Rosneft Oil Company

Interim Condensed Consolidated Financial Statements (Unaudited)

Three and nine months ended September 30, 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 September 30, 2011, and the related consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2011 and 2010, and the consolidated statements of cash flows for the nine-month periods ended September 30, 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

October 28, 2011

Rosneft Oil Company

Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

	Notes	September 30, 2011 (unaudited)	December 31, 2010
ASSETS			
Current assets:			
Cash and cash equivalents	3	**3,969**	4,154
Restricted cash	3	**132**	30
Short-term investments	4	**5,517**	6,814
Accounts receivable, net	5	**9,799**	7,512
Inventories	6	**3,794**	2,111
Deferred tax assets		**208**	174
Prepayments and other current assets	7, 21	**1,388**	2,156
Assets held for sale	8	**–**	92
Total current assets		**24,807**	23,043
Non-current assets:			
Long-term investments	8	**4,747**	2,936
Long-term bank loans granted, net of allowance of US$ 34 and US$ 16, respectively		**381**	304
Property, plant and equipment, net	9	**65,706**	61,190
Goodwill		**4,507**	4,507
Intangible assets, net		**639**	767
Deferred tax assets		**177**	125
Other non-current assets	10	**1,322**	957
Total non-current assets		**77,479**	70,786
Total assets		**102,286**	93,829
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	11	**5,651**	3,861
Short-term loans and current portion of long-term debt	12	**4,960**	5,498
Income and other tax liabilities	13	**2,992**	1,971
Deferred tax liabilities		**108**	86
Other current liabilities	21	**236**	240
Liabilities related to assets held for sale	8	**–**	37
Total current liabilities		**13,947**	11,693
Asset retirement obligations		**2,599**	2,328
Long-term debt	12	**16,492**	18,057
Deferred tax liabilities		**4,608**	4,908
Other non-current liabilities	17	**567**	1,339
Total non-current liabilities		**24,266**	26,632
Equity:			
Common stock par value 0.01 RUB (shares outstanding: 9,588 million and 9,599 million as of September 30, 2011 and December 31, 2010, respectively)		**20**	20
Treasury shares (at acquisition cost: 1,010 million and 999 million as of September 30, 2011 and December 31, 2010, respectively)	14	**(7,615)**	(7,511)
Additional paid-in capital	14	**13,244**	13,110
Other comprehensive loss	2	**(17)**	(20)
Retained earnings		**57,432**	48,936
Total shareholders' equity		**63,064**	54,535
Noncontrolling interests		**1,009**	969
Total equity		**64,073**	55,504
Total liabilities and equity		**102,286**	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 September 30, 2011 (unaudited)	Three months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2010 (unaudited)
Revenues					
Oil and gas sales	20	**12,170**	8,289	**35,485**	24,940
Petroleum products and petrochemicals sales	20	**12,100**	6,758	**31,335**	19,522
Support services and other revenues		**357**	424	**1,204**	1,201
Total		**24,627**	15,471	**68,024**	45,663
Costs and expenses					
Production and operating expenses		**1,870**	1,174	**4,890**	3,399
Cost of purchased oil, gas and petroleum products and refining costs		**3,062**	617	**6,621**	1,747
General and administrative expenses		**487**	425	**1,295**	1,112
Pipeline tariffs and transportation costs		**1,740**	1,701	**5,578**	5,217
Exploration expense		**60**	82	**228**	221
Depreciation, depletion and amortization		**1,549**	1,399	**4,377**	4,019
Accretion expense		**41**	26	**111**	80
Taxes other than income tax	16	**4,554**	2,722	**12,398**	7,990
Export customs duty	15	**7,571**	4,112	**19,745**	12,151
Total		**20,934**	12,258	**55,243**	35,936
Operating income		**3,693**	3,213	**12,781**	9,727
Other (expenses)/income					
Interest income		**155**	148	**506**	397
Interest expense		**(67)**	(155)	**(301)**	(497)
Loss on disposal of non-current assets		**(104)**	(26)	**(152)**	(81)
Impairment loss	8	**(41)**	–	**(86)**	–
Gain/(loss) on disposal of investments		**16**	(4)	**15**	14
Equity share in affiliates' profits/(losses)	8	**213**	(1)	**385**	67
Dividends and income from joint ventures		**3**	12	**11**	6
Other (expenses)/income, net	19	**(79)**	7	**(434)**	15
Foreign exchange (loss)/gain		**(358)**	6	**(442)**	16
Total other expenses, net		**(262)**	(13)	**(498)**	(63)
Income before income tax		**3,431**	3,200	**12,283**	9,664
Income tax	16	**(613)**	(632)	**(2,692)**	(2,048)
Net income		**2,818**	2,568	**9,591**	7,616
Net income attributable to noncontrolling interests		**(40)**	(78)	**(131)**	(219)
Net income attributable to Rosneft		**2,778**	2,490	**9,460**	7,397
Other comprehensive (loss)/income	2	**(24)**	3	**3**	3
Comprehensive income		**2,754**	2,493	**9,463**	7,400
Net income attributable to Rosneft per share (in US$) – basic and diluted		**0.29**	0.26	**0.99**	0.77
Weighted average number of shares outstanding (millions)		**9,588**	9,598	**9,592**	9,598

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	Nine months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2010 (unaudited)
Operating activities			
Net income		**9,591**	7,616
Adjustments to reconcile net income to net cash provided by operating activities:			
Effect of foreign exchange		**(168)**	(10)
Depreciation, depletion and amortization		**4,377**	4,019
Dry hole costs		**48**	32
Loss on disposal of non-current assets		**152**	81
Asset impairment loss	8	**86**	–
Deferred income tax benefit	16	**(199)**	(319)
Accretion expense		**111**	80
Equity share in affiliates' profits	8	**(385)**	(67)
Gain on disposal of investments		**(15)**	(14)
(Decrease)/increase in allowance for doubtful accounts and bank loans granted		**(3)**	6
Gain on extinguishment of promissory notes	12	**(3)**	(166)
Changes in operating assets and liabilities net of acquisitions:			
Increase in accounts receivable		**(2,156)**	(695)
Increase in inventories		**(1,683)**	(87)
Increase in restricted cash		**(102)**	(1)
Decrease in prepayments and other current assets		**768**	393
(Increase)/decrease in other non-current assets		**(58)**	10
Increase in long-term bank loans granted		**(95)**	(42)
Decrease in interest payable		**(108)**	(67)
Increase in accounts payable and accrued liabilities		**1,839**	324
Increase in income and other tax liabilities		**423**	351
Decrease in other current and non-current liabilities		**(180)**	(211)
Acquisition of trading securities		**(1,663)**	(378)
Proceeds from sale of trading securities		**1,667**	681
Net cash provided by operating activities		**12,244**	11,536

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	Nine months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2010 (unaudited)
Investing activities			
Capital expenditures		**(8,981)**	(6,163)
Acquisition of licenses		**(201)**	(26)
Acquisition of rights to use trademarks "Sochi 2014"		**(14)**	(14)
Proceeds from disposal of property, plant and equipment		**38**	34
Acquisition of short-term investments, including			
Held-to-maturity securities		**(1,544)**	(2,611)
Available-for-sale securities		**(1,574)**	(594)
Proceeds from redemption/sale of short-term investments, including			
Held-to-maturity securities		**4,227**	962
Available-for-sale securities		**734**	165
Acquisition of long-term investments, including			
Held-to-maturity securities		**(10)**	(193)
Available-for-sale securities		**(64)**	(9)
Proceeds from redemption/sale of long-term investments, including			
Held-to-maturity securities		**12**	14
Available-for-sale securities		**2**	1
Acquisition of entities, additional shares in subsidiaries and equity investees, net of cash acquired	8	**(1,720)**	(6)
Placements under reverse REPO agreements		**(795)**	–
Receipts under reverse REPO agreements		**412**	–
Net cash used in investing activities		**(9,478)**	(8,440)
Financing activities			
Proceeds from short-term debt		**658**	191
Repayment of short-term debt		**(347)**	(650)
Proceeds from long-term debt		**944**	1,663
Repayment of long-term debt		**(3,028)**	(3,946)
Dividends paid to shareholders	14	**(949)**	–
Dividends paid to minority shareholders in subsidiaries		**(13)**	(8)
Acquisition of treasury stock	14	**(104)**	–
Net cash used in financing activities		**(2,839)**	(2,750)
(Decrease)/Increase in cash and cash equivalents		**(73)**	346
Cash and cash equivalents at beginning of period		**4,154**	1,997
Effect of foreign exchange on cash and cash equivalents		**(112)**	(7)
Cash and cash equivalents at end of period		**3,969**	2,336
Supplementary disclosures of cash flow information			
Cash paid for interest		**628**	574
Cash paid for interest net of amount capitalized		**294**	327
Cash paid for income tax		**2,500**	2,147

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 reporting periods.

The results of operations for nine months ended September 30, 2011 may not be indicative of the results of operations for the full year ending December 31, 2011. Subsequent events have been evaluated through October 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 and nine months ended September 30, 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$") is the functional and reporting currency for the purpose of financial reporting under US GAAP. Functional currency of some foreign subsidiaries may differ from US$. 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)/gain" in the consolidated statements of income and comprehensive income. For the foreign subsidiaries with the functional currency other than US$ gains and losses resulting from the re-measurement into US$ are included in "Other comprehensive (loss)/income" in the consolidated statements of income and comprehensive income.

As of September 30, 2011 and December 31, 2010, the CBR official rates of exchange were 31.88 rubles ("RUB") and 30.48 RUB per US$, respectively. Average rates of exchange in the nine months of 2011 and 2010 were 28.77 RUB and 30.25 RUB per US$, respectively. As of October 28, 2011, the official rate of exchange was 30.24 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.

2. Significant Accounting Policies (continued)

Comprehensive Income (continued)

Other accumulated comprehensive income/(loss) (net of tax) represents:

	Nine months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2010 (unaudited)
An unrealized financial result from the revaluation of available-for-sale investments	**(35)**	3
Cumulative translation adjustment relating to the financial statements re-measurement of of the foreign subsidiaries with functional currency other than US$	**38**	–
Total other comprehensive income	**3**	3

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

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

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

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

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

Recent Accounting Standards

In May 2011, the FASB issued ASU 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements* ("ASU 2011-03") that amends Topic 860, *Transfers and Servicing*, of the FASB Codification. ASU 2011-03 removes from the assessment of effective control the criterion dealing with the transferor's ability to repurchase assets in the event of default by the transferee, and the related implementation guidance. ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The Company is subject to ASU 2011-03 from January 1, 2012. The Company does not expect ASU 2011-03 to have a material impact on the Company's consolidated financial position and results of operations.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04") that amends Topic 820, *Fair Value Measurement*, of the FASB Codification. ASU 2011-04 modifies the fair value measurement requirements and updates the wording to converge with IFRS. ASU 2011-04 is effective for the first interim or annual period beginning on or after December 15, 2011. The Company is subject to ASU 2011-04 from January 1, 2012. The Company does not expect ASU 2011-04 to have a material impact on the Company's consolidated financial position and results of operations.

2. Significant Accounting Policies (continued)

Recent Accounting Standards (continued)

In June 2011, the FASB issued ASU 2011-05*, Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05") that amends Topic 220, *Comprehensive Income*, of the FASB Codification. ASU 2011-05 clarifies the options of separate or combined presentation of profits and losses and other comprehensive income, describes items grouping, profit tax presentation and other matters. ASU 2011-05 is effective for the first interim or annual period beginning on or after December 15, 2011. The Company is subject to ASU 2011-05 from January 1, 2012. The Company does not expect ASU 2011-05 to have a material impact on the Company's consolidated financial position and results of operations.

In September 2011, the FASB issued ASU 2011-08*, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment* ("ASU 2011-08") that amends Topic 350, *Intangibles—Goodwill and Other*, of the FASB Codification. ASU 2011-08 provides an entity with the option to assess qualitative factors to determine whether it is more likely that the fair value of an investment is less than its carrying amount. If it is not more likely then performing the goodwill impairment test is unnecessary. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for annual periods beginning after December 15, 2011. The Company will adopt ASU 2011-08 from January 1, 2012. The Company does not expect ASU 2011-08 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:

	September 30, 2011 (unaudited)	**December 31, 2010**
Cash on hand and at bank accounts in RUB	**551**	671
Cash on hand and at bank accounts in currencies other than RUB	**2,238**	843
Deposits	**1,103**	2,625
Other	**77**	15
Total cash and cash equivalents	**3,969**	4,154

Restricted cash comprises the following:

	September 30, 2011 (unaudited)	**December 31, 2010**
Obligatory reserve with the CBR	**35**	21
Offsetting account under joint venture agreement with BP Group in Euro (Note 8)	**97**	–
Other restricted cash	**–**	9
Total restricted cash	**132**	30

The obligatory reserve with the CBR represents the amount deposited by the Company’s subsidiary bank, VBRR, with the CBR for securing the current operating activity of the bank. Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, which amount depends on the level of funds raised by the credit institution and this amount has certain restrictions for use.

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

Deposits are interest bearing and denominated primarily in RUB.

3. Cash and Cash Equivalents (continued)

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:

	September 30, 2011 (unaudited)	December 31, 2010
Short-term loans granted	**23**	1
Loans to related parties	**187**	70
Reverse repurchase agreements	**790**	403
Structured deposits (Note 21)	**2,263**	3,791
Held-to-maturity state bonds	**3**	–
Trading securities		
Short-term promissory notes	**45**	–
State and corporate bonds	**680**	727
Other	**–**	2
Available-for-sale securities	**1,311**	487
Bank deposits	**215**	1,333
Total short-term investments	**5,517**	6,814

Structured deposits are denominated in US$ and earn interest ranging from 5.5% to 7.2%. The bank deposits are primarily denominated in RUB and earn interest ranging from 3.35% to 5.4%.

As of September 30, 2011, trading securities included state and municipal bonds with nominal interest rates ranging from 6.7% to 17.6% and maturities ranging from December 2011 to February 2036, corporate bonds issued by large Russian corporations with interest rates ranging from 6.25% to 19.00% and maturities ranging from November 2011 to July 2021, bonds issued by the CBR with effective interest rate of 3.49% and with maturity in October 2011 and nominally interest-free promissory notes with average effective interest rate of 1.46% and maturity of February 2012.

As of September 30, 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 January 2016. Municipal bonds represented bonds with nominal interest rates ranging from 8.0% to 17.9% and maturities ranging from March 2012 to November 2018. Corporate bonds represented bonds issued by large Russian corporations with interest rates ranging from 6.25% to 16.5% and maturities ranging from November 2012 to April 2021. Corporate promissory notes represented promissory notes with nominal interest rates ranging from 3.84% to 7.1% with maturities ranging from January 2012 to December 2013 and nominally interest-free promissory notes with average effective interest rates of 4.16% with maturities ranging from October 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:

	September 30, 2011 (unaudited)	December 31, 2010
Trade receivables	**6,763**	4,077
Value-added tax and excise receivable (Note 19)	**1,757**	2,126
Other taxes	**264**	283
Banking loans to customers	**629**	789
Other	**503**	375
Less: allowance for doubtful accounts	**(117)**	(138)
Total accounts receivable, net	**9,799**	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:

	September 30, 2011 (unaudited)	December 31, 2010
Materials and supplies	**738**	451
Crude oil and associated gas	**1,442**	595
Petroleum products and petrochemicals	**1,614**	1,065
Total inventories	**3,794**	2,111

Materials and supplies mostly include spare parts. Petroleum products and petrochemicals include those designated for sale as well as for own use. As of September 30, 2011 crude oil and associated gas, petroleum products and petrochemicals included oil for processing at Ruhr Oel GmbH ("ROG") and oil products produced at ROG, respectively (see Note 8).

7. Prepayments and Other Current Assets

Prepayments and other current assets comprise the following:

	September 30, 2011 (unaudited)	December 31, 2010
Prepayments to suppliers	**541**	665
Prepaid customs duties	**770**	1,315
Insurance prepayments	**13**	6
Derivatives (Note 21)	**–**	77
Other	**64**	93
Total prepayments and other current assets	**1,388**	2,156

Prepaid customs duties primarily represent export duties related to the export of crude oil and petroleum products (see Note 15).

8. Long-Term Investments

Long-term investments comprise the following:

	September 30, 2011 (unaudited)	December 31, 2010
Equity method investments		
Ruhr Oel GmbH	**1,646**	–
OJSC Tomskneft VNK	**1,241**	1,334
Polar Lights Company LLC	**65**	70
JV Rosneft-Shell Caspian Ventures Ltd.	**21**	19
OJSC Verkhnechonskneftegaz	**465**	277
National Oil Consortium Ltd.	**124**	3
CJSC Vlakra	**110**	110
Taihu Ltd	**83**	–
Investments in power and utilities companies	**146**	190
Other	**173**	171
Total equity method investments	**4,074**	**2,174**
Available-for-sale securities		
INTER RAO UES	**133**	–
Long-term promissory notes	**64**	–
Other securities in Company's banks	**14**	17
Held-to-maturity securities		
Russian government bonds	**40**	49
Long-term loans	**3**	–
Long-term loans to equity investees	**403**	679
Cost method investments	**16**	17
Total long-term investments	**4,747**	2,936

Long-term loans to equity investees generally have contractual maturities from 3 to 8 years and 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 contribution to NOC's equity. The Company's 20% ownership share in NOC did not change. NOC is involved in geological exploration of the Junin-6 block in Venezuela jointly with a subsidiary of Venezuela's state oil company - Petróleos de Venezuela S.A.

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

	Participation interest (percentage) as of September 30, 2011	Share in profits/(loss) of equity investees	
		Nine months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2010 (unaudited)
Ruhr Oel GmbH	**50.00**	**13**	–
Taihu Ltd	**51.00**	**83**	–
Polar Lights Company LLC	**50.00**	**16**	11
OJSC Verkhnechonskneftegaz	**25.94**	**188**	34
JV Rosneft-Shell Caspian Ventures Ltd.	**51.00**	**2**	2
OJSC Kubanenergo	**25.00**	**(8)**	(40)
OJSC Tomskneft VNK	**50.00**	**94**	60
Other	**various**	**(3)**	–
Total equity share in profits		**385**	67

8. Long-Term Investments (continued)

Ruhr Oel GmbH

In May 2011 the Company acquired 50% ownership interest in ROG. ROG is a joint venture with BP Group engaged in processing of crude oil in Western Europe.

OJSC Kubanenergo

During the nine months ended September 30, 2011 the Company concluded that an other than temporary decline in value of the investment in OJSC Kubanenergo exists and recognized an impairment loss in the amount of US$ 81 million (including loss amounted to US$ 41 million for the third quarter of 2011), based on the quoted price of OJSC Kubanenergo's shares (see Note 21).

Assets Held For Sale

In December 2010, the Company signed a letter of intent to exchange its interest in a number of equity investees and one subsidiary for noncontrolling interest in INTER RAO UES, Russian power and utility company. In May 2011, the exchange in respect of the Company's 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%.

The exchanged ownership interest was recorded as Assets Held For Sale in the consolidated balance sheet as of December 31, 2010. The Company measured a disposal group at the lower of its carrying amount or fair value less cost to sell and recognized a US$ 5 million impairment loss in the consolidated statement of income and comprehensive income for the six months ended June 30, 2011.

9. Property, Plant and Equipment, net

Property, plant and equipment comprise the following:

	Cost		**Accumulated depreciation**		**Net carrying amount**	
	September 30, 2011 (unaudited)	**December 31, 2010**	**September 30, 2011 (unaudited)**	**December 31, 2010**	**September 30, 2011 (unaudited)**	**December 31, 2010**
Exploration and production	**73,099**	66,991	**(22,199)**	(18,784)	**50,900**	48,207
Refining, marketing and distribution	**17,654**	15,344	**(5,125)**	(4,562)	**12,529**	10,782
Other activities	**3,272**	3,026	**(995)**	(825)	**2,277**	2,201
Total property, plant and equipment	**94,025**	**85,361**	**(28,319)**	**(24,171)**	**65,706**	**61,190**

During the nine months ended September 30, 2011, the Company purchased land plots that had previously been leased, and reclassified land leasehold rights in the amount of US$ 86 million from Intangible assets to Property, Plant and Equipment in the consolidated balance sheet as of September 30, 2011.

10. Other Non-Current Assets

Other non-current assets comprise the following:

	September 30, 2011 (unaudited)	December 31, 2010
Advances paid for capital construction	**1,059**	752
Debt issue costs	**48**	60
Prepaid insurance	**21**	17
Other, net	**194**	128
Total other non-current assets	**1,322**	957

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2011 (unaudited)	December 31, 2010
Trade accounts payable	**3,106**	1,457
Salary and other benefits payable	**595**	442
Advances received	**344**	601
Dividends payable	**5**	10
Banking customer accounts	**1,182**	1,067
Accrued expenses	**161**	163
Other	**258**	121
Total accounts payable and accrued liabilities	**5,651**	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:

	September 30, 2011 (unaudited)	December 31, 2010
Customer deposits – currencies other than RUB	**96**	86
Customer deposits – RUB denominated	**464**	271
Promissory notes payable	**83**	84
Promissory notes payable – Yukos related	**1,251**	1,312
Borrowings – RUB denominated – Yukos related	**264**	269
Repurchase agreements	**–**	27
Other borrowings	**377**	286
	2,535	2,335
Current portion of long-term debt	**2,425**	3,163
Total short-term loans and borrowings and current portion of long-term debt	**4,960**	5,498

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

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks. As of September 30, 2011, customer deposits denominated in RUB bear interest rates ranging from 0.01% to 15.00% and those denominated in other currencies bear an interest ranging from 0.01% to 6.90%.

As of September 30, 2011, weighted average interest rate on promissory notes was 3.24%. 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 19).

During the nine months ended September 30, 2011, the Company wrote off unclaimed promissory notes where statute of limitations expired and recognized gain in the amount of US$ 3.5 million in the consolidated statement of income and comprehensive income within Other Income.

Long-term debt comprises the following:

	September 30, 2011 (unaudited)	**December 31, 2010**
Bank loans – currencies other than RUB	**18,708**	20,716
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US$ denominated	**–**	110
Customer deposits – currencies other than RUB	**25**	44
Customer deposits – RUB denominated	**178**	277
Promissory notes payable	**2**	69
Other borrowings	**4**	4
	18,917	21,220
Current portion of long-term debt	**(2,425)**	(3,163)
Total long-term debt	**16,492**	18,057

As of September 30, 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 September 30, 2011, the bank loan raised for funding the acquisition of OJSC Yuganskneftegaz was fully repaid.

As of September 30, 2011, customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks. The RUB-denominated deposits bear interest ranging from 0.01% to 15.00%. Deposits denominated in currencies other than RUB bear interest of 0.75% to 14.50%.

As of September 30, 2011, weighted average interest rate on promissory notes payable was 10.37%. The promissory notes are recorded at amortized cost.

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

Generally, long-term loans are secured by oil export contracts. Typically, 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 September 30, 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 September 30, 2011 is as follows:

	Through December 31, (unaudited)
2011	**723**
2012	**2,143**
2013	**760**
2014	**629**
2015	**1,046**
2016 and after	**13,616**
Total long-term debt	**18,917**

13. Income and Other Tax Liabilities

Income and other tax liabilities comprise the following:

	September 30, 2011 (unaudited)	**December 31, 2010**
Mineral extraction tax	**1,506**	1,103
Value-added tax	**682**	347
Excise tax	**201**	135
Personal income tax	**19**	16
Property tax	**79**	66
Income tax	**412**	205
Other	**93**	99
Total income and other tax liabilities	**2,992**	1,971

Tax liabilities above include the respective current portion of non-current restructured tax liabilities (see Note 17).

14. Shareholders' Equity

In April 2011, the Company purchased 11,296,701 of its own shares for RUB 2.9 billion or RUB 258 per share, which corresponds to US$ 103.6 million or US$ 9.17 per share at the CBR official exchange rate on the transaction date.

On June 10, 2011, the annual general shareholders' meeting approved dividends on the Company's common shares for 2010 in the amount of RUB 29.3 billion or RUB 2.76 per share, which corresponds to US$ 1.06 billion or US$ 0.1 per share at the CBR official exchange rate at the approval date. US$ 955 million of the above relate to outstanding shares. Tax on dividends on treasury shares was paid in August 2011 and amounted to RUB 242 million (US$ 9 million at the CBR official exchange rate at transaction dates).

In July 2011, the Company completed the exchange of share in its subsidiary for shares in INTER RAO UES (see Note 8). The net result of the exchange amounted to US$ 111 million gain, net of income tax effect. As the transaction was executed with a related party under common control, the Company recorded this result, net of income tax effect, as a component of additional paid-in capital.

15. Export Customs Duty

Export customs duty comprises the following:

	Three months ended September 30, 2011 (unaudited)	Three months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2010 (unaudited)
Export customs duty on oil and gas sales	**6,068**	3,229	**15,490**	9,392
Export customs duty on petroleum products and petrochemicals sales	**1,503**	883	**4,255**	2,759
Total export customs duty	**7,571**	4,112	**19,745**	12,151

16. Income and Other Taxes

Income tax expenses comprise the following:

	Three months ended September 30, 2011 (unaudited)	Three months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2010 (unaudited)
Current income tax expense	**618**	666	**2,891**	2,367
Deferred income tax benefit	**(5)**	(34)	**(199)**	(319)
Total income tax expense	**613**	632	**2,692**	2,048

As of September 30, 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.

16. Income and Other Taxes (continued)

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

	Three months ended September 30, 2011 (unaudited)	Three months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2010 (unaudited)
Mineral extraction tax	**3,794**	2,259	**10,157**	6,579
Excise tax	**520**	290	**1,434**	824
Property tax	**91**	69	**292**	209
Other	**149**	104	**515**	378
Total taxes other than income tax	**4,554**	2,722	**12,398**	7,990

17. Other Non-Current Liabilities

Other non-current liabilities comprise the following:

	September 30, 2011 (unaudited)	December 31, 2010
Restructured tax liabilities	**230**	1,020
Long-term lease obligations	**145**	97
Deferred income	**–**	20
Liabilities to municipalities under amicable agreements	**34**	51
Liabilities for rights to use trademarks "Sochi 2014"	**28**	38
Environmental remediation liability	**104**	111
Other	**26**	2
Total other non-current liabilities	**567**	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 6.8 billion and RUB 3.2 billion (US$ 234 million and US$ 107 million at the CBR official exchange rate as of the payment dates) for the nine months ended September 30, 2011 and 2010, respectively. In October 2011, the Company early repaid the principal amount of tax liabilities for a total amount of RUB 8.5 billion (US$ 264 million at the CBR official exchange rate as of the payment date).

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

18. 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 power and utility companies, and federal agencies, including tax authorities.

18. Related Party Transactions (continued)

Total amounts of transactions and balances with companies controlled by the Russian Government for each of the reporting periods ending September 30, as well as related party balances as of September 30, 2011 and December 31, 2010 are provided in the tables below:

	Nine months ended September 30, 2011 (unaudited)	**Nine months ended September 30, 2010 (unaudited)**
Revenues and Income		
Oil and gas sales	**896**	165
Petroleum products and petrochemicals sales	**608**	322
Support services and other revenues	**21**	58
Interest income	**213**	150
	1,738	695
Costs and expenses		
Production and operating expenses	**218**	88
Pipeline tariffs and transportation costs	**4,508**	2,992
Other expenses	**200**	82
Interest expense	**1**	7
Banking fees	**8**	6
	4,935	3,175
Other operations		
Sale of short-term and long-term investments	**48**	–
Purchase of short-term and long-term investments	**306**	–
Proceeds from short-term and long-term debt	**1**	–
Repayment of short-term and long-term debt	**116**	976
Deposits placed	**–**	2,464
Deposits withdrawn	**5,351**	800

	September 30, 2011 (unaudited)	**December 31, 2010**
Assets		
Cash and cash equivalents	**1,387**	677
Accounts receivable	**371**	171
Prepayments and other current assets	**381**	502
Short-term and long-term investments	**1,565**	6,287
	3,704	7,637
Liabilities		
Accounts payable	**70**	50
Short-term and long-term debt (including interest)	**4**	114
	74	164

18. Related Party Transactions (continued)

Total amounts of transactions with related parties (except for those controlled by the Russian Government), which are primarily equity investees and joint ventures, for each of the reporting periods ending September 30, as well as related party balances as of September 30, 2011 and December 31, 2010 are provided in the tables below:

	Nine months ended September 30, 2011 (unaudited)	**Nine months ended September 30, 2010 (unaudited)**
Revenues and Income		
Oil and gas sales	**38**	32
Petroleum products and petrochemicals sales	**137**	100
Support services and other revenues	**262**	291
Interest income	**28**	27
Dividends received	**23**	25
	488	475
Costs and expenses		
Production and operating expenses	**250**	262
Cost of purchased oil, gas and petroleum products and refining costs	**1,999**	1,112
Other expenses	**268**	82
Interest expense	**1**	–
	2,518	1,456
Other operations		
Purchase of short-term and long-term investments	**168**	8
Proceeds from short-term and long-term debt	**–**	1
Repayment of short-term and long-term debt	**92**	170
Borrowings issued	**–**	159
Repayment of borrowings issued	**167**	4

	September 30, 2011 (unaudited)	**December 31, 2010**
Assets		
Accounts receivable	**282**	247
Prepayments and other current assets	**4**	9
Short-term and long-term investments	**568**	460
	854	716
Liabilities		
Accounts payable	**292**	132
Short-term and long-term debt (including interest)	**166**	258
	458	390

19. Commitments and Contingencies

Russian Business Environment

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

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

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.

Russian tax returns remain open and subject to inspection for a period of up to three years. The fact that a year has been reviewed does not close that year, or any tax return applicable to that year, from further review during the three-year period.

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

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

19. Commitments and Contingencies (continued)

Taxation (continued)

Effective January 1, 2012 the market price defining rules will be changed and the list of entities that could be recognized as interdependent entities and list of managed deals will be expanded. Due to above new rules, absence of law enforcement precedents, and certain contradictions of the new law, such new rules could not be considered as well defined. The Company's management is in the process of developing a new approach to assess consequences of the new tax rules, to prevent substantial negative impact on the Company's financial statements.

During nine months ended September 30, 2011, the tax authorities continued examinations of the Company and its subsidiaries for 2007-2010 fiscal years. The Company does not expect results of the examinations to have a material impact on the Company's consolidated financial position or results of operations. Tax years or periods prior to 2007 are not subject to examination.

As of December 31, 2010, there was a possible risk that RUB 1.2 billion (US$ 39 million at the CBR official exchange rate as of December 31, 2010) of VAT receivable would not be recovered. As of September 30, 2011, the amount of possible risk of unrecoverable VAT decreased to an insignificant level as a result of positive court decisions, as well as actual VAT reimbursements by tax authorities.

Management 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

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

The Company has contractual obligations for capital construction and fixed assets acquisition as of September 30, 2011 amounted to approximately RUB 179.0 billion (US$ 5.6 billion at the CBR official exchange rate as of September 30, 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.

19. 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) as well as to incur other social and sponsorship costs. The main activity lines in social sphere are health care, education and science, sports activities, culture, and support of war veterans and disabled persons. Charity and sponsorship activities are conducted in collaboration with regional administration and non-governmental charity organizations.

The Company is involved in Russia's social and cultural heritage revival programs. The Company receives certain regional tax incentives enabling it to further develop its business.

The Company incurred US$ 114 million and US$ 34 million in social expenses, US$ 210 million and US$ 53 million in charity and sponsorship expenses for the nine months ended September 30, 2011 and 2010, respectively. These expenses are presented within other expenses in the consolidated statements of income and comprehensive income.

Pension Plans

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

The Company also maintains a defined contribution corporate pension plan to finance non-state pensions of its employees. Under this plan, for the nine months ended September 30, 2011 and 2010, the Company made and expensed contributions amounting to US$ 73 million and US$ 68 million, respectively.

Guarantees and Indemnity

As of September 30, 2011, Rosneft and certain subsidiaries provided guarantees for certain debt agreements of other Rosneft subsidiaries. In accordance with the debt agreements, the guarantors obliged to perform on the guarantee and to pay the bank all amounts of outstanding guaranteed liabilities, including interest.

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

19. Commitments and Contingencies (continued)

Guarantees and Indemnity (continued)

In November 2009, Rosneft entered into a guarantee agreement in respect of all the obligations of RN-Tuapse Refinery LLC, a Rosneft's wholly owned subsidiary, under the contract for delivery of power generating units with Siemens Industrial Turbomachinery AB for the period through September 30, 2012, in the amount of 960 million Swedish krona (US$ 141 million at the CBR based cross-rate as of September 30, 2011). In November 2009, Rosneft entered into a debt agreement with a western bank to finance the above delivery contract.

In September 2011, Rosneft entered into a guarantee agreement in respect of all the obligations of Neftepromleasing LLC, a Rosneft's wholly owned subsidiary, under the contract for purchase of Russian oil and gas equipment through September 30, 2016, in the amount of US$ 500 million. In September 2011, LLC Neftepromleasing entered into a debt agreement with foreign banks to finance the purchase contract. In October 2011, Neftepromleasing LLC has fully drawn down under this debt agreement.

Litigations, Claims and Assessments

In 2006, Yukos Capital S.a.r.l., a former subsidiary of Yukos Oil Company, initiated arbitral proceedings against OJSC Yuganskneftegaz, which was subsequently merged into the Company, and OJSC Samaraneftegaz, the Company's subsidiary, in various arbitration courts alleging default under six ruble-denominated loans. The International Commercial Arbitration Court (the "ICAC") at the Russian Federation Chamber of Commerce and Industry issued four arbitration awards in favor of Yukos Capital S.a.r.l. against Yuganskneftegaz concerning four of the loans in the aggregate amount of RUB 12.9 billion (US$ 405 million at the CBR official exchange rate as of September 30, 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$ 97 million at the CBR official exchange rate as of September 30, 2011) in loan principal and interest plus post award interest of 9% p.a. on the above amount of loan principal and interest concerning the two other loans.

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

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

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

19. Commitments and Contingencies (continued)

Litigations, Claims and Assessments (continued)

In addition to the amounts paid, Yukos Capital S.a.r.l. continues to seek statutory interest in the High Court of Justice in London in the amount of approximately US$ 160 million as of the date of its Particulars of Claim. On June 14, 2011 the High Court issued an interim decision on two preliminary issues it had agreed to consider prior to reaching a decision on the merits of the claim. Although Yukos Capital S.a.r.l. prevailed on both issues, the court granted the Company a leave to appeal. On July 5, 2011 the Company submitted its notice of appeal, followed by filing of the skeleton appeal brief on July 19, 2011. A hearing at the English Court of Appeal has been scheduled for March 2012. Once the Company's appeal is decided, a timetable for the trial will be set. The Company intends to defend its position vigorously in the remaining proceedings in England.

In 2007, lawsuits with Russian arbitrazh courts in Moscow and Samara were filed to nullify the loan agreements with Yukos Capital S.a.r.l. Court hearing in Moscow has been suspended. On July 29, 2011, the Arbitrazh Court of the Samara Region reopened proceedings in one of these cases and scheduled a hearing for December 16, 2011.

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

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

On February 15, 2011, the Arbitrazh Court of the Samara Region denied Yukos Capital S.a.r.l.'s enforcement application. The time for cassation appeal from the ruling has lapsed without Yukos Capital S.a.r.l. having filed such an appeal. On May 13, 2011, the U.S. S.D.N.Y. lifted the January 7, 2011 stay and ordered limited discovery solely on the issue of whether the U.S. S.D.N.Y has jurisdiction to consider Yukos Capital S.a.r.l.'s petition. At a hearing held on October 6, 2011, the U.S. S.D.N.Y. indicated that it would set a schedule for summary judgment briefing in due course.

The Company and its subsidiary participate in arbitral proceedings related to bankruptcy of OJSC Sakhaneftegaz and OJSC Lenaneftegaz for the recovery of certain loans and guarantees of indemnity in the amount of RUB 1,286 million (US$ 40 million at the CBR official exchange rate as of September 30, 2011), stated above account receivable was reserved in full.

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 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 reduced the RUB 5.3 billion fine, imposed on the Company by FAS Russia in 2009, to RUB 2 billion (US$ 63 million at the CBR official exchange rate as of September 30, 2011).

19. Commitments and Contingencies (continued)

Litigations, Claims and Assessments (continued)

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$ 54 million at the CBR official exchange rate as of the date of payment). The total amount of administrative penalties assessed as of September 30, 2011 was RUB 234 million (US$ 7 million at the CBR official exchange rate as of September 30, 2011).

During third quarter of 2011, FAS Russia performed inspections of the Company. In August 2011, FAS claimed OJSC Rosneft Oil Company set monopolistically high prices for gas oil and jet kerosene during the period from October 2010 through January 2011. As at the date of these financial statements no FAS decisions or acts of initiation of proceedings were received by the Company.

As of the date of these financial statements the Company cannot reasonably estimate the amount (or range of amounts) of potential losses due to absence of formal claims as of September 30, 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 to China. The contract is based on customary commercial terms with an agreed formula linked to market prices. Subsequently, CNPC assigned all its rights, title and interest in this contract to China National United Oil Corporation.

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

19. Commitments and Contingencies (continued)

BP Share Swap

On January 14, 2011 the Company and BP p.l.c. ("BP") entered into a share swap agreement ("the Share Swap"), whereby BP planned to issue 988,694,683 ordinary shares in exchange for 1,010,158,003 Rosneft's shares. Closing of the Share Swap was stipulated to take place on or before April 14, 2011. On April 13, 2011, the Company, without waiving any of its rights, extended the Share Swap completion deadline through May 16, 2011. On May 16, 2011, the Share Swap was terminated. The Company did not recognize any effects of the Share Swap termination in the interim condensed consolidated financial statements.

Strategic Partnership with ExxonMobil

In August 2011, Rosneft and ExxonMobil executed a Strategic Cooperation Agreement under which the companies plan to undertake joint exploration and development of hydrocarbon resources in Russia, USA and other countries throughout the world, and to commence technology and expertise sharing activities. The agreement includes approximately US$_3.2 billion to be spent funding exploration and development of East Prinovozemelskiy Blocks 1, 2 and 3 in the Kara Sea and the Tuapse Trough License Block in the Black Sea according to final contracts to be signed by the parties based on principles set in the Strategic Cooperation Agreement. Additionally, the agreement provides Rosneft with an opportunity to acquire equity interest in a number of exploration and operating ExxonMobil assets in North America, including offshore fields in the Gulf of Mexico, tight oil fields in Texas (USA), Canada and several projects in other countries. The companies have also agreed to conduct a joint study of developing tight oil resources in Western Siberia.

20. 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.

20. Segment Information (continued)

Operating segments for three months ended September 30, 2011:

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	**421**	**23,504**	**702**	**–**	**24,627**
Intersegmental revenues	**6,139**	**1,453**	**1,912**	**(9,504)**	**–**
Total revenues	**6,560**	**24,957**	**2,614**	**(9,504)**	**24,627**
Production and operating expenses and cost of purchased oil, gas and petroleum products and refining costs	**641**	**3,967**	**324**	**–**	**4,932**
Depreciation, depletion and amortization	**1,276**	**211**	**62**	**–**	**1,549**
Operating income	**2,617**	**7,846**	**2,734**	**(9,504)**	**3,693**
Total other expense, net					**(262)**
Income before tax					**3,431**

Operating segments for three months ended September 30, 2010:

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	180	14,768	523	–	15,471
Intersegmental revenues	4,436	1,075	1,941	(7,452)	–
Total revenues	4,616	15,843	2,464	(7,452)	15,471
Production and operating expenses and cost of purchased oil, gas and petroleum products and refining costs	522	974	295	–	1,791
Depreciation, depletion and amortization	1,128	213	58	–	1,399
Operating income	3,003	6,914	748	(7,452)	3,213
Total other expense, net					(13)
Income before tax					3,200

Operating segments for nine months ended September 30, 2011:

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	**1,331**	**64,605**	**2,088**	**–**	**68,024**
Intersegmental revenues	**17,851**	**4,389**	**6,431**	**(28,671)**	**–**
Total revenues	**19,182**	**68,994**	**8,519**	**(28,671)**	**68,024**
Production and operating expenses and cost of purchased oil, gas and petroleum products and refining costs	**1,895**	**8,527**	**1,089**	**–**	**11,511**
Depreciation, depletion and amortization	**3,586**	**606**	**185**	**–**	**4,377**
Operating income	**8,869**	**26,776**	**5,807**	**(28,671)**	**12,781**
Total other expense, net					**(498)**
Income before tax					**12,283**

20. Segment Information (continued)

Operating segments for nine months ended September 30, 2010:

	Exploration and production (unaudited)	Refining, marketing and distribution (unaudited)	All other (unaudited)	Total elimination (unaudited)	Consolidated (unaudited)
Revenues from external customers	777	43,429	1,457	–	45,663
Intersegmental revenues	12,706	3,128	5,654	(21,488)	–
Total revenues	13,483	46,557	7,111	(21,488)	45,663
Production and operating expenses and cost of purchased oil, gas and petroleum products and refining costs	1,605	2,701	840	–	5,146
Depreciation, depletion and amortization	3,234	616	169	–	4,019
Operating income	8,826	20,142	2,247	(21,488)	9,727
Total other expense, net					(63)
Income before tax					9,664

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

	Three months ended September 30, 2011 (unaudited)	Three months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2010 (unaudited)
Oil and gas sales				
International sales of crude oil – Europe and other directions	**8,478**	5,840	**24,128**	16,569
International sales of crude oil – Asia	**3,007**	2,054	**9,512**	6,874
International sales of crude oil – CIS	**547**	249	**1,406**	1,004
Domestic sales of crude oil	**17**	55	**74**	191
Domestic sales of gas	**121**	91	**365**	302
Total oil and gas sales	**12,170**	8,289	**35,485**	24,940
Petroleum products and petrochemicals sales				
International sales of petroleum products – Europe and other directions	**4,965**	1,988	**12,052**	6,162
International sales of petroleum products – Asia	**1,743**	1,516	**5,657**	4,483
International sales of petroleum products – CIS	**101**	56	**216**	130
Domestic sales of petroleum products	**4,597**	3,101	**12,026**	8,432
Domestic sales of petrochemicals	**58**	70	**254**	217
International sales of petrochemicals	**636**	27	**1,130**	98
Total petroleum products and petrochemicals sales	**12,100**	6,758	**31,335**	19,522

21. 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 September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Current assets				
Trading securities	337	388	–	725
Available-for-sale securities	174	1,137	–	1,311
Non-current assets				
Available-for-sale securities	133	78	–	211
Total assets measured at fair value	**644**	**1,603**	**–**	**2,247**
Current liabilities:				
Derivatives	–	(189)	–	(189)
Total liabilities measured at fair value	**–**	**(189)**	**–**	**(189)**

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

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

	Fair value measurement as of September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Non-current assets				
Equity method investments	76	–	–	76
Total assets measured at fair value	**76**	**–**	**–**	**76**

Equity method investments represent the Company's investment in OJSC Kubanenergo measured at fair value (see Note 8).

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

The fair value of cash and cash equivalents, held-to-maturity securities, 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$ 16,683 million and US$ 18,555 million as of September 30, 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.

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

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 September 30, 2011 and December 31, 2010 as other current liabilities in the amount of US$ 106.8 million and US$ 157.8 million, respectively. The change in fair value was recorded in the consolidated statement of income and comprehensive income for nine months ended September 30, 2011 as a reduction in interest expense in the amount of US$ 51.0 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 September 30, 2011 and December 31, 2010 as other current liabilities in the amount of US$ 43.1 million and US$ 33.4 million, respectively. The change in fair value was recorded in the consolidated statement of income and comprehensive income for nine months ended September 30, 2011 as a component of interest expense in the amount of US$ 9.7 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 September 30, 2011 as other current liabilities and as of December 31, 2010 as other current assets (see Note 7). The resulting change in fair values was recorded in the consolidated statement of income and comprehensive income for nine months ended September 30, 2011 as a component of foreign exchange gain/(loss).

In May 2010, the Company entered into fixed interest rate structured deposit agreements with two banks for nominal amounts of US$ 500 million and US$ 495 million (see Note 4) which expired in May 2011. On the deposit repayment date the spot RUB/US$ exchange rate was not higher than agreed conversion rate.

In June 2010, the Company entered into a fixed interest rate structured deposit agreement with a nominal amount of US$ 200 million (see Note 4) which expired in June 2011. On the deposit repayment date the spot RUB/US$ exchange rate was not higher than agreed conversion rate.

In July 2010, the Company entered into fixed interest rate structured deposit agreements with two banks for nominal amounts of US$ 250 million and US$ 500 million (see Note 4) which expired in July 2011. On the deposit repayment date the spot RUB/US$ exchange rate was not higher than agreed conversion rate.

In September 2010, the Company entered into fixed interest rate structured deposit agreements with two banks for nominal amounts of US$ 100 million and US$ 150 million (see Note 4) which expired in September 2011. On the deposit repayment date the spot RUB/US$ exchange rate was not higher than agreed conversion rate.

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

Information on structured deposit agreements existed as of September 30, 2011 and as of December 31, 2010:

			Fair value		Foreign exchange gain/(loss)			
Issue date	**Expiry date**	**Nominal amount**	**September 30, 2011 (unaudited)**	**December 31, 2010**	**Three months ended September 30, 2011 (unaudited)**	**Three months ended September 30, 2010 (unaudited)**	**Nine months ended September 30, 2011 (unaudited)**	**Nine months ended September 30, 2010 (unaudited)**
May 2010	May 2011	995	–	11	–	14	**(11)**	14
June 2010	June 2011	200	–	5	–	2	**(5)**	6
July 2010	July 2011	750	–	15	**(1)**	18	**(15)**	18
September 2010	September 2011	250	–	6	**(3)**	–	**(6)**	–
October 2010	October 2011	443	**(3)**	10	**(11)**	–	**(13)**	–
November 2010	November 2011	957	**(11)**	27	**(32)**	–	**(38)**	–
December 2010	December 2011	100	**(1)**	3	**(3)**	–	**(4)**	–
February 2011	February 2012	500	**(19)**	–	**(29)**	–	**(19)**	–
March 2011	March 2012	50	**(2)**	–	**(3)**	–	**(2)**	–
August 2011	December 2011	100	**(3)**	–	**(3)**	–	**(3)**	–
		4,345	**(39)**	77	**(85)**	34	**(116)**	38

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 September 30, 2011.