of the company directly or indirectly hold 20 or more percent of authorized capital or which can be otherwise significantly influenced by such persons	Observed	Disclosure of information meets requirements of law of the Russian Federation and the Regulation on Information Policy of OJSC Rosneft.
63	Internal documents of the joint stock company should require disclosure of information on all transactions, which may affect the market value of stocks of the company	Observed	Disclosure of information meets the requirements of Russian law and the Regulation on Information Policy of OJSC Rosneft.
64	There should be an internal document approved by the board of directors related to the use of significant information on activities of the joint stock company, stocks, and other securities of the company and transactions therewith, if such information is not in the public domain and its disclosure may materially affect the market value of the company's stocks and other securities	Observed	The Regulation on Insider Information of OJSC Rosneft (approved by resolution of the Board of Directors of OJSC Rosneft on May 17, 2006 and approved in a revised version on December 30, 2011).

№	Code provision	Observed/ Not observed	Notes
CONTROL OVER FINANCIAL AND BUSINESS ACTIVITIES			
65	There should be procedures, approved by the board of directors, for internal control over financial and business activities of the joint-stock company	Observed	The Regulation on Internal Control over Financial and Business Activities of OJSC Rosneft (approved by the Board of Directors of OJSC Rosneft on May 17, 2006).
66	There should be a special division of the joint-stock company (the internal control and audit service), which ensures that internal control procedures are complied with	Observed	The Internal Control and Audit Department was set up as part of work by the Company to improve internal control and audit, based on a resolution of the BoD of OJSC Rosneft, dated 23.06.2011, through the merger of the Control and Audit Division (created on 31.05.1999) and the Internal Audit Division (created on 31.05.2007) and creation of new Division for Internal Audit Methodology. The activity of the Department with respect to internal control is governed by Article 24, 'The System for Control over Financial and Business Activities of the Company', of Chapter 5 of the Code of Corporate Conduct of OJSC Rosneft, and by Article 4, 'Organization of Internal Control', of the Regulation on Internal Control over the Financial and Business Activities of OJSC Rosneft.
67	Internal documents of the joint-stock company should require the board of directors to define the structure and content of the company's internal control and audit service	Observed	Article 7, 'Organizational Structure of the Internal Control and Audit Department', of the Regulation on Internal Control of Financial and Business Activities of OJSC Rosneft.
68	The internal control and audit service should not include any person who has been found guilty of any economic crime or crime against government, the interests of government or local authorities, or who has been subject to any administrative penalties for violations in the sphere of business and finance, taxation, or the securities market	Observed	Complied with in practice. Provisions of Article 7, 'Organizational Structure of the Internal Control and Audit Department', of the Regulation on Internal Control of Financial and Business Activities of OJSC Rosneft.
69	The internal control and audit service should not include any persons who serve on executive bodies of the joint-stock company or persons who are shareholders, the general director (manager), members of management bodies, or employees of a legal entity, which is a competitor of the company	Observed	Complied with in practice. Provisions of Article 7, 'Organizational Structure of the Internal Control and Audit Department' of the Regulation on Internal Control over Financial and Business Activities of OJSC Rosneft.
70	Internal documents of the joint-stock company should specify a time limit for presentation of documents and materials to the internal control and audit service for appraisal of any completed financial or business transaction, and should also specify liability of company officers and employees for failure to present such documents and materials within the prescribed time	Observed	Time limits for presentation of documents and materials for appraisal of financial and business transactions are defined by internal documents regulating activity of the Internal Audit Department.
71	Internal documents of the joint-stock company should oblige the internal control and audit service to notify the audit committee of any violations that may be discovered and, if there is no such committee, to notify the board of directors	Observed	Clause 2 of Article 12, 'Measures to Eliminate Violations and Shortcomings Discovered in the course of Internal Audit', of the Regulation on Internal Control of Financial and Business Activities of OJSC Rosneft.
72	The Charter of the joint-stock company should oblige the internal control and audit service to make a preliminary appraisal of advisedness of operations that were not envisaged by the financial and business plan of the joint-stock company (non-standard operations)	Not observed	Not applicable to the Company, since, compliant with sub-clause 10.1.8 (1) of clause 10.1 of Article 10 of the Charter of OJSC Rosneft, decisions on non-standard operations or transactions that may or do cause a change to the Company's business plan are in the sole competence of the Board of Directors.
73	Internal documents of the joint-stock company should include a procedure for approval of any non-standard operation by the board of directors	Observed	In accordance with clause 10.1.8 (1) of the Charter of Rosneft, the Board of Directors is responsible for any decision concerning execution, change or early termination of non-standard operations of the Company. The procedure for preparation of materials for review of such a matter by the Board of Directors is defined by the Rosneft Corporate Standard, 'Preparation and conduct of meetings of the Board of Directors and of Committees of the Board of Directors of Rosneft'.

№	Code provision	Observed/ Not observed	Notes
74	There should be an internal document approved by the board of directors defining the procedure for audit of financial and business activities of the joint-stock company by the internal audit commission	Observed	The Regulation on the Internal Audit Commission of OJSC Rosneft (a new version was approved by the General Meeting of Shareholders of OJSC Rosneft on June 19, 2009).
75	The audit committee should give an assessment of the opinion of the certified public accountant prior to its presentation to shareholders at the general meeting of shareholders	Observed	Clause 1 of Article 9, 'The Audit Committee of the Board of Directors', of Chapter 2, 'The Board of Directors', of the Code of Corporate Conduct of OJSC Rosneft. Clause 1 of Article 3, 'Functions of the Committee', of the Regulation on the Audit Committee of the Board of Directors of OJSC Rosneft.
DIVIDENDS			
76	There should be an internal document approved by the board of directors, by which the board of directors is governed when making recommendations on the amount of dividends to be paid (regulation on dividend policy)	Observed	The Regulation on Dividend Policy of OJSC Rosneft (approved by the Board of Directors of OJSC Rosneft on May 17, 2006 with additions approved on March 3, 2011).
77	The regulation on dividend policy should include a procedure for determining a minimum share of net profit of the joint-stock company to be applied in payment of dividends, and should define the conditions, in which dividends on preference stocks, as prescribed in the company charter, are not paid or are paid only in part	Observed	Clause 2 of Article 4, 'Principles of Company dividend policy', of the Regulation on Dividend Policy of OJSC Rosneft. The Company Charter does not envisage placement of preference stocks.
78	Information on dividend policy of the joint stock company and changes to it should be published in a periodical publication which is prescribed by the company charter for publishing of announcements of general meetings of shareholders, and should also be placed on the company web site in the Internet	Observed	Information on dividend policy of OJSC Rosneft and changes to it is placed on the web site of the Company in the Internet.

Appendix 4

Taxation of Dividends and Capital Gains

Taxation of Dividends and Capital Gains

The following summary of material U.S. federal income, United Kingdom and Russian tax consequences of ownership of securities is based upon laws, regulations, decrees, rulings, income tax conventions(treaties), administrative practice and judicial decisions in effect as of April 30, 2013. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the securities. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of securities. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of the securities, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of April 30, 2013, and of any actual changes in applicable tax laws after such date.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

This section is a summary, under current law, of certain U.S. federal income tax considerations relevant to beneficial owners of the ordinary shares or GDRs that are eligible for benefits as U.S. residents under the current income tax convention between the United States and Russia (the "Treaty") in respect of their investment in the ordinary shares or GDRs ("U.S. shareholders"). In general, a shareholder will be eligible for such benefits if the shareholder:

- Is:
  - An individual U.S. citizen or resident;
  - A U.S. corporation; or
  - A partnership, estate, or trust to the extent the shareholder's income is subject to taxation in the United States as the income of a resident, either in the shareholder's hands or in the hands of the shareholder's partners or beneficiaries;
- Is not also a resident of Russia for Russian tax purposes;
- Is the beneficial owner of the ordinary shares or GDRs (and the dividends paid with respect thereto);
- Holds the ordinary shares or GDRs as a capital asset for tax purposes;
- Does not hold the ordinary shares or GDRs in connection with the conduct of business through a permanent establishment, or the performance of personal services through a fixed base, in Russia; and
- Is not subject to an anti-treaty shopping provision in the Treaty that applies in limited circumstances.

This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, and does not address the tax treatment of investors who are subject to special rules. It is based upon the assumption that prospective shareholders are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject.

This summary has been written to support the marketing of the ordinary shares or GDRs. It is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding U.S. federal income tax penalties. Investors should consult their own tax advisors in determining the tax consequences to them of investing in the ordinary shares or GDRs, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

In general, for U.S. federal income tax purposes, U.S. shareholders will be treated as the beneficial owners of the ordinary shares underlying their GDRs.

Taxation of Dividends

U.S. shareholders must include the gross amount of cash dividends paid in respect of the ordinary shares or GDRs, without reduction for Russian withholding tax, in ordinary income on the date that they are treated as having received them, translating dividends paid in rubles into U.S. dollars using the exchange rate in effect on that date. Such dividends generally will constitute foreign-source "passive category income" (or, for certain U.S. shareholders, "general category income") for U.S. foreign tax credit purposes, and will not be eligible for the "dividends received" deduction generally allowed to corporate shareholders. If the rubles so received are converted into U.S. dollars on the date of receipt, the U.S. shareholder generally should not recognize foreign currency gain or loss on such conversion; any gain or loss on a subsequent conversion or other disposition of such rubles generally will be treated as U.S.-source ordinary income or loss.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by a non-corporate U.S. shareholder in respect of the ordinary shares or GDRs, 2013 will be subject to taxation at a maximum rate of 20% if the dividends are "qualified dividends." Dividends received in respect of the ordinary shares or GDRs will be qualified dividends if the Company:

- Is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules; and
- Was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC").

The Treaty has been approved for the purposes of the qualified dividend rules. Based on the Company's audited financial statements and relevant market data, the Company does not anticipate being classified as a PFIC with respect to the 2012 taxable year, nor does it anticipate becoming a PFIC for the 2013 taxable year.

Russian tax withheld from dividends will be treated, up to the 10% rate provided under the Treaty, as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, generally is eligible for credit against the U.S. federal income tax liability of U.S. shareholders or, if they have elected to deduct such taxes, may be deducted in computing taxable income. See"—Russian Federation Tax Considerations—Taxation of Dividends—Non-Resident Holders" regarding the position that the Company intends to take in respect of its obligation to withhold Russian withholding tax on dividends that it pays to the Depositary.

In the case of any refund of Russian withholding tax pursuant to the Treaty, fluctuations in the ruble dollar exchange rate between the date that a U.S. shareholder is treated as receiving a dividend and the date that it receives the related refund of Russian withholding tax may give rise to foreign currency gain or loss, which generally is treated as ordinary income or loss for U.S. tax purposes.

Taxation of Sales or Other Taxable Dispositions

Sales or other taxable dispositions by U.S. shareholders generally will give rise to capital gain or loss equal to the difference between the U.S. dollar value of the amount realized on the disposition and the U.S. shareholder's U.S. dollar basis in the ordinary shares or GDRs. Any such capital gain or loss generally will be long-term capital gain or loss, subject to taxation at reduced rates for non-corporate taxpayers, if the ordinary shares or GDRs were held for more than one year. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding

Dividends paid in respect of the ordinary shares or GDRs, and payments of the proceeds of a sale of the ordinary shares or GDRs, paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. A holder that is not a U.S. person generally will not be subject to information reporting or backup withholding, but may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries. The amount of any backup withholding will be allowed as a credit against the shareholder's U.S. federal income tax liability and may entitle the shareholder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

U.K. TAX CONSIDERATIONS

The comments below are of a general nature and are based on current UK tax law and published H.M. Revenue & Customs practice as of April 30, 2013, as well as the provisions of the 1994 Income and Capital Gains Tax Convention between the United Kingdom and Russia (referred to in this discussion as the ''UK Treaty''), each of which is subject to change, possibly with retrospective effect.

The summary only covers the principal UK tax consequences for the absolute beneficial owners of ordinary shares and GDRs (and any dividends paid in respect of them), in circumstances where the dividends paid are regarded for UK tax purposes as that person's own income (and not the income of some other person) and who:

- Are resident (and, in the case of individuals only, domiciled) in the United Kingdom for tax purposes;
- Are not resident in any other jurisdiction;
- Do not have a permanent establishment or fixed base in any other jurisdiction with which the holding of the ordinary shares or GDRs is connected; and
- Have not (and are not deemed to have) acquired the ordinary shares or GDRs by virtue of an office or employment.

Such absolute beneficial owners of the ordinary shares or GDRs are referred to in this discussion as "UK holders.'' In addition, the summary only addresses the principal UK tax consequences for UK holders who hold the ordinary shares or GDRs as capital assets. It does not address the UK tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares or securities. It also does not address the UK tax consequences for holders that are banks, financial institutions, insurance companies, collective investment schemes, charities, tax-exempt organizations or persons connected with the Company.

Further, the summary assumes that:

- A holder of the GDRs is, for UK tax purposes, absolutely beneficially entitled to the underlying ordinary shares and to the dividends on those ordinary shares;
- The UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the shares, voting rights and/or rights to profits or capital of the Company and is not otherwise connected with the Company; and
- The ordinary shares will not be registered in a register kept in the United Kingdom by or on behalf of the Company.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK tax law and H.M. Revenue & Customs practice, of the acquisition, ownership and disposition (or deemed disposition) of ordinary shares or GDRs in their own particular circumstances, by consulting their own tax advisors.

Taxation of Dividends

WITHHOLDING TAX

The Company need not make any deduction or withholding from payments of dividends for or on account of UK tax.

TAX LIABILITY FOR INDIVIDUAL HOLDERS

Dividends received by individual UK holders will generally be subject to UK income tax on the full amount of the dividend paid (before the deduction of any Russian withholding tax), grossed up for the amount of the non-refundable dividend tax credit referred to below, with potential credit for Russian tax deducted at source (as described below).

Additional rate taxpayers are currently subject to UK income tax on the gross amount of such dividends at a rate of 37.5%. Higher rate taxpayers are currently subject to UK income tax on the gross amount of such dividends at a rate of 32.5%, and other individual taxpayers are subject to UK income tax on the gross amount of such dividends at a rate of 10%. Individual UK holders are entitled to a dividend tax credit equal to one ninth of the full amount of the dividend paid (before deduction of any Russian withholding tax). This tax credit is set against the UK holder's UK tax liability on the gross dividend, but cannot be claimed as a cash payment in the event that the UK holder's tax liability is less than the associated credit. After taking into account the tax credit, the effective rate of tax for higher rate taxpayers is 25% of the dividend paid, and the effective rate of tax for other individual taxpayers is 0%. For dividends subject to the additional rate of income tax, the effective rate of tax is approximately 30% of the dividend paid. An individual's dividend income is treated as the top slice of their total income which is chargeable to UK income tax.

TAX LIABILITY FOR CORPORATE SHAREHOLDERS

A UK holder within the charge to corporation tax will, subject to certain anti-avoidance rules, generally be entitled to exemption from UK corporation tax in respect of dividend payments if the dividend falls within certain broadly defined classes. If the conditions for the exemption are not satisfied, or a UK holder elects for an otherwise exempt dividend to be taxable, the dividend will be subject to UK corporation tax at the applicable rate. UK corporation tax will be chargeable on the gross amount of any dividends, subject to any applicable credit for Russian tax deducted at source (as described below).

CREDIT FOR RUSSIAN WITHHOLDING TAX[1]

When the Company pays dividends to UK holders, it generally must, for Russian tax purposes, act as a tax agent to withhold tax and remit the amount of tax due to the Russian state budget. See "Taxation—Russian Federation Tax Considerations— Taxation of Dividends." Under the UK Treaty, UK holders may be able to obtain relief at source, or a refund from the Russian tax authorities, in respect of withholding tax to the extent that it is levied at a rate in excess of 10% of the gross amount of the dividend. However, see "Taxation —Russian Federation Tax Considerations —Taxation of Dividends" and "Taxation —Russian Federation Tax Considerations — Tax Treaty Procedures". Credit may be given to (i) individual UK holders and (ii) corporate UK holders whose dividends are not exempt from UK corporation tax, for Russian tax withheld from dividends, subject to general rules regarding the calculation and availability of such credit. These rules include a requirement to take all reasonable steps to minimize the amount of Russian withholding tax (for example, by claiming relief under the UK Treaty). Any excess credits over the UK tax payable in respect of the dividends would generally not be refundable.

Provision of Information

Persons in the United Kingdom paying "foreign dividends" to, or receiving "foreign dividends" on behalf of, another person, may, in certain circumstances, be required to provide certain information to H.M. Revenue & Customs regarding the identity of the payee or the person entitled to the "foreign dividend", and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in accordance with guidance published by H.M. Revenue & Customs applicable for the 2013 – 2014 tax year, dividend payments in respect of ordinary shares or GDRs should not be treated as falling within the scope of the requirement. There is no guarantee that equivalent guidance will be issued in respect of future years.

Taxation of Capital Gains

The disposal or deemed disposal of ordinary shares or GDRs by UK holders may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains (where the UK holder is an individual) and UK corporation tax on chargeable gains (where the UK holder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief. In addition, individual UK holders who dispose of their ordinary shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the UK. Any gains or losses in respect of currency fluctuations relating to the ordinary shares or GDRs would also be brought into account on the disposal.

The principal factors that will determine the extent to which an individual UK holder's gain will be subject to capital gains tax are the extent to which they realize any other capital gains in that year, the extent to which they have incurred capital losses in that or any earlier year, and the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the "annual exemption").

The annual exemption for individuals is GBP 10,900 for the 2013—2014 tax year. If, after all allowable deductions, an individual UK holder's taxable income for the year exceeds the basic rate income tax limit, a taxable capital gain accruing on a disposal or deemed disposal of ordinary shares or GDRs will be taxed at 28%. In other cases, a taxable capital gain accruing on a disposal or deemed disposal of ordinary shares or GDRs may be taxed at 18% or 28% or at a combination of both rates.

A UK holder that is a company is entitled to an indexation allowance that applies to reduce capital gains to the extent that they arise due to inflation. Indexation allowance may reduce a chargeable gain but not create an allowable loss.

Credit for Russian Withholding Tax[2]

As discussed under the heading "Taxation—Russian Federation Considerations—Taxation of Capital Gains—Non Resident Holders", certain capital gains may be subject to Russian withholding tax. Credit against UK tax may be given for Russian tax withheld, subject to general rules regarding the calculation and availability of such credit, including a requirement to take all reasonable steps to minimize the amount of Russian tax on such capital gains. See "Taxation—Russian Federation Tax Considerations—Tax Treaty Procedures."

Stamp Duty and Stamp Duty Reserve Tax

No stamp duty will be payable in the UK in connection with a transfer of ordinary shares provided that any instrument of transfer is executed and retained outside the UK.

No stamp duty reserve tax ("SDRT") will be payable in the UK in respect of any agreement to transfer ordinary shares for so long as they continue to be registered on a share register maintained outside the UK.

No stamp duty or SDRT will arise in the UK in respect of any dealings in the GDRs within a clearance service, where such dealings are effected in electronic book entry form in accordance with the procedures of the clearance service.

1. Subject to any update to the Russian tax disclosure.
2. Subject to any update to the Russian tax disclosure.

Inheritance Tax

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by, the owner of ordinary shares or GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the UK. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit.

Individual UK holders should consult an appropriate professional adviser if they make a gift or transfer of value of any kind or intend to hold ordinary shares or GDRs through trust arrangements.

RUSSIAN FEDERATION TAX CONSIDERATIONS

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the ordinary shares or the GDRs and to the purchase, ownership and disposition of such ordinary shares or GDRs by their Russian resident and non-resident holders. The summary is based on the laws of Russia in effect on January 1, 2009. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable

double tax treaty. Prospective investors should consult their own advisors regarding the tax consequences of investing in the ordinary shares or the GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to the ordinary shares and the GDRs are characterized by uncertainties and by an absence of interpretative guidance. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a “non-resident holder” means:

- A physical person, actually present in the Russian Federation for less than 183 days in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) that holds securities; or
- A legal person or organization, in each case not organized under Russian law, that holds and disposes of securities otherwise than through a permanent establishment in Russia.

For the purposes of this summary, a “Russian resident holder” means:

- A physical person, actually present in the Russian Federation for 183 days or more in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) that holds securities;
- A legal person or organization, in each case organized under Russian law, that holds securities; or
- A legal person or organization, in each case organized under a foreign law, that holds and disposes of securities through its permanent establishment in Russia.

Taxation of Dividends

A Russian company that pays dividends generally must act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian state budget. However, the applicable withholding tax rate will depend on the status of the dividend’s recipient.

RUSSIAN RESIDENT HOLDERS

Dividends paid to Russian resident holders of ordinary shares are generally subject to Russian withholding tax at a rate of 9%. The effective rate of this tax may be lower than 9% owing to the fact that the Company should calculate this tax by multiplying the tax rate (9%) by the difference between (i) the dividends to be distributed by the Company to its shareholders (other than to non-resident companies and non-resident individuals) and (ii) dividends collected by the Company in the current and preceding tax periods from other Russian entities.

There are uncertainties in relation to withholding tax on dividends payable to Russian resident GDR holders. In particular, it is unclear whether this income may be treated as dividends for Russian tax purposes and what tax rate applies to this income. Also, there are no specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners. It is unclear therefore how the Russian tax authorities and courts will ultimately treat GDR holders in this regard. In 2005 and 2006, the Ministry of Finance expressed an opinion that GDR holders (rather than the relevant depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residence of the GDR holders is duly confirmed.

In view of the foregoing, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the ordinary shares or the GDRs.

NON-RESIDENT HOLDERS

Dividends paid to non-resident holders of ordinary shares generally will be subject to Russian withholding tax, which will be withheld by the Company acting as a tax agent. The applicable domestic rates of withholding tax on such dividends currently are:

- 15% in the case of dividends paid to non-resident holders that are legal entities or organizations; and
- 30% in the case of dividends paid to non-resident individual holders.

These rates may be reduced under the terms of income tax treaties to which Russia is a party. However, because the beneficial ownership concept is not developed in Russian law, it is not clear whether the Depositary (the legal holder of the shares) or a GDR holder should be treated for the purposes of such treaties as the beneficial owner of the ordinary shares underlying the GDRs.

Unless the Company receives adequate clarification from the Russian tax authorities that, subject to certain certification requirements, it is appropriate under Russian law to withhold Russian withholding tax in respect of dividends that it pays to the Depositary at reduced rates under the relevant treaties instead of at the domestic rates applicable to such payments (currently 15%), the Company intends to withhold Russian withholding tax at the domestic rates applicable to such dividends, regardless of whether the Depositary (the legal owner of the shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant income tax treaty if it were the beneficial owner of the dividends for purposes of that treaty.

Although non-resident GDR holders may apply for a refund under the relevant income tax treaty of a portion of the amount withheld by the Company, the Company cannot make any assurances that the Russian tax authorities will grant any refunds.

Taxation of Capital Gains

RUSSIAN RESIDENT HOLDERS

Legal entities and organizations

Capital gains arising from the sale of ordinary shares or GDRs by any Russian resident holder that is a legal entity or organization will be taxable at a regular Russian tax rate of 24%. Russian tax law requires that profit arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profits and losses from operations with securities that are not quoted on a stock exchange and from operating profits and losses. Therefore, Russian resident holders that are not individuals may be able to apply losses arising in respect of sales of the ordinary shares or GDRs only to offset capital gains, or as a carry forward to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a dealer license. Transactions with the ordinary shares and the GDRs will also be subject to transfer pricing rules established by the Tax Code.

Individuals

Under Russian law, capital gains arising from a sale, exchange or other disposition of the ordinary shares or the GDRs by Russian resident holders will be subject to tax at a rate of 13% on an amount equal to the sales price less the acquisition value of the securities less other documented expenses related to the purchase, holding and sale of such securities. If the sale is made by a resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a registered permanent establishment in Russia, such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The amount of tax withheld will be calculated after taking into account deductions for the acquisition value and related expenses. The tax agent would be required to report to the Russian tax authorities the income realized by the resident individual and tax withheld upon the sale of securities by 1 April of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the resident holder would have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

Because Russian law related to taxation of income derived by Russian resident holders (including legal entities, organizations and individuals) on a sale, exchange or other disposition of the ordinary shares or the GDRs is not entirely clear, Rosneft urges Russian residents to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the ordinary shares or the GDRs.

NON-RESIDENT HOLDERS

Legal entities and organizations

Under current Russian law, capital gains arising from the sale, exchange or other disposition of ordinary shares or GDRs by nonresident holders (legal entities or organizations) should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of the Company's assets.

The Company believes that immovable property located in Russia does not currently, and will not, constitute more than 50% of its assets. However, because the determination of whether more than 50% of the Company's assets consist of immovable property located in Russia is inherently factual and is made on an ongoing basis, and because the relevant laws and regulations are not entirely clear, there can be no assurance that immovable property located in Russia does not currently, or will not, constitute more than 50% of such assets.

If more than 50% of the Company's assets were to consist of immovable property located in Russia, then non-resident holders of ordinary shares or GDRs would be subject to a 20% withholding tax on the gross proceeds from a sale, exchange or other disposition of ordinary shares or GDRs, or 24% withholding tax on the capital gain realized from such sale, exchange or other disposal, capital gain being the difference between the sales price and acquisition costs of the ordinary shares or GDRs. However, gains arising from the sale of the ordinary shares or the GDRs on a foreign stock exchange by a non-resident holder that is a legal entity or organization should not be subject to taxation in Russia.

INDIVIDUALS

Under Russian personal income tax law, gains from a sale, exchange or other disposal of ordinary shares or GDRs by nonresident holders who are individuals will likely be considered Russian source income, but will be subject to tax at the rate of 30% at the source of payment only if the sale was made by a non-resident holder through or to a professional dealer or broker that is a Russian legal entity or a foreign company with a permanent establishment in Russia.

According to Russian tax legislation, taxation of income for non-resident individual holders will depend on whether this income is received from Russian or non-Russian sources. Russian tax law gives no clear indication as to how the sale of securities should be sourced, other than that income from the sale of securities "in Russia" is Russian source. As there is no further definition of what should be considered to be a sale "in Russia", the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the shares, or other similar criteria.

Any sale of securities in Russia by non-resident individual holders will be considered Russian source income and will be subject to tax at the rate of 30% on an amount equal to the sales price minus the acquisition value of the securities and other documented expenses related to the purchase, holding and sale of such securities. If the sale is made by a non-resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a registered permanent establishment in Russia, such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The amount of tax withheld will be calculated after taking into account deductions for the acquisition value and related expenses. The tax agent would be required to report to the Russian tax authorities the income realized by the resident individual and tax withheld upon the sale of the securities by 1 April of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the non-resident holder would have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

A non-resident holder may be exempt from Russian withholding tax on the sale, exchange or other disposition of ordinary shares or GDRs in Russia under the terms of a double tax treaty between Russia and the country of residence of the non-resident holder. For example, under the U.S.-Russia Tax Treaty, U.S. holders are exempt from the withholding tax on capital gains unless 50% or more of the assets of the Company are represented by immovable property located in Russia. The U.K.-Russia Tax Treaty provides for an exemption from withholding tax on capital gains received by U.K. holders unless the gains relate to shares that derive all or substantially all of their value directly or indirectly from immovable property in Russia and are not quoted on an approved stock exchange. See "—Tax Treaty Procedures."

Tax Treaty Procedures

The relief at source and refund procedures discussed below may be more complicated with respect to GDRs due to separation of legal ownership and beneficial ownership of the ordinary shares underlying the GDRs. Russian tax law does not provide for clear guidance regarding availability of double tax treaty relief for GDR holders. Therefore, the Company cannot assure prospective GDR holders that relief at source or refunds will be available under the applicable tax treaty in respect of Russian taxes payable or withheld in respect of dividends on ordinary shares represented by GDRs.

The Profits Tax Chapter of the Tax Code does not provide for the requirement that a non-resident holder that is a legal entity or organization must obtain tax treaty clearance from Russian tax authorities prior to receiving any income at a reduced rate of withholding tax at source under an applicable tax treaty. However, in connection with a tax audit, the Russian tax authorities may still dispute the non-resident's eligibility for the double tax treaty relief and require the tax agent (i.e., the company paying dividends or the Russian purchaser of the shares) to pay tax.

A non-resident investor seeking to obtain a reduced rate of Russian withholding tax at source under an income tax treaty must provide a confirmation of its tax treaty residence that is certified by the competent authorities in the relevant treaty jurisdictionin advance of the Company's payment of dividends. The residence confirmation needs to be reviewed on an annual basis and certified by the relevant authority. The residence confirmation may need to bear an apostille.

If the Russian tax authorities were to approve a certification process for the purposes of allowing the Company to withhold Russian withholding tax at reduced treaty rates in respect of dividends that it pays to the Depositary, it is anticipated that a U.S. GDR holder would be required to provide the Company with the U.S. GDR holder's certification of its last filed U.S. federal income tax return in the form of an IRS Form 6166 (an "IRS Form 6166") in order to allow the Company to comply with that certification process.

For this purpose, it also may be necessary for a non-resident GDR holder to demonstrate its legal title to the relevant GDR interest.

The Deposit Agreement provides that the Depositary will make all reasonable efforts to provide the Company with certifications and other documents that are required in order to comply with any certification process that has been approved by the Russian tax authorities for this purpose.

An IRS Form 6166 can generally be obtained by filing a request (generally an IRS Form 8802) with the Internal Revenue Service Center in Philadelphia, Pennsylvania, U.S. Residency Certification Request, P.O. Box 42530, Philadelphia PA 19101-2530, USA. U.S. GDR holders should consult their tax advisors and the instructions to IRS Form 8802 for further details on how to obtain this certification.

Under current Russian tax law and practice, advance relief from withholding taxes will generally be impossible for individual investors because it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before the year end as currently required.

If a non-resident does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian payer, the non-resident holder may apply for a refund within three years from the end of the tax period in which the tax was withheld, if the recipient is a legal entity or organization, or within the one-year period from the end of the tax period in which the tax was withheld, if the recipient is an individual. To process a claim of a refund, the Russian tax authorities require:

- An apostilled confirmation of the tax treaty residence of the non-resident at the time the income was paid;
- An application for refund of the tax withheld in a format provided by the Russian tax authorities (Form 1012DT for dividends and interest and 1011DT for other income); and
- Copies of the relevant contracts and payment documents confirming the payment of the tax withheld to the Russian Federation state budget.

The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within four month of the filing of the application for the refund and the relevant documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

Statement of Responsibility

To the best of my knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Rosneft. The management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of Rosneft.

Igor Sechin
President of OJSC Rosneft Oil Company

General Information About Rosneft

Date of State Registration and Certificate Number:

- Date of state registration of a legal entity: December 7, 1995.
- Certificate number: 024.537.
- Date of entry into the Unified State Register of Legal Entities regarding a legal entity registered prior to July 1, 2002: August 12, 2002.
- Certificate of Entry into the Unified State Register of Legal Entities Regarding a Legal EntityRegistered Prior to July 1, 2002: Series 77 No. 004856711.
- Principal State Registration Number: 1027700043502.

Activities

Rosneft's core activities are: prospecting and exploration of hydrocarbons; production, transportation, and refining of hydrocarbons; production and transportation of petroleum products and petrochemicals; storage and sale (both in the domestic and international markets) of hydrocarbons, petroleum products and petrochemicals; sale of consumer goods and services.

The Company is also engaged in various non-core activities.

Pursuant to Resolution of the Russian Government No.604-r of May 15, 2007, OJSC Rosneft Oil Company was included in the Russian Government's List of Strategic Enterprises and Organizations.

Pursuant to Decree of the President of the Russian Federation No.688 of May 21, 2012, OJSC Rosneft Oil Company was included in the List of Strategic Enterprises and Joint Stock Companies.

Contact Information

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Rosneft Oil Company

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