



Rosneft Oil Company

Interim Condensed Consolidated Financial Statements
(Unaudited)

Three months ended March 31, 2014

Rosneft Oil Company
Interim Condensed Consolidated Financial Statements (unaudited)
March 31, 2014

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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 March 31, 2014, the related interim consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the three-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.



April 29, 2014

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

	Notes	March 31, 2014 (unaudited)	December 31, 2013
ASSETS			
Current assets:			
Cash and cash equivalents	12	220	275
Restricted cash		1	1
Other short-term financial assets	13	497	232
Accounts receivable	14	523	415
Inventories	15	222	202
Prepayments and other current assets	16	323	330
Total current assets		1,786	1,455
Non-current assets:			
Property, plant and equipment	17	5,351	5,330
Intangible assets		36	37
Other long-term financial assets		39	40
Investments in associates and joint ventures	18	327	327
Bank loans granted		11	12
Deferred tax assets		14	14
Goodwill	5	171	164
Other non-current non-financial assets		11	12
Total non-current assets		5,960	5,936
Assets held for sale	6	147	147
Total assets		7,893	7,538
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	19	348	488
Loans and borrowings	20	864	684
Finance lease liabilities		4	4
Liabilities related to derivative instruments		26	6
Income tax liabilities		19	11
Other tax liabilities	21	178	161
Provisions	22	32	22
Prepayment on long-term oil supply agreements	23	13	-
Other current liabilities		5	11
Total current liabilities		1,489	1,387
Non-current liabilities:			
Loans and borrowings	20	1,439	1,676
Finance lease liabilities		7	8
Deferred tax liabilities		654	660
Provisions	22	117	116
Prepayment on long-term oil supply agreements	23	888	470
Other non-current liabilities		30	28
Total non-current liabilities		3,135	2,958
Liabilities associated with assets held for sale	6	28	28
Equity:			
Share capital	24	1	1
Additional paid-in capital	24	477	477
Other funds and reserves		(26)	(14)
Retained earnings		2,748	2,662
Rosneft shareholders' equity		3,200	3,126
Non-controlling interest		41	39
Total equity		3,241	3,165
Total liabilities and equity		7,893	7,538

President  I.I. Sechin

April 29, 2014

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

Rosneft Oil Company

Interim consolidated statement of comprehensive income

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

		Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited restated)
Revenues and equity share in profits of associates and joint ventures			
Oil and gas sales	7	729	414
Petroleum products and petrochemicals sales	7	632	381
Support services and other revenues		16	10
Equity share in (losses)/profits of associates and joint ventures		(2)	7
Total revenues and equity share in profits of associates and joint ventures		1,375	812
Costs and expenses			
Production and operating expenses		98	60
Cost of purchased oil, gas, petroleum products and refining costs		124	89
General and administrative expenses		27	17
Pipeline tariffs and transportation costs		117	70
Exploration expenses		4	3
Depreciation, depletion and amortization		105	56
Taxes other than income tax	8	301	188
Export customs duty	9	415	243
Total costs and expenses		1,191	726
Operating income		184	86
Finance income		6	3
Finance expenses	10	(41)	(7)
Other income	11	58	205
Other expenses	11	(13)	(15)
Foreign exchange differences		(84)	(11)
Income before income tax		110	261
Income tax expense	8	(22)	(13)
Net income		88	248
Other comprehensive (loss)/income– to be reclassified to (loss)/profit in subsequent periods			
Foreign exchange differences on translation of foreign operations		(11)	–
(Loss)/gain from changes in fair value of financial assets available-for-sale, net of tax		(1)	3
Total other comprehensive (loss)/income– to be reclassified to (loss)/profit in subsequent periods, net of tax		(12)	3
Total comprehensive income, net of tax		76	251
Net income			
attributable to Rosneft shareholders		86	246
attributable to non-controlling interests		2	2
Total comprehensive income, net of tax			
attributable to Rosneft shareholders		74	249
attributable to non-controlling interests		2	2
Net income attributable to Rosneft per common share (in RUB) – basic and diluted		8.11	26.20
Weighted average number of shares outstanding (millions)		10,598	9,389

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

Rosneft Oil Company

Interim consolidated statement of changes in shareholders' equity

(in billions of Russian rubles, except share amounts)

	Number of shares (millions)	Share capital	Additional paid-in capital	Treasury shares	Other funds and reserves	Retained earnings	Rosneft share- holders' equity	Non- controlling interests	Total equity
Balance at January 1, 2013	9,238	1	385	(299)	(6)	2,202	2,283	39	2,322
Net income	–	–	–	–	–	246	246	2	248
Other comprehensive income	–	–	–	–	3	–	3	–	3
Total comprehensive income	–	–	–	–	3	246	249	2	251
Sale of treasury shares	1,360	–	28	299	–	–	327	–	327
Acquisition of subsidiaries (Note 5)	–	–	–	–	–	–	–	112	112
Other changes	–	–	–	–	–	–	–	(2)	(2)
Balance at March 31, 2013 (unaudited restated)	10,598	1	413	–	(3)	2,448	2,859	151	3,010
Balance at January 1, 2014	10,598	1	477	–	(14)	2,662	3,126	39	3,165
Net income	–	–	–	–	–	86	86	2	88
Other comprehensive income	–	–	–	–	(12)	–	(12)	–	(12)
Total comprehensive income	–	–	–	–	(12)	86	74	2	76
Balance at March 31, 2014 (unaudited)	10,598	1	477	–	(26)	2,748	3,200	41	3,241

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

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

	Notes	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited restated)
Operating activities			
Net income		88	248
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation, depletion and amortization		105	56
Loss on sale and disposal of non-current assets	11	4	1
Asset impairment loss	11	1	3
Non-cash income from acquisition of subsidiaries, net	5	–	(205)
Dry hole costs		2	–
Foreign exchange loss		117	10
Equity share in losses/(profits) of associates and joint ventures		2	(7)
Gain on disposal of investments in associates and joint ventures (Note 18)		(56)	–
Loss from disposal of companies and non-production assets	11	1	1
Finance expenses	10	41	7
Finance income		(6)	(3)
Interest paid on long-term prepayment on oil supply agreements		(6)	–
Income tax expense	8	22	13
<i>Changes in operating assets and liabilities:</i>			
Increase in accounts receivable, gross		(68)	(2)
(Increase)/decrease in inventories		(18)	7
Decrease in restricted cash		–	1
Decrease in prepayments and other current assets		13	–
Decrease in accounts payable and accrued liabilities		(11)	(6)
Increase in other tax liabilities		17	19
Decrease in current provisions		–	(1)
Decrease in other current liabilities		(3)	(2)
Increase in other non-current liabilities		1	6
Increase in long-term prepayment on oil supply agreements		431	232
Long-term loans granted by subsidiary banks		(2)	(11)
Repayment of long-term loans granted by subsidiary banks		3	12
Acquisition of trading securities		(5)	(6)
Proceeds from sale of trading securities		6	10
Net cash provided by operating activities before income tax and interest		679	383
Income tax payments		(23)	(22)
Interest received		2	1
Net cash provided by operating activities		658	362

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

Rosneft Oil Company

Interim consolidated statement of cash flows (continued)

(in billions of Russian rubles)

	Notes	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2014 (unaudited restated)
Investing activities			
Capital expenditures		(104)	(95)
Acquisition of licenses		(2)	(5)
Acquisition of short-term financial assets		(335)	(22)
Proceeds from sale of short-term financial assets		73	16
Acquisition of long-term financial assets		–	(1)
Proceeds from sale of investments in associates and joint ventures	18	21	–
Acquisition of interest in associates and joint ventures		–	(6)
Acquisition of a subsidiaries, net of cash acquired	5	–	(1,195)
Sale of property, plant and equipment		1	–
Placements under reverse REPO agreements		(3)	(6)
Receipts under reverse REPO agreements		4	3
Net cash used in investing activities		(345)	(1,311)
Financing activities			
Proceeds from short-term loans and borrowings		12	–
Repayment of short-term loans and borrowings		(76)	(3)
Proceeds from long-term loans and borrowings		28	998
Repayment of long-term loans and borrowings		(224)	(18)
Interest paid		(23)	(9)
Proceeds from bonds issuance		35	–
Repayment of other financial liabilities		(7)	(6)
Repayment of Company's liability for non-controlling shareholders in subsidiary	24	(149)	–
Net cash (used in) / provided by financing activities		(404)	962
Net (decrease)/increase in cash and cash equivalents		(91)	13
Cash and cash equivalents at beginning of period	12	275	299
Effect of foreign exchange on cash and cash equivalents		36	6
Cash and cash equivalents at end of period	12	220	318

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

Rosneft Oil Company

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

March 31, 2014

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

1. General

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

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for 2013 prepared in accordance with International Financial Reporting Standards ("IFRS").

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Company omitted disclosures which would substantially duplicate the information contained in its 2013 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequently to the issuance of its 2013 audited consolidated financial statements. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's 2013 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present fairly the Company's financial position, results of operations, statements of changes in shareholders' equity and cash flows for the interim reporting periods.

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

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

The interim condensed consolidated financial statements for the three months ended March 31, 2014 were approved and authorized for issue by the President of the Company on April 29, 2014.

Rosneft Oil Company

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

3. Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied and disclosed in the Company's annual consolidated financial statements for 2013 prepared in accordance with IFRS, except for the adoption of new standards and interpretations effective as of January 1, 2014.

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

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

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

4. Significant accounting estimates

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

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

5. Acquisition of subsidiaries

Finalization of allocation of the purchase price of TNK-BP

At the date of the issuance of the interim condensed consolidated financial statements for the three months ended March 31, 2013 the Company made a preliminary allocation of the purchase price of TNK-BP to the fair value of assets acquired and liabilities assumed. Also a preliminary estimation of the fair value of investment in OJSC Verkhnechonskneftegaz was made.

In the third quarter of 2013 the estimation of the fair value of assets acquired and liabilities assumed and investment in OJSC Verkhnechonskneftegaz was finalized. Consequently, the comparative information for the three months ended March 31, 2013 disclosed in these interim condensed consolidated financial statements was adjusted to reflect the final estimate of the fair value of assets acquired and liabilities assumed and investment in OJSC Verkhnechonskneftegaz.

Rosneft Oil Company

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

5. Acquisition of subsidiaries (continued)

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

The effect from finalized estimation on the interim consolidated statement of comprehensive income for the three months ended March 31, 2013:

	Before finalized estimation	Effect from finalized estimation	Gain on bargain purchase	After finalized estimation
Revenues and equity share in profits of associates and joint ventures	812	–	–	812
Costs and expenses				
Production and operating expenses	60	–	–	60
Cost of purchased oil, gas, petroleum products and refining costs	75	14	–	89
General and administrative expenses	17	–	–	17
Pipeline tariffs and transportation costs	70	–	–	70
Exploration expenses	3	–	–	3
Depreciation, depletion and amortization	56	–	–	56
Taxes other than income tax	188	–	–	188
Export customs duty	243	–	–	243
Total costs and expenses	712	14	–	726
Operating income	100	(14)	–	86
Finance income	3	–	–	3
Finance expenses	(7)	–	–	(7)
Other income	48	(10)	167	205
Other expenses	(15)	–	–	(15)
Foreign exchange differences	(11)	–	–	(11)
Income before income tax	118	(24)	167	261
Income tax expense	(16)	3	–	(13)
Net income	102	(21)	167	248
Other comprehensive income – to be reclassified to profit in subsequent periods				
Gain from changes in fair value of financial assets available-for-sale, net of tax	3	–	–	3
Total other comprehensive income – to be reclassified to profit in subsequent periods, net of tax	3	–	–	3
Total comprehensive income, net of tax	105	(21)	167	251
Net income				
attributable to Rosneft shareholders	101	(22)	167	246
attributable to non-controlling interests	1	1	–	2
Total comprehensive income, net of tax				
attributable to Rosneft shareholders	104	(22)	167	249
attributable to non-controlling interests	1	1	–	2
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	10.76	(2.34)	17.78	26.20

Rosneft Oil Company

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

5. Acquisition of subsidiaries (continued)

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

The effect from finalized estimation on the interim consolidated statement of cash flows for the three months ended March 31, 2013:

	Before finalized estimation	Effect from finalized estimation and gain on bargain purchase	After finalized estimation
Operating activities			
Net income	102	146	248
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation, depletion and amortization	56	–	56
Loss on sale and disposal of non-current assets	1	–	1
Asset impairment loss	3	–	3
Non-cash income from acquisition of subsidiaries, net	(48)	(157)	(205)
Foreign exchange loss	10	–	10
Equity share in profits of associates and joint ventures	(7)	–	(7)
Loss from disposal of companies and non-production assets	1	–	1
Finance expenses	7	–	7
Finance income	(3)	–	(3)
Income tax expense	16	(3)	13
<i>Changes in operating assets and liabilities:</i>			
Increase in accounts receivable, gross	(2)	–	(2)
Decrease in inventories	(7)	14	7
Decrease in restricted cash	1	–	1
Decrease in accounts payable and accrued liabilities	(6)	–	(6)
Increase in other tax liabilities	19	–	19
Decrease in current provisions	(1)	–	(1)
Decrease in other current liabilities	(2)	–	(2)
Increase in other non-current liabilities	6	–	6
Increase in long-term prepayment on oil supply agreements	232	–	232
Long-term loans granted by subsidiary banks	(11)	–	(11)
Repayment of long-term loans granted by subsidiary banks	12	–	12
Acquisition of trading securities	(6)	–	(6)
Proceeds from sale of trading securities	10	–	10
Net cash provided by operating activities before income tax and interest	383	–	383

Acquisition of LLC Orenburg Drilling Company

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

Rosneft Oil Company

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

5. Acquisition of subsidiaries (continued)

Acquisition of LLC Orenburg Drilling Company (continued)

As of March 31, 2014, LLC Orenburg Drilling Company 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 Orenburg Drilling Company acquired is recorded as goodwill. Allocation of the purchase price to fair value of the assets acquired and liabilities assumed will be finalized within 12 months from the acquisition date.

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

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

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

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

During 2013 the Company completed several acquisitions, including LLC Basic jet fuel operator, LLC General Avia, LLC Oil and Gas Company ITERA, LLC TNK-Sheremetyevo, LLC Taas-Yuriakh Neftegazodobycha and OJSC Sibneftegas. As of March 31, 2014 the purchase price allocation of the acquisitions made during 2013 to the fair value of assets acquired and liabilities assumed was preliminary and will be finalized within 12 months from the date of the respective acquisition.

Rosneft Oil Company

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

6. Assets held for sale

The Company plans to sell a share in LLC Taas-Yuriakh Neftegazodobycha before December 31, 2014. As of March 31, 2014 and December 31, 2013 the assets and liabilities of LLC Taas-Yuriakh Neftegazodobycha were classified as assets and liabilities held for sale as follows:

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets:		
Advances issued and other current assets	3	3
Total current assets	3	3
Non-current assets:		
Property, plant and equipment	39	39
Mineral licenses	105	105
Total non-current assets	144	144
Total assets held for sale	147	147
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	3	3
Total current liabilities	3	3
Non-current liabilities:		
Loans and borrowings	3	3
Deferred tax liabilities	22	22
Total non-current liabilities	25	25
Total liabilities associated with assets held for sale	28	28

7. Segment information

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

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

Rosneft Oil Company

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

7. Segment information (continued)

Below is performance of the operating segments for the three months ended March 31, 2014 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	–	1,361	16	–	1,377
Intersegment revenues	568	–	–	(568)	–
Equity share in profits of associates and joint ventures	(2)	–	–	–	(2)
Total revenues and equity share in profits of associates and joint ventures	566	1,361	16	(568)	1,375
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	334	1,295	25	(568)	1,086
Depreciation, depletion and amortization	86	17	2	–	105
Total costs and expenses	420	1,312	27	(568)	1,191
Operating income	146	49	(11)	–	184
Finance income					6
Finance expenses					(41)
Total finance expenses					(35)
Other income					58
Other expenses					(13)
Foreign exchange differences					(84)
Income before income tax					110
Income tax					(22)
Net income					88

Rosneft Oil Company

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

7. Segment information (continued)

Below is performance of the operating segments for the three months ended March 31, 2013 (unaudited restated):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	–	795	10	–	805
Intersegment revenues	320	–	–	(320)	–
Equity share in profits of associates and joint ventures	7	–	–	–	7
Total revenues and equity share in profits of associates and joint ventures	327	795	10	(320)	812
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	190	780	20	(320)	670
Depreciation, depletion and amortization	45	9	2	–	56
Total costs and expenses	235	789	22	(320)	726
Operating income	92	6	(12)	–	86
Finance income					3
Finance expenses					(7)
Total finance expenses					(4)
Other income					205
Other expenses					(15)
Foreign exchange differences					(11)
Income before income tax					261
Income tax					(13)
Net income					248

Rosneft Oil Company

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

7. 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 March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
Oil and gas sales		
Export of crude oil – Europe	412	277
Export of crude oil – Asia	216	100
Export of crude oil – CIS, other than Russia	27	23
Domestic sales of crude oil	33	6
Domestic sales of gas	41	8
Total oil and gas sales	729	414
Petroleum products and petrochemicals sales		
Export of petroleum products – Europe	290	160
Export of petroleum products – Asia	87	66
Export of petroleum products – CIS, other than Russia	25	4
Domestic sales of petroleum products	200	126
Domestic sales of petrochemical products	4	3
Export of petrochemical products – Europe	26	22
Total petroleum products and petrochemicals sales	632	381

8. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited restated)
Current income tax expense	29	12
Deferred tax (benefit) / expense due to the origination and reversal of temporary differences	(7)	1
Total income tax expense	22	13

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

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
Mineral extraction tax	246	152
Excise tax	35	24
Property tax	7	4
Social charges	11	8
Other	2	–
Total taxes other than income tax	301	188

Rosneft Oil Company

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

9. Export customs duty

Export customs duty comprises the following:

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
Export customs duty on oil sales	302	186
Export customs duty on petroleum products and petrochemicals sales	113	57
Total export customs duty	415	243

10. Finance expenses

Finance expenses comprise the following:

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
Interest expense on:		
Loans and borrowings	(14)	(5)
For the use of funds	(6)	–
Total interest expenses	(20)	(5)
Net loss from operations with derivative financial instruments	(19)	(1)
Increase in provision due to the unwinding of discount	(2)	(1)
Total finance expenses	(41)	(7)

11. Other income and expenses

Other income and expenses comprise the following:

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited restated)
Gain from the sale of LLC "Yugragazpererabotka" (Note 18)	56	–
Non-cash income on acquisition of subsidiaries, net	–	205
Other	2	–
Total other income	58	205
Sale and disposal of property, plant and equipment and intangible assets	4	1
Disposal of companies and non-production assets	1	1
Impairment of assets	1	3
Social payments, charity, sponsorship, financial aid	2	1
Fines and penalties	1	–
Other	4	9
Total other expenses	13	15

Rosneft Oil Company

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

12. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	March 31, 2014 (unaudited)	December 31, 2013
Cash on hand and in bank accounts in RUB	45	58
Cash on hand and in bank accounts in foreign currencies	115	172
Deposits	57	43
Others	3	2
Total cash and cash equivalents	220	275

13. Other short-term financial assets

Short-term financial assets comprise the following:

	March 31, 2014 (unaudited)	December 31, 2013
Financial assets available for sale:		
Bonds	18	21
Stocks and shares	42	22
Loans and receivables:		
Loans granted	3	17
Loans issued to associates	4	4
Notes receivable, net of allowance	21	21
Loans granted under reverse repurchase agreements	–	1
Deposits and deposit certificates	394	131
Held-for-trading financial assets at fair value through profit or loss:		
Corporate bonds	9	11
State bonds	6	4
Total short-term financial assets	497	232

Bank deposits amount to RUB 394 billion and RUB 131 billion as of March 31, 2014 and December 31, 2013, respectively. As of March 31, 2014, bank deposits denominated in US\$ amount to RUB 341 billion and earn interest rates ranging from 0.45% to 3.0% p.a. Bank deposits denominated in RUB amount to RUB 53 billion and earn interest rates ranging from 7.0% to 10.0% p.a.

14. Accounts receivable

Accounts receivable, net of allowance, include the following:

	March 31, 2014 (unaudited)	December 31, 2013
Trade receivables	447	378
Banking loans to customers	19	16
Other accounts receivable	66	30
Total	532	424
Valuation allowance for doubtful accounts	(9)	(9)
Total accounts receivable, net of allowance	523	415

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

Rosneft Oil Company

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

15. Inventories

Inventories comprise the following:

	March 31, 2014 (unaudited)	December 31, 2013
Crude oil and associated gas	70	69
Petroleum products and petrochemicals	109	96
Materials and supplies	43	37
Total inventories	222	202

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

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
The cost of inventories recognized as an expense during the period	145	98

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

16. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	March 31, 2014 (unaudited)	December 31, 2013
Value added tax and excise tax recoverable	188	183
Prepayments to suppliers	34	36
Prepaid customs duties	66	80
Other taxes	26	25
Other	9	6
Total prepayments and other current assets	323	330

Rosneft Oil Company

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

17. Property, plant and equipment

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
Cost				
As of January 1, 2014	5,122	1,200	132	6,454
Acquisition of subsidiaries (Note 5)	–	–	3	3
Additions	74	44	2	120
Disposals	(8)	(5)	–	(13)
Exchange differences	15	5	1	21
Cost of asset retirement obligations	(1)	–	–	(1)
As of March 31, 2014	5,202	1,244	138	6,584
Depreciation, depletion and impairment losses				
As of January 1, 2014	(941)	(196)	(49)	(1,186)
Depreciation and depletion charge	(85)	(17)	(3)	(105)
Disposals	5	4	–	9
Exchange differences	(11)	(1)	–	(12)
As of March 31, 2014	(1,032)	(210)	(52)	(1,294)
Net book value				
As of January 1, 2014	4,181	1,004	83	5,268
As of March 31, 2014	4,170	1,034	86	5,290
Prepayments for property, plant and equipment				
As of January 1, 2014	4	49	9	62
As of March 31, 2014	6	43	12	61
Total as of January 1, 2014	4,185	1,053	92	5,330
Total as of March 31, 2014 (unaudited)	4,176	1,077	98	5,351

Depreciation charge for the period includes RUB 1 billion of depreciation which was capitalized as part of the construction cost of property, plant and equipment and cost of inventory.

The Company capitalized RUB 8 billion and RUB 7 billion of interest expenses on loans and borrowings for the three months ended March 31, 2014 and 2013, respectively.

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization is 0.93% and 1.02% quarterly for the three months ended March 31, 2014 and 2013, respectively.

18. Investments in associates and joint ventures

In February 2014, the Company and OJSC Sibur-Holding entered into an agreement to sell 49% of LLC Yugragazpererabotka, owned through OJSC RN Holding ("RN Holding"), a subsidiary of the Company. The transaction was completed in March 2014. Proceeds from disposal of LLC Yugragazpererabotka share amounted to RUB 56 billion at the CBR official exchange rate as of the date of the disposal. During the first quarter of 2014, the Company received a cash payment of RUB 21 billion. Gain on disposal of investments in LLC Yugragazpererabotka amounting to RUB 56 billion is included in the Other income in the Consolidated statement of comprehensive income for the three months ended March 31, 2014.

Rosneft Oil Company

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

19. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	March 31, 2014 (unaudited)	December 31, 2013
Accounts payable to suppliers and contractors	196	187
Voluntary offer to acquire OJSC RN Holding securities (Note 24)	4	153
Salary and other benefits payable	50	45
Banking customer accounts	35	36
Other accounts payable	35	22
Short-term advances received	28	45
Total accounts payable and accrued liabilities	348	488

Current accounts payable for three month ended March 31, 2014 were settled within 29 days on average (three month ended March 31, 2013: 44 days). Interest rates on banking customer accounts amount to 0.1%-3.0% p.a. Trade and other payables are non-interest bearing.

20. Loans and borrowings

Loans and borrowings comprise the following:

	Currency	March 31, 2014 (unaudited)	December 31, 2013
<i>Long-term</i>			
Bank loans	RUB	127	115
Bank loans	US\$, Euro	1,658	1,711
Bonds	RUB	168	131
Eurobonds	US\$	263	247
Customer deposits	RUB	10	12
Customer deposits	US\$, Euro	5	5
Borrowings	RUB	1	–
Borrowings	Euro	4	–
<i>Less: current portion of long-term loans and borrowings</i>		(797)	(545)
Long-term loans and borrowings		1,439	1,676
<i>Short-term</i>			
Bank loans	RUB	2	2
Bank loans	US\$	27	88
Customer deposits	RUB	8	11
Customer deposits	US\$, Euro	2	2
Borrowings	RUB	1	–
Borrowings	Euro	–	3
Borrowings – Yukos related (Note 27)	RUB	–	11
Promissory notes payable – Yukos related	RUB	20	20
Promissory notes payable	RUB	–	1
Obligations under a repurchase agreement	RUB	7	1
<i>Current portion of long-term loans</i>		797	545
Short-term loans and borrowings and current portion of long-term loans		864	684
Total loans and borrowings		2,303	2,360

Rosneft Oil Company

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

20. Loans and borrowings (continued)

Generally, long-term bank loans are denominated in US\$ and partially secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of 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. Accounts receivable outstanding balance arising out of such contracts amounts to RUB 23 billion and RUB 24 billion as of March 31, 2014 and December 31, 2013, respectively, and is included in trade receivables.

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

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

In February 2014, the Company placed two issues of documentary interest-bearing non-convertible bearer bonds with a total nominal value of RUB 35 billion and the term of 10 years. Coupon payments are made on semi-annual basis of fixed rate of 8.9% p.a. for the first ten coupon periods.

All the above mentioned bonds provide for early repurchase in five years at the request of a bond holder as set in the respective offering documents. In addition, the issuer, at any time and at its discretion, may early purchase/repay the bonds with a possibility of subsequent bonds circulation. Such purchase/repayment of the bonds does not constitute an early redemption.

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

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

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

21. Other current tax liabilities

Other current tax liabilities comprise the following:

	March 31, 2014 (unaudited)	December 31, 2013
Mineral extraction tax	91	81
Value added tax	57	50
Excise tax	10	14
Personal income tax	2	1
Property tax	7	6
Other	11	9
Total other tax liabilities	178	161

Rosneft Oil Company

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

22. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2014, including	94	33	11	138
<i>Non-current</i>	91	24	1	116
<i>Current</i>	3	9	10	22
Provisions charged during the year (Note 27)	–	–	14	14
Increase/(decrease) in provisions resulting from:				
<i>Changes in estimates</i>	(1)	(3)	–	(4)
<i>Change in the discount rate</i>	–	–	–	–
<i>Unwinding of discount</i>	1	1	–	2
<i>Utilization</i>	–	–	(1)	(1)
As of March 31, 2014 (unaudited), including	94	31	24	149
<i>Non-current</i>	92	23	2	117
<i>Current</i>	2	8	22	32

23. Prepayment on long-term oil supply agreements

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

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

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
As of January 1	470	–
Received	431	232
Less current portion	(13)	–
Reimbursed	–	–
As of December 31	888	232

Rosneft Oil Company

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

24. Shareholders' equity

On November 6, 2013, Rosneft announced a voluntary offer to acquire its securities held by minority shareholders. The voluntary offer was announced in respect of 1,918,701,184 ordinary and 450,000,000 preferred shares of RN Holding. The offer price was set at RUB 67 (US\$ 2.07 at the CBR official exchange rate as of the date of acquisition) per one ordinary share and RUB 55 (US\$ 1.70 at the CBR official exchange rate as of the date of acquisition) per one preferred share of RN Holding. The voluntary offer term of 75 days expired on January 20, 2014. As a result of the voluntary offer, a total of 2,298,025,633 shares, including 1,873,812,294 ordinary shares and 424,213,339 preferred were purchased from RN Holding non-controlling shareholders amounting to 14.88% of RN Holding share capital. During the first quarter of 2014, Rosneft settled its liabilities to RN Holding shareholders in full and paid RUB 149 billion in cash for the purchase of these shares. As a result of the voluntary offer, the Company became an owner of more than 95% of RN Holding shares and is planning to execute its statutory right to purchase the rest of RN Holding shares during the second quarter of 2014.

25. 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.

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

	Fair value measurement as of March 31, 2014 (unaudited)			
	Level 1	Level 2	Level 3	Total
Assets:				
Current assets				
Held-for-trading	6	9	–	15
Available-for-sale	8	52	–	60
Non-current assets				
Available-for-sale	–	4	–	4
Total assets measured at fair value	14	65	–	79

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

Rosneft Oil Company

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

25. Fair value of financial instruments (continued)

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

	Carrying value		Fair value (level 2)	
	As of March 31, 2014 (unaudited)	As of December 31, 2013	As of March 31, 2014 (unaudited)	As of December 31, 2013
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with variable interest rate	(1,655)	(1,717)	(1,619)	(1,722)
Loans and borrowings with fixed interest rate	(648)	(643)	(621)	(639)
Financial liabilities at fair value, through profit or loss:				
Derivative financial instruments	(26)	(6)	(26)	(6)
Financial lease liabilities	(11)	(12)	(11)	(12)

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

26. Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the 3 month ended March 31, 2014 and 2013 the Company entered into transactions with the following related parties: associates and joint ventures, enterprises directly or indirectly controlled by the Russian Government, key management and pension funds.

Related parties may enter into transactions 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, joint ventures and associates, non-state pension funds. In addition, there may be an additional disclosure of certain significant transactions (balances and turnovers) with certain related parties.

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

Rosneft Oil Company

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

26. Related party transactions (continued)

Transactions with companies directly or indirectly controlled by the Russian Government

Revenues and income

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
Oil and gas sales	28	19
Petroleum products and petrochemicals sales	13	10
Finance income	1	–
	42	29

Costs and expenses

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
Production and operating expenses	1	7
Cost of purchased oil, gas, petroleum products and refining costs	3	–
Pipeline tariffs and transportation costs	96	43
Other expenses	13	3
Finance expenses	–	1
	113	54

Other operations

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
Purchase of financial assets and investments in associates	–	(2)
Loans received	13	–
Loans repaid	(25)	(1)
Repayment of loans and borrowings issued	–	1
Deposits placed	(194)	(1)
Deposits repaid	48	19

Settlement balances

	March 31, 2014 (unaudited)	December 31, 2013
Assets		
Cash and cash equivalents	82	135
Accounts receivable	17	15
Prepayments and other current assets	27	25
Other financial assets	215	66
	341	241
Liabilities		
Accounts payable and accrued liabilities	18	9
Loans and borrowings	113	125
	131	134

Rosneft Oil Company

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

26. Related party transactions (continued)

Transactions with joint ventures

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

Revenues and income

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
Oil and gas sales	1	–
Petroleum products and petrochemicals sales	2	3
	3	3

Costs and expenses

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
Cost of purchased oil, gas, petroleum products and refining costs	33	13
Pipeline tariffs and transportation costs	2	2
Other expenses	–	2
	35	17

Settlement balances

	March 31, 2014 (unaudited)	December 31, 2013
Assets		
Accounts receivable	7	5
Prepayments and other current assets	1	1
Other financial assets	4	4
	12	10
Liabilities		
Accounts payable and accrued liabilities	16	17
Loans and borrowings	–	1
	16	18

Transactions with associates

Revenues and income

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
Oil and gas sales	1	–
Petroleum products and petrochemicals sales	1	1
Support services and other revenues	–	1
	2	2

Rosneft Oil Company

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

26. Related party transactions (continued)

Transactions with associates (continued)

Costs and expenses

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
Production and operating expenses	1	1
Other expenses	–	1
	1	2

Other operations

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
Loans received	–	1

Settlement balances

	March 31, 2014 (unaudited)	December 31, 2013
Assets		
Accounts receivable	4	1
Other financial assets	14	13
	18	14
Liabilities		
Accounts payable and accrued liabilities	1	2
	1	2

Transactions with non-state pension funds

Costs and expenses

	Three months ended March 31, 2014 (unaudited)	Three months ended March 31, 2013 (unaudited)
Other expenses	1	1

Settlement balances

	March 31, 2014 (unaudited)	December 31, 2013
Liabilities		
Accounts payable and accrued liabilities	1	–
	1	–

Rosneft Oil Company

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

27. Contingencies

Political and 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.

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

During the first quarter of 2014 economic and political instability in Ukraine were increasing. The Company's assets and operations in Ukraine are not significant. Assets and liabilities of the Company, related to its activities in Ukraine, are recorded based on their fair value as of March 31, 2014. The Company continues to monitor the situation in Ukraine and to execute the number of measures in order to minimize effects of the possible risks. The assessment of risks is reviewed constantly to reflect the current situation.

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 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.

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

In 2013 Rosneft entered into the parent agreement with ExxonMobil Oil Corporation for seven new offshore projects. These agreements as well contain mutual guarantees that are unconditional, unlimited and open-ended. These guarantees are effective in the second quarter of 2014.

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 two other loans. On February 12, 2007, the arbitration panel formed pursuant to the ICC rules issued an award against Tomskneft of RUB 4.35 billion plus interest of 9% per annum, plus default penalties of 0.1% per day (from December 1, 2005, through the date of the award), plus legal costs concerning three other loans.

Rosneft Oil Company

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

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

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 void the loan agreements between Yukos Capital and OJSC Samaraneftegaz. On July 11, 2012, the Moscow Arbitrazh Court declared void the loan agreements between Yukos Capital and OJSC Yuganskneftegaz. On July 19, 2012 the Arbitrazh Court of the Tomsk Region declared void the loan agreements between Yukos Capital and Tomskneft. All these decisions were upheld by the appellate and cassation courts and Yukos Capital supervisory appeals against them were rejected by the Supreme Arbitrazh Court, and as a result of these decisions the Company stopped to recognise these loans in the interim condensed consolidated financial statements. Considering the ongoing litigations with Yukos Capital currently taking place in foreign jurisdictions, the related amount of accounts payable was recorded as provisions (Note 22).

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.

Rosneft Oil Company

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

27. Contingencies (continued)

Legal claims (continued)

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

On July 24, 2012, the U.S. S.D.N.Y. granted summary judgment to Yukos Capital on the issue of personal jurisdiction over OJSC Samaraneftgaz in New York. Yukos Capital and OJSC Samaraneftgaz thereafter filed cross-motions for summary judgment concerning whether the U.S. S.D.N.Y. should enforce the award. On August 6, 2013, the U.S. S.D.N.Y. denied Samaraneftgaz's motion for summary judgment and granted summary judgment for Yukos Capital in the amount of approximately US\$ 186 million (RUB 7 billion at the CBR official exchange rate at March 31, 2014). Samaraneftgaz has appealed the judgment. Samaraneftgaz and Yukos Capital filed their briefs. Samaraneftgaz's reply brief is due on April 25, 2014. On January 9, 2014, the U.S. S.D.N.Y. granted Yukos Capital's request for a turnover order and injunction to require Samaraneftgaz to use its assets to pay the above judgment or post a bond as well as to refrain from certain actions for so long as it has neither paid nor posted a bond. Samaraneftgaz intends to appeal the order and will defend its position vigorously in the appeal proceedings as well as against any further actions of Yukos Capital.

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

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

In February 2013, Yukos Capital initiated proceedings against Tomskneft in Ireland and Singapore seeking to enforce the same February 2007 ICC award whose recognition and enforcement was declined in Russia and France. On March 13, 2014, the Irish court granted Tomskneft's application and dismissed Yukos Capital's action to enforce the ICC arbitral award against Tomskneft in the Irish High Court on the basis that it is not an appropriate case for the court to exercise jurisdiction. The court's judgment was perfected on April 1, 2014.

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

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

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

27. Contingencies (continued)

Legal claims (continued)

As a result of the decisions of Russian arbitrary courts, declaring a nullity the loan agreements with Yukos Capital, the Company stopped to recognise these agreements in the interim condensed consolidated financial statements. The corresponding amount of accounts payable of RUB 11 bln was recorded as provisions (Note 22). Management believes that ongoing litigations with Yukos Capital currently taking place in foreign jurisdictions will not have a material negative effect on the Company's financial position or results of operations.

Yukos International (UK) B.V. has initiated proceedings in the Amsterdam District Court claiming damages of up to US\$ 333 million (RUB 12 billion at the CBR official exchange rate at March 31, 2014), plus statutory interest with effect from February 7, 2011, plus costs, against Rosneft and other co-respondents unrelated to Rosneft relating to alleged injury supposedly caused by the entry of a freezing order in 2008 that Yukos International (UK) B.V. claims restricted its ability to invest certain funds as it chose. The first court date in this case was June 27, 2012. Rosneft filed its Statement of Defense on October 3, 2012. That statement asserts various defenses including that the court properly granted the freezing order and that Yukos International (UK) B.V. suffered no damages as a result of having its funds deposited in an interest bearing account of its choice.

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. At that hearing Yukos International (UK) B.V. was granted permission to amend its claims against Rosneft. Now Yukos International (UK) B.V. filed claims against Rosneft also based on collective responsibility; the purpose of these requirements is to pass one of the co-defendants alleged responsibility for Rosneft. Rosneft responded to these new claims of February 26, 2014. The Court preliminary identified June 4, 2014 as the date of the decision.

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

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 March 31, 2014, the total amount of administrative fines levied by FAS Russia and its regional bodies against Rosneft and its subsidiaries is immaterial.

On March 7, 2011, Norex Petroleum Limited ("Norex") filed a lawsuit against OJSC Tyumen Oil Company ("TNK"), a predecessor of OJCS TNK-BP Holding, subsequently renamed to OJSC RN Holding, and certain other defendants in the amount of US\$ 1.5 billion (RUB 54 billion at the CBR official exchange rate at March 31, 2014) claiming the recovery of damages and compensation of moral damage caused by allegedly illegal takeover of the shares of LLC Corporation Yugraneft owned by Norex. The lawsuit was accepted by the Supreme Court of New York State (first instance court). On September 17, 2012, the Court dismissed Norex's action holding that it was time-barred. Norex filed an appeal against this judgment.

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

Rosneft Oil Company

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

27. Contingencies (continued)

Legal claims (continued)

On September 12, 2013, New York Court of Appeals accepted Norex's claim. The hearing is scheduled for May 6, 2014. The judgment is expected to be delivered before the end of 2014.

In 2013, several individuals, non-controlling shareholders of OJSC RN Holding, filed a number of lawsuits against the Company, claiming the right to get an offer from the Company to acquire the shares of OJSC RN Holding at the price the shares were measured in the course of TNK-BP acquisition by the Company. On October 25, 2013 Moscow Arbitrazh Court dismissed these claims. These decisions were upheld by the Court of Appeals on January 15 and 20, 2014. On one of court decisions a shareholder filed a cassation appeal, the hearing is scheduled for April 29, 2014.

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

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

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

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

Taxation

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

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

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

Effective January 1, 2012, the market price defining rules were changed and the list of entities that could be recognized as interdependent entities and 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.

Rosneft Oil Company

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

27. Contingencies (continued)

Taxation (continued)

In July 2013 the Company and Federal Tax Service signed the Pricing agreement in respect of taxation of oil sales transactions in Russia executed by the acquired TNK-BP companies starting from 2012. In January 2014 the Company and Federal Tax Service signed another Pricing agreement in respect of taxation of oil sales transactions in Russia executed by the 10 acquired TNK-BP companies starting from 2012.

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

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.

During 2013 the number of members of the consolidated group of taxpayers increased to 44 including Rosneft. From January 1, 2014 under the terms of the agreement, the number of members of the consolidated group of taxpayers increased to 58. The Company management believes that creation of the consolidated group of taxpayers does not lead to significant changes of tax burden of the Company for the purpose of these interim condensed consolidated financial statements.

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

As of March 31, 2014, the amount of VAT receivable, that is potentially unrecoverable from the tax authorities is immaterial. The Company currently reimburses the current VAT in full in a declarative manner.

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 interim condensed consolidated financial statements.

Capital commitments

The Company and its subsidiaries are engaged in ongoing capital projects for exploration and development of production facilities and modernization of refineries and 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 367 billion and RUB 328 billion as of March 31, 2014 and December 31, 2013, respectively.

Rosneft Oil Company

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

27. Contingencies (continued)

Environmental liabilities

The Company periodically evaluates its environmental liabilities pursuant to environmental regulations. Such liabilities are recognized in the consolidated financial statements as identified. Potential liabilities, 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.

Rosneft Oil Company

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

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