



Rosneft Oil Company

**Interim Condensed Consolidated Financial Statements
(Unaudited)**

Three and six months ended June 30, 2015

Rosneft Oil Company
Interim Condensed Consolidated Financial Statements (unaudited)
Three and six months ended June 30, 2015

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Report on review of interim condensed consolidated financial statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Open Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), comprising the interim consolidated balance sheet as at June 30, 2015, the related interim consolidated statements of profit or loss and other comprehensive income for the three and six-month periods, and the related interim consolidated statements of changes in shareholders' equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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



August 31, 2015

Moscow, Russia

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

	Notes	June 30, 2015 (unaudited)	December 31, 2014
ASSETS			
Current assets			
Cash and cash equivalents	10	213	216
Restricted cash		1	1
Other short-term financial assets	11	585	723
Accounts receivable	12	471	554
Inventories	13	238	233
Prepayments and other current assets	14	320	404
Total current assets		1,828	2,131
Non-current assets			
Property, plant and equipment	15	5,725	5,666
Intangible assets		47	49
Other long-term financial assets		283	281
Investments in associates and joint ventures		349	347
Bank loans granted		12	14
Deferred tax assets		28	24
Goodwill		226	215
Other non-current non-financial assets		8	9
Total non-current assets		6,678	6,605
Total assets		8,506	8,736
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	16	523	494
Loans and borrowings and other financial liabilities	17	1,031	1,216
Income tax liabilities		11	39
Other tax liabilities	18	202	162
Provisions	19	23	36
Prepayment on long-term oil and petroleum products supply agreements	20	97	80
Other current liabilities		6	4
Total current liabilities		1,893	2,031
Non-current liabilities			
Loans and borrowings and other financial liabilities	17	1,982	2,190
Deferred tax liabilities		602	594
Provisions	19	114	107
Prepayment on long-term oil and petroleum products supply agreements	20	828	887
Other non-current liabilities		46	46
Total non-current liabilities		3,572	3,824
Equity			
Share capital	21	1	1
Additional paid-in capital		492	493
Other funds and reserves		(444)	(500)
Retained earnings		2,981	2,878
Rosneft shareholders' equity		3,030	2,872
Non-controlling interest		11	9
Total equity		3,041	2,881
Total liabilities and equity		8,506	8,736

President  I.I. Sechin

August 31, 2015

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

Rosneft Oil Company

Interim consolidated statement of profit or loss

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

		Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
	Notes	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues and equity share in profits of associates and joint ventures					
Oil, gas, petroleum products and petrochemicals sales	5	1,289	1,411	2,556	2,772
Support services and other revenues		18	18	37	34
Equity share in profits of associates and joint ventures		5	6	7	4
Total revenues and equity share in profits of associates and joint ventures		1,312	1,435	2,600	2,810
Costs and expenses					
Production and operating expenses		129	118	255	216
Cost of purchased oil, gas, petroleum products and refining costs		138	118	261	242
General and administrative expenses		32	27	59	54
Pipeline tariffs and transportation costs		130	118	274	235
Exploration expenses		5	5	7	9
Depreciation, depletion and amortization		123	109	244	214
Taxes other than income tax	6	349	315	687	616
Export customs duty	7	218	430	481	845
Total costs and expenses		1,124	1,240	2,268	2,431
Operating income		188	195	332	379
Finance income		12	6	27	12
Finance expenses	8	(38)	(10)	(141)	(51)
Other income	9	28	4	37	62
Other expenses	9	(17)	(10)	(28)	(23)
Foreign exchange differences		(5)	29	12	(55)
Income before income tax		168	214	239	324
Income tax expense	6	(34)	(42)	(49)	(64)
Net income		134	172	190	260
Net income attributable to:					
- Rosneft shareholders		134	171	190	257
- non-controlling interests		-	1	-	3
Net income attributable to Rosneft per common share (in RUB) – basic and diluted		12.64	16.14	17.93	24.25
Weighted average number of shares outstanding (millions)		10,598	10,598	10,598	10,598

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

Rosneft Oil Company

Interim consolidated statement of other comprehensive income

(in billions of Russian rubles)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Notes	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income	134	172	190	260
Other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent periods				
Foreign exchange differences on translation of foreign operations	32	10	22	(1)
Foreign exchange effects recognized during the period	75	–	38	–
Gain/(loss) from changes in fair value of financial assets available-for-sale	–	–	1	(1)
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent period	(15)	–	(8)	–
Total other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent periods, net of tax	92	10	53	(2)
Total comprehensive income, net of tax	226	182	243	258
Total comprehensive income, net of tax, attributable to:				
- Rosneft shareholders	226	181	243	255
- non-controlling interests	–	1	–	3

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

Rosneft Oil Company

Interim consolidated statement of changes in shareholders' equity

(in billions of Russian rubles, except share amounts)

	Number of shares (millions)	Share capital	Additional paid-in capital	Other funds and reserves	Retained earnings	Rosneft share- holders' equity	Non- controlling interests	Total equity
Balance at January 1, 2014 (restated)	10,598	1	477	(14)	2,666	3,130	39	3,169
Net income	–	–	–	–	257	257	3	260
Other comprehensive loss	–	–	–	(2)	–	(2)	–	(2)
Total comprehensive (loss)/income	–	–	–	(2)	257	255	3	258
Dividends declared on common stock (Note 21)	–	–	–	–	(136)	(136)	–	(136)
Balance at June 30, 2014 (unaudited restated)	10,598	1	477	(16)	2,787	3,249	42	3,291
Balance at January 1, 2015	10,598	1	493	(500)	2,878	2,872	9	2,881
Net income	–	–	–	–	190	190	–	190
Other comprehensive income	–	–	–	53	–	53	–	53
Total comprehensive income	–	–	–	53	190	243	–	243
Change of interest in subsidiaries	–	–	(1)	–	–	(1)	1	–
Disposal of subsidiaries	–	–	–	3	–	3	1	4
Dividends declared on common stock (Note 21)	–	–	–	–	(87)	(87)	–	(87)
Balance at June 30, 2015 (unaudited)	10,598	1	492	(444)	2,981	3,030	11	3,041

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

Rosneft Oil Company
Interim consolidated statement of cash flows
(in billions of Russian rubles)

	Notes	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Operating activities			
Net income		190	260
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation, depletion and amortization		244	214
Loss on sale and disposal of non-current assets	9	8	8
Impairment of assets	9	1	1
Dry hole costs		–	2
Foreign exchange (gain)/loss on non-operating activities		(29)	24
Realized foreign exchange cash flow hedges		58	–
Equity share in profits of associates and joint ventures		(7)	(4)
Gain on disposal of investments in associates and joint ventures		–	(56)
Loss from disposal of subsidiaries and non-production assets	9	4	3
Bad debt loss		1	–
Gain from changes in estimates and liabilities write-off		(17)	–
Finance expenses	8	141	51
Finance income		(27)	(12)
Gain on notes write-off		(20)	–
Income tax expense	6	49	64
<i>Changes in operating assets and liabilities:</i>			
Increase in accounts receivable, gross		(23)	(35)
Increase in inventories		(3)	(12)
Increase in restricted cash		–	(2)
Decrease in prepayments and other current assets		87	26
Decrease in other non-current non-financial assets		–	2
(Decrease)/increase in accounts payable and accrued liabilities		(64)	25
Increase/(decrease) in other tax liabilities		39	(2)
Decrease in current provisions		(2)	(1)
Increase/(decrease) in other current liabilities		2	(5)
Decrease in other non-current liabilities		–	(1)
Increase in long-term prepayment on oil and petroleum products supply agreements		–	431
Interest paid on long-term prepayment on oil and petroleum products supply agreements		(9)	(12)
Long-term loans granted by subsidiary banks		(11)	(6)
Repayment of long-term loans granted by subsidiary banks		13	6
Acquisition of trading securities		(2)	(9)
Proceeds from sale of trading securities		4	10
Net cash provided by operating activities before income tax and interest		627	970
Income taxes payments		(75)	(72)
Dividends received		9	–
Interest received		8	4
Net cash provided by operating activities		569	902

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

Rosneft Oil Company

Interim consolidated statement of cash flows (continued)

(in billions of Russian rubles)

	Notes	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Investing activities			
Capital expenditures		(269)	(237)
Acquisition of the right to a part of pipeline capacity (Acquisition of licenses and auction advances)/auction advances refund		– 6	(16) (2)
Acquisition of short-term financial assets		(26)	(412)
Proceeds from sale of short-term financial assets		165	104
Acquisition of long-term financial assets		(7)	(1)
Financing of joint venture		–	(69)
Acquisition of interest in associates and joint ventures		(18)	(4)
Proceeds from sale of investments in associates and joint ventures		61	21
Acquisition of interest in subsidiary, net of cash acquired	4	(14)	(10)
Sale of property, plant and equipment		2	1
Placements under reverse REPO agreements		(5)	(6)
Receipts under reverse REPO agreements		5	4
Net cash used in investing activities		(100)	(627)
Financing activities			
Proceeds from short-term loans and borrowings		757	34
Repayment of short-term loans and borrowings		(247)	(85)
Proceeds from long-term loans and borrowings		55	34
Repayment of long-term loans and borrowings		(845)	(258)
Interest paid		(67)	(41)
Proceeds from bonds issuance		–	35
Repayment of other financial liabilities		(139)	(7)
Prepayment on sale of non-controlling share in subsidiary	25	8	–
Repayment of liabilities to non-controlling shareholders in subsidiary		–	(153)
Net cash used in financing activities		(478)	(441)
Net decrease in cash and cash equivalents		(9)	(166)
Cash and cash equivalents at beginning of period	10	216	275
Effect of foreign exchange on cash and cash equivalents		6	33
Cash and cash equivalents at end of period	10	213	142

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

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Three and six months ended June 30, 2015

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

1. General

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

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for 2014 prepared in accordance with International Financial Reporting Standards ("IFRS").

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Company omitted disclosures which would substantially duplicate the information contained in its 2014 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 subsequently to the issuance of its 2014 audited consolidated financial statements. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's 2014 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present fairly the Company's financial position, results of operations, statements of changes in shareholders' equity and cash flows for the interim reporting periods.

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

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

The interim condensed consolidated financial statements for the six months ended June 30, 2015 were approved and authorized for issue by the President of the Company on August 31, 2015.

3. Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied and disclosed in the Company's annual consolidated financial statements for 2014 prepared in accordance with IFRS, except for the adoption of a new standard effective as of January 1, 2015.

Rosneft Oil Company

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

3. Changes in accounting policies (continued)

The following new standard was applied for the first time in 2015:

- *Defined Benefit Plans: Employee Contributions* – Amendments to IAS 19 *Employee Benefits*. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

Application of this standard had no significant impact on the Company's financial position or results of operations.

4. Acquisition of subsidiaries

Acquisition of CJSC Novokuibyshevsk Petrochemical Company

In March 2015 the Company acquired a 100% share in CJSC Novokuibyshevsk Petrochemical Company ("NPC"). The acquisition allows the Company to integrate its gas processing assets with the petrochemical production and to expand its presence in the petrochemical market sector. The total consideration amounted to US\$ 300 million (RUB 18.3 billion at the Central Bank of Russia ("CBR") official exchange rate at the date of the acquisition). The terms of the acquisition provide for net debt and tax consideration adjustments, and further provide for an additional compensation to be paid in case the average annual crude oil Brent price exceeds a defined amount.

As of June 30, 2015 the NPC purchase price allocation was not completed. Allocation of the purchase price to fair value of the assets acquired and liabilities assumed will be finalized by the end of 2015.

The following table summarizes the Company's preliminary allocation of the NPC purchase price which is based on the historical value of acquired assets and assumed liabilities:

ASSETS	
Current assets	
Accounts receivable	1
Inventories	2
Other current assets	3
Total current assets	6
Non-current assets	
Property, plant and equipment	20
Deferred tax assets	1
Other non-current assets	1
Total non-current assets	22
Total assets	28
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	5
Loans and borrowings	7
Other current liabilities	2
Total current liabilities	14
Non-current liabilities	
Loans and borrowings	5
Deferred tax liabilities	3
Total non-current liabilities	8
Total liabilities	22
Total identifiable net assets at fair value	6
Goodwill	12
Total consideration transferred	18

Rosneft Oil Company

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

4. Acquisition of subsidiaries (continued)

Acquisition of CJSC Novokuibyshevsk Petrochemical Company (continued)

Preliminarily, goodwill in the amount of RUB 12 billion relates to the expected synergies arising from integration with the Company's nearby oil and gas refining facilities as well as guaranteed processing of broad fraction of light hydrocarbons from the Company's oilfields. Accordingly, the goodwill was fully attributed to the Refining and distribution segment. The amount of goodwill arisen on acquisition is not tax deductible.

Had the NPC acquisition taken place at the beginning of the reporting period (January 1, 2015), revenues and net income of the combined entity would have been RUB 2,609 billion and RUB 190 billion, respectively, for the period ended June 30, 2015.

Acquisitions of 2014

Acquisition of assets from Weatherford International plc

On July 31, 2014 the Company completed the acquisition of a controlling interest in 8 entities engaged in drilling and workover services in Russia and Venezuela from Weatherford International plc ("the Weatherford assets") for a total consideration of RUB 18 billion (US\$ 0.5 billion at the CBR official exchange rate at the date of the transaction). The acquisition allows the Company to strengthen its position in the drilling and workover services market and increase the efficiency of drilling and hydrocarbons production.

The allocation of the purchase price of Weatherford assets was finalized in the second quarter of 2015. The effect of the finalized estimation on the consolidated balance sheet and statement of profit or loss for 2014 was not significant. The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS

Current assets

Accounts receivable	6
Inventories	2
Total current assets	8

Non-current assets

Property, plant and equipment	16
Deferred tax asset	1
Total non-current assets	17
Total assets	25

LIABILITIES

Current liabilities

Accounts payable and accrued liabilities	5
Total current liabilities	5

Non-current liabilities

Deferred tax liabilities	2
Total non-current liabilities	2
Total liabilities	7

Total identifiable net assets at fair value	18
Total consideration transferred	18

Rosneft Oil Company

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

4. Acquisition of subsidiaries (continued)

Acquisitions of 2014 (continued)

Acquisition of CJSC Bishkek Oil Company

In September 2014 the Company acquired 100% interest in four entities of the CJSC Bishkek Oil Company ("BOC") engaged in the retail and wholesale of petroleum products in the Republic of Kyrgyzstan through its own network of gas stations and a tank farm. The acquisition consideration amounted to US\$ 39 million (RUB 1.5 billion at the CBR official exchange rate at the date of the transaction), including contingent consideration.

The BOC purchase price allocation was completed in the second quarter of 2015. The results of the final purchase price allocation do not materially differ from the preliminary allocation.

5. Segment information

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

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

Rosneft Oil Company

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

5. Segment information (continued)

Below is performance of the operating segments for the three months ended June 30, 2015 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits/(losses) of associates and joint ventures					
Revenues from external customers	–	1,289	18	–	1,307
Intersegment revenues	675	–	–	(675)	–
Equity share in profits/(losses) of associates and joint ventures	1	4	–	–	5
Total revenues and equity share in profits/(losses) of associates and joint ventures	676	1,293	18	(675)	1,312
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	404	1,239	33	(675)	1,001
Depreciation, depletion and amortization	99	21	3	–	123
Total costs and expenses	503	1,260	36	(675)	1,124
Operating income	173	33	(18)	–	188
Finance income					12
Finance expenses					(38)
Total finance expenses					(26)
Other income					28
Other expenses					(17)
Foreign exchange differences					(5)
Income before income tax					168
Income tax					(34)
Net income					134

Rosneft Oil Company

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

5. Segment information (continued)

Below is performance of the operating segments for the three months ended June 30, 2014 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	–	1,411	18	–	1,429
Intersegment revenues	597	–	–	(597)	–
Equity share in profits of associates and joint ventures	7	(1)	–	–	6
Total revenues and equity share in profits of associates and joint ventures	604	1,410	18	(597)	1,435
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	352	1,348	28	(597)	1,131
Depreciation, depletion and amortization	89	15	5	–	109
Total costs and expenses	441	1,363	33	(597)	1,240
Operating income	163	47	(15)	–	195
Finance income					6
Finance expenses					(10)
Total finance expenses					(4)
Other income					4
Other expenses					(10)
Foreign exchange differences					29
Income before income tax					214
Income tax					(42)
Net income					172

Rosneft Oil Company

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

5. Segment information (continued)

Below is performance of the operating segments for the six months ended June 30, 2015 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits/(losses) of associates and joint ventures					
Revenues from external customers	–	2,556	37	–	2,593
Intersegment revenues	1,290	–	–	(1,290)	–
Equity share in profits/(losses) of associates and joint ventures	4	3	–	–	7
Total revenues and equity share in profits/(losses) of associates and joint ventures	1,294	2,559	37	(1,290)	2,600
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	792	2,460	62	(1,290)	2,024
Depreciation, depletion and amortization	197	42	5	–	244
Total costs and expenses	989	2,502	67	(1,290)	2,268
Operating income	305	57	(30)	–	332
Finance income					27
Finance expenses					(141)
Total finance expenses					(114)
Other income					37
Other expenses					(28)
Foreign exchange differences					12
Income before income tax					239
Income tax					(49)
Net income					190

Rosneft Oil Company

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

5. Segment information (continued)

Below is performance of the operating segments for the six months ended June 30, 2014 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	–	2,772	34	–	2,806
Intersegment revenues	1,167	–	–	(1,167)	–
Equity share in profits of associates and joint ventures	6	(2)	–	–	4
Total revenues and equity share in profits of associates and joint ventures	1,173	2,770	34	(1,167)	2,810
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	686	2,645	53	(1,167)	2,217
Depreciation, depletion and amortization	175	32	7	–	214
Total costs and expenses	861	2,677	60	(1,167)	2,431
Operating income	312	93	(26)	–	379
Finance income					12
Finance expenses					(51)
Total finance expenses					(39)
Other income					62
Other expenses					(23)
Foreign exchange differences					(55)
Income before income tax					324
Income tax					(64)
Net income					260

Rosneft Oil Company

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

5. Segment information (continued)

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

	Three months ended June 30, 2015 (unaudited)	Three months ended June 30, 2014 (unaudited)	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Oil, gas, petroleum products and petrochemicals sales				
International sales of crude oil, petroleum products and petrochemicals	949	1,098	1,894	2,129
International sales of crude oil and petroleum products – CIS, other than Russia	51	40	100	92
Domestic sales of crude oil, petroleum products and petrochemicals	249	237	471	474
Sales of gas	40	36	91	77
Total oil, gas, petroleum products and petrochemicals sales	1,289	1,411	2,556	2,772

6. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended June 30, 2015 (unaudited)	Three months ended June 30, 2014 (unaudited)	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Current income tax expense	22	42	47	71
Deferred tax expense/(income) due to the origination and reversal of temporary differences	12	–	2	(7)
Total income tax expense	34	42	49	64

In 2014 certain amendments were introduced into the Russian tax legislation in respect of profit of controlled foreign companies and income of foreign entities. According to these changes undistributed profit of the foreign subsidiaries, recognized as controlled foreign companies, may form an additional tax base for Rosneft and for certain Russian subsidiaries holding investments in foreign entities. In particular, 2015 undistributed profits of controlled foreign companies should increase the tax base of the controlling entities in 2016. The deferred tax liabilities arising as a result of these legislation changes did not have a material effect on the Company's financial position or results of operations for the six months ended June 30, 2015.

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

	Three months ended June 30, 2015 (unaudited)	Three months ended June 30, 2014 (unaudited)	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Mineral extraction tax	302	263	591	509
Excise tax	24	33	51	68
Property tax	8	7	16	14
Social charges	12	11	24	22
Other	3	1	5	3
Total taxes other than income tax	349	315	687	616

Rosneft Oil Company

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

7. Export customs duty

Export customs duty comprises the following:

	Three months ended June 30, 2015 (unaudited)	Three months ended June 30, 2014 (unaudited)	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Export customs duty on oil sales	161	315	346	617
Export customs duty on petroleum products and petrochemicals sales	57	115	135	228
Total export customs duty	218	430	481	845

8. Finance expenses

Finance expenses comprise the following:

	Three months ended June 30, 2015 (unaudited)	Three months ended June 30, 2014 (unaudited)	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Interest expense on:				
Loans and borrowings	(20)	(12)	(50)	(26)
Prepayment on long-term oil and petroleum products supply agreements (Note 20)	(10)	(6)	(22)	(12)
Other interest expenses	(1)	(1)	(1)	(1)
Total interest expenses	(31)	(19)	(73)	(39)
Net gain/(loss) from operations with derivative financial instruments	(4)	11	(62)	(8)
Increase in provision due to the unwinding of discount	(3)	(2)	(6)	(4)
Total finance expenses	(38)	(10)	(141)	(51)

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended June 30, 2015 (unaudited)	Three months ended June 30, 2014 (unaudited)	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Gain from the sale of LLC "Yugragazpererabotka"	–	–	–	56
Liability write-off (Note 25)	28	–	37	–
Other	–	4	–	6
Total other income	28	4	37	62
Sale and disposal of property, plant and equipment and intangible assets	(5)	(4)	(8)	(8)
Disposal of companies and non-production assets	(3)	(2)	(4)	(3)
Impairment of assets	(1)	–	(1)	(1)
Social payments, charity, sponsorship, financial aid	(2)	(2)	(6)	(4)
Other	(6)	(2)	(9)	(7)
Total other expenses	(17)	(10)	(28)	(23)

Rosneft Oil Company

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

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	June 30, 2015 (unaudited)	December 31, 2014
Cash on hand and in bank accounts in RUB	26	117
Cash on hand and in bank accounts in foreign currencies	113	84
Deposits	70	12
Others	4	3
Total cash and cash equivalents	213	216

11. Other short-term financial assets

Other short-term financial assets comprise the following:

	June 30, 2015 (unaudited)	December 31, 2014
Financial assets available-for-sale		
Bonds and promissory notes	58	65
Stocks and shares	66	61
Financial assets held-to-maturity		
Bonds	2	6
Loans and receivables		
Loans granted	–	1
Loans issued to associates	8	7
Notes receivable	60	57
Deposits and certificates of deposit	381	512
Held-for-trading financial assets at fair value through profit or loss		
Corporate bonds	6	9
State bonds	4	5
Total other short-term financial assets	585	723

As of June 30, 2015 bank deposits and certificates of deposits denominated in US\$ and in RUB amount to RUB 344 billion and RUB 37 billion, respectively.

12. Accounts receivable

Accounts receivable include the following:

	June 30, 2015 (unaudited)	December 31, 2014
Trade receivables	397	413
Banking loans to customers	32	32
Other accounts receivable	54	120
Total	483	565
Allowance for doubtful accounts	(12)	(11)
Total accounts receivable, net of allowance	471	554

No accounts receivable were pledged as collateral for loans and borrowings provided to the Company as of June 30, 2015 and December 31, 2014.

Rosneft Oil Company

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

13. Inventories

Inventories comprise the following:

	June 30, 2015 (unaudited)	December 31, 2014
Crude oil and associated gas	78	70
Petroleum products and petrochemicals	105	115
Materials and supplies	55	48
Total	238	233

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

	Three months ended June 30, 2015 (unaudited)	Three months ended June 30, 2014 (unaudited)	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
The cost of inventories recognized as an expense during the period	172	167	335	312

Cost of inventories recognized as an expense during the period is included in Production and operating expenses, Cost of purchased oil, gas and petroleum products and refining costs and General and administrative expenses in the interim consolidated statement of profit or loss.

14. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	June 30, 2015 (unaudited)	December 31, 2014
Value added tax and excise receivable	156	162
Prepayments to suppliers	29	40
Settlements with customs	84	142
Profit tax and other taxes advance payments	42	49
Other	9	11
Total prepayments and other current assets	320	404

Rosneft Oil Company

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

15. Property, plant and equipment and construction in progress

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
Cost as of January 1, 2015	5,768	1,465	105	7,338
Depreciation, depletion and impairment losses as of January 1, 2015	(1,423)	(281)	(26)	(1,730)
Net book value as of January 1, 2015	4,345	1,184	79	5,608
Prepayments for property, plant and equipment as of January 1, 2015	6	47	5	58
Total as of January 1, 2015	4,351	1,231	84	5,666
Cost				
Acquisition of subsidiaries (Note 4)	–	20	–	20
Additions	237	69	4	310
Disposals	(12)	(2)	–	(14)
Foreign exchange differences	(5)	(21)	–	(26)
Cost of asset retirement (decommissioning) obligations	4	–	–	4
As of June 30, 2015	5,992	1,531	109	7,632
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(199)	(41)	(3)	(243)
Disposals and other movements	5	–	–	5
Foreign exchange differences	4	8	–	12
As of June 30, 2015	(1,613)	(314)	(29)	(1,956)
Net book value as of June 30, 2015	4,379	1,217	80	5,676
Prepayments for property, plant and equipment as of June 30, 2015	7	35	7	49
Total as of June 30, 2015	4,386	1,252	87	5,725

Depreciation charge for the six months ended June 30, 2015 includes RUB 2 billion of depreciation which was capitalized as part of the construction cost of property, plant and equipment and cost of inventory.

The Company capitalized RUB 38 billion and RUB 18 billion of interest expenses on loans and borrowings for the six months ended June 30, 2015 and 2014, respectively.

The semiannual weighted average rate used to determine the amount of borrowing costs eligible for capitalization is 3.56% and 1.89% for the six months ended June 30, 2015 and 2014, respectively.

Rosneft Oil Company

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

16. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	June 30, 2015 (unaudited)	December 31, 2014
Accounts payable to suppliers and contractors	256	272
Dividends payable	87	–
Salary and other benefits payable	53	55
Banking customer accounts	39	62
Other accounts payable	25	34
Short-term advances received	63	71
Total accounts payable and accrued liabilities	523	494

Current accounts payable for six months ended June 30, 2015 were settled within 47 days on average (six months ended June 30, 2014: 41 days). Interest rates on banking customer accounts amount to 0.0%-5.0% p.a. Trade and other payables are non-interest bearing.

17. Loans and borrowings and other financial liabilities

Loans and borrowings and other financial liabilities comprise the following:

	Currency	June 30, 2015 (unaudited)	December 31, 2014
Long-term			
Bank loans	RUB	47	143
Bank loans	US\$, euro	1,493	2,067
Bonds	RUB	138	138
Eurobonds	US\$	372	408
Customer deposits	RUB	4	6
Customer deposits	US\$, euro	2	5
Borrowings	RUB	2	–
Borrowings	Euro	3	6
Promissory notes payable	US\$	2	2
Other borrowings	US\$	249	278
<i>Less: current portion of long-term debts</i>		(342)	(877)
Total long-term loans and borrowings		1,970	2,176
Finance lease liabilities		17	18
<i>Less: current portion of long-term finance lease liabilities</i>		(5)	(4)
Total loans and borrowings and other financial liabilities		1,982	2,190
Short-term			
Bank loans	RUB	103	53
Bank loans	US\$, euro	22	–
Customer deposits	RUB	16	18
Customer deposits	US\$, euro	5	6
Promissory notes payable – Yukos related (Note 25)	RUB	–	20
Obligations under a repurchase agreement	RUB	–	13
Other borrowings	RUB	15	15
Other borrowings	US\$	463	73
<i>Current portion of long-term debts</i>		342	877
Total short-term loans and borrowings and current portion of long-term loans and borrowings		966	1,075
<i>Current portion of long-term finance lease liabilities</i>		5	4
Short-term liabilities related to derivative financial instruments		60	137
Total short-term loans and borrowings and other financial liabilities		1,031	1,216
Total loans and borrowings and other financial liabilities		3,013	3,406

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

17. Loans and borrowings and other financial liabilities (continued)

Long-term bank loans from foreign banks to finance special-purpose business activities nominated in US\$ are partially secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts are normally provide the lender with the express right of claim for contractual revenue in the amount of failing loan repayments which purchaser generally remit directly through transit currency accounts in lender banks. The outstanding balance of Accounts receivable arising from such contracts amounts to RUB 29 billion and RUB 22 billion as of June 30, 2015 and December 31, 2014, respectively, and is included in Trade receivables of purchasers and customers.

In February 2015, the Company early repaid unsecured long-term loan (attracted to finance the TNK-BP acquisition) and interests to international banks in the amount of US\$ 7.2 billion (RUB 473 billion at the CBR official exchange rate at the transaction date).

In February 2015, the Company fully repaid Eurobonds (Series 7) in the amount of US\$ 500 million (RUB 34.5 billion at the CBR official exchange rate at the transaction date) assumed through the TNK-BP acquisition.

In May 2015, the Company early repaid unsecured long-term loans and interests to international banks in the amount of US\$ 0.6 billion (RUB 30 billion at the CBR official exchange rate at the payment date), assumed through the TNK-BP acquisition.

In January-February 2015, the Company received short-term floating rate loans from a local bank totaling RUB 100 billion.

During the first half of 2015, the Company attracted other short-term floating rate borrowing of equivalent of RUB 463 billion at the CBR official exchange rate as of June 30, 2015 under repurchase agreements for own corporate bonds.

During the first half of 2015, certain OJSC Yukos Oil Company related promissory notes payable were returned to the Company pursuant to relevant agreements (Note 25).

As of June 30, 2015 and December 31, 2014 the Company was in compliance with all restrictive financial and other debt covenants.

Liabilities related to derivative financial instruments

Open derivative financial instruments comprise the following:

	Issue date	Expiry date	Nominal amount as of		Interest rate type	Fair value of the liabilities	
			June 30, 2015 (unaudited) US\$ million	June 30, 2015 (unaudited) RUB billion*		June 30, 2015 (unaudited)	December 31, 2014
Swaps	2012	2015	–	–	fixed	–	54
Swaps	2012	2017	641	36	floating	13	9
Swaps	2013	2018	2,138	119	floating	35	14
Swaps	2014	2015	–	–	fixed	–	29
Swaps	2014	2019	1,010	56	floating	12	6
Forwards	2012	2015	–	–	–	–	25
Total			3,789	211		60	137

* the equivalent nominal amount at the CBR official exchange rate as of June 30, 2015.

In the six months of 2015 the Company settled derivative financial instruments opened in 2012-2014 for the nominal amount of US\$ 4,494 million (RUB 249 billion at the CBR official exchange rate as of June 30, 2015).

Rosneft Oil Company

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

18. Other current tax liabilities

Other short-term tax liabilities comprise the following:

	June 30, 2015 (unaudited)	December 31, 2014
Mineral extraction tax	103	69
VAT	58	55
Excise duties	14	11
Personal income tax	1	1
Property tax	8	7
Other	18	19
Total other tax liabilities	202	162

19. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2015, including	83	35	25	143
<i>Non-current</i>	80	24	3	107
<i>Current</i>	3	11	22	36
Provisions charged during the year	6	1	3	10
Increase/(decrease) in the liability resulting from:				
Changes in estimates	–	–	(15)	(15)
Change in the discount rate	(2)	–	–	(2)
Unwinding of discount	5	1	–	6
Utilized	(1)	(2)	(2)	(5)
As of June 30, 2015 (unaudited), including	91	35	11	137
<i>Non-current</i>	89	24	1	114
<i>Current</i>	2	11	10	23

20. Prepayment on long-term oil and petroleum products supply agreements

During 2013-2014 the Company entered into a number of long-term crude oil and petroleum products supply contracts which involve the receipt of prepayment. The total minimum delivery volume approximates 400 million tonnes of crude oil.

The contracts include the following main terms:

- prepayment amounts shall not to exceed 30% of the total contracted volume of crude oil and petroleum products;
- the crude oil and petroleum products prices are calculated based on current market prices;
- prepayment is settled through the physical deliveries of crude oil and petroleum products.

Rosneft Oil Company

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

20. Prepayment on long-term oil and petroleum products supply agreements (continued)

The prepayments are being reimbursed starting from 2015. The Company considers these contracts to be a regular way sale contracts which were entered into for the purpose of the delivery of a non-financial item in accordance with the Company's expected sale requirements.

	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
As of January 1	967	470
Received	–	431
Reimbursed	(42)	–
Total prepayment on long-term oil and petroleum products supply agreements as of June 30	925	901
Less current portion	(97)	(35)
Long-term prepayment as of June 30	828	866

The shipments of oil in accordance with the terms of the prepayment contracts started on January 1, 2015. The off-set of prepayments, made during the six months of 2015 amounted to RUB 42 billion (US\$ 1.3 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date).

21. Shareholders' equity

On June 17, 2015 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2014 in the amount of RUB 87 billion or RUB 8.21 per share.

On June 27, 2014 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2013 in the amount of RUB 136 billion or RUB 12.85 per share.

22. Cash flow hedging of the Company's future exports

On October 1, 2014, the Company designated certain U.S. dollar nominated borrowings as a hedge of the expected highly probable U.S. dollar nominated export revenue stream in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

A portion of future monthly export revenue expected to be received in U.S. dollars over the period from January 2015 through December 2019 was designated as a hedged item. The nominal amounts of the hedged item and the hedging instruments were set equal. To the extent that a change in the foreign currency rate impacts the fair value of the hedging instrument, the effects are recognized in other comprehensive income or loss and then reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

The Company's foreign currency risk-management strategy is to hedge future export revenue in the amount of the net monetary position in U.S. dollars. The Company aligns hedged nominal amount to the net monetary position in U.S. dollars on a periodical basis.

Rosneft Oil Company

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

22. Cash flow hedging of the Company's future exports (continued)

Changes in the nominal hedging amount during 6 months ended June 30, 2015:

	Designation of October 1, 2014		Designation of April 1, 2015		Total	
	The equivalent amount at the CBR exchange rate as of		The equivalent amount at the CBR exchange rate as of		The equivalent amount at the CBR exchange rate as of	
	US\$ million	June 30, 2015, RUR billion.	US\$ million	June 30, 2015, RUR billion	US\$ million	June 30, 2015, RUR billion
Nominal amount as of December 31, 2014	29,490	1,637	–	–	29,490	1,637
Hedging instruments designated	–	–	16,888	937	16,888	937
Realized cash flow foreign exchange hedges	(1,474)	(82)	(889)	(49)	(2,363)	(131)
Hedging instruments de- designated	(28,016)	(1,555)	–	–	(28,016)	(1,555)
The nominal amount as of June 30, 2015	–	–	15,999	888	15,999	888

The impact of foreign exchange cash flow hedges recognized in other comprehensive income is set out below:

	For 3 months ended June 30, 2015 (unaudited)			For 6 months ended June 30, 2015 (unaudited)		
	Before income tax		Net of tax	Before income tax		Net of tax
	Income tax			Income tax		
Total recognized in other comprehensive (loss)/income as of the beginning of the period	(535)	107	(428)	(498)	100	(398)
Foreign exchange effects recognized during the period	50	(10)	40	(20)	4	(16)
Reclassified to revenue in profit or loss	25	(5)	20	58	(12)	46
Total recognized in other comprehensive income/(loss) for the period (unaudited)	75	(15)	60	38	(8)	30
Total recognized in other comprehensive (loss)/income as of June 30, 2015 (unaudited)	(460)	92	(368)	(460)	92	(368)

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

22. Cash flow hedging of the Company's future exports (continued)

A schedule of the expected reclassification of the accumulated foreign exchange loss from other comprehensive income to profit or loss, as of June 30, 2015, is presented below:

Year	2015	2016	2017	2018	2019	Total
Reclassification	52	(102)	(102)	(102)	(102)	(460)
Income tax	(10)	20.5	20.5	20.5	20.5	92
Total, net of tax	42	(81.5)	(81.5)	(81.5)	(81.5)	(368)

The expected reclassification is calculated using the CBR exchange rate as of June 30, 2015 and may be different using actual exchange rates in the future.

23. Fair value of financial instruments

The fair value of financial assets and liabilities is determined as follows:

- the fair value of financial assets and liabilities quoted on active liquid markets is determined in accordance with the market prices;
- the fair value of other financial assets and liabilities is determined in accordance with generally accepted models and is based on discounted cash flow analysis that relies on prices used for existing transactions in the current market;
- the fair value of derivative financial instruments is based on market quotes. In illiquid and highly volatile markets fair value is determined on the basis of valuation models that rely on assumptions confirmed by observable market prices or rates as of the reporting date.

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

	Fair value measurement as of June 30, 2015 (unaudited)			
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Held-for-trading	6	4	–	10
Available-for-sale	1	123	–	124
Non-current assets				
Available-for-sale	–	5	–	5
Total assets measured at fair value	7	132	–	139
Liabilities				
Derivative financial instruments	–	(60)	–	(60)
Total liabilities measured at fair value	–	(60)	–	(60)

Rosneft Oil Company

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

23. Fair value of financial instruments (continued)

	Fair value measurement as of December 31, 2014			Total
	Level 1	Level 2	Level 3	
Assets				
Current assets				
Held-for-trading	8	6	–	14
Available-for-sale	1	125	–	126
Non-current assets				
Available-for-sale	–	5	–	5
Total assets measured at fair value	9	136	–	145
Liabilities				
Derivative financial instruments	–	(137)	–	(137)
Total liabilities measured at fair value	–	(137)	–	(137)

The fair value of financial assets available for sale, held-for-trading financial assets at fair value through profit or loss and derivative financial instruments included in Level 2 is measured at the present value of future estimated cash flows, using inputs such as market interest rates and market quotes of forward exchange rates.

The carrying value of cash and cash equivalents and derivative financial instruments recognized in this interim condensed consolidated financial statement equal their fair value. The carrying value of accounts receivable, accounts payable, loans issued and other financial assets recognized in this interim condensed consolidated financial statement approximate their fair value.

	Carrying value		Fair value (Level 2)	
	June 30, 2015 (unaudited)	December 31, 2014	June 30, 2015 (unaudited)	December 31, 2014
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(2,292)*	(2,413)	(2,049)*	(1,994)
Loans and borrowings with a fixed interest rate	(644)	(838)	(666)	(736)
Financial lease liabilities	(17)	(18)	(17)	(18)

* including the financial instruments designated as hedging instruments with carrying value of RUB 888 billion and fair value RUB 794 billion.

There have been no transfers of financial liabilities between Level 1 and Level 2 during the period.

24. Related party transactions

For the purposes of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the six months ended June 30, 2015 and 2014 the Company entered into transactions with the shareholders and companies controlled by shareholders (including enterprises directly or indirectly controlled by the Russian Government and BP Group), associates and joint ventures, key management and pension funds.

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

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

24. Related party transactions (continued)

Disclosure of related party transactions is presented on an aggregate basis for the shareholders and companies controlled by shareholders, joint ventures and associates, non-state pension funds. In addition, there may be an additional disclosure of certain significant transactions (balances and turnovers) with certain related parties.

In the course of its ordinary business, the Company enters into transactions with other companies controlled by the Russian Government. In the Russian Federation, electricity and transport tariffs are regulated by the Federal Tariff Service, an authorized governmental agency of the Russian Federation. Bank loans are recorded based on the market interest rates. Taxes are accrued and paid in accordance with the applicable tax law. The Company sells crude oil and petroleum products to related parties in the ordinary course of business at the prices close to average market prices. Gas sales prices in Russian market are regulated by the Federal Tariff Service.

Transactions with shareholders and companies controlled by shareholders

Revenues and income

	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	112	81
Support services and other revenues	1	–
Finance income	6	1
	119	82

Costs and expenses

	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Production and operating expenses	2	3
Cost of purchased oil, gas, petroleum products and refining costs	15	5
Pipeline tariffs and transportation costs	220	194
Other expenses	4	9
Finance expenses	29	–
	270	211

Other operations

	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Loans received	48	21
Loans repaid	(1)	(18)
Deposits placed	(9)	(168)
Deposits repaid	–	49

Rosneft Oil Company

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

24. Related party transactions (continued)

Transactions with shareholders and companies controlled by shareholders (continued)

Settlement balances

	June 30, 2015 (unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	62	24
Accounts receivable	103	18
Prepayments and other current assets	40	38
Other financial assets	280	283
	485	363
Liabilities		
Accounts payable and accrued liabilities	100	8
Loans and borrowings and other financial liabilities	208	159
Other non-current liabilities	24	–
	332	167

Transactions with joint ventures

Crude oil is purchased from joint ventures at Russian domestic market prices.

Revenues and income

	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	2	6
Support services and other revenues	1	1
Finance income	8	–
	11	7

Costs and expenses

	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Production and operating expenses	2	1
Cost of purchased oil, gas, petroleum products and refining costs	79	62
Pipeline tariffs and transportation costs	2	5
Other expenses	1	1
	84	69

Other operations

	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Loans repaid	(5)	–
Loans and borrowing issued	(1)	(1)

Rosneft Oil Company

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

24. Related party transactions (continued)

Transactions with joint ventures (continued)

Settlement balances

	June 30, 2015 (unaudited)	December 31, 2014
Assets		
Accounts receivable	8	15
Prepayments and other current assets	1	1
Other financial assets	247	246
	256	262
Liabilities		
Accounts payable and accrued liabilities	19	23
Loans and borrowings and other financial liabilities	–	5
	19	28

Transactions with associates

Revenues and income

	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	5	3
Support services and other revenues	–	2
Finance income	1	–
	6	5

Costs and expenses

	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Production and operating expenses	1	2
Cost of purchased oil, gas, petroleum products and refining costs	3	–
Other expenses	1	1
	5	3

Settlement balances

	June 30, 2015 (unaudited)	December 31, 2014
Assets		
Accounts receivable	10	17
Other financial assets	25	19
	35	36
Liabilities		
Accounts payable and accrued liabilities	1	2
	1	2

Rosneft Oil Company

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

24. Related party transactions (continued)

Transactions with non-state pension funds

Costs and expenses

	Six months ended June 30, 2015 (unaudited)	Six months ended June 30, 2014 (unaudited)
Other expenses	3	2

Settlement balances

	June 30, 2015 (unaudited)	December 31, 2014
Liabilities		
Accounts payable and accrued liabilities	–	1
	–	1
	–	1

25. Contingencies

Russian business environment

Russia continues economic reforms and the 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 the economic, financial and monetary measures taken by the government. Management believes it is taking the appropriate measures to support the sustainability of the Company's business in the current circumstances.

In 2015, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries in 2014. The Rouble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. The combination of the above resulted in a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. Management believes it is taking the appropriate measures to support the sustainability of the Company's business in the current circumstances.

In 2014, the USA and EU issued a number of sectorial sanctions. These sanctions restrict certain U.S. and EU persons from providing financing, goods and services in support of exploration or production of deep water, Arctic offshore, or shale projects that have a potential to produce oil in the Russian Federation to certain entities. The Company considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Company's financial position and results of operations.

During 2014 economic and political instability in Ukraine was increasing. The Company's assets and operations in Ukraine are not significant. The Company's assets and liabilities, related to its activities in Ukraine are recognized based on the appropriate measurements as of June 30, 2015. The Company continues to monitor the situation in Ukraine and to execute a number of measures in order to minimize the effects of possible risks. The risk assessment is constantly reviewed in order to reflect the current situation.

Rosneft Oil Company

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

25. Contingencies (continued)

Legal claims

In 2006, Yukos Capital S.a.r.l. ("Yukos Capital") initiated separate international commercial arbitration proceedings against OJSC Yuganskneftegaz, OJSC Samaraneftgaz and OJSC Tomskneft VNK alleging, as grounds for its claims, defaults under various ruble-denominated loans with principal amounts totaling RUB 11.2 billion (OJSC Yuganskneftegaz), RUB 4.35 billion (OJSC Tomskneft VNK) and RUB 2.4 billion (OJSC Samaraneftgaz) plus interest at 9% per annum under each loan. During 2006-2007, the international arbitration tribunals issued awards in favor of Yukos Capital, after which Yukos Capital filed claims with various Russian and non-Russian courts seeking recognition and enforcement of the aforementioned international arbitration awards.

During 2007-2013, various Russian arbitrazh courts declared the above loan agreements to be void; moreover, a competent Russian court annulled the arbitral awards against OJSC Yuganskneftegaz and declined recognition and enforcement in Russia of the arbitral awards against OJSC Tomskneft and OJSC Samaraneftgaz.

The arbitral awards against OJSC Yuganskneftegaz were enforced in the Netherlands (a court of first instance declined recognition and enforcement) despite their annulment by a competent court. Although Rosneft opposes the judgments of the Netherlands courts for recognition and enforcement of the arbitral awards, on August 11, 2010, it complied with these judgments and made corresponding payments in respect of the claim brought against Rosneft. In foreign jurisdictions, the aforementioned disputes continued in England, seeking payment of the interest accrued on the arbitral award against Rosneft, in the USA, seeking enforcement of international arbitration awards against OJSC Samaraneftgaz and, in France, Ireland, and Singapore, seeking enforcement of award against OJSC Tomskneft VNK.

Also, Yukos International (UK) B.V. initiated proceedings in the Netherlands claiming damages of up to US\$ 333 million (RUB 18 billion at the CBR exchange rate at June 30, 2015), plus statutory interest with effect from February 7, 2011, plus costs, against Rosneft and other co-respondents unrelated to Rosneft. In these proceedings, Yukos International (UK) B.V. alleged an injury supposedly caused by the entry of an order by the Amsterdam court to freeze a bank account in 2008. On February 11, 2015, the Amsterdam District Court issued a judgment granting the claim of Yukos International (UK) B.V. that the orders to freeze the funds held in the bank account were issued improperly, but rejected the procedure for calculating damages used by the claimant, pointing out that the damages issue, including the question of whether Yukos International (UK) B.V. is liable itself for the damages it allegedly suffered, should be considered in separate court proceedings.

In March 2015, Rosneft and a number of its subsidiaries including OJSC Samaraneftgaz, OJSC Tomskneft VNK and OJSC ANHK entered into a Settlement Deed with Yukos Finance B.V., Yukos Capital S.a.r.l, Stichting Administratiekantoor Yukos International, Stichting Administratiekantoor Financial Performance Holdings, Consolidated Nile, LP, General Nile, LLC, Yukos International (UK) B.V., Luxtona Limited, Financial Performance Holdings B.V., Yukos Hydrocarbons Investments Limited, CN & GN (PTC) Ltd. and with individuals controlling these entities. Pursuant to the terms and conditions of the Settlement Deed, the parties released all mutual claims and resolved all pending judicial and other disputes including the above disputes, and undertook not bring any other claims against each other in the future in relation to the bankruptcy and liquidation of Yukos Oil Company. The Deed does not provide for any cash or other payments on the part of Rosneft or its subsidiaries. On June 30, 2015, the Parties closed the transaction and executed all the documents necessary for dismissal of all pending proceedings in the Netherlands, England, Russia, U.S.A. and other jurisdictions.

Rosneft Oil Company

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

25. Contingencies (continued)

Legal claims (continued)

On March 7, 2011, Norex Petroleum Limited ("Norex") filed a lawsuit against OJSC Tyumen Oil Company, a predecessor of OJCS TNK-BP Holding, subsequently renamed to OJSC RN Holding, TNK-BP Limited and certain other defendants in the amount of US\$ 1.5 billion (RUB 83 billion at the CBR official exchange rate on June 30, 2015) claiming the recovery of damages and compensation of moral damage caused by allegedly illegal takeover of the shares of LLC Corporation Yugraneft owned by Norex. The lawsuit was accepted by the Supreme Court of the State of New York (first instance court). On September 17, 2012, the Court dismissed Norex's action holding that it was time-barred. Norex filed an appeal against this judgment.

On April 25, 2013, the New York Appeal department confirmed that the dismissal of Norex's claim was justified. On May 28, 2013, Norex filed a motion for leave to appeal the decision affirming the lower court's dismissal of Norex's complaint to the New York Court of Appeals.

On September 12, 2013, the New York Court of Appeals accepted Norex's claim and accepted the appeal for consideration. The hearing was held on May 6, 2014. On June 27, 2014 the New York Court of Appeals issued a decision, satisfying Norex's complaint and sent the case to the Court of First Instance. The hearing was held on January 12, 2015. The Court's decision is expected.

In October-November 2014 a former minority shareholders of OJSC RN Holding filed a lawsuit against the Company claiming the recovery of damages caused by the forced redemption of shares. Cases are pending before the Court of First Instance.

The amount and timing of any outflow related to the above claims cannot be estimated reliably.

Rosneft and its subsidiaries are involved in other litigations which arise from time to time in the course of their business activities. Management believes that the ultimate result of those litigations will not materially affect the performance or financial position of the Company.

Taxation

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

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

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

Effective January 1, 2012, the rules of market price defining for the fiscal control purposes were changed and the list of entities that could be recognized as interdependent entities and the list of managed deals were expanded. Due to the absence of law enforcement precedents based on the new rules and certain contradictions in the provisions of the new law, these rules cannot be considered clear and precise. To eliminate significant risks posed by related party transactions to the consolidated financial statements, the Company developed methods for pricing major types of controlled transactions between related parties. The Company also researches databases to determine the market price levels (ROIs) for the controlled transactions annually.

Rosneft Oil Company

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

25. Contingencies (continued)

Taxation (continued)

As part of the new order of fiscal control over the pricing of related party transactions in 2012-2014 the Company and the Federal Tax Service signed a pricing agreement with respect to the taxation of oil sales transactions in Russia.

Due to the fact that the Company provided the Russian Federal Tax Service and the regional tax authorities with the sufficient explanations concerning the related party transactions made during 2012, according to the received individual requests, the Federal Tax Service did not use its right to conduct an examination of calculation and payment of the taxes on related party transactions made during 2012 and on June 30, 2014 the period for the Federal Tax Service to make such a decision has expired. The Company believes that the risks concerning the related party transactions in 2012 will not have a material effect on the Company's financial position or results of operations.

In line with the consolidated income tax taxpayer institute enactment in 2012 the Company created the consolidated group of taxpayers which included Rosneft and its 21 subsidiaries since January 1, 2012. Rosneft became a responsible taxpayer of the group. Since January 1, 2015 under the terms of the agreement, the number of members of the consolidated group of taxpayers is 51.

The Company management believes that the creation of the consolidated group of taxpayers does not significantly change the tax burden of the Company for the purpose of these interim condensed consolidated financial statements.

In 2014, amendments to the tax legislation aimed at fiscal stimulation of the Russian economy deoffshorization were issued, and took effect on January 1, 2015. In particular these amendments in the Russian tax legislation included terms of beneficial ownership, fiscal residence of legal entities, and income tax rules for the controlled foreign companies (Note 6).

During the reporting period, the tax authorities continued their examinations of Rosneft and certain of its subsidiaries for the fiscal years 2011-2014. Rosneft and its subsidiaries dispute a number of claims in pre-trial and trial appeal in federal tax service. The Company management does not expect the results of the examinations to have a material impact on the Company's consolidated balance sheet or results of operations.

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

Capital commitments

The Company and its subsidiaries are engaged in ongoing capital projects for the exploration and development of production facilities and the modernization of refineries and the distribution network. The budgets for these projects are generally set on an annual basis.

The total amount of contracted but not yet performed deliveries related to the construction and acquisition of property, plant and equipment amounted to RUB 424 billion and RUB 351 billion as of June 30, 2015 and December 31, 2014, respectively.

Rosneft Oil Company

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

25. Contingencies (continued)

Environmental liabilities

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

Other matters

In April 2015 the Company and North Atlantic Drilling Limited agreed to extend the date of termination of the Framework Agreement dated August 20, 2014 to May 31, 2017, until which date the parties have the right to effectively terminate the transaction at any time at no cost. The addendum signed also provides for possible renegotiation of the terms of the transaction.

In June 2015 the Company and BP Russian Investments Ltd entered into series of agreements for a sale of 20% of LLC Taas-Yuriakh Neftegazodobycha to BP Russian Investments Ltd. In accordance with the terms of these agreements BP Russian Investments Ltd made a RUR 8 bln partial payment to the Company. As of the date of these interim condensed consolidated financial statements the parties have not yet received all necessary regulatory approvals to complete the transaction.

26. Events after reporting period

In July 2015 the Agencia Nacional do Petroleo, Gas Natural e Biocombustiveis, Brazil approved the Company's acquisition of an additional 55% interest in certain concession agreements for exploratory blocks in the Brazilian Solimoes Basin from PetroRio for US\$ 55 million (RUB 3.1 billion at the CBR official exchange rate on June 30, 2015). The main terms of the acquisition were approved in May 2015. The acquisition is expected to be completed in the third quarter of 2015.

In August 2015 the Company completed the acquisition of 100% interest in LLC Trican Well Service, engaged in high-quality pressure pumping services focused on enhancement of production within the conventional oil and gas industry in Russia. The preliminary price of the acquisition amounts to US\$ 150 million (RUB 9.7 billion at the CBR official exchange rate at the agreement date).

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