



**Rosneft Oil Company**

Interim Condensed Consolidated Financial Statements  
(Unaudited)

*Three and six months ended June 30, 2014*

Rosneft Oil Company  
Interim Condensed Consolidated Financial Statements (unaudited)  
Three and six months ended June 30, 2014

**Contents**

Report on review of the interim condensed consolidated financial statements .....	3
Interim condensed consolidated financial statements	
Interim consolidated balance sheet .....	4
Interim consolidated statement of comprehensive income .....	5
Interim consolidated statement of changes in shareholders' equity .....	6
Interim consolidated statement of cash flows.....	7
Notes to the interim condensed consolidated financial statements	
1. General .....	9
2. Basis of preparation .....	9
3. Changes in accounting policies.....	10
4. Significant accounting estimates .....	10
5. New standards and interpretations issued but not yet effective.....	10
6. Acquisition of subsidiaries .....	11
7. Assets held for sale .....	18
8. Segment information.....	19
9. Income tax and other taxes .....	23
10. Export customs duty.....	24
11. Finance expenses .....	24
12. Other income and expenses .....	24
13. Cash and cash equivalents .....	25
14. Other current financial assets .....	25
15. Accounts receivable .....	25
16. Inventories .....	26
17. Prepayments and other current assets .....	26
18. Property, plant and equipment and construction in progress.....	27
19. Intangible assets.....	27
20. Other non-current financial assets .....	28
21. Investments in associates and joint ventures .....	28
22. Accounts payable and accrued liabilities .....	28
23. Loans and borrowings .....	29
24. Other current tax liabilities .....	30
25. Provisions .....	31
26. Prepayment on long-term oil supply agreements.....	31
27. Shareholders' equity .....	32
28. Fair value of financial instruments.....	32
29. Related party transactions .....	33
30. Contingencies .....	37
31. Events after the reporting period .....	44

## 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, 2014, the related interim consolidated statements of comprehensive income for the three and six-month periods ended June 30, 2014, 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 International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

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

*Ernst & Young LLC*

July 25, 2014

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

	Notes	June 30, 2014 (unaudited)	December 31, 2013 (restated)
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	13	142	275
Restricted cash		3	1
Other current financial assets	14	542	232
Accounts receivable	15	499	415
Inventories	16	216	202
Prepayments and other current assets	17	308	330
<b>Total current assets</b>		<b>1,710</b>	<b>1,455</b>
<b>Non-current assets:</b>			
Property, plant and equipment	18	5,500	5,311
Intangible assets	19	48	37
Other non-current financial assets	20	104	37
Investments in associates and joint ventures	21	320	327
Bank loans granted		13	12
Deferred tax assets		14	14
Goodwill	6	189	182
Other non-current non-financial assets		10	12
<b>Total non-current assets</b>		<b>6,198</b>	<b>5,932</b>
Assets held for sale	7	–	147
<b>Total assets</b>		<b>7,908</b>	<b>7,534</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	22	504	488
Loans and borrowings	23	862	684
Finance lease liabilities		4	4
Liabilities related to derivative instruments		17	6
Income tax liabilities		6	11
Other tax liabilities	24	159	161
Provisions	25	31	22
Prepayment on long-term oil supply agreements	26	35	–
Other current liabilities		4	11
<b>Total current liabilities</b>		<b>1,622</b>	<b>1,387</b>
<b>Non-current liabilities:</b>			
Loans and borrowings	23	1,317	1,676
Finance lease liabilities		9	8
Deferred tax liabilities		672	656
Provisions	25	107	116
Prepayment on long-term oil supply agreements	26	866	470
Other non-current liabilities		28	28
<b>Total non-current liabilities</b>		<b>2,999</b>	<b>2,954</b>
<b>Liabilities associated with assets held for sale</b>	7	–	28
<b>Equity:</b>			
Share capital	27	1	1
Additional paid-in capital	27	477	477
Other funds and reserves		(16)	(14)
Retained earnings		2,783	2,662
<b>Rosneft shareholders' equity</b>		<b>3,245</b>	<b>3,126</b>
Non-controlling interest		42	39
<b>Total equity</b>		<b>3,287</b>	<b>3,165</b>
<b>Total liabilities and equity</b>		<b>7,908</b>	<b>7,534</b>

President  I.I. Sechin

25 July, 2014

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

# Rosneft Oil Company

## Interim consolidated statement of comprehensive income

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

	Notes	Three months ended June 30, 2014 (unaudited)	Three months ended June 30, 2013 (unaudited restated)	Six months ended June 30, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited restated)
<b>Revenues and equity share in profits of associates and joint ventures</b>					
Oil and gas sales	8	757	611	1,486	1,025
Petroleum products and petrochemicals sales	8	654	547	1,286	928
Support services and other revenues		18	16	34	26
Equity share in profits of associates and joint ventures		6	2	4	9
<b>Total revenues and equity share in profits of associates and joint ventures</b>		<b>1,435</b>	1,176	<b>2,810</b>	1,988
<b>Costs and expenses</b>					
Production and operating expenses		118	109	216	169
Cost of purchased oil, gas, petroleum products and refining costs		118	99	242	188
General and administrative expenses		27	29	54	46
Pipeline tariffs and transportation costs		118	103	235	173
Exploration expenses		5	3	9	6
Depreciation, depletion and amortization		109	104	214	160
Taxes other than income tax	9	315	259	616	447
Export customs duty	10	430	359	845	602
<b>Total costs and expenses</b>		<b>1,240</b>	1,065	<b>2,431</b>	1,791
<b>Operating income</b>		<b>195</b>	111	<b>379</b>	197
Finance income		6	4	12	7
Finance expenses	11	(10)	(22)	(51)	(29)
Other income	12	4	1	62	206
Other expenses	12	(10)	(5)	(23)	(20)
Foreign exchange differences		29	(55)	(55)	(66)
<b>Income before income tax</b>		<b>214</b>	34	<b>324</b>	295
Income tax expense	9	(42)	(8)	(64)	(21)
<b>Net income</b>		<b>172</b>	26	<b>260</b>	274
<b>Other comprehensive income/(loss) – to be reclassified to profit/(loss) in subsequent periods</b>					
Foreign exchange differences on translation of foreign operations		10	(13)	(1)	(13)
(Loss)/gain from changes in fair value of financial assets available-for-sale, net of tax		–	–	(1)	3
<b>Total other comprehensive income/(loss) – to be reclassified to profit/(loss) in subsequent periods, net of tax</b>		<b>10</b>	(13)	(2)	(10)
<b>Total comprehensive income, net of tax</b>		<b>182</b>	13	<b>258</b>	264
<b>Net income</b>					
attributable to Rosneft shareholders		171	22	257	268
attributable to non-controlling interests		1	4	3	6
<b>Total comprehensive income, net of tax</b>		<b>181</b>	9	<b>255</b>	258
attributable to Rosneft shareholders		181	9	255	258
attributable to non-controlling interests		1	4	3	6
<b>Net income attributable to Rosneft per common share (in RUB) – basic and diluted</b>		<b>16.14</b>	2.08	<b>24.25</b>	26.81
Weighted average number of shares outstanding (millions)		<b>10,598</b>	10,598	<b>10,598</b>	9,997

*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	Treasury shares	Other funds and reserves	Retained earnings	Rosneft shareholders' equity	Non-controlling interests	Total equity
<b>Balance at January 1, 2013</b>	9,238	1	385	(299)	(6)	2,202	2,283	39	2,322
Net income	–	–	–	–	–	268	268	6	274
Other comprehensive loss	–	–	–	–	(10)	–	(10)	–	(10)
<b>Total comprehensive income/(loss)</b>	–	–	–	–	(10)	268	258	6	264
Sale of treasury shares	1,360	–	28	299	–	–	327	–	327
Dividends declared on common stock	–	–	–	–	–	(85)	(85)	–	(85)
Acquisition of subsidiaries (Note 6)	–	–	–	–	–	–	–	112	112
Other changes	–	–	–	–	–	–	–	(2)	(2)
<b>Balance at June 30, 2013 (unaudited restated)</b>	10,598	1	413	–	(16)	2,385	2,783	155	2,938
<b>Balance at January 1, 2014</b>	10,598	1	477	–	(14)	2,662	3,126	39	3,165
Net income	–	–	–	–	–	257	257	3	260
Other comprehensive loss	–	–	–	–	(2)	–	(2)	–	(2)
<b>Total comprehensive income/(loss)</b>	–	–	–	–	(2)	257	255	3	258
Dividends declared on common stock (Note 27)	–	–	–	–	–	(136)	(136)	–	(136)
<b>Balance at June 30, 2014 (unaudited)</b>	10,598	1	477	–	(16)	2,783	3,245	42	3,287

*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, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited restated)
<b>Operating activities</b>			
Net income		260	274
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation, depletion and amortization		214	160
Loss on sale and disposal of non-current assets	12	8	3
Asset impairment loss	12	1	5
Non-cash income from acquisition of subsidiaries, net	6	–	(205)
Dry hole costs		2	1
Foreign exchange loss		24	107
Equity share in profits of associates and joint ventures		(4)	(9)
Gain on disposal of investments in associates and joint ventures	12	(56)	–
Loss from disposal of companies and non-production assets	12	3	1
Finance expenses	11	51	29
Finance income		(12)	(7)
Income tax expense	9	64	21
<i>Changes in operating assets and liabilities:</i>			
Increase in accounts receivable, gross		(35)	(52)
(Increase)/decrease in inventories		(12)	7
(Increase)/decrease in restricted cash		(2)	2
Decrease in prepayments and other current assets		26	7
Decrease in other non-current non-financial assets		2	–
Increase/(decrease) in accounts payable and accrued liabilities		25	(12)
Decrease in other tax liabilities		(2)	(2)
(Decrease)/increase in current provisions		(1)	2
(Decrease)/increase in other current liabilities		(5)	4
(Decrease)/increase in other non-current liabilities		(1)	12
Increase in long-term prepayment on oil supply agreements		431	258
Interest paid for the use of funds under terms of prepayment agreements		(12)	–
Long-term loans granted by subsidiary banks		(6)	(15)
Repayment of long-term loans granted by subsidiary banks		6	15
Acquisition of trading securities		(9)	(10)
Proceeds from sale of trading securities		10	12
<b>Net cash provided by operating activities before income tax and interest</b>		<b>970</b>	<b>608</b>
Income tax payments		(72)	(38)
Interest received		4	3
<b>Net cash provided by operating activities</b>		<b>902</b>	<b>573</b>

*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, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited restated)
<b>Investing activities</b>			
Capital expenditures		(237)	(248)
Acquisition of the right to a part of pipeline capacity	19	(16)	–
Acquisition of licenses		(2)	(5)
Acquisition of current financial assets		(405)	(138)
Proceeds from sale of current financial assets		104	40
Acquisition of non-current financial assets		(1)	(2)
Financing of joint venture	20	(69)	–
Acquisition of short-term promissory notes		(7)	–
Proceeds from sale of investments in associates and joint ventures	21	21	1
Acquisition of interest in associates and joint ventures		(4)	(17)
Acquisition of subsidiaries, net of cash acquired	6	(10)	(1,201)
Sale of property, plant and equipment		1	–
Placements under reverse REPO agreements		(6)	(3)
Receipts under reverse REPO agreements		4	3
<b>Net cash used in investing activities</b>		<b>(627)</b>	<b>(1,570)</b>
<b>Financing activities</b>			
Proceeds from short-term loans and borrowings		34	–
Repayment of short-term loans and borrowings		(85)	(16)
Proceeds from long-term loans and borrowings		34	1,043
Repayment of long-term loans and borrowings		(258)	(37)
Interest paid		(41)	(23)
Proceeds from bonds issuance		35	70
Repayment of other financial liabilities		(7)	(6)
Repayment of Company's liability for non-controlling shareholders in subsidiary	22	(153)	–
<b>Net cash (used in) / provided by financing activities</b>		<b>(441)</b>	<b>1,031</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(166)</b>	<b>34</b>
Cash and cash equivalents at beginning of period	13	275	299
Effect of foreign exchange on cash and cash equivalents		33	13
<b>Cash and cash equivalents at end of period</b>	13	<b>142</b>	<b>346</b>

*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, 2014

*(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 2013 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 2013 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 2013 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 2013 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present fairly the Company's financial position, results of operations, statements of changes in shareholders' equity and cash flows for the interim reporting periods.

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

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

The interim condensed consolidated financial statements for the three and six months ended June 30, 2014 were approved and authorized for issue by the President of the Company on July 25, 2014.

# Rosneft Oil Company

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

### 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 2013 prepared in accordance with IFRS, except for the adoption of new standards and interpretations effective as of January 1, 2014.

The following new standards and interpretations were applied for the first time in 2014:

- *Offsetting Financial Assets and Financial Liabilities* – Amendments to IAS 32 *Financial Instrument: Presentation*. Amendments clarify assets and liabilities offsetting rules and introduce new related disclosure requirements.
- *Recoverable Amount Disclosures for Non-Financial Assets* – Amendments to IAS 36 *Impairment of Assets*. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal.
- *Novation of Derivatives and Continuation of Hedge Accounting* – Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*. Under the amendments there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met.
- Interpretation 21 *Levies* (IFRIC 21). The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.

Application of these standards and interpretations had no significant impact on the Company's financial position or results of operations.

### 4. Significant accounting estimates

Effective January 1, 2014, the Company estimates oil and gas reserves quantities in accordance with the Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers. Previously the reserve estimates used in unit-of-production depletion and supplementary oil and gas disclosure were prepared in accordance with the requirements adopted by the U.S. Securities and Exchange Commission (SEC).

The Company does not expect the changes in estimates described above to have a material impact on its consolidated financial position and results of operations. The Company will disclose the reserve quantities in accordance with PRMS in the supplementary oil and gas disclosure with its consolidated financial statements for the year ending December 31, 2014.

### 5. New standards and interpretations issued but not yet effective

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company is currently assessing the impact of the standard on the consolidated financial statements.

# Rosneft Oil Company

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

### **5. New standards and interpretations issued but not yet effective (continued)**

In May 2014, the IASB issued an amendment to IFRS 11 *Joint Arrangements*, entitled *Accounting for Acquisitions of Interests in Joint Operations*. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and requires application of IFRS 3 *Business Combinations*, for such acquisitions. The amendment is effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Company is currently assessing the impact of the amendment on the consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*, entitled *Clarification of Acceptable Methods of Depreciation and Amortization*. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In November 2013, the IASB issued amendments to IAS 19 *Employee Benefits*, entitled *Defined Benefit Plans: Employee Contributions*. The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to 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. The amendments are effective for annual periods beginning on or after July 1, 2014 with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

### **6. Acquisition of subsidiaries**

#### **Finalization of allocation of the purchase price of TNK-BP**

At the date of the issuance of the interim condensed consolidated financial statements for the six months ended June 30, 2013 the Company made a preliminary allocation of the purchase price of TNK-BP to the fair value of assets acquired and liabilities assumed. Also a preliminary estimation of the fair value of the investment in OJSC Verkhnechonskneftegaz was made.

In the third quarter of 2013 the estimation of the fair value of assets acquired and liabilities assumed and investment in OJSC Verkhnechonskneftegaz was finalized. Consequently, the comparative information for the three and six months ended June 30, 2013 disclosed in these interim condensed consolidated financial statements was adjusted to reflect the final estimate of the fair value of assets acquired and liabilities assumed and investment in OJSC Verkhnechonskneftegaz.

# Rosneft Oil Company

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

### 6. Acquisition of subsidiaries (continued)

#### Finalization of allocation of the purchase price of TNK-BP (continued)

The following table summarizes the effect from finalized estimation on the interim consolidated statement of comprehensive income for the six months ended June 30, 2013:

	Before finalized estimation	Effect from finalized estimation	Gain on bargain purchase	After finalized estimation
<b>Revenues and equity share in profits of associates and joint ventures</b>	<b>1,988</b>	–	–	<b>1,988</b>
<b>Costs and expenses</b>				
Production and operating expenses	169	–	–	169
Cost of purchased oil, gas, petroleum products and refining costs	174	14	–	188
General and administrative expenses	46	–	–	46
Pipeline tariffs and transportation costs	173	–	–	173
Exploration expenses	6	–	–	6
Depreciation, depletion and amortization	149	11	–	160
Taxes other than income tax	447	–	–	447
Export customs duty	602	–	–	602
<b>Total costs and expenses</b>	<b>1,766</b>	<b>25</b>	–	<b>1,791</b>
<b>Operating income</b>	<b>222</b>	<b>(25)</b>	–	<b>197</b>
Finance income	7	–	–	7
Finance expenses	(29)	–	–	(29)
Other income	49	(10)	167	206
Other expenses	(20)	–	–	(20)
Foreign exchange differences	(66)	–	–	(66)
<b>Income before income tax</b>	<b>163</b>	<b>(35)</b>	<b>167</b>	<b>295</b>
Income tax expense	(26)	5	–	(21)
<b>Net income</b>	<b>137</b>	<b>(30)</b>	<b>167</b>	<b>274</b>
<b>Other comprehensive income – to be reclassified to profit/(loss) in subsequent periods</b>	<b>(13)</b>	–	–	<b>(13)</b>
Gain from changes in fair value of financial assets available-for-sale, net of tax	3	–	–	3
<b>Total other comprehensive loss – to be reclassified to loss in subsequent periods, net of tax</b>	<b>(10)</b>	–	–	<b>(10)</b>
<b>Total comprehensive income, net of tax</b>	<b>127</b>	<b>(30)</b>	<b>167</b>	<b>264</b>
<b>Net income</b>				
attributable to Rosneft shareholders	132	(31)	167	268
attributable to non-controlling interests	5	1	–	6
<b>Total comprehensive income, net of tax</b>				
attributable to Rosneft shareholders	122	(31)	167	258
attributable to non-controlling interests	5	1	–	6
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	13.20	(3.10)	16.71	26.81

## Rosneft Oil Company

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

#### 6. Acquisition of subsidiaries (continued)

##### Finalization of allocation of the purchase price of TNK-BP (continued)

The following table summarizes the effect from finalized estimation on the interim consolidated statement of cash flows for the six months ended June 30, 2013:

	Before finalized estimation	Effect from finalized estimation and gain on bargain purchase	After finalized estimation
<b>Operating activities</b>			
Net income	137	137	274
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation, depletion and amortization	149	11	160
Loss on sale and disposal of non-current assets	3	–	3
Asset impairment loss	5	–	5
Non-cash income from acquisition of subsidiaries, net	(48)	(157)	(205)
Dry hole costs	1	–	1
Foreign exchange loss	107	–	107
Equity share in profits of associates and joint ventures	(9)	–	(9)
Loss from disposal of companies and non-production assets	1	–	1
Finance expenses	29	–	29
Finance income	(7)	–	(7)
Income tax expense	26	(5)	21
<i>Changes in operating assets and liabilities:</i>			
Increase in accounts receivable, gross	(52)	–	(52)
Increase in inventories	(7)	14	7
Decrease in restricted cash	2	–	2
Decrease in prepayments and other current assets	7	–	7
Decrease in accounts payable and accrued liabilities	(12)	–	(12)
Decrease in other tax liabilities	(2)	–	(2)
Increase in current provisions	2	–	2
Increase in other current liabilities	4	–	4
Increase in other non-current liabilities	12	–	12
Increase in long-term prepayment on oil supply agreements	258	–	258
Long-term loans granted by subsidiary banks	(15)	–	(15)
Repayment of long-term loans granted by subsidiary banks	15	–	15
Acquisition of trading securities	(10)	–	(10)
Proceeds from sale of trading securities	12	–	12
<b>Net cash provided by operating activities before income tax and interest</b>	<b>608</b>	<b>–</b>	<b>608</b>

##### Finalization of allocation of the purchase price of LLC Basic Jet Fuel Operator, LLC General Avia, LLC Oil and Gas Company ITERA, LLC TNK-Sheremetyevo

At the date of the issuance of the consolidated financial statements for the year ended December 31, 2013 the Company made a preliminary allocation of the purchase price of LLC Basic Jet Fuel Operator, LLC General Avia, LLC Oil and Gas Company ITERA, LLC TNK-Sheremetyevo to the fair value of assets acquired and liabilities assumed. In the second quarter of 2014 the estimation of the fair value of assets acquired and liabilities assumed was finalized.

Rosneft Oil Company

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

**6. Acquisition of subsidiaries (continued)**

**Finalization of allocation of the purchase price of LLC Basic Jet Fuel Operator, LLC General Avia, LLC Oil and Gas Company ITERA, LLC TNK-Sheremetyevo (continued)**

The following table summarizes the effect from finalized estimation on the consolidated balance sheet as of December 31, 2013:

	Before finalized estimation	Effect from finalized estimation – Basic Jet Fuel Operator and General Avia	Effect from finalized estimation – ITERA	Effect from finalized estimation – Sheremetyevo	After finalized estimation
<b>ASSETS</b>					
<b>Current assets</b>	<b>1,455</b>	–	–	–	<b>1,455</b>
<b>Non-current assets</b>					
Property, plant and equipment	5,330	(6)	(14)	1	5,311
Intangible assets	37	–	–	–	37
Other long-term financial assets	40	–	(3)	–	37
Investments in associates and joint ventures	327	–	–	–	327
Bank loans granted	12	–	–	–	12
Deferred tax assets	14	–	–	–	14
Goodwill	164	5	12	1	182
Other non-current non-financial assets	12	–	–	–	12
<b>Total non-current assets</b>	<b>5,936</b>	<b>(1)</b>	<b>(5)</b>	<b>2</b>	<b>5,932</b>
Assets held for sale	147	–	–	–	147
<b>Total assets</b>	<b>7,538</b>	<b>(1)</b>	<b>(5)</b>	<b>2</b>	<b>7,534</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities</b>	<b>1,387</b>	–	–	–	<b>1,387</b>
<b>Non-current liabilities</b>					
Loans and borrowings	1,676	–	–	–	1,676
Finance lease liabilities	8	–	–	–	8
Deferred tax liabilities	660	(1)	(3)	–	656
Provisions	116	–	–	–	116
Prepayment on long-term oil supply agreements	470	–	–	–	470
Other non-current liabilities	28	–	–	–	28
<b>Total non-current liabilities</b>	<b>2,958</b>	<b>(1)</b>	<b>(3)</b>	–	<b>2,954</b>
<b>Liabilities associated with assets held for sale</b>	<b>28</b>	–	–	–	<b>28</b>
<b>Equity</b>					
Share capital	1	–	–	–	1
Additional paid-in capital	477	–	–	–	477
Other funds and reserves	(14)	–	–	–	(14)
Retained earnings	2,662	–	(2)	2	2,662
<b>Rosneft shareholders' equity</b>	<b>3,126</b>	–	<b>(2)</b>	<b>2</b>	<b>3,126</b>
Non-controlling interest	39	–	–	–	39
<b>Total equity</b>	<b>3,165</b>	–	<b>(2)</b>	<b>2</b>	<b>3,165</b>
<b>Total liabilities and equity</b>	<b>7,538</b>	<b>(1)</b>	<b>(5)</b>	<b>2</b>	<b>7,534</b>

## Rosneft Oil Company

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

#### 6. Acquisition of subsidiaries (continued)

##### **Finalization of allocation of the purchase price of LLC Basic Jet Fuel Operator, LLC General Avia, LLC Oil and Gas Company ITERA, LLC TNK-Sheremetyevo (continued)**

The effect from finalized estimation on the consolidated statement of comprehensive income for 2013 is not material.

The following table summarizes the allocation of the LLC Oil and Gas Company ITERA purchase price to the fair value of assets acquired and liabilities assumed:

<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	1
Accounts receivable	11
Prepayments and other current assets	2
<b>Total current assets</b>	<b>14</b>
<b>Non-current assets</b>	
Property, plant and equipment	78
Other financial assets	1
Investments in associates and joint ventures	132
Deferred tax assets	1
<b>Total non-current assets</b>	<b>212</b>
<b>Total assets</b>	<b>226</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	6
Loans and borrowings	12
<b>Total current liabilities</b>	<b>18</b>
<b>Non-current liabilities</b>	
Loans and borrowings	10
Deferred tax liabilities	16
<b>Total non-current liabilities</b>	<b>26</b>
<b>Total liabilities</b>	<b>44</b>
<b>Total identifiable net assets at fair value</b>	<b>182</b>
Non-controlling interests measured at preliminary fair value	(1)
Goodwill	8
<b>Total consideration transferred</b>	<b>189</b>

Goodwill in the amount of RUB 8 billion arising on the acquisition of LLC Oil and Gas Company ITERA relates to the expected multiplier effect that will enhance the Company's gas business expansion through access to LLC Oil and Gas Company ITERA's assets and gas marketing channels, as well as through synergies from consolidation of the Company's gas business management in LLC Oil and Gas Company ITERA, which will lead to consistent implementation of the Company's gas strategy. As a result of LLC Oil and Gas Company ITERA's acquisition the Company gained the opportunity to accelerate development of the Kynsko-Chaselskoe hydrocarbon fields. Goodwill was fully attributed to Exploration and production segment.

Through the LLC Oil and Gas Company ITERA purchase price allocation the Company recognized goodwill arising on the step acquisition of OJSC Sibneftegas in the amount of RUB 4 billion. Goodwill was fully attributed to Exploration and production segment.

## Rosneft Oil Company

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

#### 6. Acquisition of subsidiaries (continued)

##### **Finalization of allocation of the purchase price of LLC Basic Jet Fuel Operator, LLC General Avia, LLC Oil and Gas Company ITERA, LLC TNK-Sheremetyevo (continued)**

The following table summarizes the allocation of the LLC TNK-Sheremetyevo purchase price to the fair value of assets acquired and liabilities assumed:

<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	3
Accounts receivable	2
Other current assets	1
<b>Total current assets</b>	<b>6</b>
<b>Non-current assets</b>	
Property, plant and equipment	4
Other non-current assets	2
<b>Total non-current assets</b>	<b>6</b>
<b>Total assets</b>	<b>12</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	4
Short-term loans and borrowings	2
<b>Total current liabilities</b>	<b>6</b>
<b>Total liabilities</b>	<b>6</b>
<b>Total identifiable net assets at fair value</b>	<b>6</b>
Non-controlling interests measured at preliminary fair value	(1)
Goodwill	21
<b>Total consideration transferred</b>	<b>26</b>

Goodwill in the amount of RUB 21 billion relates primarily to the expected synergies arising from access to premium sales at Moscow International Sheremetyevo Airport, the largest airport in Russia in terms of jet fuel consumption and traffic.

The following table summarizes the allocation of the LLC Basic jet fuel operator and LLC General Avia purchase price:

<b>ASSETS</b>	
Property, plant and equipment	2
<b>Total non-current assets</b>	<b>2</b>
<b>LIABILITIES</b>	
Deferred income tax liabilities	1
<b>Total long-term liabilities</b>	<b>1</b>
Goodwill	5
<b>Total consideration transferred</b>	<b>6</b>

Goodwill in the amount of RUB 5 billion arising on the acquisition of LLC Basic Jet Fuel Operator and LLC General Avia relates primarily to the expected increase in jet fuel sales through direct contracts with domestic air carriers.



## Rosneft Oil Company

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

#### 6. Acquisition of subsidiaries (continued)

##### **Finalization of allocation of the purchase price of LLC Basic Jet Fuel Operator, LLC General Avia, LLC Oil and Gas Company ITERA, LLC TNK-Sheremetyevo (continued)**

In 2013 the Company acquired ownership of LLC Taas-Yuriakh Neftegazodobycha and OJSC Sibneftegas. The allocation of the purchase price to the assets acquired and liabilities assumed is preliminary as of June 30, 2014 and will be finalized within 12 months from the acquisition date.

##### **Acquisition of LLC Orenburg Drilling Company**

In February 2014 the Company obtained control over LLC Orenburg Drilling Company. The acquisition of a 100% share in this company was completed in April 2014. The consideration payable amounted to US\$ 247 million (RUB 8.8 billion at the date of the transaction). Acquisition of LLC Orenburg Drilling Company is the key aspect of a program aimed at the re-equipment of the Company's fleet of drilling units and implementation of a policy to increase internal service share. Acquisition of LLC Orenburg Drilling Company will provide the most important regions of the Company's activities with cost efficient drilling operations.

As of June 30, 2014 LLC Orenburg Drilling Company purchase price allocation was not completed. Preliminary purchase price allocation is based on the historical value of assets and liabilities. Excess of purchase price over fair value of the net assets of LLC Orenburg Drilling Company acquired is recorded as goodwill. Allocation of the purchase price to fair value of the assets acquired and liabilities assumed will be finalized within 12 months from the acquisition date.

The following table summarizes the Company's preliminary allocation of the LLC Orenburg Drilling Company purchase price:

<b>ASSETS</b>	
<b>Current assets</b>	
Accounts receivable	3
Inventories	2
<b>Total current assets</b>	<b>5</b>
<b>Non-current assets</b>	
Property, plant and equipment	3
<b>Total non-current assets</b>	<b>3</b>
<b>Total assets</b>	<b>8</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	4
Loans and borrowings	1
<b>Total current liabilities</b>	<b>5</b>
<b>Non-current liabilities</b>	
Deferred tax liabilities	1
<b>Total non-current liabilities</b>	<b>1</b>
<b>Total liabilities</b>	<b>6</b>
<b>Total identifiable net assets at fair value</b>	<b>2</b>
Goodwill	7
<b>Total consideration transferred</b>	<b>9</b>

## Rosneft Oil Company

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

#### 6. Acquisition of subsidiaries (continued)

##### Acquisition of LLC Orenburg Drilling Company (continued)

Preliminarily, goodwill in the amount of RUB 7 billion relates to the expected synergies arising from improved efficiency of drilling project implementation at the Company's greenfields and brownfields, in particular by means of cost control at each stage of well construction. The amount of goodwill is not tax deductible.

The acquisition of LLC Orenburg Drilling Company did not imply contingent consideration.

The amounts of goodwill arisen on acquisitions are not tax deductible.

#### 7. Assets held for sale

As of December 31, 2013 the assets and liabilities of LLC Taas-Yuriakh Neftegazodobycha were classified as assets held for sale:

	<b>December 31, 2013</b>
<b>ASSETS</b>	
<b>Current assets</b>	
Advances issued and other current assets	3
<b>Total current assets</b>	<b>3</b>
<b>Non-current assets</b>	
Property, plant and equipment	39
Mineral licenses	105
<b>Total non-current assets</b>	<b>144</b>
<b>Total assets held for sale</b>	<b>147</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	3
<b>Total current liabilities</b>	<b>3</b>
<b>Non-current liabilities</b>	
Loans and borrowings	3
Deferred tax liabilities	22
<b>Total non-current liabilities</b>	<b>25</b>
<b>Total liabilities associated with assets held for sale</b>	<b>28</b>

Following a reconsideration of plans and the expected disposal period in the second quarter of 2014, the assets and liabilities of LLC Taas-Yuriakh Neftegazodobycha are no longer classified as assets and liabilities held for sale. This reclassification did not have a material effect on the financial position or results of the operations of the Company.

# Rosneft Oil Company

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

### 8. Segment information

The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. Exploration and production segment is engaged in field exploration and production of crude oil and natural gas. Refining and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as in the purchase, sale and transportation of crude oil and petroleum products. Corporate and other unallocated activities do not represent the operating segment and comprise corporate activity, activities involved in field development and maintenance of the 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 on revaluation of intersegment transactions at market prices.

Below is the 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
<b>Revenues and equity share in profits of associates and joint ventures</b>					
Revenues from external customers	–	1,411	18	–	1,429
Intersegment revenues	596	–	–	(596)	–
Equity share in profits of associates and joint ventures	6	–	–	–	6
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>602</b>	<b>1,411</b>	<b>18</b>	<b>(596)</b>	<b>1,435</b>
<b>Costs and expenses</b>					
Costs and expenses other than depreciation, depletion and amortization	352	1,347	28	(596)	1,131
Depreciation, depletion and amortization	89	15	5	–	109
<b>Total costs and expenses</b>	<b>441</b>	<b>1,362</b>	<b>33</b>	<b>(596)</b>	<b>1,240</b>
<b>Operating income</b>	<b>161</b>	<b>49</b>	<b>(15)</b>	<b>–</b>	<b>195</b>
Finance income					6
Finance expenses					(10)
<b>Total finance expenses</b>					<b>(4)</b>
Other income					4
Other expenses					(10)
Foreign exchange differences					29
<b>Income before income tax</b>					<b>214</b>
Income tax					(42)
<b>Net income</b>					<b>172</b>

Rosneft Oil Company

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

**8. Segment information (continued)**

Below is the performance of the operating segments for the three months ended June 30, 2013 (unaudited restated):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
<b>Revenues and equity share in profits of associates and joint ventures</b>					
Revenues from external customers	–	1,158	16	–	1,174
Intersegment revenues	479	–	–	(479)	–
Equity share in profits of associates and joint ventures	2	–	–	–	2
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>481</b>	<b>1,158</b>	<b>16</b>	<b>(479)</b>	<b>1,176</b>
<b>Costs and expenses</b>					
Costs and expenses other than depreciation, depletion and amortization	282	1,127	31	(479)	961
Depreciation, depletion and amortization	87	15	2	–	104
<b>Total costs and expenses</b>	<b>369</b>	<b>1,142</b>	<b>33</b>	<b>(479)</b>	<b>1,065</b>
<b>Operating income</b>	<b>112</b>	<b>16</b>	<b>(17)</b>	<b>–</b>	<b>111</b>
Finance income					4
Finance expenses					(22)
<b>Total finance expenses</b>					<b>(18)</b>
Other income					1
Other expenses					(5)
Foreign exchange differences					(55)
<b>Income before income tax</b>					<b>34</b>
Income tax					(8)
<b>Net income</b>					<b>26</b>

Rosneft Oil Company

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

8. Segment information (continued)

Below is the 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
<b>Revenues and equity share in profits of associates and joint ventures</b>					
Revenues from external customers	–	2,772	34	–	2,806
Intersegment revenues	1,164	–	–	(1,164)	–
Equity share in profits of associates and joint ventures	4	–	–	–	4
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>1,168</b>	<b>2,772</b>	<b>34</b>	<b>(1,164)</b>	<b>2,810</b>
<b>Costs and expenses</b>					
Costs and expenses other than depreciation, depletion and amortization	686	2,642	53	(1,164)	2,217
Depreciation, depletion and amortization	175	32	7	–	214
<b>Total costs and expenses</b>	<b>861</b>	<b>2,674</b>	<b>60</b>	<b>(1,164)</b>	<b>2,431</b>
<b>Operating income</b>	<b>307</b>	<b>98</b>	<b>(26)</b>	<b>–</b>	<b>379</b>
Finance income					12
Finance expenses					(51)
<b>Total finance expenses</b>					<b>(39)</b>
Other income					62
Other expenses					(23)
Foreign exchange differences					(55)
<b>Income before income tax</b>					<b>324</b>
Income tax					(64)
<b>Net income</b>					<b>260</b>

# Rosneft Oil Company

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

### 8. Segment information (continued)

Below is the performance of the operating segments for the six months ended June 30, 2013 (unaudited restated):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
<b>Revenues and equity share in profits of associates and joint ventures</b>					
Revenues from external customers	–	1,953	26	–	1,979
Intersegment revenues	799	–	–	(799)	–
Equity share in profits of associates and joint ventures	9	–	–	–	9
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>808</b>	<b>1,953</b>	<b>26</b>	<b>(799)</b>	<b>1,988</b>
<b>Costs and expenses</b>					
Costs and expenses other than depreciation, depletion and amortization	472	1,907	51	(799)	1,631
Depreciation, depletion and amortization	132	24	4	–	160
<b>Total costs and expenses</b>	<b>604</b>	<b>1,931</b>	<b>55</b>	<b>(799)</b>	<b>1,791</b>
<b>Operating income</b>	<b>204</b>	<b>22</b>	<b>(29)</b>	<b>–</b>	<b>197</b>
Finance income					7
Finance expenses					(29)
<b>Total finance expenses</b>					<b>(22)</b>
Other income					206
Other expenses					(20)
Foreign exchange differences					(66)
<b>Income before income tax</b>					<b>295</b>
Income tax					(21)
<b>Net income</b>					<b>274</b>

## Rosneft Oil Company

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

#### 8. Segment information (continued)

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

	Three months ended June 30, 2014 (unaudited)	Three months ended June 30, 2013 (unaudited)	Six months ended June 30, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited)
<b>Oil and gas sales</b>				
Export of crude oil – Europe	457	402	869	679
Export of crude oil – Asia	209	133	425	233
Export of crude oil – CIS, other than Russia	30	28	57	51
Domestic sales of crude oil	25	29	58	35
Domestic sales of gas	36	19	77	27
<b>Total oil and gas sales</b>	<b>757</b>	611	<b>1,486</b>	1,025
<b>Petroleum products and petrochemicals sales</b>				
Export of petroleum products – Europe	323	226	613	386
Export of petroleum products – Asia	86	70	173	136
Export of petroleum products – CIS, other than Russia	10	23	35	27
Domestic sales of petroleum products	207	208	407	334
Domestic sales of petrochemical products	5	3	9	6
Export of petrochemical products – Europe	23	17	49	39
<b>Total petroleum products and petrochemicals sales</b>	<b>654</b>	547	<b>1,286</b>	928

#### 9. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended June 30, 2014 (unaudited)	Three months ended June 30, 2013 (unaudited restated)	Six months ended June 30, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited restated)
Current income tax expense	42	9	71	21
Deferred tax benefit due to the origination and reversal of temporary differences	–	(1)	(7)	–
<b>Total income tax expense</b>	<b>42</b>	8	<b>64</b>	21

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

	Three months ended June 30, 2014 (unaudited)	Three months ended June 30, 2013 (unaudited)	Six months ended June 30, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited)
Mineral extraction tax	263	209	509	361
Excise tax	33	34	68	57
Property tax	7	7	14	10
Social charges	11	6	22	16
Other	1	3	3	3
<b>Total taxes other than income tax</b>	<b>315</b>	259	<b>616</b>	447

## Rosneft Oil Company

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

#### 10. Export customs duty

Export customs duty comprises the following:

	Three months ended June 30, 2014 (unaudited)	Three months ended June 30, 2013 (unaudited)	Six months ended June 30, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited)
Export customs duty on oil sales	315	265	617	451
Export customs duty on petroleum products and petrochemicals sales	115	94	228	151
<b>Total export customs duty</b>	<b>430</b>	<b>359</b>	<b>845</b>	<b>602</b>

#### 11. Finance expenses

Finance expenses comprise the following:

	Three months ended June 30, 2014 (unaudited)	Three months ended June 30, 2013 (unaudited)	Six months ended June 30, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited)
Interest expense on:				
Loans and borrowings	(12)	(10)	(26)	(15)
For the use of funds under terms of prepayment agreements (Note 26)	(6)	(2)	(12)	(2)
Other interest expenses	(1)	(1)	(1)	(1)
<b>Total interest expenses</b>	<b>(19)</b>	<b>(13)</b>	<b>(39)</b>	<b>(18)</b>
Net gain/(loss) from operations with derivative financial instruments	11	(8)	(8)	(9)
Increase in provision due to the unwinding of discount	(2)	(1)	(4)	(2)
<b>Total finance expenses</b>	<b>(10)</b>	<b>(22)</b>	<b>(51)</b>	<b>(29)</b>

#### 12. Other income and expenses

Other income and expenses comprise the following:

	Three months ended June 30, 2014 (unaudited)	Three months ended June 30, 2013 (unaudited restated)	Six months ended June 30, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited restated)
Gain from the sale of LLC "Yugragazpererabotka" (Note 21)	–	–	56	–
Non-cash income on acquisition of subsidiaries, net	–	–	–	205
Other	4	1	6	1
<b>Total other income</b>	<b>4</b>	<b>1</b>	<b>62</b>	<b>206</b>
Sale and disposal of property, plant and equipment and intangible assets	(4)	(2)	(8)	(3)
Disposal of companies and non-production assets	(2)	–	(3)	(1)
Impairment of assets	–	(2)	(1)	(5)
Social payments, charity, sponsorship, financial aid	(2)	(1)	(4)	(2)
Fines and penalties	–	–	(1)	–
Other	(2)	–	(6)	(9)
<b>Total other expenses</b>	<b>(10)</b>	<b>(5)</b>	<b>(23)</b>	<b>(20)</b>



## Rosneft Oil Company

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

#### 13. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	<b>June 30, 2014 (unaudited)</b>	<b>December 31, 2013</b>
Cash on hand and in bank accounts in RUB	83	58
Cash on hand and in bank accounts in foreign currencies	47	172
Deposits	9	43
Others	3	2
<b>Total cash and cash equivalents</b>	<b>142</b>	<b>275</b>

#### 14. Other current financial assets

Current financial assets comprise the following:

	<b>June 30, 2014 (unaudited)</b>	<b>December 31, 2013</b>
<b>Financial assets available for sale</b>		
Bonds	16	21
Stocks and shares	38	22
<b>Loans and receivables</b>		
Loans granted	2	17
Loans issued to associates	4	4
Notes receivable, net of allowance	27	21
Loans granted under reverse repurchase agreements	3	1
Deposits and deposit certificates	437	131
<b>Held-for-trading financial assets at fair value through profit or loss</b>		
Corporate bonds	9	11
State bonds	6	4
<b>Total current financial assets</b>	<b>542</b>	<b>232</b>

Bank deposits amount to RUB 437 billion and RUB 131 billion as of June 30, 2014 and December 31, 2013, respectively. As of June 30, 2014, bank deposits denominated in US\$ amount to RUB 375 billion and earn interest rates ranging from 0.45% to 4.0% p.a. Bank deposits denominated in RUB amount to RUB 62 billion and earn interest rates ranging from 7.5% to 10.0% p.a.

#### 15. Accounts receivable

Accounts receivable, net of allowance, include the following:

	<b>June 30, 2014 (unaudited)</b>	<b>December 31, 2013</b>
Trade receivables	424	378
Banking loans to customers	16	16
Other accounts receivable	68	30
<b>Total</b>	508	424
Valuation allowance for doubtful accounts	(9)	(9)
<b>Total accounts receivable, net of allowance</b>	<b>499</b>	<b>415</b>

No accounts receivable were pledged as collateral for loans and borrowings provided to the Company as of June 30, 2014 and December 31, 2013.

## Rosneft Oil Company

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

#### 16. Inventories

Inventories comprise the following:

	<b>June 30, 2014 (unaudited)</b>	<b>December 31, 2013</b>
Crude oil and associated gas	70	69
Petroleum products and petrochemicals	100	96
Materials and supplies	46	37
<b>Total inventories</b>	<b>216</b>	<b>202</b>

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

	<b>Three months ended June 30, 2014 (unaudited)</b>	<b>Three months ended June 30, 2013 (unaudited)</b>	<b>Six months ended June 30, 2014 (unaudited)</b>	<b>Six months ended June 30, 2013 (unaudited)</b>
The cost of inventories recognized as an expense during the period	167	172	312	270

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

#### 17. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	<b>June 30, 2014 (unaudited)</b>	<b>December 31, 2013</b>
Value added tax and excise tax recoverable	179	183
Prepayments to suppliers	34	36
Prepaid customs duties	66	80
Other taxes	23	25
Other	6	6
<b>Total prepayments and other current assets</b>	<b>308</b>	<b>330</b>

## Rosneft Oil Company

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

#### 18. Property, plant and equipment and construction in progress

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
<i>Cost</i>				
As of January 1, 2014 (restated)	5,092	1,193	132	6,417
Acquisition of subsidiaries (Note 6)	–	–	3	3
Reclassification from assets held for sale (Note 7)	144	–	–	144
Additions	172	102	7	281
Disposals	(16)	(7)	(1)	(24)
Exchange differences	5	(4)	–	1
Cost of asset retirement obligations	(15)	–	–	(15)
As of June 30, 2014	5,382	1,284	141	6,807
<i>Depreciation, depletion and impairment losses</i>				
As of January 1, 2014 (restated)	(923)	(196)	(49)	(1,168)
Depreciation and depletion charge	(174)	(33)	(6)	(213)
Disposals	10	4	1	15
Exchange differences	(3)	1	–	(2)
As of June 30, 2014	(1,090)	(224)	(54)	(1,368)
<i>Net book value</i>				
As of January 1, 2014 (restated)	4,169	997	83	5,249
As of June 30, 2014	4,292	1,060	87	5,439
<i>Prepayments for property, plant and equipment</i>				
As of January 1, 2014	4	49	9	62
As of June 30, 2014	10	40	11	61
<b>Total as of January 1, 2014 (restated)</b>	<b>4,173</b>	<b>1,046</b>	<b>92</b>	<b>5,311</b>
<b>Total as of June 30, 2014 (unaudited)</b>	<b>4,302</b>	<b>1,100</b>	<b>98</b>	<b>5,500</b>

Depreciation charge for the six months ended June 30, 2014 includes RUB 1 billion of depreciation which was capitalized as part of the construction cost of property, plant and equipment.

The Company capitalized RUB 18 billion and RUB 16 billion of interest expenses on loans and borrowings for the six months ended June 30, 2014 and 2013, respectively.

The semiannual weighted average rate used to determine the amount of borrowing costs eligible for capitalization is 1.89% and 2.10% for the six months ended June 30, 2014 and 2013, respectively.

#### 19. Intangible assets

During the second quarter of 2014, LLC Vankor Oil, the Company's subsidiary, began transporting natural gas through the gas pipeline from Vankor hydrocarbon field to the gas transportation system of OJSC Gazprom under the agreement with LLC Lukoil-West Siberia. Following the terms of the agreement, the Company prepaid RUB 16 billion to partially cover costs for the gas pipeline's construction. This amount was capitalized to Intangible assets as of June 30, 2014 and is amortized over the period of the agreement. The amount of the aggregate future payments for gas transportation to be made by the Company through 2030 under the agreement is approximately RUB 20 million.

# Rosneft Oil Company

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

### 20. Other non-current financial assets

In the second quarter of 2014, the Company provided a long-term loan to a jointly controlled entity in the amount of US\$ 2 billion (RUB 67 billion at the CBR official exchange rate as of June 30, 2014) earning an interest rate of 3.5% and with a maturity period of 5 years.

### 21. Investments in associates and joint ventures

In February 2014, the Company and OJSC Sibur-Holding entered into an agreement to sell 49% of LLC Yugragazpererabotka, owned through OJSC RN Holding, a subsidiary of the Company. The transaction was completed in March 2014. Proceeds from disposal of the LLC Yugragazpererabotka share amounted to RUB 56 billion at the CBR official exchange rate as of the date of the disposal. During the first quarter of 2014, the Company received a cash payment of RUB 21 billion. The gain on disposal of investments in LLC Yugragazpererabotka amounting to RUB 56 billion is included in the Other income in the Consolidated statement of comprehensive income for the six months ended June 30, 2014.

### 22. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	<b>June 30, 2014 (unaudited)</b>	<b>December 31, 2013</b>
Accounts payable to suppliers and contractors	<b>227</b>	187
Dividends payable	<b>136</b>	–
Voluntary offer to acquire OJSC RN Holding securities (Note 27)	–	153
Salary and other benefits payable	<b>53</b>	45
Banking customer accounts	<b>43</b>	36
Other accounts payable	<b>20</b>	22
Short-term advances received	<b>25</b>	45
<b>Total accounts payable and accrued liabilities</b>	<b>504</b>	488

Current accounts payable for the six months ended June 30, 2014 were settled within 41 days on average (the six months ended June 30, 2013: 45 days). Interest rates on banking customer accounts amount to 0.1%-3.0% p.a. Trade and other payables are non-interest bearing.

## Rosneft Oil Company

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

#### 23. Loans and borrowings

Loans and borrowings comprise the following:

	Currency	June 30, 2014 (unaudited)	December 31, 2013
<b>Long-term</b>			
Bank loans	RUB	128	115
Bank loans	US\$, Euro	1,536	1,711
Bonds	RUB	167	131
Eurobonds	US\$	251	247
Customer deposits	RUB	9	12
Customer deposits	US\$, Euro	4	5
Borrowings	Euro	4	–
Promissory notes payable	US\$	1	–
<i>Less: current portion of long-term loans and borrowings</i>		<b>(783)</b>	<b>(545)</b>
<b>Long-term loans and borrowings</b>		<b>1,317</b>	<b>1,676</b>
<b>Short-term</b>			
Bank loans	RUB	2	2
Bank loans	US\$	35	88
Customer deposits	RUB	8	11
Customer deposits	US\$, Euro	2	2
Borrowings	Euro	–	3
Borrowings – Yukos related (Note 30)	RUB	–	11
Promissory notes payable – Yukos related	RUB	20	20
Promissory notes payable	RUB	–	1
Obligations under a repurchase agreement	RUB	12	1
<i>Current portion of long-term loans</i>		<b>783</b>	<b>545</b>
<b>Short-term loans and borrowings and current portion of long-term loans</b>		<b>862</b>	<b>684</b>
<b>Total loans and borrowings</b>		<b>2,179</b>	<b>2,360</b>

Generally, long-term bank loans are denominated in US\$ and partially secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of the contracts normally provide the lender with an express right of claim for contractual revenue in the amount of the failing loan repayments, which must be remitted directly through transit currency (US\$ denominated) accounts in lender banks. Accounts receivable outstanding balance arising out of such contracts amounts to RUB 21 billion and RUB 24 billion as of June 30, 2014 and December 31, 2013, respectively, and is included in trade receivables.

In March 2014, the Company drew down RUB 12.5 billion in funds under a long-term fixed rate loan agreement with a Russian bank. The loan is repayable in the first quarter of 2017.

In February-March 2014, the Company partially repaid two long-term unsecured loans totaling US\$ 5.52 billion (RUB 193 billion at the CBR official exchange rate at payment date) received from a group of international banks to finance the acquisition of TNK-BP, including US\$ 0.76 billion (RUB 28 billion at the CBR official exchange rate at the repayment date) as early repayment.

## Rosneft Oil Company

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

#### 23. Loans and borrowings (continued)

In February 2014, the Company placed two issues of documentary interest-bearing non-convertible bearer bonds with a total nominal value of RUB 35 billion and a term of 10 years. Coupon payments are made on a semi-annual basis of a fixed rate of 8.9% p.a. for the first 10 coupon periods. All the above mentioned bonds provide for early repurchase in five years at the request of a bond holder as set in the offering documents. In addition, the issuer, at any time and at its discretion, may early purchase/repay the bonds with the possibility of subsequent bond circulation. Such purchase/repayment of the bonds does not constitute an early redemption.

In January 2014, the Company made full payment of two short-term fixed rate loans from Russian banks totaling US\$ 0.74 billion (RUB 26 billion at the CBR official exchange rate at the repayment date).

In March 2014, the Company repaid early US\$ 1 billion (RUB 36 billion at the CBR official exchange rate at the repayment date) in short-term unsecured loan from an international bank.

In June 2014, the Company drew down funds under a fixed rate short-term loan from a Russian bank in the amount of US\$ 0.43 billion (RUB 15.97 billion at the CBR official exchange rate as of June 30, 2014) with maturity in the third quarter of 2014.

In 2014 the Company received cash under repurchase agreements and recognized these transactions as a collateralized loan. As of June 30, 2014 the Company's liabilities under repurchase agreements amounted to RUB 12.01 billion, with a fair value of RUB 12.67 billion.

As of June 30, 2014 and December 31, 2013, the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

#### 24. Other current tax liabilities

Other current tax liabilities comprise the following:

	<b>June 30, 2014</b> <b>(unaudited)</b>	<b>December 31, 2013</b>
Mineral extraction tax	84	81
Value added tax	51	50
Excise tax	6	14
Personal income tax	1	1
Property tax	7	6
Other	10	9
<b>Total other tax liabilities</b>	<b>159</b>	<b>161</b>

## Rosneft Oil Company

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

#### 25. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
<b>As of January 1, 2014, including</b>	<b>94</b>	<b>33</b>	<b>11</b>	<b>138</b>
<i>Non-current</i>	<b>91</b>	<b>24</b>	<b>1</b>	<b>116</b>
<i>Current</i>	<b>3</b>	<b>9</b>	<b>10</b>	<b>22</b>
Provisions charged during the year (Note 30)	1	–	14	15
Increase/(decrease) in provisions resulting from:				
<i>Changes in estimates</i>	–	(1)	(1)	(2)
<i>Change in the discount rate</i>	(15)	–	–	(15)
<i>Unwinding of discount</i>	3	1	–	4
<i>Utilization</i>	–	(1)	(1)	(2)
<b>As of June 30, 2014 (unaudited), including</b>	<b>83</b>	<b>32</b>	<b>23</b>	<b>138</b>
<i>Non-current</i>	<b>81</b>	<b>24</b>	<b>2</b>	<b>107</b>
<i>Current</i>	<b>2</b>	<b>8</b>	<b>21</b>	<b>31</b>

#### 26. Prepayment on long-term oil supply agreements

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

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

	Six months ended June 30, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited)
<b>As of January 1</b>	<b>470</b>	–
Received	<b>431</b>	258
Less current portion	<b>(35)</b>	–
Reimbursed	–	–
<b>As of June 30</b>	<b>866</b>	258

# Rosneft Oil Company

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

### 27. Shareholders' equity

On November 6, 2013, Rosneft announced a voluntary offer to acquire those of its securities held by minority shareholders. The voluntary offer was announced for 1,918,701,184 ordinary and 450,000,000 preferred shares of OJSC RN Holding. The offer price was set at RUB 67 (US\$ 2.07 at the CBR official exchange rate as of the date of acquisition) per one ordinary share and RUB 55 (US\$ 1.70 at the CBR official exchange rate as of the date of acquisition) per one preferred share of OJSC RN Holding. The voluntary offer term of 75 days expired on January 20, 2014. As a result of the voluntary offer, a total of 2,298,025,633 shares, including 1,873,812,294 ordinary shares and 424,213,339 preferred were purchased from OJSC RN Holding non-controlling shareholders. These amounted to 14.88% of OJSC RN Holding's share capital. During the first quarter of 2014, Rosneft settled its liabilities to OJSC RN Holding shareholders in full and paid RUB 149 billion in cash for the purchase of these shares. As a result of the voluntary offer, the Company became an owner of more than 95% of OJSC RN Holding shares. In May 2014, the Company executed its statutory right to purchase the remaining OJSC RN Holding shares. As a result the Company became the owner of 100% of OJSC RN Holding shares. Cash of RUB 4 billion paid for the shares purchase has been transferred directly to the shareholders and nominal shareholders or deposited with a public notary.

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.

### 28. Fair value of financial instruments

Fair value of financial assets and liabilities is determined as follows:

- fair value of financial assets and liabilities quoted on active liquid markets is determined in accordance with the market quotes;
- fair value of other financial assets and liabilities is determined in accordance with generally accepted models and is based on discounted cash flow analysis that relies on prices used for existing transactions in the current market;
- fair value of derivative financial instruments is based on the Bloomberg and Super Derivatives systems according to market data.

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 tables below.

	Fair value measurement as of June 30, 2014 (unaudited)			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
<b>Current assets</b>				
Held-for-trading	8	7	–	15
Available-for-sale	8	46	–	54
<b>Non-current assets</b>				
Available-for-sale	–	4	–	4
<b>Total assets measured at fair value</b>	<b>16</b>	<b>57</b>	<b>–</b>	<b>73</b>
<b>Current liabilities</b>				
Derivative financial instruments	–	(17)	–	(17)
<b>Total liabilities measured at fair value</b>	<b>–</b>	<b>(17)</b>	<b>–</b>	<b>(17)</b>



## Rosneft Oil Company

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

#### 28. Fair value of financial instruments (continued)

	Fair value measurement as of December 31, 2013			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
<b>Current assets</b>				
Held-for-trading	3	12	–	15
Available-for-sale	11	32	–	43
<b>Non-current assets</b>				
Available-for-sale	–	4	–	4
Derivative financial instruments	–	1	–	1
<b>Total assets measured at fair value</b>	<b>14</b>	<b>49</b>	<b>–</b>	<b>63</b>
<b>Current liabilities</b>				
Derivative financial instruments	–	(6)	–	(6)
<b>Total liabilities measured at fair value</b>	<b>–</b>	<b>(6)</b>	<b>–</b>	<b>(6)</b>

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

	Carrying value		Fair value (level 2)	
	As of June 30, 2014 (unaudited)	As of December 31, 2013	As of June 30, 2014 (unaudited)	As of December 31, 2013
<b>Financial liabilities</b>				
Financial liabilities at amortized cost:				
Loans and borrowings with variable interest rate	(1,532)	(1,717)	(1,511)	(1,722)
Loans and borrowings with fixed interest rate	(647)	(643)	(626)	(639)
Financial liabilities at fair value, through profit or loss:				
Derivative financial instruments	(17)	(6)	(17)	(6)
Financial lease liabilities	(13)	(12)	(13)	(12)

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

#### 29. Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the six months ended June 30, 2014 and 2013 the Company entered into transactions with the following related parties: associates and joint ventures, enterprises directly or indirectly controlled by the Russian Government, key management and pension funds.

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

# Rosneft Oil Company

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

### 29. Related party transactions (continued)

Disclosure of related party transactions is presented on an aggregate basis for the companies directly or indirectly controlled by the Russian Government, joint ventures and associates, and 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 on the Russian market are regulated by the Federal Tariff Service.

#### Transactions with companies directly or indirectly controlled by the Russian Government

##### *Revenues and income*

	Six months ended June 30, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited)
Oil and gas sales	56	50
Petroleum products and petrochemicals sales	25	22
Finance income	1	1
	82	73

##### *Costs and expenses*

	Six months ended June 30, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited)
Production and operating expenses	3	9
Cost of purchased oil, gas, petroleum products and refining costs	5	1
Pipeline tariffs and transportation costs	194	100
Other expenses	9	8
Finance expenses	–	1
	211	119

##### *Other operations*

	Six months ended June 30, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited)
Purchase of financial assets and investments in associates	–	(6)
Loans received	21	–
Loans repaid	(18)	(1)
Deposits placed	(168)	(34)
Deposits repaid	49	20

# Rosneft Oil Company

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

### 29. Related party transactions (continued)

#### Transactions with companies directly or indirectly controlled by the Russian Government (continued)

##### *Settlement balances*

	<b>June 30, 2014 (unaudited)</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Cash and cash equivalents	28	135
Accounts receivable	16	15
Prepayments and other current assets	25	25
Other financial assets	203	66
	<b>272</b>	<b>241</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	13	9
Loans and borrowings	129	125
	<b>142</b>	<b>134</b>

#### Transactions with joint ventures

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

##### *Revenues and income*

	<b>Six months ended June 30, 2014 (unaudited)</b>	<b>Six months ended June 30, 2013 (unaudited)</b>
Oil and gas sales	1	2
Petroleum products and petrochemicals sales	5	6
Support services and other revenues	1	5
	<b>7</b>	<b>13</b>

##### *Costs and expenses*

	<b>Six months ended June 30, 2014 (unaudited)</b>	<b>Six months ended June 30, 2013 (unaudited)</b>
Production and operating expenses	1	2
Cost of purchased oil, gas, petroleum products and refining costs	62	39
Pipeline tariffs and transportation costs	5	3
Other expenses	1	5
	<b>69</b>	<b>49</b>

##### *Other operations*

	<b>Six months ended June 30, 2014 (unaudited)</b>	<b>Six months ended June 30, 2013 (unaudited)</b>
Loans and borrowings issued	(1)	(1)

## Rosneft Oil Company

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

#### 29. Related party transactions (continued)

##### Transactions with joint ventures (continued)

###### *Settlement balances*

	June 30, 2014 (unaudited)	December 31, 2013
<b>Assets</b>		
Accounts receivable	12	5
Prepayments and other current assets	1	1
Other financial assets	5	4
	<b>18</b>	<b>10</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	21	17
Loans and borrowings	–	1
	<b>21</b>	<b>18</b>

##### Transactions with associates

###### *Revenues and income*

	Six months ended June 30, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited)
Oil and gas sales	1	3
Petroleum products and petrochemicals sales	2	–
Support services and other revenues	2	1
	<b>5</b>	<b>4</b>

###### *Costs and expenses*

	Six months ended June 30, 2014 (unaudited)	Six months ended June 30, 2013 (unaudited)
Production and operating expenses	2	1
Other expenses	1	1
	<b>3</b>	<b>2</b>

###### *Settlement balances*

	June 30, 2014 (unaudited)	December 31, 2013
<b>Assets</b>		
Accounts receivable	4	1
Other financial assets	14	13
	<b>18</b>	<b>14</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	2	2
	<b>2</b>	<b>2</b>

# Rosneft Oil Company

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

### 29. Related party transactions (continued)

#### Transactions with non-state pension funds

##### *Costs and expenses*

	<b>Six months ended June 30, 2014 (unaudited)</b>	<b>Six months ended June 30, 2013 (unaudited)</b>
Other expenses	2	2

### 30. Contingencies

#### Political and business environment

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

During the first half of 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 appropriate measurements as of June 30, 2014. 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 reviewed constantly to reflect the current situation.

In July 2014, the United States Department of the Treasury imposed sectoral sanctions on the Company. The following transactions by U.S. persons or within the United States are prohibited: transacting in, providing financing for, or otherwise dealing in new debt for the Company of longer than 90 days' maturity. The Company is currently assessing the effect of the sanctions on its financial position and on the results of its operations.

#### Guarantees and indemnities issued

In the second quarter of 2013, the Company provided an unconditional unlimited guaranty in favor of the Government and municipal authorities of Norway for potential ongoing ecological liabilities of RN Nordic Oil AS in respect of its operating activities on the Norwegian continental shelf. A parent company guarantee is required by Norway's Legislation and is an imperative condition for licensing of RN Nordic Oil AS's joint operations with Statoil ASA on the Norwegian continental shelf.

The agreements that Rosneft signed in 2012 with Eni S.p.A, Statoil ASA and ExxonMobil Oil Corporation in line with the Russian Federation shelf exploration program came into force in 2013. These agreements contain mutual guarantees that are unconditional, unlimited and open-ended, and also envisage that the partners will pay a commercial discovery bonus to Rosneft.

# Rosneft Oil Company

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

### 30. Contingencies (continued)

#### Guarantees and indemnities issued (continued)

In the second quarter of 2014, the partner agreement that Rosneft and ExxonMobil Oil Corporation entered into in 2013 for seven new offshore projects came into force. These agreements contain mutual guarantees that are unconditional, unlimited and open-ended and that also provide for a commercial discovery bonus to be paid to the Company. The partner agreement with ExxonMobil Oil Corporation for difficult to extract oil reserves in Western Siberia also contain mutual guarantees that are unconditional, unlimited and open-ended, and that provide for production bonus payments to the Company starting from the moment of commercial production.

#### Legal claims

In 2006, Yukos Capital S.a.r.l. ("Yukos Capital"), a former subsidiary of Yukos Oil Company, initiated arbitral proceedings against OJSC Yuganskneftegaz, which was subsequently merged into the Company, OJSC Samaraneftgaz, the Company's subsidiary, and Tomskneft, the Company's joint venture company, in various arbitration courts alleging default under nine RUB-denominated loans. The International Commercial Arbitration Court (the "ICAC") at the Russian Federation Chamber of Commerce and Industry issued four arbitration awards in favor of Yukos Capital against OJSC Yuganskneftegaz concerning four of the loans in the aggregate amount of approximately RUB 12.9 billion. Arbitration panel formed pursuant to the International Chamber of Commerce ("ICC") rules issued an award against OJSC Samaraneftgaz of RUB 3.1 billion in loan principal and interest plus post award interest of 9% p.a. on the above amount of loan principal and interest concerning two other loans. On February 12, 2007, the arbitration panel formed pursuant to the ICC rules issued an award against Tomskneft of RUB 4.35 billion plus interest of 9% per annum, plus default penalties of 0.1% per day (from December 1, 2005, through the date of the award), plus legal costs concerning three 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, nevertheless, sought to enforce the ICAC awards in the Netherlands. Although the district court in Amsterdam refused to enforce the ICAC awards on the ground that they had been properly set aside by a competent court on April 28, 2009 the Amsterdam Court of Appeal reversed the district court's judgment and allowed Yukos Capital to enforce the ICAC awards in the Netherlands. On June 25, 2010, the Supreme Court of the Netherlands declared inadmissible the Company's appeal of the decision of the Amsterdam Court of Appeal. Although the Company does not agree with the decisions of the Dutch courts above, on August 11, 2010 it complied with these decisions and arranged for payments to be made with respect to the claim against the Company.

While the Dutch case was pending, Yukos Capital filed an additional lawsuit against the Company in the High Court of Justice in London, seeking enforcement of the ICAC awards in England and Wales, as well as interest on those awards.

Following the payments arranged by the Company as noted above, Yukos Capital continues to seek statutory interest in the High Court of Justice in London in the amount of approximately RUB 4.6 billion as of the date of its Particulars of Claim. On June 14, 2011, the High Court issued in favor of Yukos Capital an interim decision on two preliminary issues it had agreed to consider prior to reaching a decision on the merits of the claim. The Company appealed this decision. On June 27, 2012 the Court of Appeal of England handed down its judgment whereby the Company prevailed on one of these preliminary issues. No further appeals were requested by any party. Upon return of the case to the High Court of Justice, the court entered an order on February 27, 2013 providing for the hearing of further preliminary issues concerning whether the court has the power to enforce the annulled ICAC awards at English common law and whether in principle there is a basis for Yukos Capital to recover post-award interest in the English courts.

## Rosneft Oil Company

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

#### 30. Contingencies (continued)

##### Legal claims (continued)

The hearing was took place on May 13-16, 2014. The Court ruled in favor of the Company and granted that, as a matter of Russian law, interest under Article 395 of the Russian Civil Code cannot accrue on the ICAC awards prior to the date on which a writ of execution takes legal effect. The Court also ruled that a claim for interest on the sums claimed in the English proceedings is in principle admissible under s.35A of the Senior Courts Act 1981, but whether any such interest should be awarded is a matter for later determination after trial. On the second preliminary issue, the Court ruled that the Russian annulment decisions are not an absolute bar to Yukos Capital's claim, leaving for trial whether Yukos Capital's claim should be granted. Further proceedings have not yet been scheduled. Rosneft will continue to defend its position vigorously.

In 2007, lawsuits were filed in Russian arbitrazh courts in Moscow, Samara and Tomsk to nullify the loan agreements with Yukos Capital. Court Hearings in all three cases were suspended for some time. However, on February 1, 2012 the Arbitrazh Court of the Samara Region declared void the loan agreements between Yukos Capital and OJSC Samaraneftgaz. On July 11, 2012, the Moscow Arbitrazh Court declared void the loan agreements between Yukos Capital and OJSC Yuganskneftgaz. On July 19, 2012 the Arbitrazh Court of the Tomsk Region declared void the loan agreements between Yukos Capital and Tomskneft. All these decisions were upheld by the appellate and cassation courts and Yukos Capital supervisory appeals against them were rejected by the Supreme Arbitrazh Court, and as a result of these decisions the Company stopped to recognise these loans in the interim condensed consolidated financial statements. Considering the ongoing litigations with Yukos Capital currently taking place in foreign jurisdictions, the related amount of accounts payable was recorded as provisions (Note 25).

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

On February 15, 2011, the Arbitrazh Court of the Samara Region denied Yukos Capital's enforcement application. The time for cassation appeal from the ruling has lapsed without Yukos Capital having filed such an appeal. On January 20, 2012, OJSC Samaraneftgaz filed a motion for summary judgment on the issue of personal jurisdiction in the U.S. S.D.N.Y.

On August 6, 2013, the U.S. S.D.N.Y. granted Yukos Capital's application for enforcement of the ICC award and later entered judgment in the amount of approximately US\$ 186 million (RUB 6 billion at the CBR official exchange rate at June 30, 2014). Samaraneftgaz has appealed the judgment. On January 9, 2014, the U.S. S.D.N.Y granted Yukos Capital's request for a turnover order and injunction to require Samaraneftgaz to use its assets to pay the above judgment or post a bond as well as to refrain from certain actions for so long as it has neither paid nor posted a bond. The U.S. S.D.N.Y. has also ordered that Samaraneftgaz produce further information and documents concerning its business operations in response to Yukos Capital's discovery requests. Samaraneftgaz filed an appeal against these orders and will defend its position vigorously in the appeal proceedings as well as against any further actions of Yukos Capital.

In February 2010, Yukos Capital commenced proceedings against Tomskneft in the Arbitrazh Court of the Tomsk Region seeking to enforce in Russia the abovementioned February 2007 ICC award. On July 7, 2010, the Arbitrazh Court of the Tomsk Region denied Yukos Capital's enforcement application. On October 27, 2010 Yukos Capital's cassation appeal was dismissed.

## Rosneft Oil Company

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

#### **30. Contingencies (continued)**

##### **Legal claims (continued)**

In July 2010, Yukos Capital brought an action against Tomskneft in the Paris Court of First Instance seeking enforcement of the February 2007 ICC award in France. On July 20, 2010, the court issued an ex parte order to allow enforcement. On February 22, 2011, Tomskneft timely filed an appeal against this order in the Paris Court of Appeal, which was granted on January 15, 2013, and the Paris Court of Appeal declared that the award could not be enforced in France. On August 6, 2013 Yukos Capital filed a brief on appeal to the French Court of Cassation seeking review of the Paris Court of Appeal's judgment declining enforcement. Tomskneft's brief was filed on December 5, 2013. The hearing of the appeal is scheduled on October 7, 2014.

In February 2013, Yukos Capital initiated proceedings against Tomskneft in Ireland and Singapore seeking to enforce the same February 2007 ICC award whose recognition and enforcement was declined in Russia and France. On March 13, 2014, the Irish court granted Tomskneft's application and dismissed Yukos Capital's action to enforce the ICC arbitral award against Tomskneft in the Irish High Court on the basis that it is not an appropriate case for the court to exercise jurisdiction. Yukos Capital filed an appeal against this judgment on April 17, 2014.

On February 19, 2013, Yukos Capital obtained an ex parte judgment granting its application for leave to enforce the same February 2007 ICC arbitral award in Singapore.

Tomskneft filed on March 26, 2013 a brief responding submission. On July 3, 2013, the court heard Tomskneft's application that the issue of inadequate notice of the arbitral proceedings should be decided first and before Tomskneft fully presents all other defenses against enforcement. The judge decided to hear all grounds of defense at one time. On January 13, 2014 the judge granted in part Tomskneft's application for discovery. A further application for discovery is pending. The schedule for a hearing on the merits in Singapore has not been fixed yet.

Yukos International (UK) B.V. has initiated proceedings in the Amsterdam District Court claiming damages of up to US\$ 333 million (RUB 11 billion at the CBR official exchange rate at June 30, 2014), plus statutory interest with effect from February 7, 2011, plus costs, against Rosneft and other co-respondents unrelated to Rosneft relating to alleged injury supposedly caused by the entry of a freezing order in 2008 that Yukos International (UK) B.V. claims restricted its ability to invest certain funds as it chose. The first court date in this case was June 27, 2012. Rosneft filed its Statement of Defense on October 3, 2012. That statement asserts various defenses including that the court properly granted the freezing order and that Yukos International (UK) B.V. suffered no damages as a result of having its funds deposited in an interest bearing account of its choice.

A hearing on the merits is scheduled for January 9, 2014. At that hearing Yukos International (UK) B.V. amended its claims against Rosneft. Now Yukos International (UK) B.V. filed claims against Rosneft also based on collective responsibility; the purpose of these requirements is to pass one of the co-defendants alleged responsibility for Rosneft. Rosneft responded to these new claims of February 26, 2014. The Court's decision is expected on August 27, 2014.

The Company and its subsidiary participate in arbitral proceedings related to bankruptcy of OJSC Sakhaneftegaz and OJSC Lenaneftegaz for the recovery of certain loans and guarantees of indemnity in the amount of RUB 1.3 billion, stated above account receivable was reserved in full.



# Rosneft Oil Company

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

### 30. Contingencies (continued)

#### Legal claims (continued)

During 2009-2012, the Federal Antimonopoly Service ("FAS Russia") and its regional bodies claimed that the Company and some of its subsidiaries (associates) violated certain antimonopoly regulations in relation to petroleum products trading and passed respective decisions on administrative liability. As of June 30, 2014, the total amount of administrative fines levied by FAS Russia and its regional bodies against Rosneft and its subsidiaries is immaterial.

On March 7, 2011, Norex Petroleum Limited ("Norex") filed a lawsuit against OJSC Tyumen Oil Company ("TNK"), a predecessor of OJCS TNK-BP Holding, subsequently renamed to OJSC RN Holding, and certain other defendants in the amount of US\$ 1.5 billion (RUB 50 billion at the CBR official exchange rate at June 30, 2014) 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 New York State (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, New York Court of Appeals accepted Norex's claim. The hearing was held on May 6, 2014. June 27, 2014 New York Court of Appeals issued an award, which granted the appeal of Norex and sent the case to the Court of First Instance. Currently a court judgment on further movement of the case is expected.

In 2013, several individuals, non-controlling shareholders of OJSC RN Holding, filed a number of lawsuits against the Company, claiming the right to get an offer from the Company to acquire the shares of OJSC RN Holding at the price the shares were measured in the course of TNK-BP acquisition by the Company. On October 25, 2013 Moscow Arbitrazh Court dismissed these claims. These decisions were upheld by the Court of Appeals on January 15 and 20, 2014. On one of court decisions a shareholder filed a cassation appeal. Court decisions of First and Appeal Instance are left unchanged by the Federal Arbitration Court of Moscow district order from May 8, 2014.

From September 2013, Rosprirodnadzor performed inspections of Rosneft. Subject of the inspection was compliance with legislation on geological exploration, rational use and protection of mineral resources, mandatory requirements of legislation concerning protection of environmental and natural resources. In December 2013 as a result of procedures performed the regulator issued a report.

As of the date of these interim condensed consolidated financial statements administrative procedures partially completed. The Company held an administratively liable to a fine. The Company does not expect that total amount of the fines will have a material impact on the Company's financial position or results of operations.

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.

# Rosneft Oil Company

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

### 30. Contingencies (continued)

#### Taxation

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

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

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

Effective January 1, 2012, the market price defining rules were changed and the list of entities that could be recognized as interdependent entities and 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 transfer pricing to the consolidated financial statements, the Company developed methods for pricing all types of controlled transactions and a standard for preparation of reporting documentation. The Company also systematically researches databases to determine the market price levels (ROIs) for the controlled transactions.

In July 2013 the Company and the Federal Tax Service signed a pricing agreement in respect of taxation of oil sales transactions in Russia that are executed by the acquired TNK-BP companies starting from 2012. In January and April 2014 there were signed another two pricing agreements with the Federal Tax Service in respect of taxation of oil sales transactions in Russia that are executed by the 11 acquired TNK-BP companies starting from 2012.

In December 2013, the Company and Federal Tax Agency signed the pricing Agreement for the purpose of taxation of oil sales transactions at the Russian market. Five Company subsidiaries also acted as the Parties to the Agreement. The document establishes the principles and methods of pricing in the aforementioned transactions. The Agreement was signed as part of the new order of fiscal control over the pricing of related party transactions to match the market parameters.

In line with the additions to part one of the Tax Code of the Russian Federation, instituted by the Federal Law of the Russian Federation of November 16, 2011 No. 321-FZ, the Company created the Consolidated group of taxpayers which included Rosneft and its 21 subsidiaries. Rosneft became a responsible taxpayer of the group. During 2013 the number of members of the consolidated group of taxpayers increased to 44 including Rosneft.

Since January 1, 2014 under the terms of the agreement, the number of members of the consolidated group of taxpayers increased to 58. The Company management believes that 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.

During the reporting period, the tax authorities continued examinations of Rosneft and certain of its subsidiaries for the 2010-2013 fiscal years. Rosneft and its subsidiaries dispute a number of claims in pre-trial and trial appeal in federal tax service. The Company management does not expect results of the examinations to have a material impact on the Company's consolidated balance sheet or results of operations.

# Rosneft Oil Company

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

### **30. Contingencies (continued)**

#### **Taxation (continued)**

As of June 30, 2014, the amount of VAT receivable, that is potentially unrecoverable from the tax authorities is immaterial. The Company currently reimburses the current VAT in full in a declarative manner.

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 interim condensed 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 of 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 356 billion and RUB 328 billion as of June 30, 2014 and December 31, 2013, respectively.

#### **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.

In June 2014 an accident took place at the Company's Achinskiy refinery. The Company is currently evaluating the potential impact of the accident. Management believes that the damages will not have a material effect on the Company's financial position or results of operations. The property of Achinskiy refinery was insured.

#### **Long-term contracts**

In June 2014, the Company entered into a number of agreements with BP Oil International Limited for long-term supply of oil products and oil on a prepayment basis. The terms of the agreements provide for export deliveries of oil products with possible substitution for oil of up to 12 million tons within a 5 year period on a prepaid basis with the amount of prepayment of not less than US\$ 1.5 billion.

## Rosneft Oil Company

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

#### **31. Events after the reporting period**

In July 2014, the Company and Weatherford International plc entered into an agreement for the acquisition of certain assets of Weatherford in Russia and Venezuela. According to the terms of the agreement, the Company will acquire certain subsidiaries of Weatherford International plc engaged in drilling and workover operations in Russia and Venezuela. The preliminary price of the acquisition amounts to US\$ 0.5 billion (RUB 17 billion at the CBR official exchange rate at the agreement date). The agreement also provides for long-term cooperation in oil field services. The acquisition is expected to close in the third quarter of 2014, subject to the corporate and state regulatory approvals.

In July 2014, Rosneft Brazil, a subsidiary of Rosneft, and HRT O&G, a subsidiary of HRT, received the necessary approvals for Rosneft Brazil's acquisition of an additional 6% ownership interest in the Solimoes project. Under the agreement the completion of the acquisition shall be finalized within 30 days after the regulatory approvals are received. As a result of the transaction, Rosneft Brasil will receive 51% ownership interest in the Solimoes project and project operatorship. The preliminary price of the acquisition amounts to US\$ 96 million (RUB 3 billion at the CBR official exchange rate at the transaction date).

In July 2014, the Company received a prepayment of US\$ 1.9 billion (RUB 66 billion at the CBR official exchange rate at the transaction date) from BP Oil International Limited under the agreements for long-term oil and oil products supply.

In July 2014, the Company fully repaid a fixed rate short-term debt provided by a Russian bank of US\$ 0.43 billion (RUB 15.97 billion at the CBR official exchange rate as of June 30, 2014).

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