Rosneft Oil Company

Interim Condensed Consolidated Financial Statements
(Unaudited)

Three and nine months ended September 30, 2013

Rosneft Oil Company

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Three and nine months ended September 30, 2013

Contents

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Report on review of interim condensed consolidated financial statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Open Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), comprising the interim consolidated balance sheet as at September 30, 2013, the related interim consolidated statements of comprehensive income for the three and nine-month periods ended September 30, 2013, the related interim consolidated statements of changes in shareholders' equity and cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLC

October 29, 2013

Rosneft Oil Company

Interim consolidated balance sheet

(in billions of Russian rubles)

	Notes	September 30, 2013 (unaudited)	December 31, 2012 (restated)
ASSETS			
Current assets:			
Cash and cash equivalents	10	**246**	299
Restricted cash		**5**	4
Other financial assets	11	**224**	90
Accounts receivable	12	**445**	237
Inventories	13	**204**	134
Prepayments and other current assets	14	**278**	176
Total current assets		**1,402**	940
Non-current assets:			
Property, plant and equipment	15	**5,097**	2,638
Intangible assets		**40**	19
Other financial assets		**36**	24
Investments in associates and joint ventures	16	**410**	186
Bank loans granted		**11**	13
Deferred tax assets		**29**	17
Goodwill		**165**	144
Other non-current non-financial assets		**14**	3
Total non-current assets		**5,802**	3,044
Total assets		**7,204**	3,984
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	17	**323**	211
Loans and borrowings	18	**522**	143
Finance lease liabilities		**4**	3
Liabilities related to derivative instruments		**4**	–
Income tax liabilities		**13**	7
Other tax liabilities	19	**159**	83
Provisions	20	**14**	5
Other current liabilities		**20**	1
Total current liabilities		**1,059**	453
Non-current liabilities:			
Loans and borrowings	18	**1,851**	837
Finance lease liabilities		**9**	8
Deferred tax liabilities		**653**	277
Provisions	20	**104**	71
Prepayment on oil supply agreements	25	**307**	–
Other non-current liabilities		**36**	16
Total non-current liabilities		**2,960**	1,209
Equity:			
Share capital	21	**1**	1
Treasury shares		**–**	(299)
Additional paid-in capital	21	**288**	385
Other funds and reserves		**(13)**	(6)
Retained earnings		**2,526**	2,202
Rosneft shareholders' equity		**2,802**	2,283
Non-controlling interest	21	**383**	39
Total equity		**3,185**	2,322
Total liabilities and equity		**7,204**	3,984

President ____________________ I.I. Sechin

October 29, 2013

The accompanying notes to the 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 September 30, 2013 (unaudited)	Three months ended September 30, 2012 (restated) (unaudited)	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Revenues and equity share in profits of associates and joint ventures					
Oil and gas sales	5	**691**	393	**1,716**	1,141
Petroleum products and petrochemicals sales	5	**648**	404	**1,576**	1,110
Support services and other revenues		**14**	11	**40**	31
Equity share in profits of associates and joint ventures		**3**	5	**12**	15
Total revenues and equity share in profits of associates and joint ventures		**1,356**	813	**3,344**	2,297
Costs and expenses					
Production and operating expenses		**99**	59	**268**	178
Cost of purchased oil, gas, petroleum products and refining costs		**124**	87	**312**	236
General and administrative expenses		**33**	15	**79**	48
Pipeline tariffs and transportation costs		**108**	61	**281**	179
Exploration expenses		**5**	6	**11**	15
Depreciation, depletion and amortization		**109**	55	**269**	151
Taxes other than income tax	7	**291**	172	**738**	504
Export customs duty	6	**379**	212	**981**	664
Total costs and expenses		**1,148**	667	**2,939**	1,975
Operating income		**208**	146	**405**	322
Finance income		**7**	6	**14**	15
Finance expenses	8	**(11)**	(5)	**(40)**	(12)
Other income	9	**1**	85	**207**	86
Other expenses	9	**(26)**	(9)	**(46)**	(27)
Foreign exchange differences		**9**	16	**(57)**	3
Income before income tax		**188**	239	**483**	387
Income tax expense	7	**(45)**	(52)	**(66)**	(84)
Net income		**143**	187	**417**	303
Other comprehensive income/(loss) – to be reclassified to profit in subsequent periods					
Foreign exchange differences on translation of foreign operations		**3**	4	**(10)**	2
Gain/(loss) from changes in fair value of financial assets available-for-sale, net of tax		**–**	1	**3**	(2)
Total other comprehensive income/(loss) – to be reclassified to profit in subsequent periods, net of tax		**3**	5	**(7)**	–
Total comprehensive income, net of tax		**146**	192	**410**	303
Net income					
attributable to Rosneft shareholders		**141**	187	**409**	303
attributable to non-controlling interests		**2**	–	**8**	–
Total comprehensive income, net of tax					
attributable to Rosneft shareholders		**144**	192	**402**	303
attributable to non-controlling interests		**2**	–	**8**	–
Net income attributable to Rosneft per common share (in RUB) – basic and diluted		**13.30**	20.18	**40.10**	32.00
Weighted average number of shares outstanding (millions)		**10,598**	9,266	**10,200**	9,469

The accompanying notes to the 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
Balance at December 31, 2011	9,588	1	386	(224)	(5)	1,877	2,035	34	2,069
Effect of changes in accounting policies (Note 3)	–	–	–	–	–	33	33	2	35
Balance at December 31, 2011 (restated)	9,588	1	386	(224)	(5)	1,910	2,068	36	2,104
Net income	–	–	–	–	–	303	303	–	303
Other comprehensive loss	–	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	303	303	–	303
Purchase of treasury shares	(322)	–	–	(68)	–	–	(68)	–	(68)
Dividends declared on common stock	–	–	–	–	–	(33)	(33)	–	(33)
Change in ownership interest in subsidiaries	–	–	(1)	–	–	–	(1)	2	1
Balance at September 30, 2012 (unaudited) (restated)	9,266	1	385	(292)	(5)	2,180	2,269	38	2,307
Balance at December 31, 2012	**9,238**	**1**	**385**	**(299)**	**(4)**	**2,147**	**2,230**	**36**	**2,266**
Effect of changes in accounting policies (Note 3)	**–**	**–**	**–**	**–**	**(2)**	**55**	**53**	**3**	**56**
Balance at December 31, 2012 (restated)	**9,238**	**1**	**385**	**(299)**	**(6)**	**2,202**	**2,283**	**39**	**2,322**
Net income	**–**	**–**	**–**	**–**	**–**	**409**	**409**	**8**	**417**
Other comprehensive loss	**–**	**–**	**–**	**–**	**(7)**	**–**	**(7)**	**–**	**(7)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(7)**	**409**	**402**	**8**	**410**
Sale of treasury shares (Note 4)	**1,360**	**–**	**28**	**299**	**–**	**–**	**327**	**–**	**327**
Dividends declared on common stock (Note 21)	**–**	**–**	**–**	**–**	**–**	**(85)**	**(85)**	**–**	**(85)**
Acquisition of subsidiaries (Note 4)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**114**	**114**
Change in ownership interest in subsidiaries (Note 21)	**–**	**–**	**(125)**	**–**	**–**	**–**	**(125)**	**224**	**99**
Other changes	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Balance at September 30, 2013 (unaudited)	**10,598**	**1**	**288**	**–**	**(13)**	**2,526**	**2,802**	**383**	**3,185**

The accompanying notes to the 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	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Operating activities			
Net income		**417**	303
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization		**269**	151
Loss on sale and disposal of non-current assets	9	**9**	4
Impairment of assets	9	**8**	6
Gain from disposal of subsidiaries	9	**–**	(82)
Dry hole costs		**2**	1
Foreign exchange loss/(gain)		**74**	(20)
Equity share in profits of associates and joint ventures		**(12)**	(15)
Revaluation of non-controlling interest in OJSC Verkhnechonskneftegaz to its fair value	4, 9	**(38)**	–
Gain on bargain purchase	4, 9	**(167)**	–
Loss from disposal of companies and non-production assets	9	**2**	4
Finance expenses	8	**40**	12
Finance income		**(14)**	(15)
Income tax expense	7	**66**	84
Changes in operating assets and liabilities:			
Increase in accounts receivable, gross		**(97)**	(29)
Increase in inventories		**(10)**	(15)
Decrease in restricted cash		**4**	–
Increase in prepayments and other current assets		**(22)**	(12)
Increase in accounts payable and accrued liabilities		**10**	46
Increase in other tax liabilities		**15**	16
Increase/(decrease) in current provisions		**3**	(2)
Increase/(decrease) in other current liabilities		**2**	(4)
Increase/(decrease) in other non-current liabilities		**20**	(1)
Increase in long-term prepayment on oil supply agreements		**307**	–
Long-term loans granted by subsidiary banks		**(19)**	(26)
Repayment of long-term loans granted by subsidiary banks		**21**	25
Acquisition of trading securities		**(15)**	(40)
Proceeds from sale of trading securities		**17**	43
Net cash provided by operating activities before income tax and interest		**892**	434
Income tax payments		**(61)**	(59)
Interest received		**5**	8
Net cash provided by operating activities		**836**	383

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

Interim consolidated statement of cash flows (continued)

(in billions of Russian rubles)

	Notes	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Investing activities			
Capital expenditures		**(378)**	(350)
Acquisition of licenses		**(8)**	(2)
Acquisition of short-term financial assets		**(205)**	(93)
Proceeds from sale of short-term financial assets		**52**	123
Acquisition of long-term financial assets		**(2)**	(2)
Proceeds from sale of long-term financial assets		**1**	5
Acquisition of interest in associates and joint ventures	16	**(24)**	(36)
Acquisition of a subsidiaries, net of cash acquired	4	**(1,296)**	(4)
Sale of property, plant and equipment		**4**	3
Placements under reverse REPO agreements		**(6)**	(14)
Receipts under reverse REPO agreements		**4**	33
Net cash used in investing activities		**(1,858)**	(337)
Financing activities			
Proceeds from short-term loans and borrowings		**6**	24
Repayment of short-term loans and borrowings		**(20)**	(31)
Proceeds from long-term loans and borrowings		**1,121**	229
Repayment of long-term loans and borrowings		**(56)**	(65)
Repayment of other financial liabilities		**(12)**	–
Proceeds from sale of subsidiaries stock		**48**	–
Acquisition of treasury stock		**–**	(68)
Acquisition of non-controlling interests in subsidiaries		**–**	(2)
Dividends paid to shareholders	21	**(85)**	(33)
Interest paid		**(45)**	(21)
Net cash provided financing activities		**957**	33
Net (decrease)/increase in cash and cash equivalents		**(65)**	79
Cash and cash equivalents at beginning of period	10	**299**	166
Effect of foreign exchange on cash and cash equivalents		**12**	(5)
Cash and cash equivalents at end of period	10	**246**	240

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

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 2012 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 2012 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 2012 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 2012 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.

Certain balances as at December 31, 2012 were reclassified to conform to current period presentation.

The interim condensed consolidated financial statements for the three and nine months ended September 30, 2013 were approved and authorized for issue by the President of the Company on October 29, 2013.

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 2012 prepared in accordance with IFRS except for the adoption of new standards and interpretations effective as of January 1, 2013 and a voluntary change in accounting policy described below.

Effective January 1, 2013, the Company voluntarily changed its accounting policy which has an effect on the prior reporting periods. In applying the unit-of-production method to oil and gas properties (excluding mineral licenses), the depletion rate is based on proved developed reserves. Capitalized costs applicable to this category of reserves are included in the depreciable amount to achieve a proper matching of costs and production. In certain cases it is difficult to reliably assign the construction in progress costs to proved developed reserves. For example, if an oil field is not fully developed, there may be construction in progress costs that do not relate, in total or in part, to proved developed reserves. To improve matching of costs and production the Company has decided to exclude the construction in progress costs from the depreciable amounts in applying the unit-of-production method to oil and gas properties. This change was accounted for as a change in accounting policy and applied retrospectively. As a result of this change, Depreciation, depletion and amortization for the nine months ended September 30, 2012 decreased RUB 23 billion. As of December 31, 2012 total cumulative effect from the change in accounting policy was an increase of RUB 59 billion and was recorded in Retained earnings. The effect on Net income attributable to Rosneft per common share (in RUB) – basic and diluted for the three and nine months ended September 30, 2012 was an increase of RUB 2.4.

The Company applies, for the first time, certain standards and amendments effective as of January 1, 2013.

The nature and the impact of each new standard/amendment are described below:

The Company adopted a package of standards on consolidation: IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, IFRS 12, *Disclosure of Interests in Other Entities*. The package of new standards introduces the new model of control and treatment of joint arrangements and also new disclosure requirements. As a result of the application of the package the Company has changed its method of accounting for certain joint arrangements from the equity method of accounting to accounting for the assets, liabilities, revenues and expenses relating to the Company's interest in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses. This change required restatement of financial results for the previous periods.

In addition, the application of IFRS 12, *Disclosure of Interest in Other Entities* results in additional disclosures in the annual consolidated financial statements.

IFRS 13, *Fair Value Measurement* establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements of the Company. IFRS 13 also requires specific disclosures of fair values. Some of these disclosures are specifically required for the interim condensed consolidated financial statements. The Company made these disclosures in Note 22.

IAS 1, *Presentation of Financial Statements ("IAS 1")*. The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on the Company’s financial position or results of operations.

3. Changes in accounting policies (continued)

Several other new standards and amendments including amended IFRS 7, *Financial Instruments: Disclosure*, and IAS 32, *Financial Instrument: Presentation*, IAS 19, *Employee Benefits (Revised 2011)*, amendments resulting from Annual Improvements 2009-2011 cycle to IAS 1, *Presentation of Financial Statements*, IAS 16, *Property, Plant and Equipment*, IAS 32, *Financial Instruments: Presentation*, IAS 34, *Interim Financial Reporting*, were applied for the first time in 2013. Application of these standards and amendments had no significant impact on the Company's financial position or results of operations.

The impact of change from the equity method of accounting to accounting for assets, liabilities, income and expenses in accordance with IFRS 11, *Joint Arrangements*, in respect of the Company's interests in Ruhr Oel GmbH, a joint operation with BP Group, engaged in processing and sale of crude oil in Western Europe, and OJSC Tomskneft VNK ("Tomskneft"), a joint operation with OJSC Gazprom Neft, engaged in crude oil exploration and production in Western Siberia, on the December 31, 2012 consolidated balance sheet and the interim consolidated statement of comprehensive income for the three and nine months ended September 30, 2012 is presented below:

Impact on the consolidated balance sheet:

	As of December 31, 2012		
	Ruhr Oel GmbH	**OJSC Tomskneft VNK**	**Total**
Increase in current assets:			
Cash and cash equivalents	–	3	3
Other financial assets	2	–	2
Accounts receivable	10	1	11
Inventories	1	1	2
Prepayments and other current assets	1	–	1
Increase in total current assets	**14**	**5**	**19**
Increase/(decrease) in non-current assets:			
Property, plant and equipment	57	42	99
Investment in Ruhr Oel GmbH	(47)	–	(47)
Investment in OJSC Tomskneft VNK	–	(38)	(38)
Investments in associates and joint ventures	2	–	2
Deferred tax assets	–	2	2
Goodwill	–	11	11
Increase in total non-current assets	**12**	**17**	**29**
Increase in total assets	**26**	**22**	**48**
Increase in current liabilities:			
Accounts payable and accrued liabilities	4	2	6
Loans and borrowings	5	11	16
Other tax liabilities	2	4	6
Increase in total current liabilities	**11**	**17**	**28**
Increase in non-current liabilities:			
Deferred tax liabilities	4	5	9
Provisions	–	4	4
Other non-current liabilities	13	–	13
Increase in total non-current liabilities	**17**	**9**	**26**
Decrease in equity:			
Other funds and reserves	(2)	–	(2)
Retained earnings	–	(4)	(4)
Decrease in total equity	**(2)**	**(4)**	**(6)**
Increase in total liabilities and equity	**26**	**22**	**48**

3. Changes in accounting policies (continued)

Impact on the interim consolidated statement of comprehensive income:

	Three months ended September 30, 2012 (unaudited)		
	Ruhr Oel GmbH	OJSC Tomskneft VNK	Total
Revenues and equity share in profits of associates and joint ventures			
Equity share in profits of associates and joint ventures	–	(1)	(1)
Total revenues and equity share in profits of associates and joint ventures	**–**	**(1)**	**(1)**
Costs and expenses			
Production and operating expenses	4	3	7
Cost of purchased oil, gas, petroleum products and refining costs	(5)	(13)	(18)
Depreciation, depletion and amortization	1	3	4
Taxes other than income tax	–	7	7
Total costs and expenses	**–**	**–**	**–**
Operating income	**–**	**(1)**	**(1)**
Other income	–	1	1
Income before income tax	**–**	**–**	**–**
Income tax expense	–	–	–
Net income	**–**	**–**	**–**
Other comprehensive loss – to be reclassified to loss in subsequent periods			
Foreign exchange differences on translation of foreign operations	(1)	–	(1)
Total other comprehensive loss, net of tax – to be reclassified to loss in subsequent periods	**(1)**	**–**	**(1)**
Total comprehensive loss, net of tax	**(1)**	**–**	**(1)**
Net income	**–**	**–**	**–**
attributable to Rosneft shareholders	–	–	–
attributable to non-controlling interests	–	–	–
Total comprehensive loss, net of tax	**(1)**	**–**	**(1)**
attributable to Rosneft shareholders	(1)	–	(1)
attributable to non-controlling interests	–	–	–

3. Changes in accounting policies (continued)

	Nine months ended September 30, 2012 (unaudited)		
	Ruhr Oel GmbH	**OJSC Tomskneft VNK**	**Total**
Revenues and equity share in profits of associates and joint ventures			
Equity share in profits of associates and joint ventures	–	(4)	(4)
Total revenues and equity share in profits of associates and joint ventures	**–**	**(4)**	**(4)**
Costs and expenses			
Production and operating expenses	11	9	20
Cost of purchased oil, gas, petroleum products and refining costs	(14)	(38)	(52)
Depreciation, depletion and amortization	3	5	8
Taxes other than income tax	–	20	20
Total costs and expenses	**–**	**(4)**	**(4)**
Operating income	**–**	**–**	**–**
Other income	–	1	1
Income before income tax	**–**	**1**	**1**
Income tax expense	–	(1)	(1)
Net income	**–**	**–**	**–**
Other comprehensive loss – to be reclassified to loss in subsequent periods			
Foreign exchange differences on translation of foreign operations	(2)	–	(2)
Total other comprehensive loss – to be reclassified to loss in subsequent periods, net of tax	**(2)**	**–**	**(2)**
Total comprehensive loss, net of tax	**(2)**	**–**	**(2)**
Net income	**–**	**–**	**–**
attributable to Rosneft shareholders	–	–	–
attributable to non-controlling interests	–	–	–
Total comprehensive loss, net of tax	**(2)**	**–**	**(2)**
attributable to Rosneft shareholders	(2)	–	(2)
attributable to non-controlling interests	–	–	–

Seasonality of operations

The Company's operations are not seasonal. Income and expenses are earned and incurred evenly during the financial year.

4. Acquisition of subsidiaries

Acquisition of TNK-BP

On March 21, 2013, the Company completed the acquisition of an aggregate 100% equity interest in TNK-BP Limited, the ultimate holding company of TNK-BP, and of its subsidiary TNK Industrial Holdings Limited (collectively with their subsidiaries referred to "TNK-BP").

TNK-BP is a vertically integrated group of companies operating a diversified upstream and downstream portfolio, with assets in Russia, Ukraine, Belarus, Venezuela, Vietnam and Brazil. TNK-BP was Russia's third largest oil producer. TNK-BP operates in Russia's major hydrocarbon regions, including West Siberia, Volga-Urals and East Siberia.

The fair value of consideration paid was RUB 1,767 billion at the acquisition date. The acquisition was effected through two independent transactions with BP and AAR consortium.

The consideration transferred is presented below:

BP's 50% equity interest in TNK-BP:	
US$16.65 billion in cash at the Central Bank of Russia's ("CBR") official exchange rate as of the date of acquisition	515
1,360,449,797 Rosneft's treasury shares (12.84% of share capital) at fair value	327
AAR's 50% equity interest in TNK-BP:	
US$27.73 billion in cash at the CBR official exchange rate as of the date of acquisition	858
Total cash and equity instruments	**1,700**
Fair value of the Company's investment in OJSC Verkhnechonskneftegaz	67
Total consideration transferred	**1,767**

The fair value of the Rosneft's treasury shares included in the consideration transferred at TNK-BP acquisition was determined at the closing price of the Rosneft's global depository receipts listed on the London Stock Exchange as of March 21, 2013.

As a result of TNK-BP acquisition, the Company's share in OJSC Verkhnechonskneftegaz increased from 25.94% to the controlling share and was accounted for under IFRS 3, *Business Combinations*, as a step acquisition. Corresponding revaluation of the Company's non-controlling share in OJSC Verkhnechonskneftegaz of RUB 38 billion is included in Other income in the interim consolidated statement of comprehensive income for the nine months ended September 30, 2013. Fair value of non-controlling share in OJSC Verkhnechonskneftegaz of RUB 67 billion is included in the consideration transferred.

The acquisition of TNK-BP does not contemplate contingent consideration.

4. Acquisition of subsidiaries (continued)

Acquisition of TNK-BP (continued)

In the course of the transaction the following companies were acquired:

Name	Country of incorporation	Core activity	Preferred and common shares	Voting shares
			%	%
Exploration and production				
OJSC Nizhnevartovskoe Neftegazodobyvayuschee Predpriyatie	Russia	Oil and gas development and production	94.67	96.51
OJSC Varyoganneftegaz	Russia	Oil and gas development and production	89.34	90.91
LLC Vanyoganneft JV	Russia	Oil and gas development and production	94.67	96.51
OJSC TNK-Nyagan	Russia	Oil and gas development and production	94.67	96.51
OJSC Tumenneftegaz	Russia	Oil and gas development and production	94.67	96.51
OJSC Orenburgneft	Russia	Oil and gas development and production	95.13	96.61
LLC Buguruslanneft	Russia	Oil and gas development and production	95.13	96.61
OJSC Yugraneft Corporation	Russia	Oil and gas development and production	75.30	76.77
OJSC Samotlorneftegaz	Russia	Oil and gas development and production	94.67	96.51
OJSC TNK-Nizhnevartovsk	Russia	Oil and gas development and production	94.67	96.51
CJSC ROSPAN INTERNATIONAL	Russia	Oil and gas development and production	94.67	96.51
OJSC Verkhnechonskneftegaz	Russia	Oil and gas development and production	70.05	71.42
LLC TNK-Uvat	Russia	Oil and gas development and production	94.67	96.51
LLC Tagulskoe	Russia	Field survey and exploration	100.00	100.00
OJSC Suzun	Russia	Field survey and exploration	100.00	100.00
TNK Vietnam B.V.	Netherlands	Oil and gas development and production	100.00	100.00
Refining, logistics and distribution				
LLC Nizhnevartovskoe Neftepererabatyvayuschee Obedinenie	Russia	Petroleum refining	94.67	96.51
CJSC RORC	Russia	Petroleum refining	94.67	96.51
OJSC Saratov Oil Refinery	Russia	Petroleum refining	81.01	87.98
CJSC Karelyanefteprodukt	Russia	Marketing and distribution	94.67	96.51
LLC Kurskoblnefteprodukt	Russia	Marketing and distribution	94.67	96.51
OJSC Kaluganefteprodukt	Russia	Marketing and distribution	93.04	96.51
OJSC Rjazan Oil Produkt	Russia	Marketing and distribution	93.55	96.51
OJSC Tulanefteprodukt	Russia	Marketing and distribution	87.51	92.29
CJSC PCEC	Russia	Marketing and distribution	94.67	96.51
OJSC TNK-Stolitsa	Russia	Marketing and distribution	94.67	96.51
LLC ZSNP	Russia	Marketing and distribution	94.67	96.51
OJSC Saratovnefteprodukt	Russia	Marketing and distribution	87.98	90.29
LLC TNK-BP Northern Capital	Russia	Marketing and distribution	94.67	96.51
LLC TNK Lubricants	Russia	Marketing and distribution	97.33	98.25
CJSC TNK South Management	Russia	Marketing and distribution	94.67	96.51
LLC TNK-BP Marketing	Russia	Marketing and distribution	94.67	96.51
OJSC TNK-Yaroslavl	Russia	Marketing and distribution	89.03	90.76
FLLC "TNK-BP West"	Belarus	Marketing and distribution	100.00	100.00
LLC TNK-Industries	Russia	Marketing and distribution	94.67	96.51
CJSC Koltsovo Fueling Company	Russia	Marketing and distribution	94.67	96.51
LLC TZK-Aktiv	Russia	Marketing and distribution	94.67	96.51
PRJSC "LINIK"	Ukraine	Petroleum refining	95.21	95.21
TNK Trade Limited	Cyprus Republic	Marketing and distribution	100.00	100.00
LLC Krasnoleninsky Oil Refinery	Russia	Petroleum refining	94.67	96.51
Other				
TNK Industrial Holdings Limited	Virginia British Isles	Holding company	100.00	100.00
TNK-BP Limited	Virginia British Isles	Holding company	100.00	100.00
TNK-BP International Limited	Virginia British Isles	Holding company	100.00	100.00
TNK Pipelines Vietnam B.V.	Netherlands	Transportation services	100.00	100.00
Novy Investments Limited	Cyprus Republic	Holding company	100.00	100.00
TNK Management Company Limited	Cyprus Republic	Holding company	100.00	100.00
OJSC TNK-BP Holding	Russia	Holding company	94.67	96.51
OJSC TNK-BP Management	Russia	Management company	100.00	100.00

During the second quarter 2013 several acquired entities were renamed.

4. Acquisition of subsidiaries (continued)

Acquisition of TNK-BP (continued)

As a result of the acquisition, the Company significantly increased its crude oil production and refining capacity, accessed new geographical markets and substantially expanded its retail network. Management believes that the acquisition of TNK-BP places the Company in a leading position globally among public companies operating in oil and gas sector, reinforces its position as a regional upstream leader in Russia and Europe, creates significant synergies arising from joint development activities, optimization of oil and oil product logistics, production and sales of natural gas together with improving internal controls over costs and assets.

The Company accounted for TNK-BP acquisition as a business combination. The Company consolidated the operating result of the acquired business from March 21, 2013, the date the control was obtained.

The following table summarizes the Company's preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
Current assets:	
Cash and cash equivalents	178
Restricted cash	5
Accounts receivable	53
Inventories	60
Prepayments and other current assets	79
Total current assets	**375**
Non-current assets:	
Property, plant and equipment	2,235
Intangible assets	24
Other financial assets	13
Investments in associates and joint ventures	206
Deferred tax assets	9
Other non-current non-financial assets	9
Total non-current assets	**2,496**
Total assets	**2,871**

4. Acquisition of subsidiaries (continued)

Acquisition of TNK-BP (continued)

LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	117
Loans and borrowings	31
Income tax liabilities	3
Other tax liabilities	61
Provisions	6
Other current liabilities	12
Total current liabilities	**230**
Non-current liabilities:	
Loans and borrowings	203
Deferred tax liabilities	344
Provisions	39
Other non-current liabilities	9
Total non-current liabilities	**595**
Total liabilities	**825**
Total identifiable net assets at fair value	**2,046**
Non-controlling interests measured according to the share of non-controlling shareholders in the net assets of the Company	(112)
Gain on bargain purchase	(167)
Total consideration transferred	**(1,767)**

TNK-BP acquisition cash flow:

Net cash acquired	178
Cash paid	(1,373)
Net cash outflow	**(1,195)**

The bargain purchase gain, arisen on acquisition of TNK-BP, is a result of the exclusive position of the Company on the Russian market. The Company was the only potential buyer, that was able to offer mainly cash consideration for the business acquired without payment deferrals. Additionally, the Company's bargain power was further enhanced through two separate transactions with BP and AAR consortium to acquire non-controlling 50% ownership share in each transaction. In the third quarter of 2013 the Company adjusted the preliminary purchase price allocation. The bargain purchase gain of RUB 167 billion and other adjustments to the provisional purchase price allocation were recognized as if the accounting for the business combination had been completed at the acquisition date.

Deferred tax liabilities in the amount of RUB 344 billion are mainly attributable to revaluation of property, plant and equipment.

The fair value of the accounts receivable approximates its outstanding contractual amounts at the acquisition date. There are no accounts receivable that are not expected to be collected.

Net cash outflow of RUB 1,195 billion was included in Acquisition of subsidiaries, net of cash acquired in the investing activities in the interim consolidated statement of cash flow for the nine months ended September 30, 2013.

4. Acquisition of subsidiaries (continued)

Acquisition of TNK-BP (continued)

This allocation of the purchase price to the assets acquired and liabilities assumed is preliminary as of September 30, 2013. Purchase price allocation has not been finalized due to complexity of the acquisition and uncertainties related to fair value measurements of property, plant and equipment, intangible assets, provisions and deferred tax assets and liabilities. 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.

From March 21, 2013 (the date of acquisition) TNK-BP's revenues and net income included in the interim consolidated statement of comprehensive income for the nine months ended September 30, 2013 were RUB 1,124 billion and RUB 82 billion, respectively.

TNK-BP's revenues and net income included in the interim consolidated statement of comprehensive income for the three months ended September 30, 2013 were RUB 574 billion and RUB 41 billion, respectively.
Had the TNK-BP acquisition taken place at the beginning of the reporting period (January 1, 2013), revenues and net income of the combined entity would have been RUB 3,719 billion and RUB 448 billion, respectively, for the nine months ended September 30, 2013.

Acquisition of LLC Basic jet fuel operator and LLC General Avia

In May 2013, the Company acquired a 100% interest in LLC Basic jet fuel operator and LLC General Avia for a consideration of RUB 6 billion. Main activities of these entities comprise jet fuel sales, storage and fuelling services in airports of Krasnodar, Sochi, Anapa, Gelendzhik and Abakan.

The preliminary purchase price allocation of consideration paid for the acquisition of LLC Basic jet fuel operator and LLC General Avia is as follows:

ASSETS	
Property, plant and equipment	7
Total non-current assets	**7**
LIABILITIES	
Deferred income tax liabilities	1
Total long-term liabilities	**1**
Total net assets acquired	**6**

4. Acquisition of subsidiaries (continued)

Acquisition of LLC Oil and Gas Company ITERA

On July 2, 2013 the Company acquired an 49% ownership interest in LLC Oil and Gas Company ITERA, the major independent natural gas producer and supplier in Russian Federation. As a result of this acquisition, the Company's share in LLC Oil and Gas Company ITERA increased to 100%. This acquisition was accounted for as step acquisition under IFRS 3, *Business Combinations*.

Preliminary fair value of the consideration transferred was RUB 191 billion at the acquisition date and included cash in the amount of RUB 95 billion and preliminary fair value of non-controlling share in LLC Oil and Gas Company ITERA of RUB 96 billion.

In the course of the transaction the following companies were acquired:

Name	Country of incorporation	Core activity	Preferred and common shares	Voting shares
Exploration and production			%	%
LLC Kynsko-Chaselskoye neftegaz	Russia	Oil and gas development and production	100.00	100.00
OJSC Bratskekogaz	Russia	Oil and gas development and production	79.00	79.00
OJSC Sibneftegaz	Russia	Oil and gas development and production	48.94	48.94
OJSC Purgaz	Russia	Oil and gas development and production	49.00	49.00
Refining, marketing and distribution				
LLC Sibgastranzit	Russia	Marketing and distribution	100.00	100.00
CJSC Uralsevergas	Russia	Marketing and distribution	67.00	67.00
SIA "ITERA Latvija"	Latvia	Marketing and distribution	66.00	66.00
Other				
LLC Oil and Gas Company ITERA	Russia	Holding company	100.00	100.00
LLC Firma Proekt	Russia	Holding company	100.00	100.00
LLC Linko-Optim	Russia	Holding company	100.00	100.00
LLC OVIT	Russia	Holding company	100.00	100.00
LLC ITERA Finance	Russia	Finance services	100.00	100.00
LLC EK ENEKO	Russia	Holding company	100.00	100.00
CJSC Regiongas-Invest	Russia	Heat production	100.00	100.00
OJSC Raschetnij center Urala	Russia	Collecting activity	99.90	99.90
ITERA-Turkmenistan Ltd.	Cyprus	Holding company	100.00	100.00
Davonte Holdings Ltd.	Cyprus	Holding company	100.00	100.00

Acquisition of LLC Oil and Gas Company ITERA improves business efficiency and creates new opportunities for its growth. It forms a stable platform for consistent implementation of the Company's gas strategy.

4. Acquisition of subsidiaries (continued)

Acquisition of LLC Oil and Gas Company ITERA (continued)

The following table summarizes the Company's preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
Current assets:	
Cash and cash equivalents	1
Accounts receivable	11
Prepayments and other current assets	2
Total current assets	**14**
Non-current assets:	
Property, plant and equipment	92
Other financial assets	4
Investments in associates and joint ventures	128
Deferred tax assets	1
Total non-current assets	**225**
Total assets	**239**
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	6
Loans and borrowings	12
Total current liabilities	**18**
Non-current liabilities:	
Loans and borrowings	10
Deferred tax liabilities	19
Total non-current liabilities	**29**
Total liabilities	**47**
Total identifiable net assets at fair value	**192**
Non-controlling interests measured according to the share of non-controlling shareholders in the net assets of the Company	(1)
Total consideration transferred	**191**

This allocation of the purchase price to the assets acquired and liabilities assumed is preliminary as of September 30, 2013. Purchase price allocation has not been finalized due to complexity of the acquisition and uncertainties related to fair value measurements of property, plant and equipment, investments and deferred tax liabilities. 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 fair value of accounts receivable approximates its outstanding contractual amounts at the acquisition date. There are no accounts receivable that are not expected to be collected.

The acquisition of LLC Oil and Gas Company ITERA does not contemplate contingent consideration.

4. Acquisition of subsidiaries (continued)

Acquisition of additional 50% interest in LLC TNK-Sheremetyevo

On September 30, 2013 the Company acquired a 50% ownership share in LLC TNK-Sheremetyevo, a 74.9% shareholder of CJSC TZK Sheremetyevo, for a consideration of USD 300 million (RUB 9.7 billion at the date of the transaction). As a result of the acquisition, the Company's share in LLC TNK-Sheremetyevo increased to 100%. Main activities of CJSC TZK-Sheremetyevo comprise jet fuel sales, storage and fuelling services at Sheremetyevo International Airport in Moscow.

Acquisition of 50% share in LLC TNK-Sheremetyevo was accounted for under IFRS 3, *Business Combinations*, as a step acquisition. Fair value of previously held non-controlling share in LLC TNK-Sheremetyevo of RUB 9 billion and a loan to LLC TNK-Sheremetyevo from the Company of RUB 5.5 billion are included in the consideration transferred.

Starting from September 30, 2013, assets and liabilities of LLC TNK-Sheremetyevo and CJSC TZK Sheremetyevo are included in the Company's consolidated balance sheet. In October 2013, LLC TNK-Sheremetyevo was renamed to LLC RN-Aero Sheremetyevo. As of September 30, 2013 the consideration for the acquisition of a 50% share in LLC TNK-Sheremetyevo has not been paid.

The acquisition of LLC TNK-Sheremetyevo does not contemplate contingent consideration.

As LLC TNK-Sheremetyevo was acquired at a reporting date a purchase price allocation was not completed. Preliminary purchase price allocation is based on a historical value of assets and liabilities. Excess of purchase price over fair value of net assets of LLC TNK-Sheremetyevo 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.

4. Acquisition of subsidiaries (continued)

Acquisition of additional 50% interest in LLC TNK-Sheremetyevo (continued)

The consideration transferred is presented below:

ASSETS	
Current assets:	
Cash and cash equivalents	3
Accounts receivable	2
Other current assets	1
Total current assets	**6**
Non-current assets:	
Property, plant and equipment	3
Other non-current assets	2
Total non-current assets	**5**
Total assets	**11**
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	4
Loans and borrowings	2
Total current liabilities	**6**
Total liabilities	**6**
Total identifiable net assets at fair value	**5**
Non-controlling interests measured according to the share of non-controlling shareholders in the net assets of the Company	(1)
Goodwill	20
Total consideration transferred	**24**

Preliminarily, goodwill in the amount of RUB 20 billion relates primarily to the expected synergies arising from an access to the premium B2B sales in Moscow International Sheremetyevo Airport, the largest airport in Russia in terms of jet fuel consumption and traffic. The amount of goodwill is not tax deductible.

The acquisition of LLC TNK-Sheremetyevo does not contemplate contingent consideration.

5. Segment information

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

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

The performance of operating segments for the three months ended September 30, 2013 (unaudited) is presented below:

	Exploration and production	Refining, logistics and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	**25**	**1,317**	**11**	**–**	**1,353**
Intersegment revenues	**555**	**–**	**–**	**(555)**	
Equity share in profits of associates and joint ventures	**3**	**–**	**–**	**–**	**3**
Total revenues and equity share in profits of associates and joint ventures	**583**	**1,317**	**11**	**(555)**	**1,356**
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	**310**	**1,254**	**30**	**(555)**	**1,039**
Depreciation, depletion and amortization	**88**	**16**	**5**	**–**	**109**
Total costs and expenses	**398**	**1,270**	**35**	**(555)**	**1,148**
Operating income	**185**	**47**	**(24)**	**–**	**208**
Finance income					**7**
Finance expenses					**(11)**
Total finance expenses					**(4)**
Other income					**1**
Other expenses					**(26)**
Foreign exchange differences					**9**
Income before income tax					**188**
Income tax					**(45)**
Net income					**143**

5. Segment information (continued)

The performance of operating segments for the three months ended September 30, 2012 (restated) (unaudited) is presented below:

	Exploration and production	Refining, logistics and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	12	791	5	–	808
Intersegment revenues	336	–	–	(336)	–
Equity share in profits of associates and joint ventures	5	–	–	–	5
Total revenues and equity share in profits of associates and joint ventures	353	791	5	(336)	813
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	174	758	16	(336)	612
Depreciation, depletion and amortization	45	9	1	–	55
Total costs and expenses	219	767	17	(336)	667
Operating income	134	24	(12)	–	146
Finance income					6
Finance expenses					(5)
Total finance income					1
Other income					85
Other expenses					(9)
Foreign exchange differences					16
Income before income tax					239
Income tax					(52)
Net income					187

5. Segment information (continued)

The performance of operating segments for the nine months ended September 30, 2013 (unaudited) is presented below:

	Exploration and production	Refining, logistics and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	**54**	**3,244**	**34**	**–**	**3,332**
Intersegment revenues	**1,331**	**–**	**–**	**(1,331)**	**–**
Equity share in profits of associates and joint ventures	**12**	**–**	**–**	**–**	**12**
Total revenues and equity share in profits of associates and joint ventures	**1,397**	**3,244**	**34**	**(1,331)**	**3,344**
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	**782**	**3,138**	**81**	**(1,331)**	**2,670**
Depreciation, depletion and amortization	**220**	**40**	**9**	**–**	**269**
Total costs and expenses	**1,002**	**3,178**	**90**	**(1,331)**	**2,939**
Operating income	**395**	**66**	**(56)**	**–**	**405**
Finance income					**14**
Finance expenses					**(40)**
Total finance expenses					**(26)**
Other income					**207**
Other expenses					**(46)**
Foreign exchange differences					**(57)**
Income before income tax					**483**
Income tax					**(66)**
Net income					**417**

5. Segment information (continued)

The performance of operating segments for the nine months ended September 30, 2012 (restated) (unaudited) is presented below:

	Exploration and production	Refining, logistics and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	35	2,228	19	–	2,282
Intersegment revenues	914	–	–	(914)	–
Equity share in profits of associates and joint ventures	15	–	–	–	15
Total revenues and equity share in profits of associates and joint ventures	964	2,228	19	(914)	2,297
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	518	2,166	54	(914)	1,824
Depreciation, depletion and amortization	122	25	4	–	151
Total costs and expenses	640	2,191	58	(914)	1,975
Operating income	324	37	(39)	–	322
Finance income					15
Finance expenses					(12)
Total finance income					3
Other income					86
Other expenses					(27)
Foreign exchange differences					3
Income before income tax					387
Income tax					(84)
Net income					303

5. 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 September 30, 2013 (unaudited)	Three months ended September 30, 2012 (restated) (unaudited)	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Oil and gas sales				
Export of crude oil – Europe	**444**	265	**1,123**	772
Export of crude oil – Asia	**152**	98	**385**	290
Export of crude oil – CIS, other than Russia	**36**	22	**87**	58
Domestic sales of crude oil	**24**	1	**59**	5
Sales of gas	**35**	7	**62**	16
Total oil and gas sales	**691**	393	**1,716**	1,141

	Three months ended September 30, 2013 (unaudited)	Three months ended September 30, 2012 (restated) (unaudited)	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Petroleum products and petrochemicals sales				
Export of petroleum products – Europe	**275**	175	**661**	479
Export of petroleum products – Asia	**71**	59	**207**	174
Export of petroleum products – CIS, other than Russia	**32**	3	**59**	7
Domestic sales of petroleum products	**248**	149	**582**	388
Domestic sales of petrochemical products	**2**	2	**8**	8
Export of petrochemical products – Europe	**20**	16	**59**	54
Total petroleum products and petrochemicals sales	**648**	404	**1,576**	1,110

6. Export customs duty

Export customs duty comprises the following:

	Three months ended September 30, 2013 (unaudited)	Three months ended September 30, 2012 (restated) (unaudited)	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Export customs duty on oil sales	**273**	162	**725**	509
Export customs duty on gas sales	**1**	–	**1**	–
Export customs duty on petroleum products and petrochemicals sales	**105**	50	**255**	155
Total export customs duty	**379**	212	**981**	664

7. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended September 30, 2013 (unaudited)	Three months ended September 30, 2012 (restated) (unaudited)	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Current income tax expense	**(34)**	(37)	**(55)**	(68)
Deferred tax expenses due to the origination and reversal of temporary differences	**(11)**	(15)	**(11)**	(16)
Total income tax expense	**(45)**	(52)	**(66)**	(84)

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

	Three months ended September 30, 2013 (unaudited)	Three months ended September 30, 2012 (restated) (unaudited)	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Mineral extraction tax	**235**	140	**596**	414
Excise tax	**41**	23	**98**	59
Property tax	**6**	3	**16**	9
Other	**9**	6	**28**	22
Total taxes other than income tax	**291**	172	**738**	504

8. Finance expenses

Finance expenses comprise the following:

	Three months ended September 30, 2013 (unaudited)	Three months ended September 30, 2012 (restated) (unaudited)	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Interest expense on loans and borrowings	**(9)**	(2)	**(22)**	(5)
Interest expense on bonds	**(2)**	–	**(3)**	–
Gain/(loss) from changes in fair value of financial assets at fair value recognized in profit or loss	**5**	–	**(4)**	–
Increase in provision due to the unwinding of discount	**(3)**	(1)	**(5)**	(4)
Other finance expenses	**(2)**	(2)	**(6)**	(3)
Total finance expenses	**(11)**	(5)	**(40)**	(12)

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended September 30, 2013 (unaudited)	Three months ended September 30, 2012 (restated) (unaudited)	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Revaluation of non-controlling interest in OJSC Verkhnechonskneftegaz to its fair value	**–**	–	**38**	–
Gain on bargain purchase (Note 4)	**–**	–	**167**	–
Non-cash income from acquisition of ITERA Oil and Gas Company	**–**	82	**–**	82
Compensation payment for licenses from joint venture parties	**1**	–	**1**	–
Other	**–**	3	**1**	4
Total other income	**1**	85	**207**	86
Sale and disposal of property, plant and equipment and intangible assets	**(6)**	(4)	**(9)**	(4)
Disposal of companies and non-production assets	**(1)**	(1)	**(2)**	(4)
Impairment of assets	**(3)**	(1)	**(8)**	(6)
Social payments, charity, sponsorship, financial aid	**(6)**	(2)	**(8)**	(8)
Other	**(10)**	(1)	**(19)**	(5)
Total other expenses	**(26)**	(9)	**(46)**	(27)

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	September 30, 2013 (unaudited)	December 31, 2012 (restated)
Cash on hand and in bank accounts in RUB	**57**	19
Cash on hand and in bank accounts in foreign currencies	**118**	206
Deposits	**68**	72
Others	**3**	2
Total cash and cash equivalents	**246**	**299**

11. Other short-term financial assets

Other short-term financial assets comprise the following:

	September 30, 2013 (unaudited)	December 31, 2012 (restated)
Financial assets available for sale:		
Bonds	**23**	14
Stocks and shares	**4**	6
Loans and receivables:		
Loans granted	**32**	18
Loans issued to associates	**1**	1
Notes receivable, net of allowance	**21**	27
Loans granted under reverse repurchase agreements	**2**	–
Deposits and deposit certificates	**127**	–
Held-for-trading financial assets at fair value through profit or loss:		
Corporate bonds	**11**	10
Government bonds	**3**	5
Stocks and shares	**–**	6
Derivative financial instruments	**–**	3
Total other short-term financial assets	**224**	90

As of September 30, 2013, the US$ denominated bank deposits earn interest rates ranging from 1.8% to 3.0% p.a. and the RUB denominated bank deposits earn interest rates ranging from 7.0% to 9.0% p.a.

12. Accounts receivable

Accounts receivable, net of allowance, include the following:

	September 30, 2013 (unaudited)	December 31, 2012 (restated)
Trade receivables	**358**	204
Banking loans to customers	**16**	19
Other accounts receivable	**79**	22
Total	**453**	245
Valuation allowance for doubtful accounts	**(8)**	(8)
Total accounts receivable, net of allowance	**445**	237

No accounts receivable were pledged as collateral for loans and borrowings provided to the Company as of September 30, 2013 and December 31, 2012.

13. Inventories

Inventories comprise the following:

	September 30, 2013 (unaudited)	December 31, 2012 (restated)
Crude oil and associated gas	**66**	46
Petroleum products and petrochemicals	**100**	66
Materials and supplies	**38**	22
Total inventories	**204**	134

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

The Company retrospectively changed the classification of inventories in order to conform to industry practices. Petroleum products held for further processing were reclassified from Work in progress to Petroleum products and petrochemicals. The carrying amounts reclassified were RUB 13 billion and RUB 10 billion as of September 30, 2013 and December 31, 2012, respectively. Other inventories included in Work in progress were reclassified to Materials and supplies. The carrying amounts reclassified were RUB 3 billion and RUB 1 billion as of September 30, 2013 and December 31, 2012, respectively.

	Three months ended September 30, 2013 (unaudited)	Three months ended September 30, 2012 (restated) (unaudited)	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
The cost of inventories expensed during the period	**156**	94	**440**	259

The cost of inventories recognised as an expense during the period is included in Production and operating expenses, Cost of purchased oil, gas, petroleum products and refining and General and administrative expenses.

14. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	September 30, 2013 (unaudited)	December 31, 2012 (restated)
Value added tax and excise tax recoverable	**160**	81
Prepayments to suppliers	**28**	24
Prepaid customs duties	**60**	54
Other taxes	**24**	11
Other	**6**	6
Total prepayments and other current assets	**278**	176

15. Property, plant and equipment

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
Cost				
As of December 31, 2012 (restated)	2,561	705	112	3,378
Acquisition of subsidiaries	2,059	277	1	2,337
Additions	253	131	18	402
Disposals	(25)	(3)	(3)	(31)
Exchange differences	11	3	–	14
Cost of asset retirement obligations	(11)	–	–	(11)
As of September 30, 2013	4,848	1,113	128	6,089
Depreciation, depletion and impairment losses				
As of December 31, 2012 (restated)	(621)	(145)	(42)	(808)
Depreciation and depletion charge	(226)	(33)	(7)	(266)
Disposals	14	2	1	17
Exchange differences	(6)	(1)	–	(7)
As of September 30, 2013	(839)	(177)	(48)	(1,064)
Net book value				
As of December 31, 2012 (restated)	1,940	560	70	2,570
As of September 30, 2013	4,009	936	80	5,025
Prepayments for property, plant and equipment				
As of December 31, 2012 (restated)	5	53	10	68
As of September 30, 2013	5	56	11	72
Total as of December 31, 2012 (restated)	**1,945**	**613**	**80**	**2,638**
Total as of September 30, 2013 (unaudited)	**4,014**	**992**	**91**	**5,097**

The Company capitalized RUB 24 billion and RUB 17 billion of interest expenses on loans and borrowings for the nine months ended September 30, 2013 and 2012, respectively.

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization is 3.01% both for the nine months ended September 30, 2013 and 2012, respectively.

Depreciation charge for the nine months ended September 30, 2013 and 2012 includes depreciation which was capitalized as part of the construction cost of property, plant and equipment and cost of inventory in the amount of RUB 3 billion and RUB 3 billion, respectively.

16. Investments in associates and joint ventures

OJSC NGK Slavneft

As a result of TNK-BP acquisition (Note 4) the Company obtained 49.9% interest in OJSC NGK Slavneft ("Slavneft"). The investment in Slavneft of a preliminary value of RUB 166 billion is accounted for as an investment in a joint venture using the equity method.

Slavneft holds licenses for the exploration and production of oil and gas at 31 license areas located in West Siberia and the Krasnoyarsk region. The annual production of Slavneft is 18 mln tons of crude oil. The crude oil produced (excluding export) is processed at Slavneft’s refineries. The Slavneft’s refineries process over 26 mln tons of hydrocarbons and produce over 5 mln tons of gasoline annually.

16. Investments in associates and joint ventures (continued)

Investments in Venezuela

As a result of TNK-BP acquisition (Note 4) the Company obtained equity interests in certain assets in Venezuela. The most significant of these interests is in PetroMonagas S.A. in which the Company holds a 16.7% share. The investment in Venezuela of a preliminary value of RUB 19 billion is accounted for as an investment in associate using the equity method.

PetroMonagas S.A. is engaged in exploration and development of oil fields in the eastern part of Orinoko Basin. In 2012 PetroMonagas S.A. produced 6.85 mln tons of oil equivalent. PetroMonagas S.A. is an integrated project involving the extra-heavy crude oil extraction and upgrading, production and export of synthetic crude oil.

Acquisition of interest in exploratory assets in Brazil

As a result of TNK-BP acquisition (Note 4) the Company obtained 45% interest in certain concession agreements for 21 exploratory blocks in the Brazilian Solimoes Basin. During the third quarter of 2013, the the fair valuation of TNK-BP assets was completed, and as a result the Company reflected fair value of Brazil assets in amount of RUB 9.8 billion (USD 317 million due to official rate on revaluation date). The investment is accounted for as joint operation as the Company has acquired undivided interests in the respective assets and liabilities. During 9 month of 2013 Company has financed the project in amount of RUB 1.1 billion and RUB 0.1 billion in the third quarter of 2013.

National Oil Consortium LLC

In January 2013, Company acquired additional 20% ownership share in LLC National Oil Consortium ("NOC") for RUB 6 billion. As a result of this acquisition and TNK-BP acquisition (Note 4), the Company’s interest in NOC increased to 60%. NOC provides financing of exploration project at Junin-6 block in Venezuela jointly with a subsidiary of Petróleos de Venezuela S.A. ("PDVSA"), Venezuelan state oil company. The interest in NOC is continued to be accounted for as an equity investment due to joint control under the shareholder's agreement.

Acquisition of interest in refining assets

On April 23, 2013 the Company acquired 13.70% share in Saras S.p.A. ("Saras") for the total consideration of EURO 178.5 million (RUB 7 billion at the CBR official exchange rate as of the date of acquisition) from Angelo Moratti S.a.p.a., Gian Marco Moratti and Massimo Moratti.

On June 14, 2013 as a result of a voluntary public offer in respect of 69,310,933 ordinary shares the Company acquired an additional 7.29% interest in Saras for the total consideration of EURO 95 million (RUB 4 billion at the CBR official exchange rate as of the date of acquisition).

As a result of this acquisition, the Company’s share in equity of Saras S.p.A increased to 20.99% and is accounted for using the equity method.

Saras is a leading Italian and European crude oil refiner which sells and distributes petroleum products in Italy and international markets. Saras is also engaged in electric power production and sale, industrial engineering and scientific research services to the oil, electric power and environment sectors, and hydrocarbons exploration.

17. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2013 (unaudited)	December 31, 2012 (restated)
Accounts payable to suppliers and contractors	**192**	119
Advances received	**30**	18
Banking customer accounts	**38**	41
Salary and other benefits payable	**39**	22
Other accounts payable	**24**	11
Total accounts payable and accrued liabilities	**323**	211

Current accounts payable are normally settled within 33 days on average (2012: 31 days). Interest rates on banking customer accounts amount to 0.1%-3.0% p.a. Trade and other payables are non-interest bearing.

18. Loans and borrowings

Loans and borrowings comprise the following:

	Currency	September 30, 2013 (unaudited)	December 31, 2012 (restated)
Long-term			
Bank loans	RUB	**100**	101
Bank loans	US$, Euro	**1,834**	648
Bonds	RUB	**92**	20
Eurobonds	US$	**242**	91
Customer deposits	RUB	**11**	8
Customer deposits	US$, Euro	**5**	3
Other debt	RUB	**–**	1
Less: Current portion of long-term loans and borrowings		**(433)**	(35)
Long-term loans and borrowings		**1,851**	837
Short-term			
Bank loans	RUB	**4**	8
Bank loans	US$	**2**	12
Customer deposits	RUB	**12**	12
Customer deposits	US$, Euro	**2**	3
Borrowings	RUB	**3**	3
Borrowings	Euro	**–**	4
Borrowings – Yukos related	RUB	**11**	11
Promissory notes payable	RUB	**1**	1
Promissory notes payable – Yukos related	RUB	**52**	52
Obligations under a repurchase agreement	RUB	**2**	2
Current portion of long-term loans		**433**	35
Short-term loans and borrowings and current portion of long-term loans		**522**	143
Total loans and borrowings		**2,373**	980

Generally, long-term bank loans from foreign banks are denominated in US$ and partially secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts are normally provided the lender with an express right of claim for contractual revenue in the amount of failing loan repayments which must be remitted directly through transit currency (US$ denominated) accounts in lender banks.

18. Loans and borrowings (continued)

Accounts receivable outstanding balance arising out of such contracts amounts to RUB 24 billion and RUB 32 billion as of September 30, 2013 and December 31, 2012, respectively, and is included in trade receivables.

In March 2013, the Company drawn down four long-term unsecured loans from a group of international banks for a total of US$ 31.04 billion (RUB 1,004 billion at the CBR official exchange rate as of September 30, 2013) to finance the purchase of TNK-BP (Note 4). The debt agreement of US$ 4.09 billion (RUB 132 billion at the CBR official exchange rate as of September 30, 2013) was entered into with the syndicate of foreign banks for 5 years at floating rates. The second debt agreement was entered into with the syndicate of foreign banks at floating rates in the amount of US$ 12.74 billion (RUB 412 billion at the CBR official exchange rate as of September 30, 2013) for 2 years. The third debt agreement was entered into with the syndicate of foreign banks at floating rates for 2 years in the amount of US$ 11.88 billion (RUB 384 billion at the CBR official exchange rate as of September 30, 2013). The fourth debt agreement in the amount of US$ 2.33 billion (RUB 76 at the CBR official exchange rate as of September 30, 2013) was entered into with the syndicate of foreign banks for 5 years at floating rates. As of September 30, 2013 loans are drawn down in full.

In March 2013, the Company issued two tranches of documentary non-convertible interest-bearing bonds with the nominal amount of RUB 30 billion maturing in 2018. Coupon payments will be done on semi-annual basis at fixed rate of 8.0% p.a.

In June 2013, the Company issued three tranches of documentary non-convertible interest-bearing bonds with the nominal amount of RUB 40 billion maturing in 2018. Coupon payments will be done on semi-annual basis at fixed rate of 7.95% p.a.

In June 2013, the Company drawn down funds under long-term floating rate loan agreement with a foreign bank in the amount of US$ 2 billion (RUB 65 billion at the CBR official exchange rate as of September 30, 2013). The loan is repayable within 16 years and secured by oil export contracts.

As of September 30, 2013 and December 31, 2012, the Company was in compliance with all restrictive financial and other covenants contained in its debt agreements.

19. Other tax liabilities

Other tax liabilities comprise the following:

	September 30, 2013 (unaudited)	**December 31, 2012 (restated)**
Mineral extraction tax	**76**	46
Value added tax	**54**	23
Excise tax	**12**	10
Personal income tax	**1**	1
Property tax	**6**	3
Other	**10**	–
Total other tax liabilities	**159**	83

20. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of December 31, 2012 (restated), including	**68**	**5**	**3**	**76**
Non-current	68	3	–	71
Current	–	2	3	5
Provisions charged during the year	2	–	8	10
Increase/(decrease) in provisions resulting from:				
Changes in estimates	(7)	1	(3)	(9)
Change in the discount rate	(4)	–	–	(4)
Unwinding of discount	4	–	–	4
Utilization	(1)	(2)	(1)	(4)
Acquisition of TNK-BP (Note 4)	25	17	3	45
As of September 30, 2013 (unaudited), including	**87**	**21**	**10**	**118**
Non-current	87	17	–	104
Current	–	4	10	14

21. Shareholders' equity

On June 20, 2013 the annual general shareholders' meeting approved dividends on the Company's common shares for 2012 in the amount of RUB 85 billion or RUB 8.05 per share. In the third quarter of 2013 dividends were paid.

In the third quarter of 2013 9.989% of shares in OJSC RN Holding, a subsidiary of the Company, were sold to certain unrelated third parties for a cash consideration of an aggregate RUB 97 billion. As these transactions did not result in a loss of control over OJCS RN Holding, the difference between the fair value of consideration transferred and the carrying amount of the disposed share of net assets is recognized in the additional paid-in capital.

22. Fair value of financial instruments

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

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

22. Fair value of financial instruments (continued)

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

	Fair value measurement as of September 30, 2013 (unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Current assets				
Held-for-trading	**2**	**12**	**–**	**14**
Available-for-sale	**7**	**20**	**–**	**27**
Non-current assets				
Available-for-sale	**–**	**5**	**–**	**5**
Derivative financial instruments	**–**	**1**	**–**	**1**
Total assets measured at fair value	**9**	**38**	**–**	**47**
Current liabilities:				
Derivative financial instruments	**–**	**(4)**	**–**	**(4)**
Total liabilities measured at fair value	**–**	**(4)**	**–**	**(4)**

	Fair value measurement as of December 31, 2012 (restated)			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Current assets				
Held-for-trading	13	8	–	21
Available-for-sale	5	15	–	20
Derivative financial instruments	–	3	–	3
Non-current assets				
Available-for-sale	6	–	–	6
Derivative financial instruments	–	2	–	2
Total assets measured at fair value	24	28	–	52

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

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 parameters 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.

22. Fair value of financial instruments (continued)

The following table summarizes carrying amounts and fair values of other financial instruments:

	Carrying value		Fair value	
	As of September 30, 2013 (unaudited)	**As of December 31, 2012 (restated)**	**As of September 30, 2013 (unaudited)**	**As of December 31, 2012 (restated)**
Financial liabilities				
Financial liabilities at amortized cost:				
Accounts payable	**(323)**	(211)	**(323)**	(211)
Loans and borrowings with variable interest rate	**(1,741)**	(632)	**(1,792)**	(605)
Loans and borrowings with fixed interest rate	**(632)**	(348)	**(556)**	(338)
Financial liabilities at fair value, through profit or loss:				
Liabilities related to derivative instruments	**(4)**	–	**(4)**	–
Financial lease liabilities	**(13)**	(11)	**(13)**	(11)

23. Related party transactions

For the purposes of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the normal course of business the Company enters into transactions with the following related parties: joint ventures and associates; joint operations; enterprises directly or indirectly controlled by the Russian Government; key management personnel; pension funds.

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

Disclosure of related party transactions is presented on an aggregate basis for the companies directly or indirectly controlled by the Russian Government, associates and other companies. In addition, there may be an additional disclosure of certain significant transactions (balances and turnovers) with certain related parties.

In the course of its ordinary business, the Company enters into transactions with other companies controlled by the Russian Government. In the Russian Federation, electricity and transport tariffs are regulated by the Federal Tariff Service, an authorized governmental agency of the Russian Federation. Bank loans are recorded based on the market interest rates. Taxes are accrued and paid in accordance with the Russian tax law.

Transactions with companies directly or indirectly controlled by the Russian Government

Revenues and income

	Nine months ended September 30, 2013 (unaudited)	**Nine months ended September 30, 2012 (restated) (unaudited)**
Oil and gas sales	**76**	82
Petroleum products and petrochemicals sales	**35**	21
Support services and other revenues	**1**	–
Finance income	**1**	2
	113	105

23. Related party transactions (continued)

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

Costs and expenses

	Nine months ended September 30, 2013 (unaudited)	**Nine months ended September 30, 2012 (restated) (unaudited)**
Production and operating expenses	**11**	3
Cost of purchased oil, gas, petroleum products and refining costs	**1**	–
Pipeline tariffs and transportation costs	**170**	132
Finance expenses	**9**	–
Other expenses	**1**	6
	192	141

Other operations

	Nine months ended September 30, 2013 (unaudited)	**Nine months ended September 30, 2012 (restated) (unaudited)**
Purchase of financial assets and investments in associates	**(8)**	–
Loans received	**–**	129
Loans repaid	**(1)**	–
Repayment of loans and borrowings issued	**–**	1
Deposits placed	**(66)**	1
Deposits repaid	**20**	39
Purchase of shares	**–**	1

Settlement balances

	September 30, 2013 (unaudited)	**December 31, 2012 (restated)**
Assets		
Cash and cash equivalents	**89**	188
Accounts receivable	**16**	13
Prepayments and other current assets	**19**	15
Other financial assets	**85**	7
	209	223
Liabilities		
Accounts payable and accrued liabilities	**7**	15
Loans and borrowings	**100**	100
Other long-term liabilities	**3**	–
	110	115

23. Related party transactions (continued)

Transactions with joint ventures

Revenues and income

	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Oil and gas sales	**3**	–
Petroleum products and petrochemicals sales	**6**	–
Support services and other revenues	**6**	–
Finance income	**–**	1
	15	1

Costs and expenses

	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Production and operating expenses	**5**	–
Cost of purchased oil, gas, petroleum products and refining costs	**71**	68
Pipeline tariffs and transportation costs	**6**	5
Other expenses	**9**	1
	91	74

Other operations

	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Loans repaid	**–**	(2)
Loans and borrowings issued	**(1)**	–
Repayment of loans and borrowings issued	**–**	5

Settlement balances

	September 30, 2013 (unaudited)	December 31, 2012 (restated)
Assets		
Accounts receivable	**6**	–
Other financial assets	**13**	–
	19	–
Liabilities		
Accounts payable and accrued liabilities	**22**	7
Loans and borrowings	**1**	5
	23	12

23. Related party transactions (continued)

Transactions with associates

Revenues and income

	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Oil and gas sales	**4**	1
Petroleum products and petrochemicals sales	**–**	2
Support services and other revenues	**1**	3
Finance income	**1**	
	6	6

Costs and expenses

	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Production and operating expenses	**4**	1
Cost of purchased oil, gas, petroleum products and refining costs	**–**	12
Other expenses	**2**	9
	6	22

Other operations

	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Purchase of financial assets and investments in associates	**–**	(3)
Loans and borrowings issued	**1**	1

Settlement balances

	September 30, 2013 (unaudited)	December 31, 2012 (restated)
Assets		
Accounts receivable	**2**	6
Prepayments and other current assets	**3**	–
Other financial assets	**13**	12
	18	18
Liabilities		
Accounts payable and accrued liabilities	**2**	11
	2	11

23. Related party transactions (continued)

Transactions with non-state pension funds

Costs and expenses

	Nine months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2012 (restated) (unaudited)
Other expenses	**2**	2

24. Contingencies

Russian business environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Company's future financial position, results of operations and business prospects.

Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Guarantees and indemnities issued

In the second quarter of 2013, the Company provided unconditional unlimited guaranty in favor of the Government and municipal authorities of Norway assuming full coverage of 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 the Norway Legislation and is an imperative condition for licensing the operations of RN Nordic Oil AS on the Norwegian continental shelf jointly with Statoil.

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 Samaraneftegaz, 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 Samaraneftegaz in the amount of RUB 3.1 billion in loan principal and interest plus post award interest of 9% p.a. on the above amount of loan principal and interest concerning the two other loans. 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.

24. Contingencies (continued)

Legal claims (continued)

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 were 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 such decisions and arranged for relevant payments to be made with respect to the claim against the Company.

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

Following the payments arranged by the Company noted above, Yukos Capital continues to seek statutory interest in the High Court of Justice in London in the amount of approximately RUB 4.6 billion as of the date of its Particulars of Claim. On June 14, 2011, the High Court issued an interim decision on two preliminary issues it had agreed to consider prior to reaching a decision on the merits of the claim. Although Yukos Capital prevailed on both issues, the court granted the Company leave to appeal, which it did. On June 27, 2012 the Court of Appeal of England handed down its judgment whereby the Company prevailed on one of these preliminary issues. No further appeals were requested by any party. 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. The High Court of Justice scheduled the hearing of the further preliminary issues to be conducted on May 13-15, 2014. The Company intends to defend its position vigorously in the remaining proceedings in England.

In 2007, lawsuits were filed in Russian arbitrazh courts in Moscow, 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 invalid the loan agreements between Yukos Capital and OJSC Samaraneftegaz. On July 17, 2012, the 11th Arbitrazh Appellate Court dismissed Yukos Capital's appeal of that judgment. Yukos Capital filed a cassation appeal against both court decisions with the Federal Arbitrazh Court for Povolzhsky District, which on February 28, 2013 upheld the lower courts' judgments. On July 8, 2013, the Supreme Arbitrazh Court rejected Yukos Capital's supervisory appeal and upheld the lower courts' judgments.

On July 11, 2012, the Moscow Arbitrazh Court declared invalid the loan agreements between Yukos Capital and OJSC Yuganskneftegaz. On October 9, 2012, the 9th Arbitrazh Appellate Court dismissed Yukos Capital's appeal of that judgment. Yukos Capital filed a cassation appeal against these judgments with the Federal Arbitrazh Court of Moscow District, which on March 14, 2013 upheld the judgments of the lower courts. Yukos Capital has applied for supervisory appeal to the Supreme Arbitrazh Court which on July 31, 2013, dismissed Yukos Capital's appeal and upheld the judgments of the lower courts.

On July 19, 2012 the Arbitrazh Court of the Tomsk Region declared void the loan agreements between Yukos Capital and Tomskneft. Yukos Capital filed an appeal against this judgment noted above. On June 3, 2013 the 7th Arbitrazh Appellate Court dismissed Yukos Capital's appeal of that judgment.

24. Contingencies (continued)

Legal claims (continued)

On October, 8, 2013, the Federal Arbitrazh Court of the West-Siberian District rejected Yukos capital's cassation appeal and upheld the lower courts' judgments.

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 Samaraneftegaz 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 Samaraneftegaz filed a motion for summary judgment on the issue of personal jurisdiction in the U.S. S.D.N.Y. On July 24, 2012, the U.S. S.D.N.Y. granted summary judgment to Yukos Capital on the issue of personal jurisdiction over OJSC Samaraneftegaz in New York. Yukos Capital and OJSC Samaraneftegaz thereafter filed cross-motions for summary judgment concerning whether the U.S. S.D.N.Y. should enforce the award. On August 6, 2013, U.S. S.D.N.Y. denied OJSC Samaraneftegazes motion for summary judgment and granted summary judgment to Yukos Capital. In October 2013, U.S. S.D.N.Y. issued an award in behalf of Yukos Capital in the amount of US$ 186 million (RUB 6 billion at the CBR official exchange rate at September 30, 2013). OJSC Samaraneftegaz filed an appeal against this judgment. The hearings are not scheduled yet.

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.

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 in response is due on December 6, 2013.

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. Tomskneft has made a conditional appearance in Ireland to challenge the court's jurisdiction. On February 19, 2013, Yukos Capital received an ex parte order to allow the enforcement of the February 2007 ICC award in Singapore. On March 26, 2013, Tomskneft filed the written lawsuit in the Court. On July 3, 2013, the Court examined the arguments of Tomskneft, that questions on challenging jurisdiction must be considered before all other issues. The judge decided to consider all questions simultaneously. The hearings in Singapore are not scheduled yet.

Yukos International (UK) B.V. has initiated proceedings in the Amsterdam District Court claiming damages of up to US$ 333 million (RUB 10.8 billion at the CBR official exchange rate at September 30, 2013), 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.

24. Contingencies (continued)

Legal claims (continued)

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.

Yukos International (UK) B.V. filed its Statement of Reply on February 20, 2013. Rosneft filed its Statement of Rejoinder on May 15, 2013. A hearing on the merits is scheduled for January 9, 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 receivable and guarantees of indemnity in the amount of RUB 1.3 billion, which was reserved in full.

During 2009-2012, the Federal Antimonopoly Service ("FAS Russia") and its regional bodies claimed that the Company and some of its subsidiaries (associates) violated certain antimonopoly regulations in relation to petroleum products trading and passed respective decisions on administrative liability. As of September 30, 2013, the total amount of administrative fines levied by FAS Russia and its regional bodies against Rosneft and its subsidiaries amounts to RUB 0.1 billion.

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 USD 1.5 billion 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 Norexes 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 is expected in the first quarter of 2014, the judgment is expected to be delivered in the second quarter of 2014.

During 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 25 October 2013 Moscow Arbitrary Court dismissed these claims.

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

Except for the cases described above, 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 such litigations will not materially affect the financial position and results of operations of the Company.

Taxation

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

The current regime of penalties and interest related to discovered violations of Russia’s laws, decrees and related regulations is severe.

24. Contingencies (continued)

Taxation (continued)

Interest and penalties are levied when an understatement of a tax liability is discovered. As a result, the amounts of penalties and interest can be significant in relation to the amounts of unreported taxes.

In Russia tax returns remain open and subject to inspection for a period of up to three years. The fact that a year has been reviewed does not close that year, or any tax return applicable to that year, from further review during the three-year period.
Effective January 1, 2012, the market price defining rules were changed and the list of entities that could be recognized as interdependent entities and list of managed deals were expanded. Due to the absence of law enforcement precedents based on the new rules and certain contradictions in the provisions of the new law, such rules cannot be considered clear and precise. To eliminate influence of the significant risks associated with transfer pricing to the consolidated financial statements, the Company developed methods of pricing for all types of controlled transactions, a standard on preparation of reporting documentation, also the Company systematically researches databases to determine the market price level (ROI) of the controlled transactions.

In November 2012, the Company and Federal Tax Service signed the Pricing Agreement for the purpose of taxation of oil sales transactions at the Russian market. Six Company subsidiaries also acted as the Parties to the Agreement. The document establishes the principles and methods of pricing in the aforementioned transactions. The Agreement was signed as part of the new order of fiscal control over the pricing of related party transactions to match the market parameters.

In July 2013 the Company and Federal Tax Service signed another Pricing agreement in respect of taxation of oil sales transactions at the Russian market executed by the acquired TNK-BP companies starting from 2012.

According to additions to part one of the Tax code of the Russian Federation, brought by the Federal law of the Russian Federation from November 16, 2011 No. 321-FZ, the Company created the Consolidated group of taxpayers which included 22 of subsidiaries of the Company, including Rosneft. Rosneft became a responsible taxpayer of the group. From January 1, 2013 under the terms of the agreement, the number of members of the consolidated group of taxpayers is increased to 44. The Company management believes that creation of the consolidated group of taxpayers does not lead to significant changes of tax burden of the Company for the purpose of these consolidated financial statements.

During the reporting period, the tax authorities continued examinations of Rosneft and its certain subsidiaries for 2009-2012 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 financial position and results of operations of the Company.

As of September 30, 2013, potential amount of VAT receivable that is potentially unrecoverable from the tax authorities is immaterial. The Company currently reimburses the current VAT in full in a declarative manner.

Management believes that the above tax risks will not have any significant impact on the Company's consolidated balance sheet or results of operations.

Overall, management believes that the Company has paid or accrued all taxes that are applicable. For taxes other than income tax, where uncertainty exists, the Company has accrued tax liabilities based on management’s best estimate of the probable outflow of resources, which will be required to settle these liabilities.

Potential liabilities which were identified by management at the reporting date as those that can be subject to different interpretations of tax laws and regulations are not accrued in the consolidated financial statements.

24. Contingencies (continued)

Capital commitments

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

The total amount contracted but not yet performed deliveries related to the construction and acquisition of property, plant and equipment amounted to RUB 365 billion and RUB 340 billion as of September 30, 2013 and December 31, 2012, 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, which might arise as a result of changes in existing regulations or regulation of civil litigation or changes in environmental standards cannot be reliably estimated but may be material. With the existing system of control, management believes that there are no material liabilities for environmental damage, other than those recorded in these interim condensed consolidated financial statements.

Long-term contracts

On May 23, 2013 the Company entered into an agreement to create a joint venture to develop heavy oil reserves in Venezuela in the framework of the Carabobo-2 project with the Venezuelan Corporacion Venezolana del Petroleo, a subsidiary of PDVSA.

According to the agreement, the Company will pay a bonus of $1.1 billion (RUB 34 billion at the CBR official exchange rate as of the date of transaction) for entering the project in two tranches (40% and 60%) and provide a loan of $1.5 billion (RUB 47 billion at the CBR official exchange rate as of the date of transaction) to Corporacion Venezolana del Petroleo with the maximum yearly draw down of $0.3 billion (RUB 9 billion at the CBR official exchange rate as of the date of transaction).

In June 2013 the Company entered into a crude oil supply agreement with PKN ORLEN S.A. to Czech Republic via Druzhba pipeline. The agreement provides a total amount of not more than 8.3 million tons of crude oil to be supplied at market prices during the period through June 30, 2016. In the third quarter of 2013 the Company started deliveries under the contract.

In June 2013 the Company and CNPC entered into long-term agreements for crude oil supplies to China for a period of 25 years. Price of each delivery will be determined by a formula based on the quoted market prices during the delivery period. Crude oil supplies under these agreements started in July 2013.

In September 2013 the Company and OJSC Fortum entered into a cooperation agreement on gas supplies. Under the document signed, by December 10, 2013 the parties will agree terms of the gas supply contract, which envisages that the Company will deliver 8.3 billion cubic meters of gas through 2019 to Tyumen cogeneration plants and to the Tobolsk cogeneration facility.

In September 2013 the Company and OJSC Enel OGK-5 signed an agreement on the long-term gas supplies to Enel OGK-5. As part of the agreement the Company will deliver gas during the period from 2014 to 2025 to Konakovskaya, Sredneuralskaya and Nevinnomysskaya Power Stations of OGK-5. The agreement provides a total amount of approximately 51.4 billion cubic meters of gas.

25. Long-term prepayments on crude oil supply agreements

In March 2013 the Company entered into long-term crude oil supply agreements with Glencore and Vitol, the world's leading crude oil traders. The agreements provide for a series of crude oil supply transactions at market prices. During nine months of 2013 the Company has received prepayments under the crude oil supply agreements of RUB 258 billion. The crude oil deliveries started in April 2013. The prepayments shall be settled through crude oil deliveries starting 2015.

In June 2013 the Company entered into an agreement with Trafigura, an oil trader, for the crude oil and oil products supply for the period of 5 years. Under this agreement, the Company plans to export oil and oil products in the amount of up to 10.11 million tons via Russian sea ports on a prepayment basis. During nine months of 2013 the Company has received prepayments under the crude oil supply agreements of RUB 49 billion. The deliveries under the agreement with Trafigura will commence in the fourth quarter 2013.

26. Events after the reporting period

On October 2, 2013 the Company signed heads of agreement on the acquisition of a 51% interest in LLC Petroresurs. LLC Petroresurs holds exploration license for Lagansky offshore license block in the North-Eastern part of the Caspian Sea.

In October 2013 the Company completed a number of transaction to acquire 65% ownership interest in LLC Taas-Yuriakh Neftegazodobycha for the total consideration of USD 2,053 million (RUB 66 billion at the CBR official exchange rate as of the date of transaction), increasing its share to 100%. The Company also acquired the majority of the entity's debt at the carrying value at the date of transaction. As a result, the Company obtained control over LLC Taas-Yuriakh Neftegazodobycha. The entity will be consolidated by the Company under IFRS 3, *Business Combinations*. The Company has not yet completed the purchase price allocation of this acquisition.

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