Rosneft Oil Company

Interim Condensed Consolidated Financial Statements (Unaudited)

Three months ended March 31, 2011 and 2010

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Contents

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Independent Accountant's Report

Shareholders and the Board of Directors
of Rosneft Oil Company

We have reviewed the accompanying consolidated balance sheet of OJSC Rosneft Oil Company and its subsidiaries ("the Company") as of March 31, 2011, and the related consolidated statements of income and comprehensive income and cash flows for the three-month periods ended March 31, 2011 and 2010. This interim condensed consolidated financial information is the responsibility of the Company's management.

We conducted our review in accordance with the standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2010, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and in our report dated February 4, 2011 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Ernst & Young LLC

April 28, 2011

Rosneft Oil Company

Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

	Notes	March 31, 2011 (unaudited)	December 31, 2010
ASSETS			
Current assets:			
Cash and cash equivalents	3	**4,808**	4,154
Restricted cash		**25**	30
Short-term investments	4	**8,806**	6,814
Accounts receivable, net	5	**8,253**	7,512
Inventories	6	**2,616**	2,111
Deferred tax assets		**239**	174
Prepayments and other current assets	7, 20	**1,829**	2,156
Assets held for sale	8	**95**	92
Total current assets		**26,671**	23,043
Non-current assets:			
Long-term investments	8	**3,097**	2,936
Long-term bank loans granted, net of allowance of US$ 34 and US$ 16, respectively		**296**	304
Property, plant and equipment, net	9	**62,705**	61,190
Goodwill		**4,507**	4,507
Intangible assets, net	9	**671**	767
Deferred tax assets		**191**	125
Other non-current assets	10	**1,317**	957
Total non-current assets		**72,784**	70,786
Total assets		**99,455**	93,829
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	11	**4,812**	3,861
Short-term loans and current portion of long-term debt	12	**5,363**	5,498
Income and other tax liabilities	13	**2,866**	1,971
Deferred tax liabilities		**99**	86
Other current liabilities		**213**	240
Liabilities related to assets held for sale	8	**136**	37
Total current liabilities		**13,489**	11,693
Asset retirement obligations		**2,796**	2,328
Long-term debt	12	**17,408**	18,057
Deferred tax liabilities		**5,217**	4,908
Other non-current liabilities	16	**1,142**	1,339
Total non-current liabilities		**26,563**	26,632
Equity:			
Common stock par value 0.01 RUB (shares outstanding: 9,599 million as of March 31, 2011 and December 31, 2010)		**20**	20
Treasury shares (at acquisition cost: 999 million as of March 31, 2011 and December 31, 2010)		**(7,511)**	(7,511)
Additional paid-in capital		**13,133**	13,110
Other comprehensive loss	2	**(18)**	(20)
Retained earnings		**52,819**	48,936
Total shareholders' equity		**58,443**	54,535
Noncontrolling interests		**960**	969
Total equity		**59,403**	55,504
Total liabilities and equity		**99,455**	93,829

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

Rosneft Oil Company

Consolidated Statements of Income and Comprehensive Income

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

	Notes	Three months ended March 31, 2011 (unaudited)	Three months ended March 31, 2010 (unaudited)
Revenues			
Oil and gas sales	19	**11,208**	8,047
Petroleum products and petrochemicals sales	19	**8,501**	6,310
Support services and other revenues		**414**	404
Total		**20,123**	14,761
Costs and expenses			
Production and operating expenses		**1,328**	1,084
Cost of purchased oil, gas and petroleum products		**1,105**	496
General and administrative expenses		**389**	350
Pipeline tariffs and transportation costs		**1,873**	1,764
Exploration expense		**87**	58
Depreciation, depletion and amortization		**1,443**	1,272
Accretion expense		**32**	25
Taxes other than income tax	15	**3,654**	2,582
Export customs duty	14	**5,034**	3,984
Total		**14,945**	11,615
Operating income		**5,178**	3,146
Other (expenses)/income			
Interest income		**171**	125
Interest expense		**(120)**	(162)
Loss on disposal of non-current assets		**(23)**	(30)
Impairment loss	8	**(2)**	–
Gain on disposal of investments		**1**	10
Equity share in affiliates' profits	8	**53**	32
Other (expenses)/income, net		**(120)**	29
Foreign exchange loss		**(20)**	(5)
Total other expenses, net		**(60)**	(1)
Income before income tax		**5,118**	3,145
Income tax	15	**(1,176)**	(653)
Net income		**3,942**	2,492
Net income attributable to noncontrolling interests		**(59)**	(61)
Net income attributable to Rosneft		**3,883**	2,431
Other comprehensive income	2	**2**	7
Comprehensive income		**3,885**	2,438
Net income attributable to Rosneft per share (in US$) – basic and diluted		**0.40**	0.25
Weighted average number of shares outstanding (millions)		**9,599**	9,597

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

Rosneft Oil Company

Consolidated Statements of Cash Flows

(in millions of US dollars)

	Notes	**Three months ended March 31, 2011 (unaudited)**	**Three months ended March 31, 2010 (unaudited)**
Operating activities			
Net income		**3,942**	2,492
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash operations		**(3)**	–
Effect of foreign exchange		**169**	187
Depreciation, depletion and amortization		**1,443**	1,272
Dry hole costs		**34**	9
Loss on disposal of non-current assets		**23**	30
Asset impairment loss		**2**	–
Deferred income tax benefit	15	**(126)**	(229)
Accretion expense		**32**	25
Equity share in affiliates' profits	8	**(53)**	(32)
Gain on disposal of investments		**(1)**	(10)
Increase in allowance for doubtful accounts and bank loans granted		**38**	9
Gain on extinguishment of promissory notes		**(1)**	(119)
Changes in operating assets and liabilities net of acquisitions:			
Increase in accounts receivable		**(784)**	(2,250)
Increase in inventories		**(511)**	(255)
Decrease/(Increase) in restricted cash		**5**	(3)
Decrease in prepayments and other current assets		**343**	81
(Increase)/Decrease in other non-current assets		**(3)**	3
(Increase)/Decrease in long-term bank loans granted		**(84)**	27
Decrease in interest payable		**(88)**	(63)
Increase in accounts payable and accrued liabilities		**1,092**	372
Increase in income and other tax liabilities		**695**	339
Decrease in other current and non-current liabilities		**(26)**	(57)
Acquisition of trading securities		**(374)**	(19)
Proceeds from sale of trading securities		**288**	478
Net cash provided by operating activities		**6,052**	2,287

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

Rosneft Oil Company

Consolidated Statements of Cash Flows (continued)

(in millions of US dollars)

	Notes	Three months ended March 31, 2011 (unaudited)	Three months ended March 31, 2010 (unaudited)
Investing activities			
Capital expenditures		**(2,761)**	(1,754)
Acquisition of licenses		**(125)**	–
Acquisition of rights to use trademarks "Sochi 2014"		**(5)**	(5)
Proceeds from disposal of property, plant and equipment		**8**	13
Acquisition of short-term investments, including			
Held-to-maturity securities		**(1,716)**	(45)
Available-for-sale securities		**(471)**	(216)
Proceeds from redemption/sale of short-term investments, including			
Held-to-maturity securities		**223**	305
Available-for-sale securities		**152**	1
Acquisition of long-term held-to-maturity securities		**(8)**	(31)
Proceeds from redemption/sale of long-term held-to-maturity securities		**61**	4
Acquisition of entities, additional shares in subsidiaries and equity investees, net of cash acquired		**(89)**	(6)
Placements under reverse REPO agreements		**(497)**	–
Receipts under reverse REPO agreements		**406**	–
Net cash used in investing activities		**(4,822)**	(1,734)
Financing activities			
Proceeds from short-term debt		**85**	28
Repayment of short-term debt		**(48)**	(25)
Proceeds from long-term debt		**316**	72
Repayment of long-term debt		**(1,158)**	(1,272)
Dividends paid to minority shareholders in subsidiaries		**–**	(4)
Net cash used in financing activities		**(805)**	(1,201)
Increase/(Decrease) in cash and cash equivalents		**425**	(648)
Cash and cash equivalents at beginning of period		**4,154**	1,997
Effect of foreign exchange on cash and cash equivalents		**229**	33
Cash and cash equivalents at end of period		**4,808**	1,382
Supplementary disclosures of cash flow information			
Cash paid for interest		**275**	235
Cash paid for interest (net of amount capitalized)		**181**	162
Cash paid for income tax		**896**	562

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

1. Nature of Operations

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

2. Significant Accounting Policies

Form and Content of the Interim Condensed Consolidated Financial Statements

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by Russian legislation. The accompanying interim condensed consolidated financial statements were derived from the Company's Russian statutory books and records with adjustments made to present them in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The interim condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with US GAAP for interim financial reporting of public companies, primarily with topic 270, *Interim Reporting*, of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), and do not include all disclosures required by US GAAP. The Company omitted disclosures which would substantially duplicate the information contained in its 2010 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequent to the issuance of its 2010 audited consolidated financial statements. Management believes that the disclosures are adequate to make the information presented not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's 2010 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company's consolidated financial position, results of operations and cash flows for the interim periods.

The results of operations for three months ended March 31, 2011 may not be indicative of the results of operations for the full year ended December 31, 2011. Subsequent events have been evaluated through April 28, 2011, the date these interim condensed consolidated financial statements were issued.

The accompanying interim condensed consolidated financial statements differ from the financial statements issued for statutory purposes in Russia in that they reflect certain adjustments, not recorded in the Company's statutory books, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP. The principal adjustments relate to: (1) recognition of certain expenses; (2) valuation and depreciation of property, plant and equipment; (3) foreign currency translation; (4) deferred income taxes; (5) valuation allowances for unrecoverable assets; (6) accounting for the time value of money; (7) accounting for investments in oil and gas property and conveyances; (8) consolidation principles; (9) recognition and disclosure of guarantees, contingencies, commitments and certain assets and liabilities; (10) accounting for asset retirement obligations; (11) business combinations and goodwill; (12) accounting for derivative instruments.

Certain items in the consolidated statement of income and comprehensive income for the three months ended March 31, 2010 were reclassified to conform to the current year presentation.

2. Significant Accounting Policies (continued)

Management Estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the amounts of revenues and expenses recognized during the reporting periods. Certain significant estimates and assumptions for the Company include: estimation of economically recoverable oil and gas reserves; rights to, recoverability and useful lives of long-term assets and investments; impairment of goodwill; allowances for doubtful accounts receivable; asset retirement obligations; legal and tax contingencies; environmental remediation obligations; recognition and disclosure of guarantees and other commitments; fair value measurements; ability to renew operating leases and to enter into new lease agreements, and classification of certain debt amounts. Management believes it has a reasonable and appropriate basis for its judgment pertaining to its estimates and assumptions. However, actual results could differ from those estimates.

Foreign Currency Translation

The management of the Company has determined that the US dollar ("US$") is the functional and reporting currency for the purpose of financial reporting under US GAAP. Monetary assets and liabilities have been translated into US$ using the official exchange rate of the Central Bank of the Russian Federation ("CBR") as of the balance sheet date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows have, where practicable, been translated into US$ at exchange rates that are close to the actual rate of exchange prevailing on transaction dates.

Gains and losses resulting from the re-measurement into US$ are included in "Foreign exchange loss" in the consolidated statements of income and comprehensive income.

As of March 31, 2011 and December 31, 2010, the CBR official rates of exchange were 28.43 rubles ("RUB") and 30.48 RUB per US$, respectively. Average rates of exchange in three months of 2011 and 2010 were 29.27 RUB and 29.89 RUB per US$, respectively. As of April 28, 2011, the official rate of exchange was 27.71 RUB per US$.

The translation of local currency denominated assets and liabilities into US$ for the purposes of these financial statements does not indicate that the Company could realize or settle, in US$, the reported values of these assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported US$ value of equity to its shareholders.

Principles of Consolidation

The interim condensed consolidated financial statements include the accounts of majority-owned, controlled subsidiaries and variable interest entities where the Company is a primary beneficiary. All significant intercompany transactions and balances have been eliminated. The equity method is used to account for investments in affiliates in which the Company has the ability to exert significant influence over the affiliates' operating and financial policies. The investments in entities where the Company holds the majority of shares, but the minority shareholders have significant participating rights, are also accounted for using the equity method. The Company's share in net profit or loss of equity investees also includes any other-than-temporary declines in fair value recognized during the period. Investments in other companies are accounted for at cost and adjusted for impairment, if any.

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments

FASB ASC 825, *Financial Instruments,* defines the fair value of a financial instrument as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial assets and financial liabilities recognized in the accompanying consolidated balance sheets include cash and cash equivalents, short-term and long-term investments, accounts receivable and payable, short-term and long-term debt and other current and non-current assets and liabilities.

The Company, using available market information, management's estimates and appropriate valuation methodologies, has determined the approximate fair values of financial instruments.

The Company applies FASB ASC 820, *Fair Value Measurements and Disclosures*, which establishes a fair value hierarchy and requires an entity to maximize the use of observable inputs when measuring fair value. FASB ASC 820 defines three levels of inputs that may be used to measure fair value:

Level 1– Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2– Observable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data.

Level 3– Unobservable inputs for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Income Tax

The Company follows the provisions of FASB ASC 740-270, *Income Taxes (Interim Reporting)*, to arrive at the effective tax rate. The effective tax rate is the best estimate of the expected annual tax rate to be applied to the taxable income for the current reporting period. The rate is based on the currently enacted tax rate (20%) and includes estimates of the annual tax effect of permanent differences and the realization of certain deferred tax assets. The expected effective tax rate may vary during the year.

Derivative Instruments

All derivative instruments are recorded on the consolidated balance sheets at fair value in either other current assets, other non-current assets, other current liabilities or other non-current liabilities. Recognition and classification of a gain or loss that results from recognition of a derivative instrument at fair value depends on the purpose for issuing or holding the derivative instrument. Gains and losses from derivatives that are not accounted for as hedges under FASB ASC 815, *Derivatives and Hedging*, are recognized immediately in the consolidated statements of income and comprehensive income.

Comprehensive Income

The Company applies FASB ASC 220, *Comprehensive Income*, which establishes standards for the calculation and reporting of the Company's comprehensive income (net income plus all other changes in net assets from non-owner sources) and its components in consolidated financial statements.

For the three months ended March 31, 2011 and 2010, the Company recorded other accumulated comprehensive income (net of tax) in the amount of US$ 2 million and US$ 7 million, respectively, which represent an unrealized financial result from the revaluation of available-for-sale investments.

2. Significant Accounting Policies (continued)

Accounting for Buy/Sell Contracts

The Company applies FASB ASC 845, *Nonmonetary Transactions,* which requires that two or more legally separate exchange transactions with the same counterparty, including buy/sell transactions, are combined and considered as a single arrangement, when the transactions are entered into "in contemplation" of one another.

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 "Interest expense" or "Interest income" at the contractually specified rate using the effective interest method.

Changes in Accounting Policies

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASU 2010-06") that amends Topic 820, *Fair Value Measurements and Disclosures*, of the FASB Codification. ASU 2010-06 requires separate disclosure of significant transfers between Level 1 and Level 2 fair value measurement inputs and a description of the reasons for the transfers. Entity is also required to present separately information about purchases, issuance, and settlements in the reconciliation for fair value measurements using Level 3 inputs. ASU 2010-06 amends existing disclosure requirements in regards of level of disaggregation and inputs and valuation techniques. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about activity in Level 3 fair value measurements that are effective for interim and annual periods beginning after December 15, 2010. The Company adopted ASU 2010-06 from January 1, 2010, except for the disclosures about activity in Level 3 fair value measurements that was adopted from January 1, 2011. Adoption of ASU 2010-06 did not have a material impact on the Company's consolidated financial position and results of operations.

In December 2010, The FASB issued ASU 2010-28, *Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* ("ASU 2010-28") that amends Topic 350, *Intangibles—Goodwill and Other*, of the FASB Codification. For the reporting units with zero or negative carrying value, an entity is required to perform the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company adopted ASU 2010-28 from January 1, 2011. Adoption of ASU 2010-28 did not have a material impact on the Company's consolidated financial position and results of operations.

In December 2010, The FASB issued ASU 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations* ("ASU 2010 29") that amends Topic 805, Business Combinations, of the FASB Codification. ASU 2010-29 specifies that an entity should disclose revenue and earnings of the combined entity in comparative period as though the business combination had occurred as of the beginning of the comparable prior annual reporting period. ASU 2010-29 also expands the supplemental pro forma disclosures. ASU 2010-29 is effective prospectively for business combinations occurred on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company adopted ASU 2010-29 for business combinations occurred on or after January 1, 2011. Adoption of ASU 2010-29 did not have a material impact on the Company's consolidated financial position and results of operations.

2. Significant Accounting Policies (continued)

Recent Accounting Standards

In April 2011, The FASB issued ASU 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring* ("ASU 2011-02") that amends Topic 310, *Receivables*, of the FASB Codification. ASU 2011-02 sets criteria of considering restructuring a trouble debt restructuring. The update also clarifies the guidance on creditor's evaluation of receivables according to the criteria. ASU 2011-02 is effective for the first interim or annual period beginning on or after June 15, 2011. The Company will adopt ASU 2011-02 from January 1, 2012. The Company does not expect ASU 2011-02 to have a material impact on the Company's consolidated financial position and results of operations.

3. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	March 31, 2011 (unaudited)	December 31, 2010
Cash on hand and at bank accounts in RUB	**435**	671
Cash on hand and at bank accounts in currencies other than RUB	**1,548**	843
Deposits	**2,780**	2,625
Other	**45**	15
Total cash and cash equivalents	**4,808**	4,154

Cash accounts denominated in currencies other than RUB are primarily in US$.

Deposits are interest bearing and denominated primarily in RUB.

As part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash. Banking relationships are primarily with Russian subsidiaries of international banking institutions and certain large Russian banks.

4. Short-Term Investments

Short-term investments comprise the following:

	March 31, 2011 (unaudited)	December 31, 2010
Short-term loans granted	**601**	1
Loans to related parties	**78**	70
Reverse repurchase agreements	**493**	403
Structured deposits (Note 20)	**4,407**	3,791
State and corporate bonds held-to-maturity	**5**	–
Trading securities		
State and corporate bonds	**806**	727
Other	**10**	2
Available-for-sale securities	**808**	487
Bank deposits	**1,598**	1,333
Total short-term investments	**8,806**	6,814

Short-term loans are denominated in US$ and bear interest rate of 3.75%.

4. Short-Term Investments (continued)

Structured deposits are denominated in US$ and have interest rates ranging from 5.5% to 7.2%. The bank deposits are primarily denominated in US$ and have interest rates ranging from 4.7% to 8.0%.

As of March 31, 2011, trading securities included state and municipal bonds with nominal interest rates ranging from 6.5% to 17.8% and maturities ranging from April 2011 to February 2036, corporate bonds issued by large Russian corporations with interest rates ranging from 6.6% to 19.0% and maturities ranging from June 2011 to June 2020, and bonds issued by the CBR with effective interest rates ranging from 3.19% to 3.48% and with maturities ranging from April 2011 to June 2011.

As of March 31, 2011, available-for-sale securities included state and municipal bonds, corporate bonds and corporate promissory notes. State bonds represented federal loan bonds issued by the Ministry of Finance of the Russian Federation with nominal interest rates ranging from 6.1% to 8.1% and maturities ranging from July 2012 to March 2018. Municipal bonds represented bonds with nominal interest rates ranging from 8.0% to 18.0% and maturities ranging from March 2012 to November 2018. Corporate bonds represented bonds issued by large Russian corporations with interest rates ranging from 6.75% to 18.0% and maturities ranging from July 2011 to February 2021. Corporate bonds in the amount of US$ 52 million were pledged under repurchase agreements (see Note 12). Corporate promissory notes represented promissory notes with nominal interest rates ranging from 2.99% to 4.5% with maturities ranging from July 2011 to December 2013 and nominally interest-free promissory notes with average effective interest rates ranging from 4.0% to 8.23% with maturities ranging from May 2011 to June 2015. Amortized cost bases of available-for-sale securities approximate their fair values.

5. Accounts Receivable, net

Accounts receivable comprise the following:

	March 31, 2011 (unaudited)	**December 31, 2010**
Trade receivables	**5,350**	4,077
Value-added tax and excise receivable (Note 18)	**1,878**	2,126
Other taxes	**181**	283
Banking loans to customers	**650**	789
Other	**345**	375
Less: allowance for doubtful accounts	**(151)**	(138)
Total accounts receivable, net	**8,253**	7,512

The Company’s trade accounts receivable are denominated primarily in US$. Credit risk is managed through the use of letters of credit. Credit risk for domestic sales of petroleum products is managed through the use of bank guarantees for receivables repayment.

6. Inventories

Inventories comprise the following:

	March 31, 2011 (unaudited)	December 31, 2010
Materials and supplies	**564**	451
Crude oil and gas	**795**	595
Petroleum products and petrochemicals	**1,257**	1,065
Total inventories	**2,616**	2,111

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

7. Prepayments and Other Current Assets

Prepayments and other current assets comprise the following:

	March 31, 2011 (unaudited)	December 31, 2010
Prepayments to suppliers	**526**	665
Prepaid customs duties	**1,077**	1,315
Insurance prepayments	**28**	6
Derivatives (Note 20)	**89**	77
Other	**109**	93
Total prepayments and other current assets	**1,829**	2,156

Prepaid customs duties primarily represent export duties related to the export of crude oil and petroleum products (see Note 14).

8. Long-Term Investments

Long-term investments comprise the following:

	March 31, 2011 (unaudited)	December 31, 2010
Equity method investments		
OJSC Tomskneft VNK	**1,345**	1,334
Polar Lights Company LLC	**75**	70
JV Rosneft-Shell Caspian Ventures Ltd.	**20**	19
OJSC Verkhnechonskneftegaz	**315**	277
National Oil Consortium Ltd.	**125**	3
CJSC Vlakra	**111**	110
Investments in power and utilities companies	**235**	190
Other	**171**	171
Total equity method investments	**2,397**	**2,174**
Available-for-sale securities		
Other securities in Company's banks	**19**	17
Bank deposits – US$ denominated	**3**	–
Held-to-maturity securities		
Russian government bonds	**46**	49
Long-term loans	**3**	–
Long-term loans to equity investees	**613**	679
Cost method investments	**16**	17
Total long-term investments	**3,097**	2,936

8. Long-Term Investments (continued)

Long-term loans to equity investees generally have contractual maturities from 3 to 8 years and primarily include loans to OJSC Verkhnechonskneftegaz.

In March 2011, the registration of National Oil Consortium Ltd.'s ("NOC") equity capital increase was completed. The increase reflected a conversion of the Rosneft's earlier loan into the contribution to NOC's equity. The Company's 20% ownership share in NOC did not change. NOC is involved in geological exploration of the Junin-6 block in Venezuela.

Equity share in profits/(loss) of material investments recorded using the equity method:

	Participation interest (percentage) as of March 31, 2011	Share in profits/(loss) of equity investees	
		Three months ended March 31, 2011 (unaudited)	Three months ended March 31, 2010 (unaudited)
Polar Lights Company LLC	**50.00**	**5**	5
OJSC Verkhnechonskneftegaz	**25.94**	**38**	4
JV Rosneft-Shell Caspian Ventures Ltd.	**51.00**	**1**	–
OJSC Kubanenergo	**25.00**	**2**	(30)
OJSC Tomskneft VNK	**50.00**	**11**	53
Other	**various**	**(4)**	–
Total equity share in profits		**53**	32

Assets Held For Sale

In December 2010, the Company signed an agreement of intent to exchange its interest in a number of equity investees and one subsidiary for noncontrolling interest in a major power and utilities holding company. Transaction is scheduled for completion in the second quarter of 2011.

The major classes of assets and liabilities included as part of a disposal group are the following:

	March 31, 2011 (unaudited)	December 31, 2010
Current assets	**60**	55
Equity investments	**28**	30
Other non-current assets	**7**	7
Total assets	**95**	92
Current liabilities	**136**	37
Total liabilities	**136**	37

The Company measured a disposal group at the lower of its carrying amount or fair value less cost to sell and recognized a US$ 2 million impairment loss in the consolidated statement of income and comprehensive income for the three months ended March 31, 2011.

The disposal group relates to "All other" category in Segment Information (Note 19).

9. Property, Plant and Equipment, net

Property, plant and equipment comprise the following:

	Cost		Accumulated depreciation		Net carrying amount	
	March 31, 2011 (unaudited)	**December 31, 2010**	**March 31, 2011 (unaudited)**	**December 31, 2010**	**March 31, 2011 (unaudited)**	**December 31, 2010**
Exploration and production	**69,160**	66,991	**(19,930)**	(18,784)	**49,230**	48,207
Refining, marketing and distribution	**15,989**	15,344	**(4,748)**	(4,562)	**11,241**	10,782
Other activities	**3,119**	3,026	**(885)**	(825)	**2,234**	2,201
Total property, plant and equipment	**88,268**	85,361	**(25,563)**	(24,171)	**62,705**	61,190

In the first quarter of 2011, the Company purchased land plots that previously were leased, and reclassified land leasehold rights in the amount of US$ 82 million from "Intangible assets" to "Property, plant and equipment" in the consolidated balance sheet as of March 31, 2011.

10. Other Non-Current Assets

Other non-current assets comprise the following:

	March 31, 2011 (unaudited)	**December 31, 2010**
Advances paid for capital construction	**1,109**	752
Debt issue costs	**53**	60
Prepaid insurance	**24**	17
Long-term receivables (Note 18)	**13**	13
Other	**118**	115
Total other non-current assets	**1,317**	957

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities comprise the following:

	March 31, 2011 (unaudited)	**December 31, 2010**
Trade accounts payable	**2,234**	1,457
Salary and other benefits payable	**626**	442
Advances received	**462**	601
Dividends payable	**11**	10
Banking customer accounts	**1,078**	1,067
Accrued expenses	**187**	163
Other	**214**	121
Total accounts payable and accrued liabilities	**4,812**	3,861

The Company's accounts payable are primarily denominated in RUB.

12. Short-Term Loans and Long-Term Debt

Short-term loans and borrowings comprise the following:

	March 31, 2011 (unaudited)	December 31, 2010
Customer deposits – currencies other than RUB	**86**	86
Customer deposits – RUB denominated	**310**	271
Promissory notes payable	**75**	84
Promissory notes payable – Yukos related	**1,405**	1,312
Borrowings – RUB denominated – Yukos related	**289**	269
Repurchase agreements	**45**	27
Other borrowings	**327**	286
	2,537	2,335
Current portion of long-term debt	**2,826**	3,163
Total short-term loans and borrowings and current portion of long-term debt	**5,363**	5,498

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks. As of March 31, 2011, customer deposits denominated in RUB bear interest rates ranging from 1.5% to 15% and those denominated in other currencies bear an interest ranging from 0.25% to 10.5%.

As of March 31, 2011, weighted average interest rate on promissory notes was 3.62%. The promissory notes are recorded at amortized cost.

Promissory notes payable – Yukos related represent financing originally received from the entities that were related to Yukos Oil Company on the debt issue date. The promissory notes are primarily payable on demand and bear interest ranging from 0% to 18%. The promissory notes are recorded at amortized cost.

RUB denominated borrowings – Yukos related primarily include borrowings provided by Yukos Capital S.a.r.l., which bear interest of 9% and matured at the end of 2007. The Company partially repaid these liabilities following the court order (see Note 18).

In 2010, the Company received cash under the repurchase agreements and recorded these transactions as secured financing. As of March 31, 2011 the amounts owned under these repurchase agreements were RUB 1,280 million (US$ 45 million at the CBR official exchange rate as of March 31, 2011) and were secured by the corporate bonds owned by the Company with the fair value of US$ 52 million (see Note 4).

During the first quarter of 2011, the Company wrote off unclaimed promissory notes where statute of limitations expired and recognized gain in the amount of US$ 1 million in the consolidated statement of income and comprehensive income within other income.

Long-term debt comprises the following:

	March 31, 2011 (unaudited)	December 31, 2010
Bank loans – currencies other than RUB	**19,917**	20,716
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US$ denominated	**–**	110
Customer deposits – currencies other than RUB	**40**	44
Customer deposits – RUB denominated	**272**	277
Promissory notes payable	**1**	69
Other borrowings	**4**	4
	20,234	21,220
Current portion of long-term debt	**(2,826)**	(3,163)
Total long-term debt	**17,408**	18,057

12. Short-Term Loans and Long-Term Debt (continued)

As of March 31, 2011, the interest rates on the Company's long-term bank loans denominated in currencies other than RUB range from LIBOR plus 0.58% to 4.35%. These bank loans are primarily secured by contracts for the export of crude oil.

As of March 31, 2011, the bank loan raised for funding the acquisition of OJSC Yuganskneftegaz was fully repaid.

As of March 31, 2011, customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks. The RUB-denominated deposits bear interest ranging from 1% to 16.25%. Deposits denominated in currencies other than RUB bear interest of 0.75% to 14.5%.

As of March 31, 2011, weighted average interest rate on promissory notes payable was 10.61%. The promissory notes are recorded at amortized cost.

Generally, long-term loans are secured by oil export contracts. Usually, under the terms of such contracts, the lender is provided with an express right of claim for contractual revenue which must be remitted directly to transit currency (US$ denominated) accounts with those banks, should the Company fail to make timely debt repayments.

The Company is obliged to comply with a number of restrictive financial and other covenants contained within its loan agreements. Restrictive covenants include maintaining certain financial ratios.

As of March 31, 2011, the Company is in compliance with all restrictive financial and other covenants contained within its loan agreements.

The scheduled aggregate maturity of long-term debt outstanding as of March 31, 2011 is as follows:

	Through December 31 (Unaudited)
2011	**2,171**
2012	**2,093**
2013	**665**
2014	**625**
2015	**1,041**
2016 and after	**13,639**
Total long-term debt	**20,234**

13. Income and Other Tax Liabilities

Income and other tax liabilities comprise the following:

	March 31, 2011 (unaudited)	**December 31, 2010**
Mineral extraction tax	**1,369**	1,103
Value-added tax	**526**	347
Excise tax	**240**	135
Personal income tax	**18**	16
Property tax	**93**	66
Income tax	**493**	205
Other	**127**	99
Total income and other tax liabilities	**2,866**	1,971

Tax liabilities above include the respective current portion of non-current restructured tax liabilities (see Note 16).

14. Export Customs Duty

Export customs duty comprises the following:

	Three months ended March 31, 2011 (unaudited)	Three months ended March 31, 2010 (unaudited)
Export customs duty on oil and gas sales	**3,770**	3,015
Export customs duty on petroleum products and petrochemicals sales	**1,264**	969
Total export customs duty	**5,034**	3,984

15. Income and Other Taxes

Income tax expenses comprise the following:

	Three months ended March 31, 2011 (unaudited)	Three months ended March 31, 2010 (unaudited)
Current income tax expense	**1,302**	882
Deferred income tax benefit	**(126)**	(229)
Total income tax expense	**1,176**	653

As of March 31, 2011 the Company analyzed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Company believes that it is more likely than not that the majority of all deductible tax positions stated in the income tax return would be sustained upon the examination by the tax authorities. This is supported by the results of the examinations of the income tax returns which have been conducted to date.

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

	Three months ended March 31, 2011 (unaudited)	Three months ended March 31, 2010 (unaudited)
Mineral extraction tax	**2,946**	2,128
Excise tax	**421**	251
Property tax	**104**	66
Other	**183**	137
Total taxes other than income tax	**3,654**	2,582

16. Other Non-Current Liabilities

Other non-current liabilities comprise the following:

	March 31, 2011 (unaudited)	December 31, 2010
Restructured tax liabilities	**815**	1,020
Long-term lease obligations	**95**	97
Deferred income	**10**	20
Liabilities to municipalities under amicable agreements	**50**	51
Liabilities for rights to use trademarks "Sochi 2014"	**35**	38
Environmental remediation liability	**134**	111
Other	**3**	2
Total other non-current liabilities	**1,142**	1,339

Under the tax restructuring plan, the restructured tax liabilities shall be repaid quarterly within five years starting from March 2008. The Company's payments excluding interest amounted to RUB 2,282 million and RUB 1,612 million (US$ 80.7 million and US$ 54.5 million at the CBR official exchange rate as of the payment dates) for three months ended March 31, 2011 and 2010, respectively.

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

17. Related Party Transactions

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

Total amounts of transactions and balances with companies controlled by the Russian Government for each of the reporting periods ending March 31, as well as related party balances as of March 31, 2011 and December 31, 2010 are provided in the tables below:

	Three months ended March 31, 2011 (unaudited)	Three months ended March 31, 2010 (unaudited)
Revenues and Income		
Oil and gas sales	**416**	53
Petroleum products and petrochemicals sales	**279**	106
Support services and other revenues	**7**	14
Interest income	**89**	45
	791	218
Costs and expenses		
Production and operating expenses	**30**	27
Pipeline tariffs and transportation costs	**1,423**	891
Other expenses	**1**	16
Interest expense	**–**	3
Banking fees	**2**	3
	1,456	940

17. Related Party Transactions (continued)

	Three months ended March 31, 2011 (unaudited)	Three months ended March 31, 2010 (unaudited)
Other operations		
Purchase of short-term and long-term investments	**22**	–
Proceeds from short-term and long-term debt	–	3
Repayment of short-term and long-term debt	**112**	355
Deposits placed	**218**	–
Deposits withdrawn	**1,330**	329

	March 31, 2011 (unaudited)	December 31, 2010
Assets		
Cash and cash equivalents	**1,169**	677
Accounts receivable	**489**	171
Prepayments and other current assets	**441**	502
Short-term and long-term investments	**5,832**	6,287
	7,931	7,637
Liabilities		
Accounts payable	**165**	50
Short-term and long-term debt (including interest)	**5**	114
	170	164

Total amounts of transactions with related parties (except for those controlled by the Government of the Russian Federation), which are primarily equity investees and joint ventures, for each of the reporting periods ending March 31, as well as related party balances as of March 31, 2011 and December 31, 2010 are provided in the tables below:

	Three months ended March 31, 2011 (unaudited)	Three months ended March 31, 2010 (unaudited)
Revenues and Income		
Oil and gas sales	**16**	10
Petroleum products and petrochemicals sales	**51**	36
Support services and other revenues	**115**	105
Interest income	**9**	9
Dividends received	–	7
	191	167
Costs and expenses		
Production and operating expenses	**92**	80
Purchase of oil and petroleum products	**507**	352
Other expenses	**45**	44
Interest expense	**1**	–
	645	476
Other operations		
Purchase of short-term and long-term investments	**168**	6
Proceeds from short-term and long-term debt	**53**	9
Repayment of short-term and long-term debt	**16**	3
Borrowings issued	–	5
Repayment of borrowings issued	**124**	2

17. Related Party Transactions (continued)

	March 31, 2011 (unaudited)	December 31, 2010
Assets		
Accounts receivable	**230**	247
Prepayments and other current assets	**13**	9
Short-term and long-term investments	**683**	460
	926	716
Liabilities		
Accounts payable	**249**	132
Short-term and long-term debt (including interest)	**323**	258
	572	390

18. Commitments and Contingencies

Russian Business Environment

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

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

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

Taxation

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

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

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.

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

18. Commitments and Contingencies (continued)

Taxation (continued)

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

During three months ended March 31, 2011, the tax authorities continued examinations of Rosneft and its subsidiaries for 2007-2010 fiscal years. The Company does not expect results of the examinations to have a material impact on the Company's consolidated financial position or results of operations. Tax years or periods prior to 2007 are not subject to examination.

As of December 31, 2010, there was a possible risk that RUB 1.2 billion (US$ 39 million at the CBR official exchange rate as of December 31, 2010) of VAT receivable would not be recovered. As at March 31, 2011, the amount of possible risk of unrecoverable VAT decreased to an insignificant level as a result of positive court decisions, as well as actual VAT reimbursements by tax authorities.

The Company's management believes that the outcome of the above tax risks will not have any significant impact on the Company's consolidated financial position or results of operations. Overall, management believes that the Company has paid or accrued all taxes that are applicable. For taxes other than income tax, where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate of the probable outflow of resources, which will be required to settle these liabilities. Possible liabilities which were identified by management at the balance sheet dates as those that can be subject to different interpretations of the tax laws and regulations are not accrued in the consolidated financial statements.

Capital Commitments

Rosneft and its subsidiaries are engaged in ongoing capital projects for exploration and development of production facilities and modernization of refineries and the distribution network. The budgets for these projects are generally set on an annual basis. Depending on the current market situation, actual expenditures may vary from the budgeted amounts.

The Company has contractual obligations for capital construction and fixed assets acquisition as of March 31, 2011 amounted to approximately RUB 137.5 billion (US$ 4.8 billion at the CBR official exchange rate as of March 31, 2011).

Environmental Matters

Due to the nature of its business, Rosneft and its subsidiaries are subject to federal legislation regulating environmental protection. The majority of environmental liabilities arise as a result of air pollution, accidental leaks that pollute land and placement of oil waste. The Company considers fines paid and other environmental liabilities as immaterial, given the scale of its operations.

In the course of its operations, the Company seeks to comply with international environmental standards and monitors compliance therewith on a regular basis. With a view to improve environmental activities, the Company takes specific measures to mitigate the adverse impact of its current operations on the environment.

18. Commitments and Contingencies (continued)

Environmental Matters (continued)

Legislation that regulates environmental protection in the Russian Federation is evolving, and the Company evaluates its liabilities in accordance therewith. Currently it is not possible to reasonably estimate the liabilities of the Company which may be incurred should the legislation be amended.

Management believes that, based on the existing legislation, the Company is unlikely to have liabilities that need to be accrued in addition to the amounts already recognized in the consolidated financial statements and that may have a material adverse effect on the consolidated operating results or financial position of the Company.

Social and Sponsorship Expenses

The Company is required to maintain certain social infrastructure assets (not owned by the Company and not recorded in the consolidated financial statements) for use by its employees, as well as to incur other social and sponsorship costs. Partly in exchange the Company receives regional tax incentives enabling it to further develop its business.

The Company incurred US$ 37 million and US$ 17 million in social and sponsorship expenses for the three months ended March 31, 2011 and 2010, respectively. These expenses are presented within other expenses in the consolidated statements of income and comprehensive income.

Pension Plans

Rosneft and its subsidiaries make payments to the State Pension Fund of the Russian Federation. These payments are calculated by the employer as percentage from the salary and are expensed as accrued.

The Company also maintains a defined contribution corporate pension plan to finance non-state pensions of its employees. Under this plan, for the three months ended March 31, 2011 and 2010, the Company made and expensed contributions amounting to US$ 31 million and US$ 24 million, respectively.

Guarantees and Indemnity

As of March 31, 2011, Rosneft and certain subsidiaries provided guarantees for certain debt agreements of other of Rosneft subsidiaries. In accordance with the debt agreements, the guarantors obliged to perform on the guarantee and to pay the bank all amounts of outstanding guaranteed liabilities, including interest.

The Company cannot substitute guarantees issued by any novation agreement or mutual offset. The Company’s obligations under guarantees issued are valid in case of any change in the loan agreements. After the full payment and settlement of all obligations under the guarantees, Rosneft has the right to subrogate its respective part of all bank claims against the debtor in accordance with the loan agreements. In the event Rosneft makes payments under guarantees issued, it has a right to claim the amounts paid from the debtor.

In November 2009, Rosneft entered into a guarantee agreement in respect of all the obligations of RN-Tuapse Refinery LLC, the Rosneft’s wholly owned subsidiary, under the contract for delivery of power generating units with Siemens Industrial Turbomachinery AB for the period through September 30, 2012, in the amount of 960 million Swedish krona (US$ 151 million at the CBR based cross-rate as of March 31, 2011). In November 2009, Rosneft entered into a debt agreement with a western bank to finance the above delivery contract.

18. Commitments and Contingencies (continued)

Litigations, Claims and Assessments

In 2006, Yukos Capital S.a.r.l., a former subsidiary of Yukos Oil Company, initiated arbitral proceedings against OJSC Yuganskneftegaz, which was subsequently merged into the Company, and OJSC Samaraneftegaz, the Company's subsidiary, in various arbitration courts alleging default under six ruble-denominated loans. The International Commercial Arbitration Court (the "ICAC") at the Russian Federation Chamber of Commerce and Industry issued four arbitration awards in favor of Yukos Capital S.a.r.l. concerning four of the loans in the aggregate amount of RUB 12.9 billion (US$ 454 million at the CBR official exchange rate as of March 31, 2011). Arbitration panel formed pursuant to the International Chamber of Commerce ("ICC") rules issued an award against OJSC Samaraneftegaz in the amount of RUB 3.1 billion (US$ 109 million at the CBR official exchange rate as of March 31, 2011) in loan principal and interest plus post award interest of 9% p.a. on the above amount of loan principal and interest concerning the two other loans.

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

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

On June 25, 2010, the Supreme Court of the Netherlands declared inadmissible the Company's appeal of the decision of the Amsterdam Court of Appeals enforcing the ICAC awards in the Netherlands. Although the Company does not agree with the decisions of the Dutch courts noted above, on August 11, 2010 it complied with those decisions and arranged for relevant payments to be made with respect to the claim against the Company. In addition to the amounts paid, Yukos Capital S.a.r.l. continues to seek statutory interest in the High Court of Justice in London in the amount of approximately US$ 160 million as of the date of its Particulars of Claim.

The Company intends to defend its position vigorously in the remaining proceedings in England. A hearing on certain preliminary issues is currently scheduled for May 2011.

In 2007, lawsuits with Russian arbitrazh courts in Moscow and Samara were filed to nullify the loan agreements with Yukos Capital S.a.r.l. Court hearings have been suspended.

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 seeking confirmation of the ICC award against OJSC Samaraneftegaz noted above. In August, 2010 Yukos Capital S.a.r.l. also commenced proceedings in the Arbitrazh Court of the Samara Region seeking enforcement of the same award in the Russian Federation.

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

18. Commitments and Contingencies (continued)

Litigations, Claims and Assessments (continued)

On February 15, 2011, the Arbitrazh Court of the Samara Region denied Yukos Capital S.a.r.l.'s enforcement application. The time for cassation appeal from the underlying ruling has lapsed without Yukos Capital S.a.r.l. having filed such an appeal. Following this ruling, Yukos Capital S.a.r.l. sought to lift the stay of proceedings in the U.S. District Court for the Southern District of New York. That request is pending.

Rosneft and its subsidiary participate in arbitral proceedings against OJSC Sakhaneftegaz and OJSC Lenaneftegaz for the recovery of certain loans and guarantees of indemnity in the amount of RUB 1,286 million (US$ 45 million at the CBR official exchange rate as of March 31, 2011). The respective accounts receivable in the amount of US$ 13 million (net of allowance in the amount of US$ 32 million) are recorded as long-term receivables in the consolidated balance sheet (see Note 10).

During 2008, 2009 and 2010, the Federal Antimonopoly Service ("FAS Russia") and its regional bodies claimed that Rosneft and certain subsidiaries violated certain antimonopoly regulations in relation to petroleum products trading. The Company is appealing all claims in relevant arbitrazh courts. As of the issue date of these interim condensed consolidated financial statements, court proceedings on the majority of cases had ended. Among other things, on December 1, 2010 the Moscow Arbitrazh court decided to reduce the RUB 5.3 billion fine, imposed on the Company by FAS Russia in 2009, to RUB 2 billion (US$ 70 million at the CBR official exchange rate as of March 31, 2011).

In December 2010 the fine was paid. During the hearing on February 25, 2011, the Moscow Arbitrazh court accepted Rosneft's retraction of an appeal of FAS Russia's decision, order and disposition made in relation to the Company in 2008 in a single case. The proceedings under this case are terminated. The court ruling on dismissal of the case and, consequently, the decision of FAS Russia to impose an administrative penalty came in force on March 25, 2011. As a result, on April 22, 2011, the Company paid a fine in the amount of RUB 1.5 billion (US$ 53 million at the CBR official exchange rate as of March 31, 2011). The total amount of administrative penalties assessed as of March 31, 2011 was RUB 74.6 million (US$ 2.6 million at the CBR official exchange rate as of March 31, 2011).

Rosneft and its subsidiaries are involved in other litigations which arise from time to time in the course of their business activities. The Company's management believes that the ultimate result of these litigations will not significantly affect the operating results or financial position of the Company.

Licence Agreements

In accordance with certain exploration license agreements or separate agreements concluded with the local and regional authorities, the Company is required to maintain certain levels of expenditures for environmental protection, as well as maintain certain level of capital expenditures. Generally these expenditures are within the normal operating and capital budgets and are accounted for when incurred in accordance with existing accounting policies for respective costs and expenses.

Oil Supplies

In February 2009, Rosneft entered into a long-term crude oil sale contract for the term from January 2011 through December 2030 with China National Petroleum Corporation ("CNPC") for the total volume of 180 million tons of crude oil to be delivered via pipeline. 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.

18. Commitments and Contingencies (continued)

Oil Supplies (continued)

In April 2009, Rosneft entered into a long-term crude oil sale contract for the term from January 2011 through December 2030 with OJSC AK Transneft for the total volume of 120 million tons of crude oil to be delivered via pipeline. The contract is based on customary commercial terms with an agreed formula linked to market prices.

BP Share Swap

On January 14, 2011 the Company and BP p.l.c. ("BP") entered into a share swap agreement ("the Share Swap"), whereby BP plans to issue 988,694,683 ordinary shares in exchange for 1,010,158,003 Rosneft's shares. Closing of the Share Swap was stipulated to take place on or before April 14, 2011 (see Note 21).

The fair value of investment in BP's ordinary shares, which the Company will receive upon completion of the transaction, fluctuates in response to the changes of fair value of the underlying shares, and, therefore, can only be determined as of the Share Swap closing date. Uncertainty remains in respect of the Share Swap closing. Due to this uncertainty the Company did not recognize any effects of the Share Swap in the interim condensed consolidated financial statements. At the Share Swap closing date the difference between the book value of Rosneft's shares exchanged and the fair value of the investments in BP's ordinary shares will be recognized in the consolidated statement of equity. Subsequently, Rosneft's investment in BP's ordinary shares will be recognized as a financial asset available-for-sale.

19. Segment Information

Presented below is information about the Company's operating segments in accordance with FASB ASC 280, *Segment Reporting.* The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The exploration and production segment is engaged in field exploration and development and production of crude oil and natural gas. The refining, marketing and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as the purchase, sale and transportation of crude oil and petroleum products. Corporate assets are allocated between exploration and production and refining, marketing and distribution in proportion to sales of these segments. Drilling services, construction services, banking and finance services, and other activities are combined in the "All other" category. Substantially all of the Company's operations are conducted in the Russian Federation. Further, the geographical regions within the Russian Federation have substantially similar economic and regulatory conditions. Therefore, the Company has not presented any separate geographical disclosure.

The significant accounting policies applied to each operating segment are consistent with those applied to the consolidated financial statements. Sales of goods and services between the operating segments are carried out using prices agreed upon between Rosneft and its subsidiaries.

19. Segment Information (continued)

Operating segments for three months ended March 31, 2011:

	Exploration and production (unaudited)	**Refining, marketing and distribution (unaudited)**	**All other (unaudited)**	**Total elimination (unaudited)**	**Consolidated (unaudited)**
Revenues from external customers	**488**	**19,011**	**624**	**–**	**20,123**
Intersegmental revenues	**5,439**	**1,401**	**2,133**	**(8,973)**	**–**
Total revenues	**5,927**	**20,412**	**2,757**	**(8,973)**	**20,123**
Production and operating expenses and cost of purchased oil, gas and petroleum products	**627**	**1,457**	**349**	**–**	**2,433**
Depreciation, depletion and amortization	**1,149**	**238**	**56**	**–**	**1,443**
Operating income	**3,117**	**9,703**	**1,331**	**(8,973)**	**5,178**
Total other expense, net					**(60)**
Income before tax					**5,118**

Operating segments for three months ended March 31, 2010:

	Exploration and production (unaudited)	**Refining, marketing and distribution (unaudited)**	**All other (unaudited)**	**Total elimination (unaudited)**	**Consolidated (unaudited)**
Revenues from external customers	306	14,005	450	–	14,761
Intersegmental revenues	3,806	1,013	1,738	(6,557)	–
Total revenues	4,112	15,018	2,188	(6,557)	14,761
Production and operating expenses and cost of purchased oil, gas and petroleum products	529	810	241	–	1,580
Depreciation, depletion and amortization	1,022	194	56	–	1,272
Operating income	2,576	6,466	661	(6,557)	3,146
Total other expense, net					(1)
Income before tax					3,145

19. Segment Information (continued)

Below is a breakdown of revenues by domestic and export sales.

	Three months ended March 31, 2011 (unaudited)	Three months ended March 31, 2010 (unaudited)
Oil and gas sales		
Export sales of crude oil – Europe and other directions	**7,259**	5,378
Export sales of crude oil – Asia	**3,378**	2,303
Export sales of crude oil – CIS, other than Russia	**406**	210
Domestic sales of crude oil	**43**	43
Domestic sales of gas	**122**	113
Total oil and gas sales	**11,208**	8,047
Petroleum products and petrochemicals sales		
Export sales of petroleum products – Europe and other directions	**3,102**	2,188
Export sales of petroleum products – Asia	**1,865**	1,502
Export sales of petroleum products – CIS, other than Russia	**22**	48
Domestic sales of petroleum products	**3,375**	2,470
Sales of petrochemicals	**137**	102
Total petroleum products and petrochemicals sales	**8,501**	6,310

20. Fair Value of Financial Instruments and Risk Management

Assets and liabilities of the Company that are measured at fair value on a recurring basis are presented in the table below in accordance with the fair value hierarchy.

	Fair value measurement as of March 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Current assets				
Trading securities	534	282	–	816
Available-for-sale securities	229	579	–	808
Derivatives	–	90	–	90
Non-current assets				
Available-for-sale securities	–	19	–	19
Total assets measured at fair value	**763**	**970**	–	**1,733**
Current liabilities:				
Derivatives	–	(164)	–	(164)
Total liabilities measured at fair value	–	**(164)**	–	**(164)**

The market for a number of financial assets and liabilities is not active. In accordance with requirements of FASB ASC 820-10-35-47 observable inputs of Level 2 were used to determine fair value of such financial assets and liabilities.

The Company, in connection with its current activities, is exposed to various financial risks, such as foreign currency risks, commodity price risk, interest rate risks and credit risks. The Company manages these risks and monitors its exposure on a regular basis.

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

The fair value of cash and cash equivalents, held-to-maturity securities, accounts receivable, accounts payable, and other current assets approximates their carrying value recognized in these financial statements. The fair value of long-term debt differs from the amounts recognized in the consolidated financial statements. The estimated fair value of long-term debt discounted using the estimated market interest rate for similar financial liabilities amounted to US$ 17,720 million and US$ 18,555 million as of March 31, 2011 and December 31, 2010, respectively. These amounts include all future cash outflows related to the repayment of long-term loans, including their current portion and interest expenses.

A substantial portion of the Company's sales revenues is received in US$. In addition, substantial financing and investing activities, obligations and commitments are also undertaken in US$. Significant operating and investing expenditures, other obligations and commitments as well as tax liabilities are denominated in RUB. As a result the Company is exposed to the corresponding currency risk.

The Company enters into contracts to economically hedge certain of its risks associated with RUB appreciation and increase of interest expense accrued on the Company debt. Hedge accounting pursuant to FASB ASC 815 is not applied to these contracts.

In December 2007, the Company entered into a 5-year interest rate swap contract with a notional amount of US$ 3 billion. Under the terms of the contract, a floating LIBOR rate may be converted into a certain fixed rate. The other party has a call option to terminate the contract. The fair value of the interest swap was recorded in the consolidated balance sheets as of March 31, 2011 and December 31, 2010 as other current liabilities in the amount of US$ 135.5 million and US$ 157.8 million, respectively. The change in fair value was recorded in the consolidated statement of income and comprehensive income for three months ended March 31, 2011 as a reduction in interest expense in the amount of US$ 22.3 million.

In December 2008, the Company entered into a 5-year interest rate swap contract with a notional amount of US$ 500 million. Under the terms of the contract, a floating LIBOR rate may be converted into a certain fixed rate. The other party will have a call option to terminate the contract commencing two years after the contract date. The fair value of the interest swap was recorded in the consolidated balance sheets as of March 31, 2011 and December 31, 2010 as other current liabilities in the amount of US$ 29.0 million and US$ 33.4 million, respectively. The change in fair value was recorded in the consolidated statement of income and comprehensive income for three months ended March 31, 2011 as a reduction in interest expense in the amount of US$ 4.4 million.

The Company entered into fixed interest rate structured deposit agreements with two Russian banks (see Note 4). If on the deposit repayment date the spot RUB/US$ exchange rate is higher than agreed conversion rate, the other party has a call option to repay amount in RUB which shall be equal to the nominal deposit amount multiplied by the respective conversion rate. Embedded call options were bifurcated from the host contracts and recorded at fair value in the consolidated balance sheets as of March 31, 2011 and December 31, 2010 as other current assets (see Note 7). The resulting change in fair values was recorded in the consolidated statement of income and comprehensive income for three months ended March 31, 2011 as a component of foreign exchange gain/(loss).

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

Information on existing structured deposit agreements:

			Fair value		Foreign exchange gain/(loss)
Issue date	**Expiry date**	**Nominal amount**	**March 31, 2011 (unaudited)**	**December 31, 2010**	**Three months ended March 31, 2011 (unaudited)**
May 2010	May 2011	995	**6**	11	**(5)**
June 2010	June 2011	200	**2**	4	**(2)**
July 2010	July 2011	750	**12**	15	**(3)**
September 2010	September 2011	250	**7**	6	**1**
October 2010	October 2011	443	**13**	10	**3**
November 2010	November 2011	957	**32**	27	**5**
December 2010	December 2011	100	**4**	3	**1**
February 2011	February 2012	500	**13**	–	**13**
March 2011	March 2012	50	**1**	–	**1**
		4,245	**90**	76	**14**

Fair values of interest rate swap contracts and embedded call options are based on estimated amounts that the Company would pay or receive upon termination of the contracts as of March 31, 2011.

21. Subsequent Events

In the second quarter of 2011, the Company won an auction for the right to explore and produce hydrocarbons in Naulsk oil field located in the Nenets Autonomous District. The consideration amounted to RUB 3.6 billion (US$ 125 million at the CBR exchange rate as of the date of payment) and was prepaid in cash in the first quarter of 2011.

In April 2011, Rosneft's Board of Directors recommended shareholders to approve dividends on the Rosneft's common shares for 2010 in the amount of RUB 29.3 billion or RUB 2.76 per share (US$ 1.04 billion or US$ 0.1 per share at the CBR official exchange rate as of the Board of Directors meeting date).

In April 2011, RN-Razvitie LLC, the Company's wholly owned subsidiary, purchased 11,296,701 ordinary shares of Rosneft for RUB 2.91 billion or RUB 257.94 per share (US$ 102.36 million or US$ 9.06 per share at the CBR official exchange rate as of March 31, 2011).

On April 13, 2011, the Company, without waiving any of its rights, extended the Share Swap (see Note 18) completion deadline through May 16, 2011.

On April 21, 2011, Rosneft and LUKOIL entered into an agreement on long-term cooperation in the exploration, development and transportation of hydrocarbons.

In October 2010, the Company entered into a share purchase agreement to acquire 50% stake in Ruhr Oel GmbH and related joint venture agreement seller's rights. As of the date of these interim consolidated financial statements the transaction is being finalized and is expected to close in the second quarter of 2011.