**Rosneft Oil Company**

Interim Condensed Consolidated Financial Statements (Unaudited)

*Three and six months ended June 30, 2013*

# Rosneft Oil Company

# Interim Condensed Consolidated Financial Statements (unaudited)

# Three and six months ended June 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 June 30, 2013, the related interim consolidated statements of comprehensive income for the three and six-month periods ended June 30, 2013, the related interim consolidated statements of changes in shareholders' equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### *Scope of review*

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

### *Conclusion*

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

Ernst & Young LLC

July 29, 2013

# Rosneft Oil Company

## Interim consolidated balance sheet

*(in billions of Russian rubles)*

| | Notes | June 30, 2013 (unaudited) | December 31, 2012 (restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | 10 | **346** | 299 |
| Restricted cash | | **7** | 4 |
| Other financial assets | 11 | **178** | 90 |
| Accounts receivable | 12 | **346** | 237 |
| Inventories | 13 | **186** | 134 |
| Prepayments and other current assets | 14 | **244** | 176 |
| **Total current assets** | | **1,307** | 940 |
| **Non-current assets:** | | | |
| Property, plant and equipment | 15 | **4,674** | 2,638 |
| Intangible assets | | **41** | 19 |
| Other financial assets | | **36** | 24 |
| Investments in associates and joint ventures | 16 | **532** | 186 |
| Bank loans granted | | **12** | 13 |
| Deferred tax assets | | **31** | 17 |
| Goodwill | | **153** | 144 |
| Other non-current non-financial assets | | **16** | 3 |
| **Total non-current assets** | | **5,495** | 3,044 |
| **Total assets** | | **6,802** | 3,984 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities:** | | | |
| Accounts payable and accrued liabilities | 17 | **404** | 211 |
| Loans and borrowings | 18 | **496** | 143 |
| Finance lease liabilities | | **3** | 3 |
| Liabilities related to derivative instruments | | **6** | – |
| Income tax liabilities | | **2** | 7 |
| Other tax liabilities | 19 | **142** | 83 |
| Provisions | 20 | **10** | 5 |
| Other current liabilities | | **17** | 1 |
| **Total current liabilities** | | **1,080** | 453 |
| **Non-current liabilities:** | | | |
| Loans and borrowings | 18 | **1,878** | 837 |
| Finance lease liabilities | | **7** | 8 |
| Deferred tax liabilities | | **673** | 277 |
| Provisions | 20 | **105** | 71 |
| Prepayment on oil supply agreements | 25 | **258** | – |
| Other non-current liabilities | | **26** | 16 |
| **Total non-current liabilities** | | **2,947** | 1,209 |
| **Equity:** | | | |
| Share capital | 21 | **1** | 1 |
| Treasury shares | | **–** | (299) |
| Additional paid-in capital | | **413** | 385 |
| Other funds and reserves | | **(16)** | (6) |
| Retained earnings | | **2,249** | 2,202 |
| **Rosneft shareholders' equity** | | **2,647** | 2,283 |
| Non-controlling interest | | **128** | 39 |
| **Total equity** | | **2,775** | 2,322 |
| **Total liabilities and equity** | | **6,802** | 3,984 |

President ____________________ I.I. Sechin July 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 June 30, 2013 (unaudited) | Three months ended June 30, 2012 (restated) (unaudited) | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|---|---|---|
| **Revenues and equity share in profits of joint ventures and associates** | | | | | |
| Oil and gas sales | 5 | **611** | 370 | **1,025** | 748 |
| Petroleum products and petrochemicals sales | 5 | **547** | 342 | **928** | 706 |
| Support services and other revenues | | **16** | 10 | **26** | 20 |
| Equity share in profits of associates and joint ventures | | **2** | 3 | **9** | 10 |
| **Total revenues and equity share in profits of joint ventures and associates** | | **1,176** | 725 | **1,988** | 1,484 |
| **Costs and expenses** | | | | | |
| Production and operating expenses | | **109** | 68 | **169** | 119 |
| Cost of purchased oil, gas, petroleum products and refining costs | | **99** | 72 | **174** | 149 |
| General and administrative expenses | | **29** | 18 | **46** | 33 |
| Pipeline tariffs and transportation costs | | **103** | 58 | **173** | 118 |
| Exploration expenses | | **3** | 4 | **6** | 9 |
| Depreciation, depletion and amortization | | **93** | 47 | **149** | 96 |
| Taxes other than income tax | 7 | **259** | 164 | **447** | 332 |
| Export customs duty | 6 | **359** | 245 | **602** | 452 |
| **Total costs and expenses** | | **1,054** | 676 | **1,766** | 1,308 |
| **Operating income** | | **122** | 49 | **222** | 176 |
| Finance income | | **4** | 3 | **7** | 9 |
| Finance expenses | 8 | **(22)** | (2) | **(29)** | (7) |
| Other income | 9 | **1** | – | **49** | 1 |
| Other expenses | 9 | **(5)** | (13) | **(20)** | (18) |
| Foreign exchange differences | | **(55)** | (39) | **(66)** | (13) |
| **Income/(loss) before income tax** | | **45** | (2) | **163** | 148 |
| Income tax expense | 7 | **(10)** | 1 | **(26)** | (32) |
| **Net income/(loss)** | | **35** | (1) | **137** | 116 |
| **Other comprehensive income/(loss) – to be reclassified to profit/(loss) in subsequent periods** | | | | | |
| Foreign exchange differences on translation of foreign operations | | **(13)** | (1) | **(13)** | (2) |
| Gain/(loss) from changes in fair value of financial assets available-for-sale, net of tax | | **–** | (2) | **3** | (3) |
| **Total other comprehensive loss – to be reclassified to loss in subsequent periods, net of tax** | | **(13)** | (3) | **(10)** | (5) |
| **Total comprehensive income/(loss), net of tax** | | **22** | (4) | **127** | 111 |
| **Net income/(loss)** | | | | | |
| attributable to Rosneft shareholders | | **31** | (1) | **132** | 116 |
| attributable to non-controlling interests | | **4** | – | **5** | – |
| **Total comprehensive income/(loss), net of tax** | | | | | |
| attributable to Rosneft shareholders | | **18** | (4) | **122** | 111 |
| attributable to non-controlling interests | | **4** | – | **5** | – |
| **Net income attributable to Rosneft per common share (in RUB) – basic and diluted** | | **2.93** | (0.10) | **13.20** | 12.12 |
| Weighted average number of shares outstanding (millions) | | **10,598** | 9,566 | **9,997** | 9,572 |

*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 | – | – | – | – | – | 116 | 116 | – | 116 |
| Other comprehensive loss | – | – | – | – | (5) | – | (5) | – | (5) |
| **Total comprehensive income** | – | – | – | – | (5) | 116 | 111 | – | 111 |
| Purchase of treasury shares | (322) | – | – | (68) | – | – | (68) | – | (68) |
| Dividends declared on common stock | – | – | – | – | – | (33) | (33) | – | (33) |
| Change in ownership interest in subsidiaries | – | – | (1) | – | – | – | (1) | (1) | (2) |
| **Balance at June 30, 2012 (unaudited) (restated)** | 9,266 | 1 | 385 | (292) | (10) | 1,993 | 2,077 | 35 | 2,112 |
| | | | | | | | | | |
| **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 | **–** | **–** | **–** | **–** | **–** | **132** | **132** | **5** | **137** |
| Other comprehensive loss | **–** | **–** | **–** | **–** | **(10)** | **–** | **(10)** | **–** | **(10)** |
| **Total comprehensive income** | **–** | **–** | **–** | **–** | **(10)** | **132** | **122** | **5** | **127** |
| 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) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **86** | **86** |
| Other changes | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(2)** | **(2)** |
| **Balance at June 30, 2013 (unaudited)** | **10,598** | **1** | **413** | **–** | **(16)** | **2,249** | **2,647** | **128** | **2,775** |

*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 | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | | **137** | 116 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation, depletion and amortization | | **149** | 96 |
| Loss on sale and disposal of non-current assets | 9 | **3** | – |
| Asset impairment loss | 9 | **5** | 5 |
| Dry hole costs | | **1** | 1 |
| Foreign exchange loss | | **107** | 10 |
| Equity share in profits of associates and joint ventures | | **(9)** | (10) |
| Gain from revaluation of non-controlling interest in OJSC Verkhnechonskneftegaz | 4 | **(48)** | – |
| Loss from disposal of companies and non-production assets | 9 | **1** | 3 |
| Finance expenses | | **29** | 7 |
| Finance income | | **(7)** | (9) |
| Income tax expense | 7 | **26** | 32 |
| Changes in operating assets and liabilities: | | | |
| Increase in accounts receivable, gross | | **(52)** | (11) |
| Increase in inventories | | **(7)** | (9) |
| Decrease in restricted cash | | **2** | – |
| Decrease/(increase) in prepayments and other current assets | | **7** | (10) |
| (Decrease)/increase in accounts payable and accrued liabilities | | **(12)** | 32 |
| (Decrease)/increase in other tax liabilities | | **(2)** | 13 |
| Increase/(decrease) in current provisions | | **2** | (1) |
| Increase/(decrease) in other current liabilities | | **4** | (3) |
| Increase in other non-current liabilities | | **12** | 4 |
| Increase in long-term prepayment on oil supply agreements | | **258** | – |
| Long-term loans granted by subsidiary banks | | **(15)** | (16) |
| Repayment of long-term loans granted by subsidiary banks | | **15** | 16 |
| Acquisition of trading securities | | **(10)** | (26) |
| Proceeds from sale of trading securities | | **12** | 27 |
| **Net cash provided by operating activities before income tax and interest** | | **608** | 267 |
| Income tax payments | | **(38)** | (48) |
| Interest received | | **3** | 5 |
| **Net cash provided by operating activities** | | **573** | 224 |

*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 | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|---|
| **Investing activities** | | | |
| Capital expenditures | | **(248)** | (243) |
| Acquisition of licenses | | **(5)** | (1) |
| Acquisition of short-term financial assets | | **(138)** | (67) |
| Proceeds from sale of short-term financial assets | | **40** | 96 |
| Acquisition of long-term financial assets | | **(2)** | – |
| Proceeds from sale of long-term financial assets | | **1** | 3 |
| Acquisition of interest in associates and joint ventures | 16 | **(23)** | (34) |
| Acquisition of a subsidiaries, net of cash acquired | 4 | **(1,201)** | (4) |
| Sale of property, plant and equipment | | **–** | 3 |
| Placements under reverse REPO agreements | | **(3)** | (13) |
| Receipts under reverse REPO agreements | | **3** | 30 |
| **Net cash used in investing activities** | | **(1,576)** | (230) |
| **Financing activities** | | | |
| Proceeds from short-term loans and borrowings | | **–** | 20 |
| Repayment of short-term loans and borrowings | | **(16)** | (20) |
| Proceeds from long-term loans and borrowings | | **1,113** | 103 |
| Repayment of long-term loans and borrowings | | **(37)** | (45) |
| Acquisition if treasury stock | | **–** | (68) |
| Acquisition of non-controlling interests in subsidiaries | | **–** | (2) |
| Interest paid | | **(23)** | (12) |
| **Net cash provided by/(used in) financing activities** | | **1,037** | (24) |
| Net increase/(decrease) in cash and cash equivalents | | **34** | (30) |
| Cash and cash equivalents at beginning of period | 10 | **299** | 166 |
| Effect of foreign exchange on cash and cash equivalents | | **13** | 3 |
| **Cash and cash equivalents at end of period** | 10 | **346** | 139 |

*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 six months ended June 30, 2013 were approved and authorized for issue by the President of the Company on July 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 six months ended June 30, 2012 decreased RUB 13 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 six months ended June 30, 2012 was an increase of RUB 1.3.

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 six months ended June 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 June 30, 2012 (unaudited) | | |
|---|---|---|---|
| | **Ruhr Oel GmbH** | **OJSC Tomskneft VNK** | **Total** |
| **Revenues and equity share in profits of joint ventures and associates** | | | |
| Equity share in profits of associates and joint ventures | – | (1) | (1) |
| **Total revenues and equity share in profits of joint ventures and associates** | **–** | **(1)** | **(1)** |
| **Costs and expenses** | | | |
| Production and operating expenses | 4 | 3 | 7 |
| Cost of purchased oil, gas, petroleum products and refining costs | (5) | (12) | (17) |
| Depreciation, depletion and amortization | 1 | 1 | 2 |
| Taxes other than income tax | – | 6 | 6 |
| **Total costs and expenses** | **–** | **(2)** | **(2)** |
| **Operating income** | **–** | **1** | **1** |
| **Income before income tax** | – | **1** | **1** |
| Income tax expense | – | (1) | (1) |
| **Net income** | **–** | **–** | **–** |
| **Other comprehensive income – to be reclassified to profit in subsequent periods** | | | |
| Foreign exchange differences on translation of foreign operations | 2 | – | 2 |
| **Total other comprehensive income – to be reclassified to profit in subsequent periods, net of tax** | **2** | **–** | **2** |
| **Total comprehensive income, net of tax** | **2** | **–** | **2** |
| **Net income** | **–** | **–** | **–** |
| attributable to Rosneft shareholders | – | – | – |
| attributable to non-controlling interests | – | – | – |
| **Total comprehensive income, net of tax** | **2** | **–** | **2** |
| attributable to Rosneft shareholders | 2 | – | 2 |
| attributable to non-controlling interests | – | – | – |

## 3. Changes in accounting policies (continued)

| | Six months ended June 30, 2012 (unaudited) | | |
|---|---|---|---|
| | **Ruhr Oel GmbH** | **OJSC Tomskneft VNK** | **Total** |
| **Revenues and equity share in profits of joint ventures and associates** | | | |
| Equity share in profits of associates and joint ventures | – | (3) | (3) |
| **Total revenues and equity share in profits of joint ventures and associates** | **–** | **(3)** | **(3)** |
| **Costs and expenses** | | | |
| Production and operating expenses | 7 | 6 | 13 |
| Cost of purchased oil, gas, petroleum products and refining costs | (9) | (25) | (34) |
| Depreciation, depletion and amortization | 2 | 2 | 4 |
| Taxes other than income tax | – | 13 | 13 |
| **Total costs and expenses** | – | **(4)** | **(4)** |
| **Operating 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 | (1) | – | (1) |
| **Total other comprehensive loss – to be reclassified to loss in subsequent periods, net of tax** | **(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 | – | – | – |

### 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 1,777 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 | 77 |
| **Total consideration transferred** | **1,777** |

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 acquisition of TNK-BP, 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 48 billion is included in Other income in the interim consolidated statement of comprehensive income for the six months ended June 30, 2013. Fair value of non-controlling share in OJSC Verkhnechonskneftegaz of RUB 77 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 assets 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, marketing 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, Inc | 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 allocation of the purchase price to the fair value of TNK-BP's assets acquired and liabilities assumed:

| | |
|---|---|
| **ASSETS** | |
| **Current assets:** | |
| Cash and cash equivalents | 178 |
| Restricted cash | 5 |
| Accounts receivable | 55 |
| Inventories | 45 |
| Prepayments and other current assets | 75 |
| **Total current assets** | **358** |
| **Non-current assets:** | |
| Property, plant and equipment | 1,916 |
| Intangible assets | 24 |
| Other financial assets | 12 |
| Investments in associates and joint ventures | 351 |
| Deferred tax assets | 14 |
| Goodwill | 9 |
| Other non-current non-financial assets | 15 |
| **Total non-current assets** | **2,341** |
| **Total assets** | **2,699** |
| **LIABILITIES** | |
| **Current liabilities:** | |
| Accounts payable and accrued liabilities | 118 |
| Loans and borrowings | 30 |
| Income tax liabilities | 2 |
| Other tax liabilities | 61 |
| Provisions | 3 |
| Other current liabilities | 13 |
| **Total current liabilities** | **227** |
| **Non-current liabilities:** | |
| Loans and borrowings | 184 |
| Deferred tax liabilities | 390 |
| Provisions | 33 |
| Other non-current liabilities | 2 |
| **Total non-current liabilities** | **609** |
| **Total liabilities** | **836** |
| **Total identifiable net assets at fair value** | **1,863** |
| Non-controlling interests at fair value | (86) |
| **Total consideration transferred** | **(1,777)** |

## 4. Acquisition of subsidiaries (continued)

### Acquisition of TNK-BP (continued)

TNK-BP acquisition cash flow:

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

Deferred tax liabilities in the amount of RUB 390 billion are mainly attributable to revaluation of property, plant and equipment.

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 three and six months ended June 30, 2013.

This allocation of the purchase price to the assets acquired and liabilities assumed is preliminary as of June 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 six months ended June 30, 2013 were RUB 549 billion and RUB 69 billion, respectively. TNK-BP's revenues and net income included in the interim consolidated statement of comprehensive income for the three months ended June 30, 2013 were RUB 496 billion and RUB 63 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 2,390 billion and RUB 217 billion, respectively, for the six month ended June 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 of 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:

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

## 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 June 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 | **47** | **1,123** | **4** | **–** | **1,174** |
| Intersegment revenues | **421** | **–** | **–** | **(421)** | **–** |
| Equity share in profits of associates and joint ventures | **2** | **–** | **–** | **–** | **2** |
| **Total revenues and equity share in profits of associates and joint ventures** | **470** | **1,123** | **4** | **(421)** | **1,176** |
| **Costs and expenses** | | | | | |
| Costs and expenses other than depreciation, depletion and amortization | **283** | **1,069** | **30** | **(421)** | **961** |
| Depreciation, depletion and amortization | **82** | **11** | **–** | **–** | **93** |
| **Total costs and expenses** | **365** | **1,080** | **30** | **(421)** | **1,054** |
| **Operating income** | **105** | **43** | **(26)** | **–** | **122** |
| Finance income | | | | | **4** |
| Finance expenses | | | | | **(22)** |
| **Total finance expenses** | | | | | **(18)** |
| Other income | | | | | **1** |
| Other expenses | | | | | **(5)** |
| Foreign exchange differences | | | | | **(55)** |
| **Income before income tax** | | | | | **45** |
| Income tax | | | | | **(10)** |
| **Net income** | | | | | **35** |

## 5. Segment information (continued)

The performance of operating segments for the three months ended June 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 | 702 | 8 | – | 722 |
| Intersegment revenues | 264 | 6 | – | (270) | – |
| Equity share in profits of associates and joint ventures | 3 | – | – | – | 3 |
| **Total revenues and equity share in profits of associates and joint ventures** | 279 | 708 | 8 | (270) | 725 |
| **Costs and expenses** | | | | | |
| Costs and expenses other than depreciation, depletion and amortization | 171 | 708 | 20 | (270) | 629 |
| Depreciation, depletion and amortization | 38 | 7 | 2 | – | 47 |
| **Total costs and expenses** | 209 | 715 | 22 | (270) | 676 |
| **Operating income** | 70 | (7) | (14) | – | 49 |
| Finance income | | | | | 3 |
| Finance expenses | | | | | (2) |
| **Total finance income** | | | | | 1 |
| Other income | | | | | – |
| Other expenses | | | | | (13) |
| Foreign exchange differences | | | | | (39) |
| **Loss before income tax** | | | | | (2) |
| Income tax | | | | | 1 |
| **Net loss** | | | | | (1) |

**5. Segment information (continued)**

The performance of operating segments for the six months ended June 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 | **61** | **1,909** | **9** | **–** | **1,979** |
| Intersegment revenues | **737** | **–** | **–** | **(737)** | **–** |
| Equity share in profits of associates and joint ventures | **9** | **–** | **–** | **–** | **9** |
| **Total revenues and equity share in profits of associates and joint ventures** | **807** | **1,909** | **9** | **(737)** | **1,988** |
| **Costs and expenses** | | | | | |
| Costs and expenses other than depreciation, depletion and amortization | **476** | **1,828** | **50** | **(737)** | **1,617** |
| Depreciation, depletion and amortization | **127** | **20** | **2** | **–** | **149** |
| **Total costs and expenses** | **603** | **1,848** | **52** | **(737)** | **1,766** |
| **Operating income** | **204** | **61** | **(43)** | **–** | **222** |
| Finance income | | | | | **7** |
| Finance expenses | | | | | **(29)** |
| **Total finance expenses** | | | | | **(22)** |
| Other income | | | | | **49** |
| Other expenses | | | | | **(20)** |
| Foreign exchange differences | | | | | **(66)** |
| **Income before income tax** | | | | | **163** |
| Income tax | | | | | **(26)** |
| **Net income** | | | | | **137** |

## 5. Segment information (continued)

The performance of operating segments for the six months ended June 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 | 23 | 1,437 | 14 | – | 1,474 |
| Intersegment revenues | 578 | 11 | – | (589) | – |
| Equity share in profits of associates and joint ventures | 10 | – | – | – | 10 |
| **Total revenues and equity share in profits of associates and joint ventures** | 611 | 1,448 | 14 | (589) | 1,484 |
| **Costs and expenses** | | | | | |
| Costs and expenses other than depreciation, depletion and amortization | 344 | 1,419 | 38 | (589) | 1,212 |
| Depreciation, depletion and amortization | 77 | 16 | 3 | – | 96 |
| **Total costs and expenses** | 421 | 1,435 | 41 | (589) | 1,308 |
| **Operating income** | 190 | 13 | (27) | – | 176 |
| Finance income | | | | | 9 |
| Finance expenses | | | | | (7) |
| **Total finance income** | | | | | 2 |
| Other income | | | | | 1 |
| Other expenses | | | | | (18) |
| Foreign exchange differences | | | | | (13) |
| **Income before income tax** | | | | | 148 |
| Income tax | | | | | (32) |
| **Net income** | | | | | 116 |

## 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 June 30, 2013 (unaudited) | Three months ended June 30, 2012 (restated) (unaudited) | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|---|---|
| **Oil and gas sales** | | | | |
| Export of crude oil – Europe | **402** | 261 | **679** | 507 |
| Export of crude oil – Asia | **133** | 87 | **233** | 192 |
| Export of crude oil – CIS, other than Russia | **28** | 15 | **51** | 36 |
| Domestic sales of crude oil | **29** | 2 | **35** | 4 |
| Domestic sales of gas | **19** | 5 | **27** | 9 |
| **Total oil and gas sales** | **611** | 370 | **1,025** | 748 |

| | Three months ended June 30, 2013 (unaudited) | Three months ended June 30, 2012 (restated) (unaudited) | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|---|---|
| **Petroleum products and petrochemicals sales** | | | | |
| Export of petroleum products – Europe | **226** | 133 | **386** | 304 |
| Export of petroleum products – Asia | **70** | 56 | **136** | 115 |
| Export of petroleum products – CIS, other than Russia | **23** | 2 | **27** | 4 |
| Domestic sales of petroleum products | **208** | 128 | **334** | 239 |
| Domestic sales of petrochemical products | **3** | 3 | **6** | 6 |
| Export of petrochemical products – Europe | **17** | 20 | **39** | 38 |
| **Total petroleum products and petrochemicals sales** | **547** | 342 | **928** | 706 |

## 6. Export customs duty

Export customs duty comprises the following:

| | Three months ended June 30, 2013 (unaudited) | Three months ended June 30, 2012 (restated) (unaudited) | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|---|---|
| Export customs duty on oil and gas sales | **265** | 192 | **451** | 347 |
| Export customs duty on petroleum products and petrochemicals sales | **94** | 53 | **151** | 105 |
| **Total export customs duty** | **359** | 245 | **602** | 452 |

## 7. Income tax and other taxes

Income tax expenses comprise the following:

| | Three months ended June 30, 2013 (unaudited) | Three months ended June 30, 2012 (restated) (unaudited) | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|---|---|
| Current income tax expense | **(9)** | 3 | **(21)** | (31) |
| Deferred tax benefit due to the origination and reversal of temporary differences | **(1)** | (2) | **(5)** | (1) |
| **Total income tax expense** | **(10)** | 1 | **(26)** | (32) |

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

| | Three months ended June 30, 2013 (unaudited) | Three months ended June 30, 2012 (restated) (unaudited) | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|---|---|
| Mineral extraction tax | **209** | 135 | **361** | 274 |
| Excise tax | **34** | 18 | **57** | 36 |
| Property tax | **7** | 3 | **10** | 6 |
| Other | **9** | 8 | **19** | 16 |
| **Total taxes other than income tax** | **259** | 164 | **447** | 332 |

## 8. Finance expenses

Finance expenses comprise the following:

| | Three months ended June 30, 2013 (unaudited) | Three months ended June 30, 2012 (restated) (unaudited) | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|---|---|
| Interest expense on loans and borrowings | **(9)** | (1) | **(13)** | (3) |
| Interest expense on bonds | **(1)** | – | **(1)** | – |
| Loss from changes in fair value of financial assets at fair value recognized in profit or loss | **(7)** | – | **(9)** | – |
| Increase in provision due to the unwinding of discount | **(1)** | (1) | **(2)** | (3) |
| Other finance expenses | **(4)** | – | **(4)** | (1) |
| **Total finance expenses** | **(22)** | (2) | **(29)** | (7) |

## 9. Other income and expenses

Other income and expenses comprise the following:

| | Three months ended June 30, 2013 (unaudited) | Three months ended June 30, 2012 (restated) (unaudited) | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|---|---|
| Revaluation of non-controlling interest in OJSC Verkhnechonskneftegaz to its fair value | **–** | – | **48** | – |
| Other | **1** | – | **1** | 1 |
| **Total other income** | **1** | – | **49** | 1 |
| Sale and disposal of property, plant and equipment and intangible assets | **(2)** | (1) | **(3)** | – |
| Disposal of companies and non-production assets | **–** | (2) | **(1)** | (3) |
| Impairment of assets | **(2)** | (5) | **(5)** | (5) |
| Social payments, charity, sponsorship, financial aid | **(1)** | (4) | **(2)** | (6) |
| Other | **–** | (1) | **(9)** | (4) |
| **Total other expenses** | **(5)** | (13) | **(20)** | (18) |

## 10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

| | June 30, 2013 (unaudited) | December 31, 2012 (restated) |
|---|---|---|
| Cash on hand and in bank accounts in RUB | **26** | 19 |
| Cash on hand and in bank accounts in foreign currencies | **295** | 206 |
| Deposits | **20** | 72 |
| Others | **5** | 2 |
| **Total cash and cash equivalents** | **346** | 299 |

## 11. Other short-term financial assets

Other short-term financial assets comprise the following:

| | June 30, 2013 (unaudited) | December 31, 2012 (restated) |
|---|---|---|
| **Financial assets available for sale:** | | |
| Bonds | **20** | 14 |
| Stocks and shares | **3** | 6 |
| **Loans and receivables:** | | |
| Loans granted | **38** | 18 |
| Loans issued to associates | **1** | 1 |
| Notes receivable, net of allowance | **18** | 27 |
| Loans granted under reverse repurchase agreements | **1** | – |
| Deposits and deposit certificates | **85** | – |
| **Held-for-trading financial assets at fair value through profit or loss:** | | |
| Corporate bonds | **10** | 10 |
| Government bonds | **2** | 5 |
| Stocks and shares | **–** | 6 |
| **Derivative financial instruments** | **–** | 3 |
| **Total other short-term financial assets** | **178** | 90 |

## 12. Accounts receivable

Accounts receivable, net of allowance, include the following:

| | June 30, 2013 (unaudited) | December 31, 2012 (restated) |
|---|---|---|
| Trade receivables | **311** | 204 |
| Banking loans to customers | **12** | 19 |
| Other accounts receivable | **31** | 22 |
| **Total** | **354** | 245 |
| Valuation allowance for doubtful accounts | **(8)** | (8) |
| **Total accounts receivable, net of allowance** | **346** | 237 |

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

## 13. Inventories

Inventories comprise the following:

| | June 30, 2013 (unaudited) | December 31, 2012 (restated) |
|---|---|---|
| Crude oil and associated gas | **52** | 46 |
| Petroleum products and petrochemicals | **79** | 56 |
| Materials and supplies | **39** | 21 |
| Work in progress | **16** | 11 |
| **Total inventories** | **186** | 134 |

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

| | Three months ended June 30, 2013 (unaudited) | Three months ended June 30, 2012 (restated) (unaudited) | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|---|---|
| The cost of materials and supplies expensed during the period | **172** | 77 | **270** | 165 |

The cost of materials and supplies recognized 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:

| | June 30, 2013 (unaudited) | December 31, 2012 (restated) |
|---|---|---|
| Value added tax and excise tax recoverable | **152** | 81 |
| Prepayments to suppliers | **25** | 24 |
| Prepaid customs duties | **35** | 54 |
| Other taxes | **27** | 11 |
| Other | **5** | 6 |
| **Total prepayments and other current assets** | **244** | 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 | 1,775 | 141 | 7 | 1,923 |
| Additions | 168 | 73 | 12 | 253 |
| Disposals | (13) | (1) | – | (14) |
| Exchange differences | 13 | 5 | (2) | 16 |
| Cost of asset retirement obligations | (2) | – | – | (2) |
| As of June 30, 2013 | 4,502 | 923 | 129 | 5,554 |
| ***Depreciation, depletion and impairment losses*** | | | | |
| As of December 31, 2012 (restated) | (621) | (145) | (42) | (808) |
| Depreciation and depletion charge | (124) | (18) | (5) | (147) |
| Disposals | 2 | | 1 | 3 |
| Exchange differences | (7) | (2) | – | (9) |
| As of June 30, 2013 | (750) | (165) | (46) | (961) |
| ***Net book value*** | | | | |
| As of December 31, 2012 (restated) | 1,940 | 560 | 70 | 2,570 |
| As of June 30, 2013 | 3,752 | 758 | 83 | 4,593 |
| ***Prepayments for property, plant and equipment*** | | | | |
| As of December 31, 2012 (restated) | 5 | 53 | 10 | 68 |
| As of June 30, 2013 | 6 | 62 | 13 | 81 |
| **Total as of December 31, 2012 (restated)** | **1,945** | **613** | **80** | **2,638** |
| **Total as of June 30, 2013 (unaudited)** | **3,758** | **820** | **96** | **4,674** |

The Company capitalized RUB 16 billion and RUB 10 billion of interest expenses on loans and borrowings for the six months ended June 30, 2013 and 2012, respectively.

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization is 2.1% and 1.9% for the six months ended June 30, 2013 and 2012, respectively.

Depreciation charge for the six months ended June 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 2 billion and RUB 2 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 274 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 32 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.

***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 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. Under the farm-in agreement, the consideration of US$ 1 billion is payable in five semi-annual installments plus interest at Libor rate starting from April 2012. The investment is accounted for as joint operation as the Company has acquired undivided interests in the respective assets and liabilities. In March 2013 the Company paid third of five semi-annual installments of RUB 6 billion.

***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:

| | June 30, 2013 (unaudited) | December 31, 2012 (restated) |
|---|---|---|
| Accounts payable to suppliers and contractors | **149** | 119 |
| Dividends payable | **85** | – |
| Advances received | **53** | 18 |
| Banking customer accounts | **37** | 41 |
| Salary and other benefits payable | **39** | 22 |
| Other accounts payable | **41** | 11 |
| **Total accounts payable and accrued liabilities** | **404** | 211 |

Current accounts payable are normally settled within 45 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 | June 30, 2013 (unaudited) | December 31, 2012 (restated) |
|---|---|---|---|
| ***Long-term*** | | | |
| Bank loans | RUB | **101** | 101 |
| Bank loans | US$, Euro | **1,844** | 648 |
| Bonds | RUB | **91** | 20 |
| Eurobonds | US$ | **230** | 91 |
| Customer deposits | RUB | **9** | 8 |
| Customer deposits | US$, Euro | **4** | 3 |
| Other debt | RUB | **–** | 1 |
| *Less: Current portion of long-term loans and borrowings* | | **(401)** | (35) |
| **Long-term loans and borrowings** | | **1,878** | 837 |
| ***Short-term*** | | | |
| Bank loans | RUB | **–** | 8 |
| Bank loans | US$ | **13** | 12 |
| Customer deposits | RUB | **11** | 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* | | **401** | 35 |
| **Short-term loans and borrowings and current portion of long-term loans** | | **496** | 143 |
| **Total loans and borrowings** | | **2,374** | 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. Accounts receivable outstanding balance arising out of such contracts amounts to RUB 23 billion and RUB 32 billion as of June 30, 2013 and December 31, 2012, respectively, and is included in trade receivables.

### 18. Loans and borrowings (continued)

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 1,015 billion at the CBR official exchange rate as of June 30, 2013) to finance the purchase of TNK-BP (Note 4). The debt agreement of US$ 4.09 billion (RUB 134 billion at the CBR official exchange rate as of June 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 417 billion at the CBR official exchange rate as of June 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 388 billion at the CBR official exchange rate as of June 30, 2013). The fourth debt agreement in the amount of US$ 2.33 billion (RUB 76 at the CBR official exchange rate as of June 30, 2013) was entered into with the syndicate of foreign banks for 5 years at floating rates. As of June 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 65.4 billion at the CBR official exchange rate as of June 30, 2013). The loan is repayable within 16 years and secured by oil export contracts.

As of June 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:

| | **June 30, 2013 (unaudited)** | **December 31, 2012 (restated)** |
|---|---|---|
| Mineral extraction tax | **65** | 46 |
| Value added tax | **41** | 23 |
| Excise tax | **19** | 10 |
| Personal income tax | **3** | 1 |
| Property tax | **6** | 3 |
| Other | **8** | – |
| **Total other tax liabilities** | **142** | 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 | – | 2 | 4 |
| Increase/(decrease) in provisions resulting from: | | | | |
| *Changes in estimates* | 1 | 1 | – | 2 |
| *Change in the discount rate* | (5) | – | – | (5) |
| *Unwinding of discount* | 3 | – | – | 3 |
| *Utilization* | – | – | (1) | (1) |
| *Acquisition of TNK-BP (Note 4)* | 19 | 17 | – | 36 |
| **As of June 30, 2013 (unaudited), including** | **88** | **23** | **4** | **115** |
| *Non-current* | 87 | 18 | – | 105 |
| *Current* | 1 | 5 | 4 | 10 |

## 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.

On June 20, 2012 the annual general shareholders' meeting approved dividends on the Company's common shares for 2011 in the amount of RUB 37 billion or RUB 3.45 per share. RUB 33 billion of the above related to outstanding shares, including dividend withholding tax on treasury shares.

In June 2012, the Company purchased 321,963,949 of its own shares for RUB 68 billion or RUB 212 per share.

## 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 June 30, 2013 (unaudited) | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets:** | | | | |
| **Current assets** | | | | |
| Held-for-trading | **2** | **10** | **–** | **12** |
| Available-for-sale | **9** | **14** | **–** | **23** |
| **Non-current assets** | | | | |
| Available-for-sale | **3** | **–** | **–** | **3** |
| **Total assets measured at fair value** | **14** | **24** | **–** | **38** |
| **Current liabilities:** | | | | |
| Derivative financial instruments | **–** | **(6)** | **–** | **(6)** |
| **Total liabilities measured at fair value** | **–** | **(6)** | **–** | **(6)** |

| | 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 |

The carrying value of financial assets available for sale and held-for-trading financial assets at fair value through profit or loss recognized in this interim condensed consolidated financial statement equal to their fair value.

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 June 30, 2013 (unaudited)** | **As of December 31, 2012 (restated)** | **As of June 30, 2013 (unaudited)** | **As of December 31, 2012 (restated)** |
| **Financial liabilities** | | | | |
| Financial liabilities at amortized cost: | | | | |
| Accounts payable | **(404)** | (211) | **(404)** | (211) |
| Loans and borrowings with variable interest rate | **(1,742)** | (632) | **(1,779)** | (605) |
| Loans and borrowings with fixed interest rate | **(632)** | (348) | **(550)** | (338) |
| Financial liabilities at fair value, through profit or loss: | | | | |
| Liabilities related to derivative instruments | **(6)** | – | **(6)** | – |
| Financial lease liabilities | **(10)** | (11) | **(10)** | (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***

| | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|
| Oil and gas sales | **50** | 54 |
| Petroleum products and petrochemicals sales | **22** | 13 |
| Finance income | **1** | 1 |
| | **73** | 68 |

## 23. Related party transactions (continued)

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

***Costs and expenses***

| | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|
| Cost of purchased oil, gas and petroleum products | **1** | – |
| Production and operating expenses | **9** | 3 |
| Pipeline tariffs and transportation costs | **100** | 91 |
| Other expenses | **8** | 3 |
| Finance expenses | **1** | – |
| | **119** | 97 |

***Other operations***

| | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|
| Purchase of financial assets and investments in associates | **(6)** | (13) |
| Loans received | **–** | 33 |
| Loans repaid | **(1)** | – |
| Repayment of loans and borrowings issued | **–** | 1 |
| Deposits placed | **(34)** | (6) |
| Deposits repaid | **20** | 51 |
| Purchase of shares | **–** | (1) |

***Settlement balances***

| | June 30, 2013 (unaudited) | December 31, 2012 (restated) |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **258** | 188 |
| Accounts receivable, net of allowance | **18** | 13 |
| Prepayments and other current assets | **16** | 15 |
| Financial assets | **50** | 7 |
| | **342** | 223 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **16** | 15 |
| Loans and borrowings | **100** | 100 |
| Other long-term liabilities | **3** | – |
| | **119** | 115 |

## 23. Related party transactions (continued)

### Transactions with joint ventures

***Revenues and income***

| | **Six months ended June 30, 2013 (unaudited)** | **Six months ended June 30, 2012 (restated) (unaudited)** |
|---|---|---|
| Oil and gas sales | **2** | – |
| Petroleum products and petrochemicals sales | **6** | – |
| Support services and other revenues | **5** | – |
| Finance income | **–** | 1 |
| | **13** | 1 |

***Costs and expenses***

| | **Six months ended June 30, 2013 (unaudited)** | **Six months ended June 30, 2012 (restated) (unaudited)** |
|---|---|---|
| Cost of purchased oil, gas and petroleum products | **39** | 42 |
| Production and operating expenses | **2** | – |
| Pipeline tariffs and transportation costs | **3** | 3 |
| Other expenses | **5** | 1 |
| | **49** | 46 |

***Other operations***

| | **Six months ended June 30, 2013 (unaudited)** | **Six months ended June 30, 2012 (restated) (unaudited)** |
|---|---|---|
| Loans received | **–** | 1 |
| Loans and borrowings issued | **(1)** | – |
| Repayment of loans and borrowings issued | **–** | 4 |

***Settlement balances***

| | **June 30, 2013 (unaudited)** | **December 31, 2012 (restated)** |
|---|---|---|
| **Assets** | | |
| Accounts receivable, net of allowance | **7** | – |
| Financial assets | **13** | – |
| | **20** | – |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **18** | 7 |
| Loans and borrowings | **1** | 5 |
| | **19** | 12 |

## 23. Related party transactions (continued)

### Transactions with associates

***Revenues and income***

| | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|
| Oil and gas sales | **3** | 1 |
| Petroleum products and petrochemicals sales | **–** | 1 |
| Support services and other revenues | **1** | 2 |
| | **4** | 4 |

***Costs and expenses***

| | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|
| Cost of purchased oil, gas and petroleum products | **–** | 6 |
| Production and operating expenses | **1** | 1 |
| Other expenses | **1** | 5 |
| | **2** | 12 |

***Other operations***

| | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|
| Loans and borrowings issued | **–** | 1 |

***Settlement balances***

| | June 30, 2013 (unaudited) | December 31, 2012 (restated) |
|---|---|---|
| **Assets** | | |
| Accounts receivable, net of allowance | **2** | 6 |
| Prepayments and other current assets | **3** | – |
| Financial assets | **13** | 12 |
| | **18** | 18 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **1** | 11 |
| | **1** | 11 |

## 23. Related party transactions (continued)

### Transactions with non-state pension funds

***Costs and expenses***

| | Six months ended June 30, 2013 (unaudited) | Six months ended June 30, 2012 (restated) (unaudited) |
|---|---|---|
| Other expenses | **2** | 1 |

## 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 11$^{th}$ 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.

On July 19, 2012 the Arbitrazh Court of the Tomsk Region declared void the loan agreements between Yukos Capital and Tomskneft. On June 3, 2013 the 7$^{th}$ Arbitrazh Appellate Court dismissed Yukos Capital's appeal of that judgment.

**24. Contingencies (continued)**

**Legal claims (continued)**

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. A hearing on the cross-motions was held on July 16, 2013, and the court’s decision is pending.

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. In proceedings in Ireland discussed below, Yukos Capital stated that on February 6, 2013 it filed a notice of appeal to the French Court of Cassation seeking review of the Paris Court of Appeal’s judgment declining enforcement. Tomskneft has not received a copy of any appellate papers regarding such an appeal in France, against which it will defend vigorously.

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. At a scheduling hearing held in April 2013, the Irish court scheduled the hearing of the jurisdictional issues for October 15-17, 2013. Tomskneft has made an initial application in Singapore to deny enforcement of the award there. The hearing schedule in Singapore has not been fixed yet. Tomskneft intends to defend vigorously against these actions.

Yukos International (UK) B.V. has initiated proceedings in the Amsterdam District Court claiming damages of up to US$ 333 million (RUB 11 billion at the CBR official exchange rate at June 30, 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. 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.

## 24. Contingencies (continued)

### Legal claims (continued)

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 30 June 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.

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.

TNK-BP is involved in litigations which arose before the completion of TNK-BP acquisition. Currently, the Company is assessing the impact of these litigations on the financial position and results of operations of the Company. The resulting impact of these litigations will be taken into account in the Company's allocation of the TNK-BP purchase price.

### 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. 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.

## 24. Contingencies (continued)

### Taxation (continued)

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 2009-2011 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 June 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.

### 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 439 billion and RUB 340 billion as of June 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.

## 24. Contingencies (continued)

### 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 for entering the project in two tranches (40% and 60%) and provide a loan of $1.5 billion to Corporacion Venezolana del Petroleo with the maximum yearly draw down of $0.3 billion.

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 approximately 8 million tons of crude oil to be supplied at market prices during the period through June 30, 2016.

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. The beginning of deliveries under the agreement with Trafigura is planned in the third quarter 2013.

In June 2013 Rosneft 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. The beginning of crude oil supplies under these agreements is planned in July 2013.

## 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 six months 2013 the Company has received prepayments under the crude oil supply agreements of RUB 258 billion. The crude oil deliveries start from 2013. The prepayments shall be settled through crude oil deliveries starting 2015.

## 26. Events after the reporting period

On July 2, 2013 the Company acquired an additional 49% ownership interest in LLC Oil and Gas Company ITERA, the major independent natural gas producer and supplier in Russian Federation for the total consideration of RUB 95 billion. As a result of this acquisition, the Company’s share in LLC Oil and Gas Company ITERA increased to 100%. Starting from the date of acquisition of additional interest, Rosneft obtained control over LLC Oil and Gas Company ITERA. The entity will be accounted for and consolidated to Rosneft under IFRS 3, *Business Combinations*. The Company has not yet completed the purchase price allocation of this acquisition.

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