Rosneft Oil Company

Consolidated Financial Statements

December 31, 2013

Contents

Совершенствуя бизнес,
улучшаем мир

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Independent auditor's report

To the Shareholders and the Board of Directors
of Open Joint Stock Company Rosneft Oil Company

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Rosneft Oil Company and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2013, and the consolidated statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

Management of the audited entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Federal Standards on Auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Open Joint Stock Company Rosneft Oil Company and its subsidiaries as at December 31, 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information accompanying the consolidated financial statements which has been disclosed as Supplementary oil and gas disclosure on page 94 is presented for additional analysis and is not within the scope of International Financial Reporting Standards. Such information was not subject to our audit procedures performed on the accompanying consolidated financial statements and, accordingly, we express no opinion on this information.

R.G. Romanenko
Partner
Ernst & Young LLC

February 4, 2014

Details of the audited entity

Name: OJSC Rosneft Oil Company
Information about the State Register of Legal Entities Concerning a Legal Entity: 77№004856711 dated August 12, 2002.
Address: Russia, 115035, Moscow, Sofiyskaya Embankment, 26/1.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia, 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR"). Ernst & Young LLC is registered in the register of auditors and audit organizations of NP APR, number 3028, and also included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

Rosneft Oil Company

Consolidated Balance Sheet

(in billions of Russian rubles)

	Notes	As of December 31, 2013	2012 (restated)	2011 (restated)
ASSETS				
Current assets:				
Cash and cash equivalents	19	**275**	299	166
Restricted cash	19	**1**	4	4
Other short-term financial assets	20	**232**	90	155
Accounts receivable	21	**415**	237	225
Inventories	22	**202**	134	128
Prepayments and other current assets	23	**330**	185	160
Total current assets		**1,455**	949	838
Non-current assets:				
Property, plant and equipment	24	**5,330**	2,629	2,371
Intangible assets	25	**37**	19	22
Other long-term financial assets	26	**40**	24	34
Investments in joint ventures and associates	27	**327**	186	36
Bank loans granted		**12**	13	13
Deferred tax assets	16	**14**	4	4
Goodwill	25	**164**	144	142
Other non-current non-financial assets	28	**12**	3	3
Total non-current assets		**5,936**	3,022	2,625
Assets held for sale	7	**147**	–	–
Total assets		**7,538**	3,971	3,463
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	29	**488**	211	190
Loans and borrowings	30	**684**	143	165
Finance lease liabilities	30	**4**	3	1
Liabilities related to derivative instruments	31	**6**	–	4
Income tax liabilities	16	**11**	7	3
Other tax liabilities	32	**161**	83	73
Provisions	33	**22**	5	6
Other current liabilities		**11**	1	1
Total current liabilities		**1,387**	453	443
Non-current liabilities:				
Loans and borrowings	30	**1,676**	837	596
Finance lease liabilities	30	**8**	8	5
Deferred tax liabilities	16	**660**	264	241
Provisions	33	**116**	71	60
Prepayment on oil supply agreements	34	**470**	–	–
Other non-current liabilities	35	**28**	16	14
Total non-current liabilities		**2,958**	1,196	916
Liabilities associated with assets held for sale	7	**28**	–	–
Equity:				
Share capital	37	**1**	1	1
Treasury shares	37	**–**	(299)	(224)
Additional paid-in capital	37	**477**	385	386
Other funds and reserves		**(14)**	(6)	(5)
Retained earnings		**2,662**	2,202	1,910
Rosneft shareholders' equity		**3,126**	2,283	2,068
Non-controlling interests	17	**39**	39	36
Total equity		**3,165**	2,322	2,104
Total liabilities and equity		**7,538**	3,971	3,463

President ____________________ I.I. Sechin February 4, 2014

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

Rosneft Oil Company

Consolidated Statement of Comprehensive Income

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

	Notes	For the years ended December 31, 2013	2012 (restated)	2011 (restated)
Revenues and equity share in profits of joint ventures and associates				
Oil and gas sales	8	**2,428**	1,526	1,392
Petroleum products and petrochemicals sales	8	**2,196**	1,498	1,265
Support services and other revenues		**58**	42	45
Equity share in profits of joint ventures and associates	27	**12**	23	16
Total revenues and equity share in profits of joint ventures and associates		**4,694**	3,089	2,718
Costs and expenses				
Production and operating expenses		**389**	247	189
Cost of purchased oil, gas and petroleum products and refining costs		**432**	319	298
General and administrative expenses		**111**	68	52
Pipeline tariffs and transportation costs		**392**	241	216
Exploration expenses		**17**	23	13
Depreciation, depletion and amortization	24, 25	**392**	206	193
Taxes other than income tax	9	**1,024**	672	498
Export customs duty	10	**1,382**	901	790
Total costs and expenses		**4,139**	2,677	2,249
Operating income		**555**	412	469
Finance income	11	**21**	24	20
Finance expenses	12	**(56)**	(15)	(19)
Other income	13	**242**	87	25
Other expenses	13	**(59)**	(50)	(48)
Foreign exchange differences		**(71)**	11	(22)
Income before income tax		**632**	469	425
Income tax expense	16	**(81)**	(104)	(90)
Net income		**551**	365	335
Other comprehensive (loss)/income – to be reclassified to (loss)/profit in subsequent periods				
Foreign exchange differences on translation of foreign operations		**(11)**	2	(1)
Gain/(loss) from changes in fair value of financial assets available-for-sale, net of tax		**3**	(3)	1
Total other comprehensive loss – to be reclassified to (loss)/profit in subsequent periods, net of tax		**(8)**	(1)	–
Total comprehensive income, net of tax		**543**	364	335
Net income				
attributable to Rosneft shareholders		**545**	363	331
attributable to non-controlling interests		**6**	2	4
Total comprehensive income, net of tax				
attributable to Rosneft shareholders		**537**	362	331
attributable to non-controlling interests		**6**	2	4
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	18	**52.89**	38.55	34.51
Weighted average number of shares outstanding (millions)		**10,304**	9,416	9,591

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

Rosneft Oil Company

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 reserves	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Balance at January 1, 2012	**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 January 1, 2012 (restated)	**9,588**	**1**	**386**	**(224)**	**(5)**	**1,910**	**2,068**	**36**	**2,104**
Net income for the year	–	–	–	–	–	363	**363**	2	**365**
Other comprehensive income	–	–	–	–	(1)	–	**(1)**	–	**(1)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(1)**	**363**	**362**	**2**	**364**
Purchase of treasury shares (Notes 7, 37)	(350)	–	–	(75)	–	–	**(75)**	–	**(75)**
Dividends declared on common stock (Note 37)	–	–	–	–	–	(71)	**(71)**	–	**(71)**
Change in ownership interests in subsidiaries (Note 37)	–	–	(1)	–	–	–	**(1)**	1	**–**
Balance at December 31, 2012 (restated)	**9,238**	**1**	**385**	**(299)**	**(6)**	**2,202**	**2,283**	**39**	**2,322**
Net income for the year	–	–	–	–	–	545	**545**	6	**551**
Other comprehensive income	–	–	–	–	(8)	–	(8)	–	(8)
Total comprehensive income	**–**	**–**	**–**	**–**	**(8)**	**545**	**537**	**6**	**543**
Sale of treasury shares (Notes 7, 37)	1,360	–	28	299	–	–	**327**	–	**327**
Dividends declared on common stock (Note 37)	–	–	–	–	–	(85)	**(85)**	–	**(85)**
Acquisition of subsidiaries (Note 7)	–	–	–	–	–	–	**–**	114	**114**
Sale of 9.99% of OJSC RN Holding shares (Note 37)	–	–	(125)	–	–	–	**(125)**	224	**99**
Voluntary offer to acquire OJSC RN Holding shares (Note 37)	–	–	189	–	–	–	**189**	(342)	**(153)**
Other	–	–	–	–	–	–	**–**	(2)	**(2)**
Balance at December 31, 2013	**10,598**	**1**	**477**	–	**(14)**	**2,662**	**3,126**	**39**	**3,165**

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

Rosneft Oil Company

Consolidated Statement of Cash Flows

(in billions of Russian rubles)

	Notes	For the years ended December 31, 2013	2012 (restated)	2011 (restated)
Operating activities				
Net income		**551**	365	335
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion and amortization	24,25	**392**	206	193
Loss on disposal of non-current assets	13	**13**	9	19
Impairment of assets	13	**9**	10	4
Non-cash income from acquisition of subsidiaries, net	7, 13	**(205)**	(82)	–
Loss from assets and liabilities write-off, net		–	(1)	(24)
Dry hole costs		**5**	3	4
Foreign exchange loss/(gain)		**94**	(30)	31
Equity share in profits of joint ventures and associates	27	**(12)**	(23)	(16)
Loss from disposal of subsidiaries and non-production assets	13	**5**	11	10
Finance expenses	12	**56**	15	19
Finance income	11	**(21)**	(24)	(20)
Interest paid on long-term prepayment on oil supply agreements		**(5)**	–	–
Income tax expense	16	**81**	104	90
Gain on notes write off	30	**(32)**	–	–
(Gain)/loss on bad debt allowance		**(1)**	3	2
Changes in operating assets and liabilities:				
Increase in accounts receivable, gross		**(112)**	(15)	(88)
Increase in inventories		**(7)**	(6)	(61)
Decrease/(increase) in restricted cash		**8**	–	(3)
Increase in prepayments and other current assets		**(59)**	(22)	(15)
Increase in accounts payable and accrued liabilities		**33**	55	82
Increase in other tax liabilities		**16**	8	20
Increase/(decrease) in current provisions		**11**	(1)	1
Increase/(decrease) in other current liabilities		**3**	(6)	(4)
Increase/(decrease) in other non-current liabilities		**4**	3	(10)
Increase in long-term prepayment on oil supply agreements		**470**	–	–
Long-term loans granted by subsidiary banks		**(24)**	(33)	(53)
Repayment of long-term loans granted by subsidiary banks		**25**	33	48
Acquisition of trading securities		**(22)**	(53)	(64)
Proceeds from sale of trading securities		**21**	57	68
Net cash provided by operating activities before income tax and interest		**1,297**	586	568
Income tax payments		**(91)**	(76)	(102)
Interest received		**7**	10	13
Dividends received		–	1	8
Net cash provided by operating activities		**1,213**	521	487

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

Consolidated Statement of Cash flows (continued)

(in billions of Russian rubles)

	Notes	2013	2012 (restated)	2011 (restated)
		For the years ended December 31,		
Investing activities				
Capital expenditures		**(560)**	(473)	(391)
Acquisition of licenses		**(12)**	(4)	(7)
Acquisition of rights to use trademarks "Sochi 2014"		**(1)**	(1)	(1)
Acquisition of short-term financial assets		**(237)**	(118)	(134)
Proceeds from sale of short-term financial assets		**77**	162	197
Acquisition of long-term financial assets		**(9)**	(3)	(5)
Proceeds from sale of long-term financial assets		**1**	6	−
Acquisition of interest in joint ventures and associates	27	**(76)**	(43)	(47)
Acquisition of subsidiaries, net of cash acquired	7	**(1,407)**	(4)	−
Sale of property, plant and equipment		**5**	4	2
Placements under reverse REPO agreements		**(7)**	(15)	(31)
Receipts under reverse REPO agreements		**6**	37	23
Net cash used in investing activities		**(2,220)**	(452)	(394)
Financing activities				
Proceeds from short-term loans and borrowings	30	**96**	55	25
Repayment of short-term loans and borrowings		**(24)**	(39)	(17)
Proceeds from long-term loans and borrowings	30	**1,103**	351	124
Repayment of long-term loans and borrowings		**(254)**	(137)	(123)
Proceeds from bonds issuance	30	**110**	20	−
Repayment of other financial liabilities		**(12)**	−	−
Proceeds from sale of subsidiaries stock	37	**97**	−	−
Acquisition of treasury stock		−	(75)	(3)
Acquisition of non-controlling interests in subsidiaries		−	(2)	(11)
Dividends paid to shareholders		**(85)**	(71)	(27)
Interest paid		**(63)**	(29)	(24)
Net cash provided by/(used in) financing activities		**968**	73	(56)
Net (decrease)/increase in cash and cash equivalents		**(39)**	142	37
Cash and cash equivalents at beginning of period	19	**299**	166	127
Effect of foreign exchange on cash and cash equivalents		**15**	(9)	2
Cash and cash equivalents at end of period	19	**275**	299	166

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.

Rosneft State Enterprise was incorporated as an open joint stock company on December 7, 1995. All assets and liabilities previously managed by Rosneft State Enterprise were transferred to the Company at their book value effective on that date together with the Government of the Russian Federation (the "State") ownership in other privatized oil and gas companies. The transfer of assets and liabilities was made in accordance with Russian Government Resolution No. 971 dated September 29, 1995, *On the Transformation of Rosneft State Enterprise into an Open Joint Stock Company "Oil Company Rosneft"*. Such transfers represented a reorganization of assets under the common control of the State and, accordingly, were accounted for at their book value. In 2005, the State contributed the shares of Rosneft to the share capital of OJSC ROSNEFTEGAS. As of December 31, 2005, 100% of the shares of Rosneft less one share were owned by OJSC ROSNEFTEGAS and one share was owned by the Russian Federation Federal Agency for the Management of Federal Property. Subsequently, OJSC ROSNEFTEGAS' ownership interest decreased through additional issuance of shares during Rosneft's Initial Public Offering ("IPO") in Russia, issuance of Global Depository Receipts ("GDR") for the shares on London Stock Exchange and the share swap realized during the merger of Rosneft and certain subsidiaries during 2006. In March 2013 in the course of TNK-BP acquisition (Note 7), OJSC ROSNEFTEGAS sold 5.66% of Rosneft shares to BP plc. ("BP"). As of December 31, 2013 OJSC ROSNEFTEGAS' ownership interest in Rosneft was 69.50%.

Under Russian legislation, natural resources, including oil, gas, precious metals and minerals and other commercial minerals situated in the territory of the Russian Federation are the property of the State until they are extracted. Law of the Russian Federation No. 2395-1, On Subsurface Resources, regulates relations arising in connection with the geological study, and the use and protection of subsurface resources in the territory of the Russian Federation. Pursuant to the law, subsurface resources may be developed only on the basis of a license. A license is issued by the regional governmental body and contains information on the site to be developed, the period of activity, as well as financial and other conditions. The Company holds licenses issued by competent authorities for geological studies, exploration and development of oil and gas blocks, fields, and shelf in areas where its subsidiaries are located.

The Company is subject to export quotas set by the Russian Federation State Pipeline Commission to allow equal access to the limited capacity of oil pipeline system owned and operated by OJSC AK Transneft. The Company exports certain quantities of crude oil bypassing OJSC AK Transneft system thus achieving higher export capacity. The remaining production is processed at the Company's and third parties' refineries for further sale on domestic and international markets.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including all International Financial Reporting Standards ("IFRS") and Interpretations issued by the International Accounting Standards Board ("IASB") and effective in the reporting period, and are fully compliant therewith.

These consolidated financial statements have been prepared on a historical cost basis, except certain financial assets and liabilities measured at fair value (Note 38).

2. Basis of preparation (continued)

Rosneft and its subsidiaries maintain their books and records in accordance with statutory accounting and taxation principles and practices applicable in respective jurisdictions. These consolidated financial statements were derived from the Company's statutory books and records.

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

The consolidated financial statements were approved and authorized for issue by the President of the Company on February 4, 2014.

Subsequent events have been evaluated through February 4, 2014, the date these consolidated financial statements were issued.

3. Significant accounting policies

The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the Company's statutory books, which are appropriate to present the financial position, results of operations and cash flows in accordance with IFRS. The principal adjustments relate to: (1) recognition of certain expenses; (2) valuation and depreciation of property, plant and equipment; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) accounting for the time value of money; (6) accounting for investments in oil and gas property and conveyances; (7) consolidation principles; (8) recognition and disclosure of guarantees, contingencies, commitments and certain assets and liabilities; (9) business combinations and goodwill; (10) accounting for derivative instruments; (11) purchase price allocation to the identifiable assets acquired and the liabilities assumed.

The consolidated financial statements include the accounts of majority-owned, controlled subsidiaries and special-purpose entities where the Company holds a beneficial interest. All significant intercompany transactions and balances have been eliminated. The equity method is used to account for investments in associates in which the Company has the ability to exert significant influence over the associates' operating and financial policies. The investments in entities where the Company holds the majority of shares, but does not exercise control, are also accounted for using the equity method. Investments in other companies are accounted for at fair value or cost adjusted for impairment, if any.

Business combinations, goodwill and other intangible assets

Acquisitions by the Company of controlling interests in third parties (or interest in their charter capital) are accounted for using the acquisition method.

Acquisition date is the date when effective control over the acquiree passes to the Company.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

3. Significant accounting policies (continued)

Business combinations, goodwill and other intangible assets (continued)

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair value of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Associates

Investments in associates are accounted for using the equity method unless they are classified as non-current assets held for sale. Under this method, the carrying value of investments in associates is initially recognized at the acquisition cost.

The carrying value of investments in associates is increased or decreased by the Company's reported share in profit or loss and other comprehensive income of the investee after the acquisition date. The Company's share in profit or loss and other comprehensive income of an associate is recognized in the Company's consolidated statement of comprehensive income as profit or loss and other comprehensive income, respectively. Dividends paid by the associate are accounted for as a reduction of the carrying value of investments.

The Company's net investment in associates includes the carrying value of the investment in these associates as well as other long-term investments that are, in substance, investments in associates, such as loans. If the share in losses exceeds the carrying value of the investment in associates and the value of other long-term investments related to investments in these associates, the Company ceases to recognize its share in losses when the carrying value reaches zero. Any additional losses are provided for and liabilities are recognized only to the extent that the Company has legal or constructive obligations or has made payments on behalf of the associate.

If the associate subsequently makes profits, the Company resumes recognizing its share in these profits only after its share of the profits equals the share of losses not recognized.

The carrying value of investments in associates is tested for impairment by reconciling its recoverable amount (the higher of its value in use and fair value less costs to sell) to its carrying value, whenever impairment indicators are identified.

Joint arrangements

The Company participates in joint arrangements either in the form of joint ventures or joint operations.

A joint venture implies that the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture involves establishing a legal entity where the Company and other participants have respective equity interests. Equity interests in joint ventures are accounted for under the equity method.

The Company's share in net profit or loss of joint ventures is recognized in the consolidated statement of comprehensive income as profit or loss from the date that joint control commences until the date that joint control ceases.

3. Significant accounting policies (continued)

Joint arrangements (continued)

A joint operation implies that the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. In relation to its interest in a joint operation the Company recognizes its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly, its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation, its expenses, including its share of any expenses incurred jointly.

Cash and cash equivalents

Cash represents cash on hand, in the Company's bank accounts, in transit and interest bearing deposits which can be effectively withdrawn at any time without prior notice or penalties reducing the principal amount of the deposit. Cash equivalents are highly liquid, short-term investments that are readily convertible to known amounts of cash and have original maturities of three months or less from their date of purchase. They are carried at cost plus accrued interest, which approximates fair value. Restricted cash is presented separately in the consolidated balance sheet if its amount is significant.

Financial assets

The Company recognizes financial assets on its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial assets are recognized initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

When financial assets are recognized initially, they are classified as following: (1) financial assets at fair value through profit or loss, (2) loans issued and accounts receivable, (3) financial assets held to maturity, (4) financial assets available for sale, as appropriate.

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as financial assets at fair value through profit or loss at initial recognition. Financial assets held for trading are those which are acquired principally for the purpose of sale or repurchase in the near future or are part of a portfolio of identifiable financial instruments that have been commonly managed and for which there is evidence of a recent pattern of actual short term profit taking, or which are derivative instruments (unless the derivative instrument is defined as an effective hedging instrument). Financial assets at fair value through profit or loss are classified in the consolidated balance sheet as current assets and changes in the fair value are recognized in the consolidated statement of comprehensive income as Finance income or Finance expenses.

All derivative instruments are recorded in the consolidated balance sheet at fair value in either current financial assets, non-current financial assets, current liabilities related to derivative instruments, non-current liabilities related to derivative instruments. Recognition and classification of a gain or loss that results from recognition of an adjustment of a derivative instrument at fair value depends on the purpose for issuing or holding the derivative instrument. Gains and losses from derivatives that are not accounted for as hedges under International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*, are recognized immediately in the consolidated statement of comprehensive income.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Subsequent to initial recognition, the fair value of financial assets at fair value that are quoted in an active market is defined as bid prices for assets and ask prices for issued liabilities as of the measurement date.

3. Significant accounting policies (continued)

Financial assets (continued)

If no active market exists for financial assets, the Company measures the fair value using the following methods:

- analysis of recent transactions with peer instruments between independent parties;
- current fair value of similar financial instruments;
- discounting future cash flows.

The discount rate reflects a minimum return on investment an investor is willing to accept before starting an alternative project, given its risk and the opportunity cost of forgoing other projects.

Loans issued and accounts receivable include non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, not classified as financial assets held for trading and have not been designated as at fair value through profit or loss or available for sale. If the Company cannot recover all of its initial investment in the financial asset due to reasons other than deterioration of its quality, the financial asset is not included in this category. After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognized in the consolidated statement of comprehensive income in Finance expenses.

The Company does not classify financial assets as held to maturity if, during either the current financial year or the two preceding financial years, the Company has sold, transferred or exercised a put option on more than an insignificant (in relation to the total) amount of such investments before maturity unless: (1) such financial asset was close enough to maturity or call date so that changes in the market rate of interest did not have a significant effect on the financial asset’s fair value; (2) after substantially all of the financial asset's original principal had been collected through scheduled payments or prepayments; or (3) due to an isolated non-recurring event that is beyond the Company’s control and could not have been reasonably anticipated by the Company.

Dividends and interest income are recognized in the consolidated statement of comprehensive income on an accrual basis. The amount of accrued interest income is calculated using effective interest rate.

All other financial assets not included in the other categories are designated as financial assets available for sale. Specifically, shares of other companies not included in the first category are designated as available for sale. In addition, the Company may include any financial asset in this category at the initial recognition.

Financial liabilities

The Company recognizes financial liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial liabilities are recognized initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

When financial liabilities are recognized initially, they are classified as following:

- financial liabilities at fair value through profit or loss;
- other financial liabilities.

3. Significant accounting policies (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss are financial liabilities held for trading unless such liabilities are linked to delivery of unquoted equity instruments.

At the initial recognition, the Company may include in this category any financial liability, except equity instruments that are not quoted in an active market and whose fair value cannot be reliably measured. However, subsequent to initial recognition, the liability cannot be reclassified.

Financial liabilities not classified as financial liabilities at fair value through profit or loss are designated as other financial liabilities. Other financial liabilities include, inter alia, trade and other accounts payable, loans and borrowings payable.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the consolidated statement of comprehensive income. Other financial liabilities are carried at amortized cost.

The Company writes off a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying value of a financial liability (or a part of a financial liability) extinguished or transferred to another party and the redemption value, including any transferred non-monetary assets and assumed liabilities, is recognized in profit or loss. Any previously recognized components of other comprehensive income pertaining to this financial liability are also included in the financial result and are recognized as gains and losses for the period.

Earnings per share

Basic earnings per share is calculated by dividing net earnings attributable to common shares by the weighted average number of common shares outstanding during the corresponding period. In the absence of any securities-to-shares conversion transactions, the amount of basic earnings per share stated in these consolidated financial statements is equal to the amount of diluted earnings per share.

Inventories

Inventories consisting primarily of crude oil, petroleum products, petrochemicals and materials and supplies are accounted for at the weighted average cost unless net realisable value is less than cost. Materials that are used in the production are not written down below cost if the finished products in which they will be incorporated are expected to be sold above cost.

Repurchase and resale agreements

Securities sold under agreements to repurchase ("REPO") and securities purchased under agreements to resell ("reverse REPO") generally do not constitute a sale for accounting purposes of the underlying securities, and so are treated as collateralized financing transactions. Interest paid or received on all REPO and reverse REPO transactions is recorded in Finance expense or Finance income, respectively, at the contractually specified rate using the effective interest method.

Exploration and Production assets

Exploration and Production assets include exploration and evaluation assets, mineral rights and oil and gas properties (development assets and production assets).

3. Significant accounting policies (continued)

Exploration and evaluation costs

The Company recognizes exploration and evaluation costs using the successful efforts method as permitted by IFRS 6, *Exploration for and Evaluation of Mineral Resources*. Under this method, all costs related to exploration and evaluation (license acquisition costs, exploration and appraisal drilling) are temporarily capitalized in cost centers by field (well) until the drilling program results in discovering economically feasible oil and gas reserves.

The length of time necessary for this determination depends on the specific technical or economic difficulties in assessing the recoverability of the reserves. If a determination is made that the well did not encounter oil and gas in economically viable quantities, the well costs are expensed to Exploration expenses in the consolidated statement of comprehensive income.

Exploration and evaluation costs, except for costs associated with seismic, topographical, geological, geophysical surveys, are initially capitalized as exploration and evaluation assets. Exploration and evaluation assets are recognized at cost less impairment, if any, as property, plant and equipment until the existence (or absence) of commercial reserves has been established. Initial cost of exploration and evaluation assets acquired through a business combination is formed as a result of purchase price allocation. The cost allocation to mineral rights to proved properties and mineral rights to unproved properties is performed based on the respective oil and gas reserve information. Exploration and evaluation assets are subject to technical, commercial and management review as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, impairment test is performed.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as oil and gas properties (development assets). However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

Development and production

Oil and gas properties (development assets) are accounted for on a field-by-field basis and represent (1) capitalized costs to develop discovered commercial reserves and to put fields into production, and (2) exploration and evaluation costs incurred to discover commercial reserves reclassified from exploration and evaluation assets to oil and gas properties (development assets) following discovery of commercial reserves.

Oil and gas properties (development assets) costs include the expenditures to acquire such assets, directly identifiable overhead expenses, capitalized financing costs and related asset retirement (decommissioning) obligation costs. Oil and gas properties (development assets) are generally recognized as construction in progress.

Following commencement of commercial production, oil and gas properties (development assets) are reclassified as oil and gas properties (production assets).

3. Significant accounting policies (continued)

Other property, plant and equipment

Property, plant and equipment are stated at historical cost as of the acquisition date, except for property, plant and equipment acquired prior to January 1, 2009, which is stated at deemed cost, net of accumulated depreciation and impairment. The cost of maintenance, repairs, and replacement of minor items of property is charged to operating expenses. Renewals and betterments of assets are capitalized.

Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

Depreciation, depletion and amortization

Oil and gas properties are depleted using unit-of-production method on field-by-field basis starting from the commencement of commercial production.

In applying the unit-of-production method to mineral licenses, the depletion rate is based on total proved reserves. In applying the unit-of-production method to other oil and gas properties, the depletion rate is based on proved developed reserves.

Other property, plant and equipment are depreciated using the straight line method over their estimated useful lives from the time they are ready for use, except for catalysts which are amortized using the unit-of-production method.

Components of other property, plant and equipment and respective estimated useful life are as follows:

Buildings and structures	30-45 years
Plant and machinery	5-25 years
Vehicles and other property, plant and equipment	6-10 years
Service vessels	20 years
Offshore drilling assets	20 years

Land generally has an indefinite useful life and, thus, is not depreciated.

Land leasehold rights are amortized on a straight line basis over their expected useful life, which averages 20 years.

Construction grants

The Company recognizes construction grants from local governments when there is reasonable assurance that the Company will comply with the conditions attached and that the grant will be received. The construction grants are accounted for as a reduction of the cost of the asset for which the grant is received.

Impairment of non-current assets

The Company assesses at each balance sheet date whether there is any indication that an asset or cash-generating unit may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset or cash-generating unit.

3. Significant accounting policies (continued)

Impairment of non-current assets (continued)

In assessing whether there is any indication that an asset may be impaired, the Company considers internal and external sources of information. It considers at least the following:

External sources of information:

- during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- significant changes with an adverse effect on the Company have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Company or in the market to which an asset is dedicated;
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- the carrying amount of the net assets of the Company is more than its market capitalization.

Internal sources of information:

- evidence is available of obsolescence or physical damage of an asset;
- significant changes with an adverse effect on the Company have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used (e.g., the asset becoming idle and reassessing the useful life of an asset as finite rather than indefinite);
- information on dividends from a subsidiary, joint venture or associate;
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. Such evidence includes the existence of:
  - cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;
  - actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted;
  - a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset;
  - operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

The following factors indicate that exploration and evaluation assets may be impaired:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

3. Significant accounting policies (continued)

Impairment of non-current assets (continued)

The recoverable amount of an asset or a cash-generating unit is the higher of:

- value in use of an asset (cash-generating unit) *and*
- fair value of an asset (cash-generating unit) less costs to sell.

If the asset does not generate cash inflows that are largely independent of those from other assets, its recoverable amount is determined for the asset's cash-generating unit.

The Company initially measures the value in use of a cash-generating unit. When the carrying amount of a cash-generating unit is greater than its value in use, the Company measures the unit's fair value for the purpose of measuring the recoverable amount. When the fair value is less than the carrying value impairment loss is recognized.

Value in use is determined by discounting the estimated value of the future cash inflows expected to be derived from the asset or cash-generating unit, including cash inflows from its sale. The value of the future cash inflows from a cash-generating unit is determined based on the forecast approved by management of the business unit to which the unit in question pertains.

Impairment of financial assets

At each balance sheet date the Company analyzes whether there is objective evidence of impairment for all categories of financial assets, except those recorded at fair value through profit or loss. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include (but not limited to) indications that the debtors or a group of debtors is experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Capitalized interest

Interest expense related to the use of borrowed funds used for capital construction projects and acquisition of property, plant and equipment is capitalized provided that such interest expense could have been avoided if the Company had not made capital investments. Interest is capitalized only during the period when construction activities are actually in progress and until the resulting properties are put into operation.

Leasing agreements

Leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the asset, are classified as financial lease and are capitalized at the commencement of the lease at the fair value of the leased property or, if it is lower than the cost, at the present value of the minimum lease payments. Lease payments are apportioned between the finance expenses and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liabilities. Finance expenses are charged directly to the consolidated statement of comprehensive income.

3. Significant accounting policies (continued)

Leasing agreements (continued)

Leased property, plant and equipment are accounted for using the same policies as applied to the Company's own assets. In determining the useful life of a leased item of property, plant and equipment, consideration is given to the probability of transfer of title to the lessee at the end of the lease term.

If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. Where such certainty exists, the asset is depreciated over its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Asset retirement (decommissioning) obligations

The Company has asset retirement (decommissioning) obligations associated with its core business activities. The nature of the assets and potential obligations are as follows:

The Company's exploration, development and production activities involve the use of wells, related equipment and operating sites, oil gathering and treatment facilities, tank farms and in-field pipelines. Generally, licenses and other regulatory acts require that such assets be decommissioned upon the completion of production. According to these requirements, the Company is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Company's estimates of these obligations are based on current regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Company using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability.

In accordance with IFRS Interpretations Committee ("IFRIC") 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, the provision is reviewed at each balance sheet date as follows:

- upon changes in the estimates of future cash flows (e.g., the costs of and timeframe for abandoning one well) or a discounting rate, changes in the amount of the liability are included in the cost of the item of plant, property and equipment, whereby such cost may not be negative and may not exceed the recoverable value of the item of plant, property and equipment;
- any changes in the liability due to its nearing maturity (change in the discount) are recognized in Finance expenses.

The Company's refining and distribution activities involve refining operations, marine and other distribution terminals, and retail sales. The Company's refining operations consist of major petrochemical operations and industrial complexes. Legal or contractual asset retirement (decommissioning) obligations related to petrochemical, oil refining and distribution activities are not recognized due to the limited history of such activities in these segments, the lack of clear legal requirements as to the recognition of obligations, as well as the fact that decommissioning period for such assets are not determinable.

Because of the reasons described above the fair value of an asset retirement (decommissioning) obligation of the refining and distribution segment cannot be reasonably estimated. Due to continuous changes in the Russian regulatory and legal environment, there could be future changes to the requirements and contingencies associated with the retirement of long-lived assets.

3. Significant accounting policies (continued)

Income tax

From 2012 Russian tax legislation permits to calculate income taxes on a consolidated basis. Therefore the main subsidiaries of the Company which do not have non-controlling interest were combined into the Consolidated group of taxpayers (Note 41). For subsidiaries which are not included to the Consolidated group of taxpayers income taxes were calculated on an individual subsidiary basis. Deferred income tax assets and liabilities are recognized in the accompanying consolidated financial statements in the amount determined by the Company in accordance with IAS 12, *Income Taxes*.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax liability is recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; *and*
  - affects neither accounting profit, nor taxable profit;
- the investments in subsidiaries when the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

A prior period tax loss used to reduce the current amount of income tax is recognized as a deferred tax asset.

A deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; *and*
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

The Company recognizes deferred tax assets for all deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures, to the extent that the following two conditions are met:

- the temporary difference will reverse in the foreseeable future; *and*
- taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. Significant accounting policies (continued)

Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at each balance sheet date.

The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are classified as Non-current Deferred tax assets and Non-current Deferred tax liabilities, respectively.

Deferred tax assets and liabilities are not discounted.

Recognition of revenues

Revenues are recognized when risks and rewards pass to the customer which usually occurs when the title passes to the customer, providing that the contract price is fixed or determinable and collectability of the receivable is reasonably assured. Specifically, domestic sales of crude oil and gas, as well as petroleum products and materials are usually recognized when title passes. For export sales, title generally passes at the border of the Russian Federation and the Company covers transportation expenses (except freight), duties and taxes on those sales (Note 10). Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, volume rebates and reimbursable taxes.

Sales of support services are recognized as services are performed provided that the service price can be determined and no significant uncertainties regarding the receipt of revenues exist.

Transportation expenses

Transportation expenses recognized in the consolidated statement of comprehensive income represent all expenses incurred by the Company to transport crude oil for refining and to end customers, and to deliver petroleum products from refineries to end customers (these may include pipeline tariffs and any additional railroad transportation costs, handling costs, port fees, sea freight and other costs).

Refinery maintenance costs

The Company recognizes the costs of overhauls and preventive maintenance performed with respect to oil refining assets as expenses when incurred.

Environmental liabilities

Expenditures that relate to an existing condition caused by past operations, and do not have a future economic benefit, are expensed. Liabilities for these expenditures are recorded when environmental assessments or clean-ups are probable and the costs can be reasonably estimated.

3. Significant accounting policies (continued)

Accounting for contingencies

Certain conditions may exist as of the date of these consolidated financial statements which may further result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management makes an assessment of such contingent liabilities which is based on assumptions and is a matter of opinion. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal or tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

Taxes collected from customers and remitted to governmental authorities

Refundable excise is deducted from revenues. Non-refundable excise and customs duties are not deducted from revenues and are recognized as expenses in Taxes other than income tax in the consolidated statement of comprehensive income.

Value-added tax ("VAT") receivable and payable is recognized, respectively, as Prepayments and other current assets and Other tax liabilities in the consolidated balance sheet.

Functional and presentation currency

The financial statements are presented in Russian Rubles, which is the functional currency of Rosneft Oil Company and all of its subsidiaries operating in the Russian Federation. A functional currency of the foreign subsidiaries is generally the US dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

3. Significant accounting policies (continued)

The Company's subsidiaries

The results and financial position of all of the Company's subsidiaries, joint ventures and associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at that reporting date;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of other comprehensive income.

Prepayment on oil supply contracts

In the course of business the Company enters into long-term oil supply contracts. The contract terms may require the buyer to make a prepayment.

The Company considers long-term oil supply contracts to be a regular way sales entered into and continued to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements. A regular way sale contracts are exempted from the scope of IAS 32, *Financial Instruments: Presentation,* and IAS 39, *Financial Instruments: Recognition and Measurement.*

Conditions to meet the definition of a regular way sale are not met if either of the following applies:

- ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the Company has a practice of settling similar contracts net in cash or another financial instrument or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);
- for similar contracts, the Company has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin.

Prepayments for the delivery of goods or respective deferred revenue are accounted for as non-financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards and interpretations effective as of January 1, 2013 and a voluntary change in accounting policy described below.

3. Significant accounting policies (continued)

Changes in accounting policies and disclosures (continued)

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 years ended December 31, 2012 and 2011 decreased RUB 32 billion and RUB 20 billion, respectively. 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 year ended December 31, 2012 was an increase of RUB 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 38.

IAS 1, *Presentation of Financial Statements*. 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. Significant accounting policies (continued)

Changes in accounting policies and disclosures (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 the 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 consolidated balance sheet as of December 31 and January 1, 2012 and the consolidated statement of comprehensive income for the year ended December 31, 2012 is presented below.

The Company's interests in Ruhr Oel GmbH and Tomskneft are presented using the equity method of accounting in Equity share in profits of joint ventures and associates in the consolidated statement of comprehensive income for the year ended December 31, 2011.

3. Significant accounting policies (continued)

Changes in accounting policies and disclosures (continued)

Impact on the consolidated balance sheet:

	As of December 31, 2012			As of January 1, 2012		
	Ruhr Oel GmbH	Tomskneft	Total	Ruhr Oel GmbH	Tomskneft	Total
Increase in current assets:						
Cash and cash equivalents	–	3	3	–	–	–
Other financial assets	2	2	4	2	3	5
Accounts receivable	10	–	10	8	–	8
Inventories	1	1	2	1	1	2
Prepayments and other current assets	1	–	1	1	1	2
Increase in total current assets	**14**	**6**	**20**	**12**	**5**	**17**
Increase/(decrease) in non-current assets:						
Property, plant and equipment	57	42	99	60	40	100
Investment in Ruhr Oel GmbH	(47)	–	(47)	(46)	–	(46)
Investment in Tomskneft	–	(38)	(38)	–	(34)	(34)
Investments in joint ventures and associates	2	–	2	2	–	2
Deferred tax assets	–	2	2	–	2	2
Goodwill	–	10	10	–	10	10
Increase in total non-current assets	**12**	**16**	**28**	**16**	**18**	**34**
Increase in total assets	**26**	**22**	**48**	**28**	**23**	**51**
Increase in current liabilities:						
Accounts payable and accrued liabilities	4	1	5	7	2	9
Loans and borrowings	5	12	17	2	11	13
Other tax liabilities	2	4	6	3	4	7
Increase in total current liabilities	**11**	**17**	**28**	**12**	**17**	**29**
Increase in non-current liabilities:						
Deferred tax liabilities	4	5	9	4	5	9
Provisions	–	4	4	–	3	3
Other non-current liabilities	13	–	13	12	–	12
Increase in total non-current liabilities	**17**	**9**	**26**	**16**	**8**	**24**
Decrease in equity:						
Other funds and reserves	(2)	–	(2)	–	–	–
Retained earnings	–	(4)	(4)	–	(2)	(2)
Decrease in total equity	**(2)**	**(4)**	**(6)**	**–**	**(2)**	**(2)**
Increase in total liabilities and equity	**26**	**22**	**48**	**28**	**23**	**51**

3. Significant accounting policies (continued)

Changes in accounting policies and disclosures (continued)

Impact on the consolidated statement of comprehensive income:

	For the year ended December 31, 2012		
	Ruhr Oel GmbH	**Tomskneft**	**Total**
Revenues and equity share in profits of joint ventures and associates			
Petroleum products and petrochemicals sales	–	1	1
Equity share in profits of joint ventures and associates	–	(8)	(8)
Total revenues and equity share in profits of joint ventures and associates	**–**	**(7)**	**(7)**
Costs and expenses			
Production and operating expenses	15	12	27
Cost of purchased oil, gas and petroleum products and refining costs	(19)	(51)	(70)
Depreciation, depletion and amortization	4	7	11
Taxes other than income tax	–	27	27
Total costs and expenses	**–**	**(5)**	**(5)**
Operating loss	**–**	**(2)**	**(2)**
Other income	–	2	2
Income before income tax	**–**	**–**	**–**
Income tax expense	–	(2)	(2)
Net loss	**–**	**(2)**	**(2)**
Other comprehensive loss – to be reclassified to loss in subsequent periods			
Foreign exchange differences on translation of foreign operations	(2)	–	(2)
Total other comprehensive loss – to be reclassified to loss in subsequent periods, net of tax	**(2)**	**–**	**(2)**
Total comprehensive loss, net of tax	**(2)**	**(2)**	**(4)**
Net loss	**–**	**(2)**	**(2)**
attributable to Rosneft shareholders	–	(2)	(2)
attributable to non-controlling interests	–	–	–
Total comprehensive loss, net of tax	**(2)**	**(2)**	**(4)**
attributable to Rosneft shareholders	(2)	(2)	(4)
attributable to non-controlling interests	–	–	–

Impact on the consolidated statement of cash flows:

	2012
Net cash provided by operating activities	5
Net cash used in investing activities	(7)
Net cash provided by financing activities	5
Cash and cash equivalents at end of period	**3**

4. Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements requires management to make a number of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results, however, could differ from those estimates.

The most significant accounting estimates and assumptions used by the Company's management in preparing the consolidated financial statements include:

- estimation of oil and gas reserves;
- estimation of rights to, recoverability and useful lives of non-current assets;
- impairment of goodwill (Note 25 "Intangible assets and goodwill");
- allowances for doubtful accounts receivable and obsolete and slow-moving inventories (Note 21 "Accounts receivable" and Note 22 "Inventories");
- assessment of asset retirement (decommissioning) obligations (Note 3 "Significant accounting policies", Topic "Asset retirement (decommissioning) obligations" and Note 33 "Provisions");
- assessment of legal and tax contingencies, recognition and disclosure of contingent liabilities (Note 41 "Contingencies");
- assessment of deferred income tax assets and liabilities (Note 3 "Significant accounting policies", Topic "Income tax" and Note 16 "Income tax");
- assessment of environmental remediation obligations (Note 33 "Provisions" and Note 41 "Contingencies");
- fair value measurements (Note 38 "Fair value of financial instruments");
- assessment of ability to renew operating leases and to enter into new lease agreements;
- purchase price allocation to the identifiable assets acquired and the liabilities assumed (Note 7 «Acquisition of subsidiaries»).

Significant estimates and assumptions affecting the reported amounts are those used in determining the economic recoverability of reserves.

The estimated amounts of oil and gas reserves are used in calculating the depletion charges under the unit-of-production method and are made in accordance with the requirements adopted by U.S. Securities and Exchange Commission (SEC). Estimates are reassessed on an annual basis.

Such estimates and assumptions may change over time when new information becomes available, e.g.:

- obtaining more detailed information on reserves (either as a result of more detailed engineering calculations or additional exploration drilling activities);
- conducting supplemental activities to enhance oil recovery;
- changes in economic estimates and assumptions (e.g. a change in pricing factors).

5. New standards and interpretations issued but not yet effective

In December 2011, the IASB amended IAS 32, *Financial Instrument: Presentation*. Amendments clarify assets and liabilities offsetting rules and introduce new related disclosure requirements. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The Company will adopt revised IAS 32 from January 1, 2014. The Company does not expect the amendments to have a material impact on the Company's financial position and results of operations.

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

In May 2013, the IASB issued *Recoverable Amount Disclosures for Non-Financial Assets* (amendments to IAS 36, *Impairment of Assets*). The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The Company will adopt the amendments from January 1, 2014. The Company does not expect the amendments to have a material impact on the Company's financial position and results of operations.

In May 2013, the IASB issued Interpretation 21 Levies (IFRIC 21). The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation is applicable for annual periods beginning on or after January 1, 2014. The Company will adopt the interpretation from January 1, 2014. The Company does not expect the IFRIC 21 to have a material impact on the Company's financial position and results of operations.

In June 2013, the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39, *Financial Instruments: Recognition and Measurement*). Under the amendments there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2014. The Company will adopt the amendments from January 1, 2014. The Company does not expect the amendments to have a material impact on the Company's financial position and results of operations.

In November 2013, the IASB issued a new version of IFRS 9 *Financial Instruments* (*Hedge Accounting* and amendments to IFRS 9, IFRS 7 and IAS 39), which includes the new hedge accounting requirements and some related amendments to IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 7, *Financial Instruments: Disclosures*. The amendments to IFRS 9 do not have a mandatory effective date, but are available for application now; a new mandatory effective date will be set when the IASB completes project on the accounting for financial instruments. The Company will not adopt the amendments from January 1, 2014.

6. Capital and financial risk management

Capital management

The Company's capital management objectives are to secure the ability to continue as a going concern and to optimize the cost of capital in order to enhance value to shareholders.

The Company’s management performs regular assessment of the net debt to capital employed ratio to ensure it meets the Company's current rating requirements.

The Company's capital consists of debt obligations, which include long and short-term loans and borrowings, certain other current liabilities, equity attributable to equity holders of Rosneft that includes share capital, reserves and retained earnings, as well as non-controlling interest. Net debt is a non-IFRS measure and is calculated as a sum of loans and borrowings as reported in the consolidated balance sheet, plus certain other current liabilities, less cash and cash equivalents and certain temporary investments in short-term financial assets. Net debt to capital employed ratio enables the users to see how significant net debt is relative to capital employed.

6. Capital and financial risk management (continued)

Capital management (continued)

The Company's net debt to capital employed ratio was as follows:

	As of December 31, 2013	As of December 31, 2012 (restated)
Total debt	**2,367**	980
Cash and cash equivalents	**(275)**	(299)
Other short-term financial assets	**(232)**	(90)
Net debt	**1,860**	591
Total equity	**3,165**	2,322
Total capital employed	**5,025**	2,913
Net debt to capital employed ratio, %	**37.0%**	20.3%

Financial risk management

In the normal course of business the Company is exposed to the following financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Company has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

The Company has developed, documented and approved the relevant policies pertaining to market, credit and liquidity risks and the use of derivative financial instruments.

Foreign currency risk

The Group undertakes transactions denominated in foreign currencies and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US$ and Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying values of monetary assets and liabilities denominated in foreign currencies are presented in the table below:

	Assets		Liabilities	
	As of December 31,		As of December 31,	
	2013	2012 (restated)	2013	2012 (restated)
US$	**518**	451	**(1,966)**	(711)
Euro	**67**	66	**(133)**	(106)
Total	**585**	517	**(2,099)**	(817)

The level of currency risk is assessed on a monthly basis using a sensitivity analysis and is maintained within the limits adopted in line with the Company's policy. The table below summarizes the impact on the Company's income before income tax as a result of appreciation/(depreciation) of RUB against the US$ and euro.

6. Capital and financial risk management (continued)

Foreign currency risk (continued)

	US$ - effect			Euro - effect		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**
Currency rate change in %	**9.77%**	10.72%	12.50%	**7.86%**	9.49%	11.77%
Gain/(loss)	**142/(142)**	28/(28)	48/(48)	**5/(5)**	4/(4)	(1)/1

The financial exposure to foreign currency risk of forecasted operating expense is managed as an integral part of the Company's risk management program, which seeks to reduce the potentially adverse effect that the volatility of the exchange rate markets may have on operating results. The Company enters into contracts to economically hedge certain of its risks associated with RUB appreciation (Notes 20, 26, 31). These instruments are not accounted for as accounting hedges pursuant to IAS 39, *Financial Instruments: Recognition and Measurement*.

Interest rate risk

Loans and borrowings raised at variable interest rates expose the Company to interest rate risk arising on the possible movement of variable element of the overall interest rate. Such risks are hedged by the Company but the operations are not accounted for as accounting hedges pursuant to IAS 39, *Financial Instruments: Recognition and Measurement*.

As of December 31, 2013, the Company's variable rate liability, based on LIBOR and EURIBOR alone, totaled RUB 1,763 billion (net of interest payable). In 2013 and 2012, variable rate funds raised by the Company were primarily denominated in US$ and Euros.

The Company analyses its interest rate exposure, including performing scenario analysis to measure an impact on annual income before income tax of an interest rate shift. The table below summarizes the impact of a potential increase or decrease in LIBOR on the Company's profit before tax, as applied to the variable element of interest rates on loans and borrowings. The increase/decrease is based on management estimates of potential interest rate movements.

	Increase/decrease in interest rate basis points	Effect on income before income tax billion RUB
2013	**+6**	**(1)**
	-6	**1**
2012	+5	–
	-5	–
2011	+15	(1)
	-15	1

Potential change in EURIBOR is insignificant.

The sensitivity analysis is limited only to variable rate loans and borrowings and is conducted with all other variables held constant. The analysis is prepared assuming the amount of variable rate liability outstanding at the balance sheet date was outstanding for the whole year. Interest rate on variable rate loans and borrowings will effectively change throughout the year in response to fluctuations in market interest rates.

6. Capital and financial risk management (continued)

Interest rate risk (continued)

The impact measured through the sensitivity analysis does not take into account other potential changes in economic conditions, which may accompany the relevant changes in market interest rates.

The Company enters into contracts to economically hedge risks associated with an increasing interest expense on loans and borrowings (Notes 20, 26, 31).

Credit risk

The Company controls own exposure to credit risk. All external customers and their financial guarantors, other than related parties, undergo a creditworthiness check (including sellers, which act on prepayment basis). The Company performs an ongoing assessment and monitoring of financial position and the risk of default. In the event of default by the parties on their respective obligations under the financial guarantee contracts, the Company's exposure to credit risk will be limited to the corresponding contract amounts. As of December 31, 2013, management assessed such risk as remote.

In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash and performs trade finance operations. Banking relationships are primarily with Russian subsidiaries of large international banking institutions and certain large Russian banks. The Company's exposure to credit risk is limited to the carrying amount of financial assets recognized in the consolidated balance sheet.

Liquidity risk

The Company has mature liquidity risk management processes covering short-term, mid-term and long-term funding. Liquidity risk is controlled through maintaining sufficient reserves and the adequate amount of committed credit facilities and loan funds. Management conducts regular monitoring of projected and actual cash flow information, analyses the repayment schedules of the existing financial assets and liabilities and performs annual detailed budgeting procedures.

6. Capital and financial risk management (continued)

Liquidity risk (continued)

Contractual maturities of the Company's financial liabilities are presented below:

Year ended December 31, 2012 (restated)	On demand	12 months	1 to 5 years	> 5 years	Total
Loans and borrowings	–	112	533	505	**1,150**
Finance lease liabilities	–	4	6	4	**14**
Accounts payable to suppliers and contractors	–	117	–	–	**117**
Salary and other benefits payable	–	22	–	–	**22**
Banking customer accounts	41	–	–	–	**41**
Other accounts payable	–	13	–	–	**13**

Year ended December 31, 2013	On demand	12 months	1 to 5 years	> 5 years	Total
Loans and borrowings	–	721	1,359	556	**2,636**
Finance lease liabilities	–	5	6	3	**14**
Accounts payable to suppliers and contractors	–	187	–	–	**187**
Salary and other benefits payable	–	45	–	–	**45**
Voluntary offer to acquire OJSC RN Holding securities (Note 37)	153	–	–	–	**153**
Banking customer accounts	36	–	–	–	**36**
Other accounts payable	–	22	–	–	**22**
Derivative financial liabilities	–	6	–	–	**6**
Part of other current liabilities	–	7	–	–	**7**

Loans and borrowings above exclude certain Yukos related borrowings and promissory notes payable that were carried in the books of the former Yukos subsidiaries the Company acquired through the auctions for the sale of the assets of Yukos. The borrowings and promissory notes payable are being disputed by the Company (Notes 30, 41).

7. Acquisition of subsidiaries

Acquisition of TNK-BP

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

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

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

7. Acquisition of subsidiaries (continued)

Acquisition of TNK-BP (continued)

The consideration transferred is presented below:

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

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

As a result of TNK-BP acquisition, the Company's share in OJSC Verkhnechonskneftegaz increased from 25.94% to the controlling share and was accounted for under IFRS 3, *Business Combinations*, as a step acquisition. Corresponding revaluation of the Company's non-controlling share in OJSC Verkhnechonskneftegaz of RUB 38 billion is included in Other income in the consolidated statement of comprehensive income for the year ended December 31, 2013. Fair value of non-controlling share in OJSC Verkhnechonskneftegaz of RUB 67 billion is included in the consideration transferred.

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

7. Acquisition of subsidiaries (continued)

Acquisition of TNK-BP (continued)

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

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

During the second and the third quarters 2013 several acquired entities were renamed.

7. 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 the 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 assets acquired and liabilities assumed:

ASSETS	
Current assets:	
Cash and cash equivalents	178
Restricted cash	5
Accounts receivable	53
Inventories	60
Prepayments and other current assets	79
Total current assets	**375**
Non-current assets:	
Property, plant and equipment	2,235
Intangible assets	24
Other financial assets	13
Investments in associates and joint ventures	207
Deferred tax assets	9
Other non-current non-financial assets	9
Total non-current assets	**2,497**
Total assets	**2,872**
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	117
Loans and borrowings	31
Income tax liabilities	3
Other tax liabilities	61
Provisions	7
Other current liabilities	12
Total current liabilities	**231**
Non-current liabilities:	
Loans and borrowings	203
Deferred tax liabilities	344
Provisions	39
Other non-current liabilities	9
Total non-current liabilities	**595**
Total liabilities	**826**
Total identifiable net assets at fair value	**2,046**
Non-controlling interests measured at fair value	(112)
Gain on bargain purchase	(167)
Total consideration transferred	**(1,767)**

7. 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)**

The bargain purchase gain, arisen on acquisition of TNK-BP, is a result of the exclusive position of the Company on the Russian market. The Company was the only potential buyer, that was able to offer mainly cash consideration for the business acquired without payment deferrals. Additionally, the Company's bargain power was further enhanced through two separate transactions with BP and AAR consortium to acquire non-controlling 50% ownership share in each transaction.

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

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

Net cash outflow of RUB 1,195 billion was included in Acquisition of subsidiaries, net of cash acquired in the investing activities in the consolidated statement of cash flow for the year ended December 31, 2013.

From March 21, 2013 (the date of acquisition) TNK-BP's revenues and net income included in the consolidated statement of comprehensive income for the year ended December 31, 2013 were RUB 1,551 billion and RUB 107 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 5,069 billion and RUB 582 billion, respectively, for the year ended December 31, 2013.

Acquisition of LLC Basic jet fuel operator and LLC General Avia

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

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

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

7. Acquisition of subsidiaries (continued)

Acquisition of LLC Oil and Gas Company ITERA

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

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

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

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

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

7. Acquisition of subsidiaries (continued)

Acquisition of LLC Oil and Gas Company ITERA (continued)

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

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

This allocation of the purchase price to the assets acquired and liabilities assumed is preliminary as of December 31, 2013. Purchase price allocation has not been finalized due to complexity of the acquisition and uncertainties related to fair value measurements of property, plant and equipment, investments and deferred tax liabilities. Allocation of the purchase price to fair value of the assets acquired and liabilities assumed will be finalized within 12 months from the acquisition date.

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

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

7. Acquisition of subsidiaries (continued)

Acquisition of LLC TNK-Sheremetyevo

On September 30, 2013 the Company acquired a 50% ownership share in LLC TNK-Sheremetyevo, a 74.9% shareholder of CJSC TZK Sheremetyevo, for a consideration of US$ 300 million (RUB 10 billion at the date of the transaction). As a result of the acquisition, the Company's share in LLC TNK-Sheremetyevo increased to 100%. Main activities of CJSC TZK-Sheremetyevo comprise jet fuel sales, storage and fuelling services at Sheremetyevo International Airport in Moscow.

Acquisition of 50% share in LLC TNK-Sheremetyevo was accounted for under IFRS 3, *Business Combinations*, as a step acquisition. Fair value of previously held non-controlling share in LLC TNK-Sheremetyevo of RUB 9 billion and a loan to LLC TNK-Sheremetyevo from the Company of RUB 5 billion are included in the consideration transferred.

Starting from September 30, 2013, assets and liabilities of LLC TNK-Sheremetyevo and CJSC TZK Sheremetyevo are included in the Company's consolidated balance sheet. In October 2013, LLC TNK-Sheremetyevo was renamed to LLC RN-Aero Sheremetyevo. The consideration for the acquisition of a 50% share in LLC TNK-Sheremetyevo was fully paid in October 2013.

As of December 31, 2013, LLC TNK-Sheremetyevo purchase price allocation was not completed. Preliminary purchase price allocation is based on a historical value of assets and liabilities. Excess of purchase price over fair value of net assets of LLC TNK-Sheremetyevo acquired is recorded as goodwill. Allocation of the purchase price to fair value of the assets acquired and liabilities assumed will be finalized within 12 months from the acquisition date.

The following table summarizes the Company's preliminary allocation of the LLC TNK-Sheremetyevo purchase price:

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

7. Acquisitions of subsidiarie (continued)

Acquisition of LLC TNK-Sheremetyevo (continued)

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

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

Acquisition of LLC Taas-Yuriakh Neftegazodobycha

In October 2013 the Company completed a number of transactions to acquire 65% ownership interest in LLC Taas-Yuriakh Neftegazodobycha, increasing its ownership interest to 100%. The Company also acquired the majority of the entity's debt. The total consideration for 65% ownership interest amounted to US$ 3,139 million (RUB 101 billion as of the date of transaction), including entity's debt. LLC Taas-Yuriakh Neftegazodobycha holds an exploration license for the Central block of Kurungskoe license field in Srednebotuobinskoe oil and gas condensate deposit.

The acquisition of additional 65% ownership interest in LLC Taas-Yuriakh Neftegazodobycha was accounted for under IFRS 3, *Business Combinations*, as a step acquisition. Preliminary fair value of previously held non-controlling share in LLC Taas-Yuriakh Neftegazodobycha of RUB 13 billion is included in the preliminary consideration transferred.

The following table summarizes the Company's preliminary allocation of the LLC Taas-Yuriakh Neftegazodobycha purchase price:

ASSETS	
Current assets:	
Prepayments and other current assets	2
Total current assets	**2**
Non-current assets:	
Property, plant and equipment	34
Mineral rights	105
Total non-current assets	**139**
Total assets	**141**
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	4
Total current liabilities	**4**
Non-current liabilities	
Loans and borrowings	1
Deferred tax liabilities	22
Total non-current liabilities	**23**
Total liabilities	**27**
Total identifiable net assets at fair value	**114**
Total consideration transferred	**114**

The acquisition of LLC Taas-Yuriakh Neftegazodobycha did not contemplate contingent consideration.

7. Acquisitions of subsidiarie (continued)

Acquisition of LLC Taas-Yuriakh Neftegazodobycha (continued)

The Company plans to sell a share in LLC Taas-Yuriakh Neftegazodobycha to within next 12 months. As of December 31, 2013 the assets and liabilities of LLC Taas-Yuriakh Neftegazodobycha were classified as assets and liabilities held for sale as follows:

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

Acquisition of OJSC Sibneftegas

In November 2013, the Company completed the acquisition of 40% ownership interest in Artic Russia B.V. from Enel, an Italian oil and gas company, for a cash consideration of RUB 59 billion. Artic Russia B.V. is a parent company holding a controlling interest in LLC Sever-Energiya, which holds licenses for exploration and production within Samburgskiy license area and for geological study, exploration and production of hydrocarbons within Yevo-Yakhinskiy, Yaro-Yakhinskiy and Severo-Chaselskiy license areas.

In December 2013, the Company and OJSC NOVATEK swaped 40% ownership interest in Artic Russia B.V., owned by the Company, for 51% ownership interest in OJSC Sibneftegas, owned by OJSC NOVATEK. The transaction did not involve any cash consideration. Following the swap, the Company accumulated 100% ownership interest in OJSC Sibneftegas. OJSC Sibneftegas holds licenses for hydrocarbon production within Pyreinoye gas condensate field and for geological study, exploration and production of hydrocarbons within Beregovoy and Khadyryakhinskiy license areas.

The acquisition of additional 51% share in OJSC Sibneftegas was accounted for under IFRS 3, *Business Combinations*, as a step acquisition. Preliminary fair value of previously held non-controlling share in OJSC Sibneftegas of RUB 71 billion and is included in the consideration transferred.

7. Acquisition of subsidiaries (continued)

Acquisition of OJSC Sibneftegas (continued)

Starting from December 27, 2013, assets and liabilities OJSC Sibneftegas are included in the Company's consolidated balance sheet.

The consideration transferred is presented below:

Preliminary fair value of 49% interest in OJSC Sibneftegas, obtained as a result of LLC Oil and Gas Company ITERA acquisition	71
Preliminary fair value of 40% interest in Artic Russia B.V.	59
Total consideration transferred	**130**

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

ASSETS:	
Current assets:	
Cash and cash equivalents	2
Accounts receivable and other current assets	2
Total current assets	**4**
Non-current assets:	
Property, plant and equipment	172
Intangible assets	2
Total non-current assets	**174**
Total assets	**178**
LIABILITIES	
Non-current liabilities:	
Loans and borrowings	15
Deferred tax liabilities	33
Total liabilities	**48**
Total consideration transferred	**130**

This allocation of the purchase price to the assets acquired and liabilities assumed is preliminary as of December 31, 2013. Purchase price allocation has not been finalized due to complexity of the acquisition and uncertainties related to fair value measurements of property, plant and equipment, investments and deferred tax liabilities. Allocation of the purchase price to fair value of the assets acquired and liabilities assumed will be finalized within 12 months from the acquisition date.

The acquisition of OJSC Sibneftegas did not contemplate contingent consideration.

7. Acquisition of subsidiaries (continued)

Acquisition of LLC Research and Development Center

In February 2012, the Company acquired for RUB 4 billion 100% interest in LLC Research and Development Center which is engaged in developing advanced technologies for refining and for petrochemical industry.

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

Property, plant and equipment	1
Intangible assets	2
Total non-current assets	**3**
Deferred tax liabilities	1
Total non-current liabilities	**1**
Total identifiable net assets at fair value	**2**
Goodwill	2
Purchase consideration transferred	**4**

The goodwill of RUB 2 billion relates to the expected synergies arising from the implementation of acquired innovative technologies in refining and petrochemicals. Accordingly, this goodwill was allocated to the Refining and distribution segment.

Acquisition of LLC Polar Terminal

In June 2012, the Company acquired for RUB 1 billion 100% interest in LLC Polar Terminal. LLC Polar Terminal is engaged in an investment project for construction of crude oil and petroleum products transshipment terminal. Allocation of purchase price to assets, liabilities and result of operations of Polar Terminal LLC are not significant to these consolidated financial statements.

8. Segment information

The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. Exploration and production segment is engaged in field exploration and production of crude oil and natural gas. Refining and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as 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.

Operating segments in 2013:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of joint ventures and associates					
Revenues from external customers	**61**	**4,570**	**51**	**–**	**4,682**
Intersegment revenues	**1,848**	**–**	**–**	**(1,848)**	**–**
Equity share in profits of joint ventures and associates	**12**	**–**	**–**	**–**	**12**
Total revenues and equity share in profits of joint ventures and associates	**1,921**	**4,570**	**51**	**(1,848)**	**4,694**
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	**1,098**	**4,385**	**112**	**(1,848)**	**3,747**
Depreciation, depletion and amortization	**329**	**56**	**7**	**–**	**392**
Total costs and expenses	**1,427**	**4,441**	**119**	**(1,848)**	**4,139**
Operating income	**494**	**129**	**(68)**	**–**	**555**
Finance income					**21**
Finance expenses					**(56)**
Total finance expenses					**(35)**
Other income					**242**
Other expenses					**(59)**
Foreign exchange differences					**(71)**
Income before income tax					**632**
Income tax					**(81)**
Net income					**551**

8. Segment information (continued)

Operating segments in 2012 (restated):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share profits of joint ventures associates					
Revenues from external customers	45	2,995	26	–	3,066
Intersegment revenues	1,220	–	–	(1,220)	–
Equity share in profits of joint ventures and associates	23	–	–	–	23
Total revenues and equity share in profits of joint ventures and associates	1,288	2,995	26	(1,220)	3,089
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	701	2,914	76	(1,220)	2,471
Depreciation, depletion and amortization	167	33	6	–	206
Total costs and expenses	868	2,947	82	(1,220)	2,677
Operating income	420	48	(56)	–	412
Finance income					24
Finance expenses					(15)
Total finance income					9
Other income					87
Other expenses					(50)
Foreign exchange differences					11
Income before income tax					469
Income tax					(104)
Net income					365

8. Segment information (continued)

Operating segments in 2011 (restated):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of joint ventures and associates					
Revenues from external customers	50	2,621	31	–	2,702
Intersegment revenues	1,030	–	–	(1,030)	–
Equity share in profits of joint ventures and associates	16	–	–	–	16
Total revenues and equity share in profits of joint ventures and associates	1,096	2,621	31	(1,030)	2,718
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	534	2,503	49	(1,030)	2,056
Depreciation, depletion and amortization	164	24	5	–	193
Total costs and expenses	698	2,527	54	(1,030)	2,249
Operating income	398	94	(23)	–	469
Finance income					20
Finance expenses					(19)
Total finance income					1
Other income					25
Other expenses					(48)
Foreign exchange differences					(22)
Income before income tax					425
Income tax					(90)
Net income					335

8. Segment information (continued)

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

	2013	2012 (restate	2011
Oil and gas sales			
International sales of crude oil – Europe	**1,574**	1,033	955
International sales of crude oil – Asia	**542**	388	366
International sales of crude oil – CIS, other than Russia	**128**	78	54
Domestic sales of crude oil	**81**	5	3
Sales of gas	**103**	22	14
Total oil and gas sales	**2,428**	1,526	1,392
Petroleum products and petrochemical sales			
International Sales of petroleum products – Europe	**907**	653	500
International Sales of petroleum products – Asia	**294**	228	224
International Sales of petroleum products – CIS, other than Russia	**84**	11	8
Domestic sales of petroleum products	**817**	522	473
Domestic sales of petrochemical products	**12**	11	10
International sales of petrochemical products – Europe	**82**	73	50
Total petroleum products and petrochemicals sales	**2,196**	1,498	1,265

The Company had one major customer in 2012 and 2011 being an international oil trader accounting for at least 10% of total sales. Revenues generated from sales to this oil trader totaled RUB 384 billion and RUB 547 billion, or 12% and 20% of total revenues, in 2012 and 2011, respectively. These revenues are recognized mainly under the Refining and distribution segment. No customer accounts for at least 10% of total sales in 2013.

The Company is not dependent on any of its major customers or any one particular customer as there is a liquid market for crude oil and petroleum products. As of December 31, 2013, the amount of current receivable from the Company's major customer totaled RUB 59 billion, or around 16% of the Company's trade receivables.

9. Taxes other than income tax

Taxes other than income tax for the years ended December 31 comprise the following:

	2013	2012 (restated)	2011
Mineral extraction tax	**829**	553	414
Excise tax	**136**	79	55
Property tax	**22**	12	11
Other	**37**	28	18
Total taxes	**1,024**	672	498

10. Export customs duty

Export customs duty for the years ended December 31 comprises the following:

	2013	2012	2011
Export customs duty on oil sales	**1,025**	689	612
Export customs duty on gas sales	**1**	–	–
Export customs duty on petroleum products and petrochemicals sales	**356**	212	178
Total export customs duty	**1,382**	901	790

11. Finance income

Finance income for the years ended December 31 comprises the following:

	2013	2012	2011
Interest income on:			
Deposits and deposit certificates	**5**	5	11
Loans issued	**6**	6	5
Notes receivable	**2**	3	2
Bonds	**3**	3	2
Current/settlement accounts	**1**	1	–
Other interest income	**1**	–	–
Total interest income	**18**	18	20
Gain from changes in fair value of financial assets at fair value recognized in profit or loss	**3**	–	–
Net gain from operations with derivative financial instruments	–	5	–
Gain from disposal of financial assets	–	1	–
Total finance income	**21**	24	20

Gain from changes in fair value of financial assets at fair value recognized in profit or loss in the amount of RUB 3 billion for the year ended December 31, 2013, relates to non-derivative current financial assets.

12. Finance expenses

Finance expenses for the years ended December 31 comprise the following:

	2013	2012	2011
Interest expense on:			
Loans and borrowings	**(38)**	(8)	(7)
For the use of funds	**(5)**	–	–
Other interest expenses	**(1)**	(2)	(1)
Total interest expenses	**(44)**	(10)	(8)
Restructured tax liabilities	–	–	(3)
Net loss from operations with derivative financial instruments	**(4)**	–	(3)
Loss from disposal of financial assets	–	(1)	–
Increase in provision due to the unwinding of discount	**(8)**	(4)	(5)
Total finance expenses	**(56)**	(15)	(19)

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization is 3.97%, 4.05% and 3.70% p.a. in 2013, 2012 and 2011, respectively.

13. Other income and expenses

Other income for the years ended December 31 comprise the following:

	2013	2012 (restated)	2011
Non-cash income from acquisition of subsidiaries, net (Note 7)	**205**	82	–
Compensation payment for licenses from joint venture parties	**2**	–	–
Other	**35**	5	25
Total other income	**242**	87	25

Other expenses for the years ended December 31 comprise the following:

	2013	2012	2011
Sale and disposal of property, plant and equipment and intangible assets	**13**	9	19
Disposal of companies and non-production assets	**5**	11	10
Impairment of assets	**9**	10	4
Social payments, charity, sponsorship, financial aid	**12**	9	12
Fines and penalties	**3**	–	–
Other	**17**	11	3
Total other expenses	**59**	50	48

In 2013, a number of market quoted financial assets and certain other assets were impaired due to constant decreases in market prices. In 2012, Impairment of assets comprises impairment of rights for exploration and production in a number of license areas in Eastern Siberia due to the lack of positive results of exploration.

14. Personnel expenses

Personnel expenses for the years ended December 31 comprise the following:

	2013	2012 (restated)	2011
Salary	**144**	101	75
Statutory insurance contributions	**31**	21	16
Expenses for non-statutory defined contribution plan	**4**	3	3
Other employee benefits	**6**	6	3
Total personnel expenses	**185**	131	97

Personnel expenses are included in Production and operating expenses, General and administrative expenses and Other expenses in the consolidated statement of comprehensive income.

15. Operating leases

Operating lease agreements have various terms and conditions and primarily consist of indefinite tenancy agreements for the lease of land plots under oilfield pipelines and petrol stations, agreements for the lease of rail cars and rail tank cars for periods over 12 months, and agreements for the lease of land plots for industrial sites of the Company's oil refining plants. The agreements provide for an annual revision of the rental rates and contractual terms and conditions.

Total operating lease expenses for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 16 billion, RUB 8 billion and RUB 10 billion, respectively. The expenses were recognized within production and operating expenses, general and administrative expenses and other expenses in the statement of comprehensive income.

Future minimum lease payments under non-cancellable operating leases as of December 31 are as follows:

	2013	**2012**	**2011**
Less than 1 year	**16**	8	9
From 1 to 5 years	**50**	18	18
Over 5 years	**163**	41	14
Total future minimum lease payments	**229**	67	41

16. Income tax

Income tax expenses for the years ended December 31 comprise the following:

	2013	**2012 (restated)**	**2011 (restated)**
Current income tax	**98**	86	99
Prior period adjustments	**(16)**	(5)	(3)
Current income tax expense	**82**	81	96
Deferred tax relating to origination and reversal of temporary differences	**(1)**	23	(6)
Total deferred income tax (benefit)/expense	**(1)**	23	(6)
Total income tax expense	**81**	104	90

Except for applicable regional tax reliefs, the Russian income tax rate of 20% applied for companies domiciled in Russian Federation in 2013, 2012 and 2011. Income tax rate may vary from 20% for subsidiaries incorporated in other jurisdictions. It is calculated according to local fiscal regulations.

16. Income tax (continued)

Temporary differences between these consolidated financial statements and tax records gave rise to the following deferred income tax assets and liabilities:

	Consolidated balance sheet as of December 31			Consolidated statement of comprehensive income for the years, ended December 31	
	2013	**2012 (restated)**	**2011 (restated)**	**2013**	**2012 (restated)**
Short-term financial assets	4	3	1	1	2
Short-term accounts receivable, net of allowance	2	3	3	(1)	–
Inventories	2	1	–	–	1
Prepayments and other current assets	1	–	–	1	–
Long-term financial assets	2	1	1	–	–
Long-term accounts receivable, net of allowance	1	–	–	1	–
Property, plant and equipment	5	1	2	–	(1)
Other non-current assets	–	–	2	–	(2)
Short-term accounts payable and accrued liabilities	7	3	4	1	(1)
Current financial liabilities	1	–	–	1	–
Other current liabilities	5	–	1	3	(1)
Long-term accounts payable and accrued liabilities	3	2	1	–	1
Long- term accrued provisions	12	2	1	2	1
Tax loss carry forward	8	3	1	–	2
Valuation allowance for deferred income tax asset	(7)	(2)	(2)	(5)	–
Less: deferred tax liabilities offset	*(32)*	*(13)*	*(11)*	–	–
Deferred tax assets	**14**	**4**	**4**	**4**	**2**
Property, plant and equipment	(437)	(215)	(189)	(4)	(26)
Mineral rights	(255)	(62)	(63)	1	1
Less: deferred tax assets offset	*32*	*13*	*11*	–	–
Deferred tax liabilities	**(660)**	**(264)**	**(241)**	**(3)**	**(25)**
Deferred income tax benefit/(expense)				**1**	**(23)**
Net deferred tax liabilities	**(646)**	**(260)**	**(237)**		

Recognised in the Consolidated balance sheet as following:			
Deferred tax assets	14	4	4
Deferred tax liabilities	(660)	(264)	(241)
Net deferred tax liabilities	**(646)**	**(260)**	**(237)**

16. Income tax (continued)

Net deferred tax liabilities reconciliation is as follows:

	2013	2012 (restated)
As of January 1	**(260)**	**(237)**
Deferred income tax benefit /(expense), recognized in the statement of comprehensive income	1	(23)
Acquisition of subsidiaries (Note 7)	(409)	–
Reclassification to assets held for sale	22	–
As of December 31	**(646)**	**(260)**

A reconciliation between tax expense and the product of accounting profit multiplied by 20% tax rate for the years ended 31 December 2013, 2012 and 2011 is as follows:

	2013	2012 (restated)	2011 (restated)
Income before income tax	**632**	469	425
Income tax at statutory rate of 20%	**126**	94	85
Increase/(decrease) resulting from:			
Effect of income tax rates in other jurisdictions	**3**	2	3
Effect of income tax reliefs	**(13)**	(12)	(6)
Effect of non-taxable income from acquisition of subsidiaries (Note 7)	**(41)**	–	–
Effect of non-taxable income and non-deductible expenses	**6**	20	8
Income tax	**81**	104	90

Unrecognized deferred tax assets in the consolidation balance sheet for the years ended December 31, 2013, 2012 and 2011 amounted to RUB 5 billion, RUB 7 billion and RUB 5 billion, respectively, related to unused tax losses. Tax loss carry forwards available for utilization to the Company expire in 2014-2023.

17. Non-controlling interests

Non-controlling interests include:

	As of December 31, 2013		2013	As of December 31, 2012 (restated)		2012 (restated)	As of December 31, 2011 (restated)		2011 (restated)
	Non-controlling interest (%)	Non-controlling interest in net assets	Non-controlling interest in net income	Non-controlling interest (%)	Non-controlling interest in net assets	Non-controlling interest in net income	Non-controlling interest (%)	Non-controlling interest in net assets	Non-controlling interest in net income
CJSC Vankorneft	6.04	29	3	6.04	26	2	6.04	24	7
OJSC Grozneftegaz	49.00	3	(3)	49.00	6	–	49.00	6	–
OJSC Rosneft Sakhalin	45.00	2	–	45.00	2	–	45.00	2	–
OJSC Russian Regional Development Bank (VBRR)	15.33	1	–	15.33	1	–	15.33	1	–
CJSC TZK Sheremetyevo (Note 7)	25.10	1	–	–	–	–	–	–	–
SIA ITERA Latvija (Note 7)	34.00	1	–	–	–	–	–	–	–
OJSC RN Holding (Notes 7, 37)	–	–	2	–	–	–	–	–	–
OJSC Verkhnechonskneftegaz (Notes 7, 37)	–	–	1	–	–	–	–	–	–
OJSC Samotlorneftegaz (Notes 7, 37)	–	–	1	–	–	–	–	–	–
LLC RN-Uvatneftegaz (Notes 7, 37)	–	–	1	–	–	–	–	–	–
OJSC Orenburgneft (Notes 7, 37)	–	–	1	–	–	–	–	–	–
Non-controlling interests in other entities	various	2	–	various	4	–	various	3	(3)
Non-controlling interests as of the end of the reporting period		**39**	**6**		**39**	**2**		**36**	**4**

18. Earnings per share

For the years ended December 31, basic earnings per share comprise the following:

	2013	2012 (restated)	2011 (restated)
Continued operations			
Net income attributable to shareholders of Rosneft	**545**	363	331
Weighted average number of issued common shares outstanding (millions)	**10,304**	9,416	9,591
Total basic earnings per share (RUB)	**52.89**	38.55	34.51

19. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	As of December 31,	
	2013	2012 (restated)
Cash on hand and in bank accounts in RUB	**58**	19
Cash on hand and in bank accounts in foreign currencies	**172**	206
Deposits	**43**	72
Other	**2**	2
Total cash and cash equivalents	**275**	299

Cash accounts denominated in foreign currencies represent primarily cash in US$.

Deposits are interest bearing and denominated primarily in RUB.

Restricted cash comprises the following:

	As of December 31,	
	2013	2012
Obligatory reserve of subsidiary banks with the CBR	**1**	1
Offsetting account under joint venture agreement with BP group in Euro	**–**	3
Total restricted cash	**1**	4

20. Other short-term financial assets

Other short-term financial assets comprise the following:

	As of December 31,	
	2013	2012 (restated)
Financial assets available-for-sale:		
Bonds	**21**	14
Stocks and shares	**22**	6
Loans and accounts receivable:		
Loans granted	**17**	18
Loans issued to associates	**4**	1
Notes receivable, net of allowance	**21**	27
Loans granted under reverse repurchase agreements	**1**	–
Deposits and deposit certificates	**131**	–
Held-for-trading financial assets at fair value through profit or loss:		
Corporate bonds	**11**	10
State bonds	**4**	5
Stocks and shares	–	6
Derivative financial instruments	–	3
Total other short-term financial assets	**232**	90

20. Other short-term financial assets (continued)

As of December 31, 2013 and 2012 available-for-sale bonds comprise the following:

	2013			2012		
Type of security	Balance	Interest rate p.a.	Date of maturity	Balance	Interest rate p.a.	Date of maturity
State bonds (federal loan bonds issued by the Ministry of Finance of the Russian Federation)	**6**	7.0-8.1%	March 2014 – June 2015	3	6.9-8.1%	November 2014 – July 2015
Municipal bonds	**2**	8.35-9.0%	December 2014 – November 2018	1	8.75-9.25%	June 2013 – November 2018
Corporate bonds	**13**	3.72-10.0%	February 2014 – November 2024	10	4.25-10.0%	February 2013 – November 2023
Total	**21**			14		

Bank deposits amount to RUB 131 billion and RUB 0 billion as of December 31, 2013 and 2012, respectively. As of December 31, 2013, bank deposits denominated in US$ amount to RUB 85 billion and bear interest rates ranging from 1.8% to 3.0% p.a. Bank deposits denominated in RUB amount to RUB 46 billion and bear interest rates ranging from 7.0% to 9.0% p.a.

As of December 31, 2013, notes receivable include corporate notes receivable that are primarily denominated in RUB with nominal interest rates ranging from 4.25% to 10.7% p.a. with maturities to December 2014 and nominally interest-free corporate notes receivable with weighted average effective interest rate of 4.8% p.a. with maturities to December 2014.

As of December 31, 2012, notes receivable include corporate notes receivable that are primarily denominated in RUB with nominal interest rates ranging from 4.25% to 8.50% p.a. with maturities to November 2014 and nominally interest-free corporate notes receivable with weighted average effective interest rate of 5.94% p.a. with maturities to June 2013.

Reverse repurchase agreements are collateralized by trading securities with a fair value of RUB 1 billion and RUB 0 billion as of December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012 trading securities comprise the following:

	2013			2012		
Type of security	Balance	Interest rate p.a.	Date of maturity	Balance	Interest rate p.a.	Date of maturity
Corporate bonds	**11**	1.99 - 13.5%	February 2014 – October 2026	10	2.85 - 13.5%	March 2013 – October 2023
State and municipal bonds	**4**	5.5 - 12.0%	April 2014 – February 2036	5	6.7 - 12.0%	January 2013 – February 2036
Trading stocks with state participation	–			6		
Total	**15**			21		

20. Other short-term financial assets (continued)

Derivative financial instruments

In 2012 the Company entered into a series of deliverable conversion transactions with options (collar) for the sale of US$ for a term until December 2013. The RUB/US$ exchange spot rate was fixed at predetermined dates monthly. In the event that the RUB/US$ exchange spot rate broke out of the upper or lower bands of the collar, the parties of the contract executed currency purchase-sale transaction for nominal amount of US$ 20.5 million (RUB 1 billion at the CBR official exchange rate as of December 31, 2012) at the conversion rates, stipulated in the contract. Fair value is calculated based on market data using SuperDerivatives valuation service. Fair value of the series of deliverable conversion transactions with options (collar) was presented in Other short-term financial assets – Derivative financial instruments in the amount of RUB 1 billion in the consolidated balance sheet as of December 31, 2012.

Fair value of cross-currency rate swap contracts is presented in Other short-term financial assets – Derivative financial instruments in the amount of RUB 2 billion in the consolidated balance sheet as of December 31, 2012 (Note 31).

21. Accounts receivable

Accounts receivable include the following:

	As of December 31,	
	2013	**2012 (restated)**
Trade receivables	**378**	204
Banking loans to customers	**16**	19
Other accounts receivable	**30**	22
Total	**424**	245
Allowance for doubtful accounts	**(9)**	(8)
Total accounts receivable, net of allowance	**415**	237

The allowance for doubtful accounts is recognized at each balance sheet date based on estimates of the Company's management regarding the expected cash inflows to repay accounts receivable.

The Company recognized allowance for doubtful accounts for all significant past due accounts receivable as of December 31, 2013 and 2012.

As of December 31, 2013 and 2012 accounts receivable were not pledged as collateral for loans and borrowings provided to the Company.

22. Inventories

Inventories comprise the following:

	As of December 31, 2013	As of December 31, 2012 (restated)
Crude oil and associated gas	**69**	46
Petroleum products and petrochemicals	**96**	66
Materials and supplies	**37**	22
Total	**202**	134

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

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

For the years ended December 31:

	2013	2012 (restated)	2011
The cost of inventories recognized as an expense during the period	**581**	346	297

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

23. Prepayments and other current assets

Prepayments comprise the following:

	As of December 31, 2013	As of December 31, 2012 (restated)
Value added tax and excise receivable	**183**	90
Prepayments to suppliers	**36**	24
Prepaid customs duties	**80**	54
Other taxes	**25**	11
Other	**6**	6
Total prepayments and other current assets	**330**	185

Prepaid customs duties primarily represent export duties related to the export of crude oil and petroleum products (Note 10).

24. Property, plant and equipment and construction in progress

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
Cost				
As of January 1, 2012 (restated)	2,266	561	98	2,925
Additions	311	151	24	486
Disposals	(15)	(7)	(10)	(32)
Exchange differences	(6)	–	–	(6)
Cost of asset retirement (decommissioning) obligations	5	–	–	5
As of December 31, 2012 (restated)	2,561	705	112	3,378
Depreciation, depletion and impairment losses				
As of January 1, 2012 (restated)	(452)	(113)	(32)	(597)
Depreciation and depletion charge (restated)	(164)	(33)	(11)	(208)
Disposals and other movements	1	1	1	3
Impairment of assets	(10)	–	–	(10)
Exchange differences	4	–	–	4
As of December 31, 2012 (restated)	(621)	(145)	(42)	(808)
Net book value as of January 1, 2012 (restated)	1,814	448	66	2,328
Net book value as of December 31, 2012 (restated)	1,940	560	70	2,570
Prepayments for property, plant and equipment as of January 1, 2012 (restated)	11	28	4	43
Prepayments for property, plant and equipment as of December 31, 2012 (restated)	4	46	9	59
Total as of January 1, 2012 (restated)	**1,825**	**476**	**70**	**2,371**
Total as of December 31, 2012 (restated)	**1,944**	**606**	**79**	**2,629**
Cost				
Acquisition of subsidiaries (Note 7)	2,371	277	1	2,649
Additions	352	220	23	595
Disposals	(36)	(6)	(4)	(46)
Reclassification to assets held for sale (Note 7)	(144)	–	–	(144)
Exchange differences	11	4	–	15
Cost of asset retirement (decommissioning) obligations	7	–	–	7
As of December 31, 2013	5,122	1,200	132	6,454
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(329)	(53)	(10)	(392)
Disposals and other movements	16	4	3	23
Impairment of assets	–	(1)	–	(1)
Exchange differences	(7)	(1)	–	(8)
As of December 31, 2013	(941)	(196)	(49)	(1,186)
Net book value as of December 31, 2013	4,181	1,004	83	5,268
Prepayments for property, plant and equipment as of December 31, 2013	4	49	9	62
Total as of December 31, 2013	**4,185**	**1,053**	**92**	**5,330**

24. Property, plant and equipment and construction in progress (continued)

The cost of construction in progress included in property, plant and equipment was RUB 928 billion, RUB 654 billion and RUB 441 billion as of December 31, 2013, 2012 and January 1, 2012, respectively.

In 2012, the Company identified an impairment indicator (exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area) with respect to the three exploration licenses, included in Exploration and production segment of Property, plant and equipment. As a result the Company recognized an impairment loss of RUB 10 billion in Other expenses in the consolidated statement of comprehensive income in 2012.

Depreciation charge for the years ended December 31, 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 4 billion and RUB 4 billion, respectively .

The Company capitalized RUB 33 billion, RUB 24 billion and RUB 14 billion of interest expenses on loans and borrowings in 2013, 2012 and 2011, respectively.

During 2013 the Company received government grants for capital expenditures in the amount of RUB 7 billion. Grants are accounted for as a reduction of additions in Exploration and production segment.

Exploration and evaluation assets

Exploration and evaluation assets included in segment "Exploration and production" comprise the following:

	2013	**2012**
As of January 1	**11**	11
Capitalized expenditures	**7**	4
Acquisition of subsidiaries	**3**	–
Reclassified to development assets	**(6)**	(4)
Expensed	**(2)**	–
As of December 31	**13**	11

24. Property, plant and equipment and construction in progress (continued)

Mineral rights

Mineral rights included in exploration and production assets comprise the following:

	Mineral rights to proved properties	Mineral rights to unproved properties	Total
As of January 1, 2012 (restated)			
Cost	269	104	373
Accumulated depletion and impairment losses	(45)	–	(45)
Net book value as of January 1, 2012 (restated)	**224**	**104**	**328**
Depletion charge	(15)	–	(15)
Additions	–	6	6
Impairment of properties	–	(10)	(10)
Reclassification from unproved properties to proved properties	2	(2)	–
As of December 31, 2012 (restated)			
Cost	271	108	379
Accumulated depletion and impairment losses	(60)	(10)	(70)
Net book value as of December 31, 2012 (restated)	**211**	**98**	**309**
Depletion charge	(44)	–	(44)
Additions	–	9	9
Acquisition of subsidiaries	975	126	1,101
Reclassification to assets held for sale (Note 7)	(55)	(50)	(105)
Reclassification from unproved properties to proved properties	10	(10)	–
As of December 31, 2013			
Cost	1,201	183	1,384
Accumulated depletion and impairment losses	(104)	(10)	(114)
Net book value as of December 31, 2013	**1,097**	**173**	**1,270**

Provision for asset retirement (decommissioning) obligations

The provision for asset retirement (decommissioning) obligations was RUB 64 billion, RUB 38 billion and RUB 36 billion as of December 31, 2013, 2012 and January 1, 2012, respectively, and included in Property, plant and equipment.

25. Intangible assets and goodwill

Intangible assets and goodwill comprise the following:

	Rights for land lease	Other intangible assets	Total intangible assets	Goodwill
Cost				
As of January 1, 2012 (restated)	19	9	28	142
Additions	–	2	2	2
Disposals	(1)	(2)	(3)	–
As of December 31, 2012 (restated)	**18**	**9**	**27**	**144**
Amortization				
As of January 1, 2012 (restated)	(4)	(2)	(6)	–
Amortization charge	(1)	(1)	(2)	–
As of December 31, 2012 (restated)	**(5)**	**(3)**	**(8)**	**–**
Net book value as of January 1, 2012 (restated)	**15**	**7**	**22**	**142**
Net book value as of December 31, 2012 (restated)	**13**	**6**	**19**	**144**
Cost				
Additions	1	3	4	–
Disposals	(6)	(4)	(10)	–
Acquisition of subsidiaries (Note 7)	10	16	26	20
As of December 31, 2013	**23**	**24**	**47**	**164**
Amortization				
Amortization charge	(2)	(2)	(4)	–
Disposal of amortization	2	–	2	–
As of December 31, 2013	**(5)**	**(5)**	**(10)**	**–**
Net book value as of December 31, 2013	**18**	**19**	**37**	**164**

The Company performed its annual goodwill impairment test as of October 1 of each year. The impairment test was carried out at the beginning of the fourth quarter of each year using data that was appropriate at that time. As a result of the annual test, no impairment of goodwill was identified in 2013 or 2012.

Goodwill acquired through business combinations has been allocated to related groups of cash generating units being its operating segments – Exploration and production segment and Refining and distribution segment. In assessing whether goodwill has been impaired, the current values of the operating segments (including goodwill) were compared with their estimated value in use.

	As of December 31,	
	2013	**2012 (restated)**
Goodwill		
Exploration and production	**31**	31
Refining and distribution	**133**	113
Total	**164**	144

The Company has estimated value in use of the operating segments using a discounted cash flow model. Future cash flows have been adjusted for risks specific to the segment and discounted using a rate, which reflects current market assessments of the time value of money and the risks specific to the segment for which the future cash flow estimates have not been adjusted.

25. Intangible assets and goodwill (continued)

The Company's business plan, approved by the Company's Board of Directors, is the primary source of information for the determination of the operating segments' value in use. The business plan contains internal forecasts of oil and gas production, refinery throughputs, sales volumes of various types of refined products, revenues, operating and capital expenditures. As an initial step in the preparation of these plans, various assumptions, such as oil prices, natural gas prices, refining margins, petroleum product margins and cost inflation rates, are set. These assumptions take into account existing prices, US$ and RUB inflation rates, other macroeconomic factors and historical trends, as well as markets volatility.

In determining the value in use for each of the operating segments, cash flows have been discounted and aggregated with the segments' terminal value. In determining the terminal value of the Company's segments in the post-forecast period the Gordon model has been used. The model has used average rates of operation decline equal to natural rates of production decline for the existing assets provided that there is no production drilling. These rates were 8.0% of annual decline for Exploration and production segment and 0.0% for Refining and distribution segment.

The most important assumptions among the factors listed above are the following:

- discount rate;
- oil price;
- production volumes.

The sensitivity of the discounted cash flows to the changes in these factors is the most significant.

The discount rate calculation is based on the Company's weighted average cost of capital adjusted to reflect pre-tax discount rate and amounts to 6.9% p.a. in 2013 (6.9% p.a. in 2012). Estimated production volumes are based on detailed data for the fields and takes into account fields' development plan approved by management through the long-term planning process. For the purposes of impairment testing, the Company's Urals oil price assumptions were based on the forecasted market prices. Management believes that no reasonably possible changes in the assumptions may lead to the goodwill impairment.

As of December 31, 2013 and 2012 the Company did not have any intangible assets with indefinite useful lives. As of December 31, 2013 and 2012 no intangible assets have been pledged as collateral.

26. Other long-term financial assets

Other long-term financial assets comprise the following:

	As of December 31,	
	2013	**2012**
Bonds	**1**	1
Bank deposits	**6**	–
Financial assets available for sale		
Shares of OJSC INTER RAO UES	**1**	3
Shares of OJSC Russian Grids	**1**	3
Shares of AS Latvijas Gaze, ASE esti GAAS	**2**	–
Long-term loans issued to associates	**20**	11
Long-term borrowings	**3**	–
Loans to employees	**1**	1
Derivative financial instruments	**1**	2
Other	**4**	3
Total other long-term financial assets	**40**	24

26. Other long-term financial assets (continued)

Pursuant to contracts, long-term loans issued to associates have a maturity period from 3 through 9 years and bear interest rate ranging from 8.2% to 14.5% p.a.

Pursuant to contracts, long-term RUB denominated deposits have a maturity period 5 years and bear interest rate of 8% p.a.

As of December 31, 2013 and December 31, 2012, there were no overdue long-term financial assets for which no impairment provision was created.

As of December 31, 2013 and December 31, 2012, shares of OJSC INTER RAO UES were impaired in the amount of RUB 2 billion and RUB 2 billion, respectively, loans issued to associates were impaired in the amount of RUB 0 billion and RUB 0 billion, respectively.

No long-term financial assets were pledged as collateral as of December 31, 2013 and 2012.

As of December 31, 2013 and December 31, 2012, no long-term financial assets were received by the Company as collateral.

Derivative financial instruments

In 2012 the Company entered into a series of deliverable forward transactions for the sale of US$ for a term until 2015 for the nominal amount of US$ 1,259 million (RUB 41 billion at the CBR official exchange rate as of December 31, 2013). The Company sells US$ in accordance with the schedule at the conversion rates, stipulated in the contract. Fair value is calculated based on market data using Bloomberg valuation services. Fair value of the series of deliverable forward transactions is presented in Other long-term financial assets – Derivative financial instruments in the amount of RUB 1 billion and RUB 2 billion in the consolidated balance sheet as of December 31, 2013 and 2012, respectively. The change in fair value measurements resulted in unrealized loss in the amount of RUB 1 billion. Realized gain in the form of net payments, recalculated in RUB at the CBR official exchange rate as of the date of payments, between the contract participants was RUB 0 billion in 2013. The net effect of a series of deliverable forward transactions is presented in Finance expenses – Net loss from operations with derivative financial instruments in the amount of RUB 1 billion in the consolidated statement of comprehensive income for 2013 (Note 12).

27. Investments in joint ventures and associates

Investments in joint ventures and associates comprise the following:

Name of an investee	Country	The Company's share as of December 31, 2013, %	As of December31, 2013	As of December31, 2012 (restated)
Joint ventures				
Polar Lights Company LLC	Russia	50.00	**1**	1
Rosneft Shell Caspian Vent.	Russia	51.00	**1**	1
Taihu Ltd (OJSC Udmurtneft)	Cyprus	51.00	**20**	13
OJSC Verkhnechonskneftegaz	Russia	Note 7	**–**	30
Lanard Holdings Ltd	Cyprus	50.00	**18**	17
NGK ITERA LLC	Russia	Note 7	**–**	95
CJSC Arktikshelfneftegaz	Russia	50.00	**3**	3
National Oil Consortium LLC	Russia	60.00	**12**	3
Saras S.p.A.	Italy	20.99	**13**	–
OJSC NGK Slavneft	Russia	49.94	**166**	–
Boqueron, Petroperija, PetroMonagas S.A.	Venezuela	various	**17**	–
NVGRES Holdings Limited (NVGRES LLC)	Cyprus	25.00	**5**	–
CJSC Messoyakhaneftegaz	Russia	50.00	**2**	–
CJSC STS	Russia	50.00	**4**	–
Associates				
CJSC Purgaz	Russia	49.00	**57**	–
Taas-Yuryakh Neftegazodobycha LLC	Russia	Note 7	**–**	13
Other associates		various	**8**	10
Total joint ventures and associates			**327**	186

Financial information on significant joint ventures and associates as of December 31, 2013 is presented below:

The Company's share in net assets	Taihu Ltd	OJSC NGK Slavneft	Lanard Holdings Ltd	CJSC Purgaz
Current assets	10	23	1	1
Non-current assets	41	117	1	5
Total assets	**51**	**140**	**2**	**6**
Current liabilities	(9)	(32)	(1)	(1)
Non-current liabilities	(22)	(28)	–	–
Total liabilities	**(31)**	**(60)**	**(1)**	**(1)**
Total Company's share in net assets	**20**	**80**	**1**	**5**

The Company's share in net profit	Taihu Ltd	OJSC NGK Slavneft	Lanard Holdings Ltd	CJSC Purgaz
Sales revenue	56	97	2	3
Cost of sales	(42)	(39)	(2)	(3)
Gross profit	**14**	**58**	**–**	**–**
Other expenses	(2)	(48)	–	–
Profit before tax	**12**	**10**	**–**	**–**
Income tax	(3)	(2)	–	–
Total Company's share in net profit	**9**	**8**	**–**	**–**

27. Investments in joint ventures and associates (continued)

Financial information on significant joint ventures and associates as of December 31, 2012 is presented below:

The Company's share in net assets	Taihu Ltd	Lanard Holdings Ltd
Current assets	10	–
Non-current assets	46	1
Total assets	**56**	**1**
Current liabilities	(6)	–
Non-current liabilities	(37)	–
Total liabilities	**(43)**	**–**
Total Company's share in net assets	13	1

The Company's share in net profit	Taihu Ltd	Lanard Holdings Ltd
Sales revenue	55	2
Cost of sales	(41)	(2)
Gross profit	**14**	**–**
Other expenses	(3)	–
Profit before tax	**11**	**–**
Income tax	(3)	–
Total Company's share in net profit	**8**	**–**

The difference of RUB 52 billion between the cost of investments and the Company's share in the net assets of CJSC Purgaz is an adjustment to the fair value of the identifiable assets and liabilities at the date of the associate acquisition. This difference is included in the carrying amount of investments in CJSC Purgaz.

Investments in Lanard Holdings LTD include adjustments to the fair value of the identifiable assets and liabilities at the date of the associate acquisition, and goodwill. The difference amounting to RUB 17 billion is included in the carrying amount of investments in Lanard Holdings Ltd.

The difference of RUB 86 billion between the cost of investments and the Company's share in the net assets of OJSC NGK Slavneft is an adjustment to the fair value of the identifiable assets and liabilities at the date of the associate acquisition. This difference is included in the carrying amount of investments in OJSC NGK Slavneft.

Equity share in profits/(losses) of joint ventures and associates:

	The Company's share as of December 31, 2013, %	Share in income/(loss) of equity investees		
		2013	2012 (restated)	2011
Polar Lights Company LLC	50.00	**–**	1	1
OJSC Verkhnechonskneftegaz	Note 7	**3**	14	8
Taihu Ltd	51.00	**9**	8	7
NGK ITERA LLC	Note 7	**2**	2	–
OJSC NGK Slavneft	49.94	**(4)**	–	–
Other	various	**2**	(2)	–
Total equity share in profits		**12**	23	16

27. Investments in joint ventures and associates (continued)

The difference of RUB 12 billion between the share in loss of the equity investee and the Company's share in net income of OJSC NGK Slavneft is an adjustment to the fair value of the identifiable assets and liabilities after the date of the acquisition.

OJSC NGK Slavneft

As a result of TNK-BP acquisition (Note 7) the Company obtained 49.9% interest in OJSC NGK Slavneft. The investment in OJSC NGK Slavneft of RUB 173 billion is accounted for as an investment in a joint venture using the equity method.

OJSC NGK 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 OJSC NGK Slavneft is 17 million tons of crude oil. The crude oil produced (excluding export) is processed at OJSC NGK Slavneft's refineries. The OJSC NGK Slavneft's refineries process over 26 million tons of hydrocarbons and produce over 5 million tons of gasoline annually.

Investments in Venezuela

As a result of TNK-BP acquisition (Note 7) the Company obtained equity interests in certain assets in Venezuela. The most significant of these investments is in PetroMonagas S.A. in which the Company holds a 16.7% share. The investment in Venezuela of RUB 17 billion is accounted for as an investment in joint venture using the equity method.

PetroMonagas S.A. is engaged in exploration and development of oil fields in the eastern part of Orinoko Basin. In 2013 PetroMonagas S.A. produced 8.3 million tons of oil equivalent. PetroMonagas S.A. is an integrated project involving the extra-heavy crude oil extraction and upgrading, production and export of synthetic crude oil.

Acquisition of interest in exploratory assets in Brazil

As a result of TNK-BP acquisition (Note 7) the Company obtained 45% interest in certain concession agreements for 21 exploratory blocks in the Brazilian Solimoes Basin. The fair value of Brazilian assets is RUB 10 billion (US$ 317 million at the CBR official exchange rate at the acquisition date). The investment is accounted for as joint operation as the Company has acquired undivided interests in the respective assets and liabilities. In 2013 the Company recognized a share of loss from its investments in Brazil in the amount of RUB 2 billion.

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 7), the Company's interest in NOC increased to 60%. NOC provides financing of exploration project at Junin-6 block in Venezuela jointly with a subsidiary of Petróleos de Venezuela S.A. ("PDVSA"), Venezuelan state oil company. The interest in NOC is continued to be accounted for as an equity investment due to joint control under the shareholder's agreement.

Acquisition of interest in refining assets

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

27. Investments in joint ventures and associates (continued)

Acquisition of interest in refining assets (continued)

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 at the acquisition date).

As a result of this acquisition, the Company's share in equity of Saras increased to 20.99% and is accounted for as an equity investment.

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.

28. Other non-current non-financial assets

Other non-current non-financial assets comprise the following:

	As of December 31,	
	2013	**2012**
Long-term advances issued	**6**	–
Prepaid insurance	**1**	1
Other	**5**	2
Total other non-current non-financial assets	**12**	3

29. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	As of December 31,	
	2013	**2012 (restated)**
Financial liabilities		
Accounts payable to suppliers and contractors	**187**	117
Voluntary offer to acquire OJSC RN Holding securities (Note 37)	153	–
Salary and other benefits payable	**45**	22
Banking customer accounts	**36**	41
Other accounts payable	**22**	13
Total financial liabilities	**443**	193
Non-financial liabilities		
Short-term advances received	**45**	18
Total accounts payable and accrued liabilities	**488**	211

In 2013 current accounts payable were settled within 47 days (2012: 31 days) on average. Interest rates on banking customer accounts amount to 0.1-3.0% p.a. Trade and other payables are non-interest bearing.

30. Loans, borrowings and finance lease liabilities

Loans and borrowings comprise the following:

	Currency	As of December 31, 2013	2012 (restated)
Long-term			
Bank loans	RUB	**115**	101
Bank loans	US$, Euro	**1,711**	648
Bonds	RUB	**131**	20
Eurobonds	US$	**247**	91
Customer deposits	RUB	**12**	8
Customer deposits	US$, Euro	**5**	3
Other debt	RUB	**–**	1
Less: Current portion of long-term loans and borrowings		**(545)**	(35)
Long-term loans and borrowings		**1,676**	837
Short-term			
Bank loans	RUB	**2**	8
Bank loans	US$	**88**	12
Customer deposits	RUB	**11**	12
Customer deposits	US$, Euro	**2**	3
Borrowings	RUB	**–**	2
Borrowings	Euro	**3**	5
Borrowings – Yukos related	RUB	**11**	11
Promissory notes payable – Yukos related	RUB	**20**	52
Promissory notes payable	RUB	**1**	1
Obligations under a repurchase agreement	RUB	**1**	2
Current portion of long-term loans and borrowings		**545**	35
Short-term loans and borrowings and current portion of long-term loans and borrowings		**684**	143
Total loans and borrowings		**2,360**	980

Long-term loans and borrowings

Long-term bank loans comprise the following:

Purpose of the loan	Currency	Interest rate p.a.	Maturity date	As of December 31, 2013	2012
Loans raised for replenishment of working capital	US$/Euro	LIBOR+1.3% – LIBOR+2.70%;/ EURIBOR+2.40%	2014-2018	**1,135**	167
Loans raised to finance special-purpose business activities	US$	LIBOR+0.60% – LIBOR+3.25%	2029	**557**	456
Loans raised to finance special-purpose business activities	RUB	7.20% -9.50%	2015-2017	**115**	101
Loans raised for property, plant and equipment construction/purchase	US$/Euro	LIBOR+1.00% – LIBOR+1.35%; 3.23%;/ EURIBOR+0.35%	2014-2021	**28**	27
Total				**1,835**	751
Debt issue costs				**(9)**	(2)
Total long-term bank loans				**1,826**	749

30. Loans, borrowings and finance lease liabilities (continued)

Long-term loans and borrowings (continued)

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

Certain US$ denominated loans raised for replenishment of working capital were acquired through TNK-BP acquisition (Note 7).

In March 2013, the Company drew down four long-term unsecured loans from a group of international banks for a total of US$ 31.04 billion (RUB 1,016 billion at the CBR official exchange rate as of December 31, 2013) to finance the acquision of TNK-BP (Note 7). The first debt agreement of US$ 4.09 billion (RUB 134 billion at the CBR official exchange rate as of December 31, 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 December 31, 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 389 billion at the CBR official exchange rate as of December 31, 2013). The fourth debt agreement in the amount of US$ 2.33 billion (RUB 76 billion at the CBR official exchange rate as of December 31, 2013) was entered into with the syndicate of foreign banks for 5 years at floating rates. As of December 31, 2013 loans are drawn down in full. In December 2013 the Company repaid US$ 5.1 billion (RUB 167 billion at the CBR official exchange rate as of December 31, 2013) of the long-term loan from international banks.

In June 2013, the Company drew down funds under long-term floating rate collateralized loan agreement with a foreign bank in the amount of US$ 2 billion (RUB 66 billion at the CBR official exchange rate as of December 31, 2013). The loan is repayable within 16 years and secured by oil export contracts.

In November 2013, the Company drew down funds under floating rate unsecured long-term loan from an international bank in amount of US$ 0.75 billion (RUB 25 billion at the CBR official exchange rate as of December 31, 2013) for 5 years.

In December 2013, the Company drew down funds under long-term floating rate unsecured loan from the group of international banks for a total amount of US$ 0.5 billion (RUB 16 billion at the CBR official exchange rate as of December 31, 2013) for 5 years.

In October 2012, the Company placed two issues of documentary interest-bearing non-convertible bearer bonds with a total nominal value of RUB 20 billion and the term of 10 years. Coupon payments are made on semi-annual basis of fixed rate of 8.6% p.a. for the first ten coupon periods.

In March 2013, the Company placed two issues of documentary interest-bearing non-convertible bearer bonds with a total nominal value of RUB 30 billion and the term of 10 years. Coupon payments are made on semi-annual basis of fixed rate of 8.0% p.a. for the first ten coupon periods.

In June 2013, the Company placed three issues of documentary interest-bearing non-convertible bearer bonds with a total nominal value of RUB 40 billion and the term of 10 years. Coupon payments are made on semi-annual basis of fixed rate of 7.95% p.a. for the first ten coupon periods.

30. Loans, borrowings and finance lease liabilities (continued)

Long-term loans and borrowings (continued)

In December 2013, the Company placed two issues of documentary interest-bearing non-convertible bearer stock bonds with a total nominal value of RUB 40 billion and the term of 10 years. Coupon payments are made on semi-annual basis of fixed rate of 7.95% p.a. for the first ten coupon periods.

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

Corporate bonds comprise the following:

			As of December 31,	
	Currency	**Maturity**	**2013**	**2012**
Eurobonds - (coupon interest rate -3.149%)	US$	2017	**33**	30
Eurobonds - (coupon interest rate -4.199%)	US$	2022	**66**	61
Eurobonds (Series 7) - (coupon interest rate -6.25%)	US$	2015	**17**	–
Eurobonds (Series 2) - (coupon interest rate -7.50%)	US$	2016	**38**	–
Eurobonds (Series 4) - (coupon interest rate -6.625%)	US$	2017	**30**	–
Eurobonds (Series 6) - (coupon interest rate -7.875%)	US$	2018	**43**	–
Eurobonds (Series 8) - (coupon interest rate -7.25%)	US$	2020	**20**	–
Total long-term Eurobonds			**247**	91

In the fourth quarter of 2012, the Company raised the funds through Eurobonds placement in amount of US$ 3.0 billion. Eurobonds were placed by two tranches at a nominal value: one in the amount of US$ 1.0 billion (RUB 30 billion at the CBR official exchange rate as of December 31, 2012) with the coupon of 3.149% p.a. to be matured in March 2017, and the other one in the amount of US$ 2.0 billion (RUB 61 billion at the CBR official exchange rate as of December 31, 2012) with the coupon of 4.199% p.a. to be matured in March 2022. The funds received will be used for general corporate purposes.

Eurobonds of the second, the forth, the sixth, the seventh and the eighth series were acquired through TNK-BP acquisition (Note 7).

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, denominated in RUB and foreign currencies. As of December 31, 2013, RUB denominated deposits bear interest rates ranging from 1.00% to 12.00% p.a. and deposits denominated in foreign currencies bear interest rates ranging from 1.00% to 7.40% p.a.

The Company is obliged to comply with a number of restrictive financial and other covenants contained in its loan agreements. Such covenants include maintaining certain financial ratios.

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

30. Loans, borrowings and finance lease liabilities (continued)

Short-term loans and borrowings

In November 2013, the Company drew down two floating rates tranches of unsecured loan from international bank for a total amount of US$ 1.5 billion (RUB 49 billion at the CBR official exchange rate as of December 31, 2013): the first in amount of US$ 0.5 billion (RUB 16 billion at the CBR official exchange rate as of December 31, 2013) for 1 year and with possibility of further extension of up to 12 months; the second in amount of US$ 1.0 billion (RUB 33 billion at the CBR official exchange rate as of December 31, 2013) maturing within 6 months.

In December 2013, the Company drew down funds under two fixed rate short-term loans from Russian banks for a total of US$ 0.74 billion (RUB 24 billion at the CBR official exchange rate as of December 31, 2013) with maturity in the first quarter of 2014.

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, denominated in RUB and foreign currencies. As of December 31, 2013 the RUB denominated deposits bear interest rates ranging from 0.01% to 12.00% p.a. and deposits denominated in foreign currencies bear interest rates ranging from 0.01% to 7.20% p.a.

RUB denominated borrowings – Yukos related primarily include borrowings provided by Yukos Capital S.a.r.l., at 9% p.a. interest that matured in 2007. The borrowings were carried in the books of the former Yukos subsidiaries the Company acquired through the auctions for the sale of the assets of Yukos. The borrowings are being disputed by the Company. The Company partially settled the above mentioned liabilities in compliance with the court decision in 2010 (Note 41).

Promissory notes payable – Yukos related comprise amounts that were carried in the books of the former Yukos subsidiaries the Company acquired through the auctions for the sale of the assets of Yukos. The promissory notes are being disputed by the Company. The promissory notes are claimed to be primarily payable on demand and bear interest rates ranging from 0% to 18% p.a. (Note 41).

In 2012-2013 the Company received cash under repurchase agreements and recognized these transactions as a collateralized loan. As of December 31, 2013 and December 31, 2012, the liabilities of the Company under repurchase agreements amounted to RUB 1 billion and RUB 2 billion, respectively, with the fair value amounted to RUB 1 billion and RUB 3 billion, respectively.

In 2013 the Company had neither delays in payments under loan agreements nor overdue interest payments.

30. Loans, borrowings and finance lease liabilities (continued)

Finance lease

	As of December 31, 2013	2012
Finance lease liabilities	**12**	11
Including short-term financial lease liabilities	***4***	*3*

Repayments of finance lease obligations comprise the following:

	As of December 31, 2013		
	Minimum lease payments	**Finance expense**	**Present value of minimum lease payments**
Less than 1 year	5	(1)	4
From 1 to 5 years	6	(1)	5
Over 5 years	3	–	3
Total	**14**	**(2)**	**12**

	As of December 31, 2012		
	Minimum lease payments	**Finance expense**	**Present value of minimum lease payments**
Less than 1 year	4	(1)	3
From 1 to 5 years	6	(1)	5
Over 5 years	4	(1)	3
Total	**14**	**(3)**	**11**

Finance leases entered into by the Company do not contain covenants and are entered into for a long-term, with certain leases having purchase options at the end of lease term. Finance leases are denominated in RUB and US$.

The following is the analysis of the property, plant and equipment under capital leases recognized in Property, plant and equipment (Note 24):

	As of December 31, 2013	2012
Plant and machinery	**12**	8
Vehicles	**6**	6
Total cost	**18**	14
Less: accumulated depreciation	**(9)**	(3)
Total net book value of leased property	**9**	11

31. Current liabilities related to derivative instruments

Current liabilities related to derivative instruments comprise:

	As of December 31,	
	2013	**2012**
Cross-currency rate swaps	**6**	–
Total current liabilities related to derivative financial instruments	**6**	–

In 2013 the Company entered into cross-currency interest rate swap with four banks for a term through 2018. Under the swap the Company pays US$ 2,138 million (RUB 70 billion at the CBR official exchange rate at December 31, 2013) at the floating interest rate of US$ 3-month LIBOR plus bank margin and receives RUB 70 billion at the fixed interest rates ranging from 7.95% to 8.0% p.a.

In 2012 the Company entered into cross-currency interest rate swap with five banks for a term through 2015. Under the swap the Company pays US$ 1,982 million (RUB 65 billion at the CBR official exchange rate at December 31, 2013) at the fixed interest rates and receives RUB 62 billion at the fixed interest rate of 7.2% p.a.

In 2012 the Company entered into cross-currency interest rate swap with two banks for a term through 2017. Under the swap the Company pays US$ 641 million (RUB 21 billion at the CBR official exchange rate at December 31, 2013) at the floating interest rate of US$ 3-month LIBOR plus bank margin and receives RUB 20 billion at the fixed interest rate of 8.6% p.a.

Fair value of cross-currency interest rate swaps is calculated based on market data using SuperDerivatives valuation service. Fair value of the cross-currency rate swaps is included in Current liabilities related to derivative financial instruments in the amount of RUB 6 billion in the consolidated balance sheet as of December 31, 2013 and in Other short-term financial assets – Derivative financial instruments (Note 20) in the amount of RUB 2 billion in the consolidated balance sheet as of December 31, 2012. The change in fair value measurements resulted in unrealized loss in the amount of RUB 8 billion in 2013. Realized gain in the form of net payments, recalculated in RUB at the CBR official exchange rate as of the date of payments was RUB 5 billion in 2013. The net effect of cross-currency interest rate swaps is presented in Finance expenses – Net loss from operations with derivative financial instruments in the amount of RUB 3 billion in the consolidated statement of comprehensive income for 2013 (Note 12).

32. Other short-term tax liabilities

Other short-term tax liabilities comprise the following:

	As of December 31,	
	2013	**2012 (restated)**
Mineral extraction tax	**81**	46
VAT	**50**	23
Excise duties	**14**	10
Personal income tax	**1**	1
Property tax	**6**	3
Other	**9**	–
Total other tax liabilities	**161**	83

33. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2012 (restated), including	**50**	**11**	**5**	**66**
Non-current	***50***	***10***	***–***	***60***
Current	***–***	***1***	***5***	***6***
Provisions charged during the year	5	1	1	7
Increase/(decrease) in the liability resulting from				
Changes in estimates	*(6)*	*3*	*(1)*	*(4)*
Change in the discount rate	*7*	*–*	*–*	*7*
Unwinding of discount	*4*	*–*	*–*	*4*
Utilised	*(3)*	*–*	*(2)*	*(5)*
Effect of changes in accounting policies (Note 3)	*1*	*–*	*–*	*1*
As of December 31, 2012 (restated), including	**58**	**15**	**3**	**76**
Non-current	***58***	***13***	***–***	***71***
Current	***–***	***2***	***3***	***5***
Provisions charged during the year	15	4	2	21
Increase/(decrease) in the liability resulting from				
Changes in estimates	*(5)*	*–*	*3*	*(2)*
Change in the discount rate	*(3)*	*–*	*–*	*(3)*
Unwinding of discount	*6*	*2*	*–*	*8*
Utilised	*(2)*	*(5)*	*(1)*	*(8)*
Acquisition of TNK-BP (Note 7)	*25*	*17*	*4*	*46*
As of December 31, 2013, including	**94**	**33**	**11**	**138**
Non-current	***91***	***24***	***1***	***116***
Current	***3***	***9***	***10***	***22***

Asset retirement (decommissioning) obligations represent an estimate of costs of wells liquidation, recultivation of sand pits, slurry ponds, disturbed lands and dismantling pipelines and power transmission lines. The budget for payments under asset retirement obligations is prepared on an annual basis. Depending on the current economic environment the entity's actual expenditures may vary from the budgeted amounts.

34. Long-term prepayment on oil supply agreements

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

The contracts include the following main terms:

- prepayment amounts not to exceed 30% of the total contracted volume;
- the crude oil price is calculated based on current market quotes;
- the prepayment is reimbursed through physical deliveries of crude oil.

34. Long-term prepayment on oil supply agreements (continued)

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

	2013	2012
As of January 1	**–**	–
Received	**470**	–
Less current portion	**–**	–
Reimbursed	**–**	–
As of December 31	**470**	–

35. Other non-current liabilities

Other non-current liabilities comprise the following:

	As of December 31,	
	2013	2012 (restated)
Ruhr Oel GmbH liabilities due BP	**16**	13
Shelf projects liabilities	**10**	–
Liabilities for investing activities	**1**	2
Other	**1**	1
Total other non-current liabilities	**28**	16

Other non-current liabilities mostly comprise the Ruhr Oel GmbH pension and other liabilities due to BP group relating to BP group employees of Ruhr Oel GmbH plants.

36. Pension benefit obligations

Defined contribution plans

The Company makes payments to the State Pension Fund of the Russian Federation. These payments are calculated by the employer as percentage from the salary expense and are expensed as accrued.

The Company also maintains a defined contribution corporate pension plan to finance non-state pensions of its employees.

Pension contributions recognized in the consolidated statement of comprehensive income was as follows:

	2013	2012	2011
State Pension Fund	**23**	16	14
NPF Neftegarant	**4**	3	3
Total pension contributions	**27**	19	17

37. Shareholders' equity

Common shares

As of December 31, 2013 and 2012:

Authorized common shares:	
quantity, millions	10,598
amount, billions of RUB	0.6
Issued and fully paid shares:	
quantity, millions	10,598
amount, billions of RUB	0.6
Nominal value of 1 common share, RUB:	0.01

Starting from 2011 the Company distributes dividends in the amount of 25% of IFRS net income, attributable to the Company's shareholders. According to Russian legislation the basis of distribution is identified as the current period net profit of OJSC Rosneft Oil Company calculated in accordance with Russian accounting standards.

On June 20, 2012, the annual General Meeting of Shareholders 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 are related to outstanding shares, including dividend withholding tax on treasury shares. In August 2012, the approved dividends were paid.

On November 30, 2012, the extraordinary General Meeting of Shareholders approved additional dividends on the Company's common shares for 2011 in the amount of RUB 42 billion or 4.08 per share. RUB 38 billion of the above are related to outstanding shares, including dividend withholding tax on treasury shares. In December 2012, the approved dividends were paid.

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

Treasury shares

	As of December 31,	
	2013	**2012**
number, millions	–	1,360
amount, billions of RUB	–	299

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

In August 2012, the Company transferred 185,794 of treasury shares to compensate independent members of the Company's Board of Directors for the period from June 10, 2011 to June 10, 2012 (Note 39). Both fair and carrying value of the above shares approximated RUB 0.04 billion.

In November 2012, the Company purchased 28,513,639 of its own shares for RUB 7 billion or RUB 249 per share.

In March 2013, the Company transferred 1,360,449,797 of its own shares to BP as a consideration for TNK-BP acquisition (Note 7).

37. Shareholders' equity (continued)

Additional paid-in capital

	2013	2012
Additional paid-in capital as of January 1	**385**	386
Sale of treasury shares (Note 7)	**28**	–
Sale of 9.99% of OJSC RN Holding shares	**(125)**	–
Voluntary offer to acquire OJSC RN Holding shares	**189**	–
Change in ownership interests in subsidiaries	–	(1)
Additional paid-in capital as of December 31	**477**	385

In 2012 the Company acquired additional shares in its two subsidiaries. The effect of these transactions in the total amount of RUB 1 billion was accounted for as a reduction of Additional paid-in capital.

In the third quarter of 2013 9.99% of shares in OJSC RN Holding ("RN Holding"), a subsidiary of the Company, were sold to certain unrelated third parties for a cash consideration of an aggregate RUB 97 billion. As these transactions did not result in a loss of control over RN Holding, the difference between the fair value of consideration transferred and the carrying amount of the disposed share of net assets is recognized in the additional paid-in capital.

On November 6, 2013 Rosneft announced a voluntary offer to acquire its securities held by minority shareholders. Under the terms of the voluntary offer, Rosneft plans to buy out 1,918,701,184 ordinary and 450,000,000 preferred shares of RN Holding. The offer price was set at RUB 67 per one ordinary share and RUB 55 per one preferred share of RN Holding. The voluntary offer term of 75 days expired on January 20, 2014. As of December 31, 2013, the Company recognized a liability due to non-controlling interest shareholders in the amount of RUB 153 billion in the other accounts payable, decrease in the non-controlling interest in the amount of RUB 342 billion and increase in the additional paid-in capital in the amount of RUB 189 billion. As of January 20, 2014 a number of shareholders, legal entities and individuals, have accepted the voluntary offer. Final results of the voluntary offer will be available in the first quarter of 2014.

38. Fair value of financial instruments

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

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

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

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

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

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

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

38. Fair value of financial instruments (continued)

	Carrying value		Fair value (Level 2)	
	As of December 31,		As of December 31,	
	2013	2012 (restated)	2013	2012 (restated)
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with variable interest rate	**(1,717)**	(632)	**(1,722)**	(605)
Loans and borrowings with fixed interest rate	**(643)**	(348)	**(639)**	(338)
Financial liabilities at fair value, through profit or loss:				
Derivative financial instruments	**(6)**	–	**(6)**	–
Financial lease liabilities	**(12)**	(11)	**(12)**	(11)

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

39. Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In 2011, 2012 and 2013 the Company entered into transactions with the following related parties: joint ventures and associates, enterprises directly or indirectly controlled by the Russian Government, key management, pension funds (Note 36).

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

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

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

Transactions with companies directly or indirectly controlled by the Russian Government

Revenues and income

	2013	2012	2011
Oil and gas sales	**102**	94	28
Petroleum products and petrochemicals sales	**58**	30	25
Support services and other revenues	**2**	2	2
Finance income	**2**	18	7
	164	144	62

39. Related party transactions (continued)

Costs and expenses

	2013	2012	2011
Production and operating expenses	**13**	8	10
Cost of purchased oil, gas and petroleum products and refining costs	**2**	–	–
Pipeline tariffs and transportation costs	**318**	187	181
Other expenses	**8**	17	7
Financial expenses	**2**	4	–
	343	216	198

Other operations

	2013	2012	2011
Purchase of financial assets and investments in associates	**(8)**	(6)	(9)
Sale of financial assets and investments in associates	**15**	–	1
Loans received	**22**	100	–
Loans repaid	–	(2)	(3)
Loans and borrowings issued	–	–	(1)
Repayment of loans and borrowings issued	**1**	–	–
Deposits placed	**(56)**	(10)	(30)
Deposits repaid	**10**	24	165
Repurchase of shares	–	(1)	–

Settlement balances

	As of December 31,	
	2013	**2012**
Assets		
Cash and cash equivalents	**135**	188
Accounts receivable	**15**	13
Prepayments and other current assets	**25**	15
Other financial assets	**66**	7
	241	223
Liabilities		
Accounts payable and accrued liabilities	**9**	15
Loans and borrowings	**125**	100
	134	115

39. Related party transactions (continued)

Transactions with joint ventures

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

Revenues and income

	2013	2012 (restated)	2011
Oil and gas sales	**2**	–	–
Petroleum products and petrochemicals sales	**6**	–	–
Support services and other revenues	**6**	2	3
Finance income	**1**	1	1
	15	3	4

Costs and expenses

	2013	2012 (restated)	2011 (restated)
Production and operating expenses	**2**	–	–
Cost of purchased oil, gas and petroleum products and refining costs	**108**	18	23
Pipeline tariffs and transportation costs	**8**	–	2
Other expenses	**4**	2	2
	122	20	27

Other operations

	2013	2012 (restated)	2011
Purchase of financial assets and investments in associates	**4**	–	–
Loans repaid	–	(2)	–
Loans and borrowings issued	**(4)**	–	–
Repayment of loans and borrowings issued	**4**	–	3

Settlement balances

	As of December 31,	
	2013	2012 (restated)
Assets		
Accounts receivable	**5**	5
Prepayments and other current assets	**1**	–
Other financial assets	**4**	–
	10	5
Liabilities		
Accounts payable and accrued liabilities	**17**	12
Loans and borrowings	**1**	–
	18	12

39. Related party transactions (continued)

Transactions with associates

Revenues and income

	2013	2012 (restated)	2011 (restated)
Oil and gas sales	**5**	1	2
Petroleum products and petrochemicals sales	**1**	2	5
Support services and other revenues	**1**	1	2
Finance income	**1**	1	1
	8	5	10

Costs and expenses

	2013	2012 (restated)	2011 (restated)
Production and operating expenses	**7**	1	3
Other expenses	**2**	5	1
	9	6	4

Other operations

	2013	2012	2011
Purchase of financial assets	–	–	(5)
Loans and borrowings issued	**(1)**	(1)	–
Repayment of loans and borrowings issued	–	–	3

Settlement balances

	As of December 31,	
	2013	2012 (restated)
Assets		
Accounts receivable	**1**	2
Other financial assets	**13**	12
	14	14
Liabilities		
Accounts payable and accrued liabilities	**2**	1
	2	1

Transactions with non-state pension funds

Costs and expenses

	2013	2012	2011
Other expenses	**3**	3	3

Other operations

	2013	2012	2011
Loans repaid	–	–	(1)

39. Related party transactions (continued)

Compensation to key management personnel

For the purpose of these consolidated financial statements key management personnel includes: President of Rosneft, Vice-Presidents, members of the Board of Directors, members of the Management Board, members of the Audit Committee, directors of departments and heads of independent units, as well as others charged with governance.

Short-term benefits of the key management personnel, including payroll, bonuses, personal income tax and social taxes, severance payments and contributions to insurance programs of the key management personnel amounted to RUB 8 billion, RUB 9 billion and RUB 4 billion in 2013, 2012 and 2011, respectively.

On June 10, 2011, annual General Meeting of Shareholders decided to transfer to each of the following independent members of the Board of Directors of Rosneft Mr. Andrey L. Kostin, Mr. Alexander D. Nekipelov and Mr. Hans-Joerg Rudloff 25,238 shares of Rosneft, 20,821 shares of Rosneft to Mr. Andrey G. Reus and Mr. Nikolay P. Tokarev, each, 18,928 shares of Rosneft to Mr. Vladimir L. Bogdanov, and 14,021 shares of Rosneft to Sergey M. Bogdanchikov as a compensation for their services in the capacity of the Company's directors.

On June 20, 2012, annual General Meeting of Shareholders decided to transfer to each of the following independent members of the Board of Directors of Rosneft as a compensation for their services in the capacity of the Company's directors for the periods June 10, 2011 – September 13, 2011 and September 13, 2011 – June 20, 2012: 28,944 shares of Rosneft to Mr. Alexander D. Nekipelov, 26,925 shares of Rosneft to Mr. Andrey L. Kostin and Mr. Hans-Joerg Rudloff, each, 24,906 shares of Rosneft to Mr. Sergey V. Shishin, 22,213 shares of Rosneft to Mr. Nikolay P. Tokarev and Mr. Dmitry E. Shugaev, each, 17,408 shares of Rosneft to Mr. Vladimir L. Bogdanov and 16,260 shares of Rosneft to Mr. Matthias Warnig as a compensation for his services in the capacity of the Company's director for the period September 13, 2011 – June 20, 2012.

On June 20, 2013, annual General Meeting of Shareholders decided to transfer to each of the following independent members of the Board of Directors of Rosneft as a compensation for their services in the capacity of the Company's directors for the periods June 20, 2012 –November 30, 2012 and November 30, 2012 – June 20, 2013: 76,373 shares of Rosneft to Mr. Mattias Varnig and Mr. Michail V. Kuzovlev, each, 75,009 shares of Rosneft to Mr. Nikolay P. Laverov, 85,920 shares of Rosneft to Mr. Alexander D. Nekipelov, 79,101 shares of Rosneft to Mr. Hans-Joerg Rudloff and Mr. Sergey V. Shishin, each, 72,282 shares of Rosneft to Mr. Dmitry E. Shugaev and Mr. Ilia V. Scherbovich, each.

40. Key subsidiaries

Name	Country of incorporation	Core activity	2013 Preferred and common shares %	2013 Voting shares %	2012 Preferred and common shares %	2012 Voting shares %
Exploration and production						
OJSC Orenburgneft	Russia	Oil and gas development and production	**100.00**	**100.00**	–	–
OJSC Samotlorneftegaz	Russia	Oil and gas development and production	**100.00**	**100.00**	–	–
OJSC Tumenneftegaz	Russia	Oil and gas development and production	**100.00**	**100.00**	–	–
OJSC Verkhnechonskneftegaz	Russia	Oil and gas development and production	**100.00**	**100.00**	–	–
CJSC Vankorneft	Russia	Oil and gas development and production	**93.96**	**93.96**	93.96	93.96
RN-Yuganskneftegaz LLC	Russia	Oil and gas production operator services	**100.00**	**100.00**	100.00	100.00
Refining, marketing and distribution						
CJSC RORC	Russia	Petroleum refining	**100.00**	**100.00**	–	–
OJSC Angarsk Petrochemical Company	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
OJSC Novokuybyshev Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
RN-Komsomolsky Refinery LLC	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
OJSC Syzran Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
OJSC Achinsk Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
OJSC Kuybyshev Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
OJSC Saratov Oil Refinery	Russia	Petroleum refining	**85.48**	**91.13**	–	–
CJSC PCEC	Russia	Marketing and distribution	**100.00**	**100.00**	–	–
OJSC TNK-Stolitsa	Russia	Marketing and distribution	**100.00**	**100.00**	–	–
Rosneft Trading S.A.	Switzerland	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
Rosneft Trade Limited	Cyprus Republic	Marketing and distribution	**100.00**	**100.00**	–	–
Other						
OJSC RN Holding	Russia	Holding company	**100.00**	**100.00**	–	–
Neft-Aktiv LLC	Russia	Investing activity	**100.00**	**100.00**	100.00	100.00
Rosneft Finance S.A.	Luxemburg	Finance services	**100.00**	**100.00**	–	–
OJSC Russian Regional Development Bank (VBRR)	Russia	Banking	**84.67**	**84.67**	84.67	84.67

As of December 31, 2013, the ownership percentage was calculated based on the terms of the voluntary public offering of RN Holding shares (Note 37).

41. 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.

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 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.

Parent Guarantes, Commercial Discovery bonus payment guarantee (under projects with Eni S.p.A. on the shelf of Russian Federation), Parent Agreement (under projects with Statoil ASA on the shelf of Russian Federation), Parent Agreement (under projects with ExxonMobil Oil Corporation on the shelf of Russian Federation) entered into in 2012 under Strategic Cooperation Agreement between Rosneft and Eni S.p.A, Rosneft and Statoil ASA, Rosneft and ExxonMobil Oil Corporation took effect in 2013. These guarantees are unconditional, unlimited and open-ended, and assuming that Rosneft will cover all potential ongoing liabilities under the terms of the projects on behalf of its associates. Under these agreements, the partners guarantee to each other the proper and timely performance of all obligations of its affiliated persons under above mentioned agreements entered into for the purpose of realization of Joint Agreements on the shelf of Russian Federation and also commercial discovery bonus payment assumed by the terms of Shareholders and Operating Agreements.

In 2013 the Company entered into the Parent Agreements with ExxonMobil Oil Corporation for seven new offshore projects. These guarantees effective the second quarter of 2014 are unlimited, unconditional and open-ended.

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 13 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 billion in loan principal and interest plus post award interest of 9% p.a. on the above amount of loan principal and interest concerning two other loans. On February 12, 2007, the arbitration panel formed pursuant to the ICC rules issued an award against Tomskneft of RUB 4 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.

41. 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 5 billion as of the date of its Particulars of Claim. On June 14, 2011, the High Court issued an interim decision on two preliminary issues it had agreed to consider prior to reaching a decision on the merits of the claim. Although Yukos Capital prevailed on both issues, the court granted the Company leave to appeal, which it did. On June 27, 2012 the Court of Appeal of England handed down its judgment whereby the Company prevailed on one of these preliminary issues. No further appeals were requested by any party. Upon return of the case to the High Court of Justice, the court entered an order on February 27, 2013 providing for the hearing of further preliminary issues concerning whether the court has the power to enforce the annulled ICAC awards at English common law and whether in principle there is a basis for Yukos Capital to recover post-award interest in the English courts. The High Court of Justice scheduled the hearing of the further preliminary issues to be conducted on May 13-15, 2014. The Company intends to defend its position vigorously in the remaining proceedings in England.

In 2007, lawsuits were filed in Russian arbitrazh courts in Moscow, Samara and Tomsk to nullify the loan agreements with Yukos Capital. Court Hearings in all three cases were suspended for some time. However, on February 1, 2012 the Arbitrazh Court of the Samara Region declared invalid the loan agreements between Yukos Capital and OJSC Samaraneftegaz. On July 17, 2012, the 11th Arbitrazh Appellate Court dismissed Yukos Capital's appeal of that judgment. Yukos Capital filed a cassation appeal against both court decisions with the Federal Arbitrazh Court for Povolzhsky District, which on February 28, 2013 upheld the lower courts' judgments. On July 8, 2013, the Supreme Arbitrazh Court rejected Yukos Capital's supervisory appeal and upheld the lower courts' judgments.

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

41. Contingencies (continued)

Legal claims (continued)

On July 19, 2012 the Arbitrazh Court of the Tomsk Region declared void the loan agreements between Yukos Capital and Tomskneft. Yukos Capital filed an appeal on the decision. On June 3, 2013 the 7th Arbitrazh Appellate Court dismissed Yukos Capital's appeal of that judgment. On October 8, 2013, the Federal Arbitrazh Court for West-Siberian District rejected Yukos Capital's cassation appeal and upheld the judgments of the lower courts. On December 30, 2013, Yukos Capital filed a supervisory appeal with the Supreme Arbitrazh Court, the decision of the Supreme Arbitrazh Court is pending.

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

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

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

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

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

In February 2013, Yukos Capital initiated proceedings against Tomskneft in Ireland and Singapore seeking to enforce the same February 2007 ICC award whose recognition and enforcement was declined in Russia and France. Tomskneft has made an appearance in Ireland to challenge the court's jurisdiction. The court agreed with Tomskneft that its jurisdictional challenge should be heard before other issues. The court conducted a hearing on Tomskneft's motion to dismiss the proceedings on November 20-22, 2013 and the decision of the court is pending.

41. Contingencies (continued)

Legal claims (continued)

On February 19, 2013, Yukos Capital obtained an ex parte judgment granting its application for leave to enforce the same February 2007 ICC arbitral award in Singapore. Tomskneft filed on March 26, 2013 a brief responding submission. On July 3, 2013, the court heard Tomskneft's application that the issue of inadequate notice of the arbitral proceedings should be decided first and before Tomskneft fully presents all other defenses against enforcement. The judge decided to hear all grounds of defense at one time. On January 13, 2014 the judge granted in part Tomskneft's application for discovery. The hearing schedule in Singapore has not been fixed yet.

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 December 31, 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. At that hearing Yukos International (UK) B.V. was granted permission to amend its claims against Rosneft. Now Yukos International (UK) B.V. filed claims against Rosneft also based on collective responsibility; the purpose of these requirements is to pass one of the co-defendants alleged responsibility for Rosneft. Rosneft will respond to these new claims of February 26, 2014.

The Company and its subsidiary participate in arbitral proceedings related to bankruptcy of OJSC Sakhaneftegaz and OJSC Lenaneftegaz for the recovery of certain loans and guarantees of indemnity in the amount of RUB 1 billion, stated above account receivable was reserved in full.

During 2009-2012, the Federal Antimonopoly Service ("FAS Russia") and its regional bodies claimed that the Company and some of its subsidiaries (associates) violated certain antimonopoly regulations in relation to petroleum products trading and passed respective decisions on administrative liability. As of December 31, 2013, the total amount of administrative fines levied by FAS Russia and its regional bodies against Rosneft and its subsidiaries is immaterial.

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

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

On September 12, 2013, New York Court of Appeals accepted Norex's claim. The hearing is expected in the first quarter of 2014, the judgment is expected to be delivered in the second quarter of 2014.

41. Contingencies (continued)

Legal claims (continued)

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

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

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

From September 2013, Rosprirodnadzor performed inspections of Rosneft and issued the report upon results of these inspections. As of the date of these consolidated financial statements administrative procedures have not been completed. The final outcome of the review will be announced after the completion by the inspection bodies of all procedures. The Company does not expect results of the examinations to have a material impact on the Company's financial position or results of operations.

Taxation

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

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

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

Effective January 1, 2012, the market price defining rules were changed and the list of entities that could be recognized as interdependent entities and list of managed deals were expanded. Due to the absence of law enforcement precedents based on the new rules and certain contradictions in the provisions of the new law, such rules cannot be considered clear and precise. To eliminate influence of the significant risks associated with transfer pricing to the consolidated financial statements, the Company developed methods of pricing for all types of controlled transactions, a standard on preparation of reporting documentation, also the Company systematically researches databases to determine the market price level (ROI) of the controlled transactions.

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

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

41. Contingencies (continued)

Taxation (continued)

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, 2014 under the terms of the agreement, the number of members of the consolidated group of taxpayers is increased to 58. The Company management believes that creation of the consolidated group of taxpayers does not lead to significant changes of tax burden of the Company for the purpose of these consolidated financial statements.

During the reporting period, the tax authorities continued examinations of Rosneft and its certain subsidiaries for 2009-2012 fiscal years. Rosneft and its subsidiaries dispute a number of claims in pre-trial and trial appeal in federal tax service. The Company management does not expect results of the examinations to have a material impact on the Company's consolidated balance sheet or results of operations.

As of December 31, 2013, the amount of VAT receivable, that is potentially unrecoverable from the tax authorities is immaterial. The Company currently reimburses the current VAT in full in a declarative manner.

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

Overall, management believes that the Company has paid or accrued all taxes that are applicable. For taxes other than income tax, where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate of the probable outflow of resources, which will be required to settle these liabilities. Potential liabilities which were identified by management at the reporting date as those that can be subject to different interpretations of tax laws and regulations are not accrued in the 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 328 billion and RUB 340 billion as of December 31, 2013 and 2012, respectively.

Environmental issues

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 the consolidated financial statements.

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

On November 14, 2013, Petrovictoria S.A., an entity for exploration of heavy crude oil in Venezuela in the framework of the Carabobo-2 project, was incorporated.

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

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

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

In December 2013, Rosneft and American bank Morgan Stanley entered into an agreement to purchase Morgan Stanley unit engaged in trade, storage and transport of crude oil. The provisional amount of agreement is the market value of the net assets of the acquired company plus purchase costs. Completion is scheduled for the second half of 2014.

42. Events after the reporting period

In January 2014, the Company received prepayments on long-term oil supply contracts from a number of customers (Note 34).

43. Supplementary oil and gas disclosure (unaudited)

IFRS do not require that information on oil and gas reserves be disclosed. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that the data represents management's best estimates. Accordingly, this information may not necessarily represent the current financial condition of the Company and its future financial results.

Company's activities are conducted primarily in Russia, which is considered as one geographic area.

Presented below are capitalized costs relating to oil and gas production

Consolidated subsidiaries and joint operations:	December 31,		
	2013	**2012 (restated)**	**2011 (restated)**
Oil and gas properties related to proved reserves	**4,926**	2,442	2,151
Oil and gas properties related to proved reserves for resale	**94**	–	–
Oil and gas properties related to unproved reserves for resale	**50**	–	–
Oil and gas properties related to unproved reserves	**196**	119	115
Total capitalized costs	**5,266**	2,561	2,266
Accumulated depreciation and depletion	**(941)**	(621)	(452)
Net capitalized costs	**4,325**	1,940	1,814

Presented below are costs incurred in the acquisition, exploration and development of oil and gas reserves

Consolidated subsidiaries and joint operations:

For the years ended December 31:

	2013	**2012 (restated)**	**2011 (restated)**
Acquisition of properties - proved oil and gas reserves	**2,243**	1	–
Acquisition of properties - unproved oil and gas reserves	**128**	5	7
Exploration costs	**24**	27	13
Development costs	**345**	301	260
Total costs incurred	**2,740**	334	280

Presented below are the results of operations relating to oil and gas production

Consolidated subsidiaries and joint operations:

For the years ended December 31:

	2013	**2012 (restated)**	**2011 (restated)**
Revenue	**1,909**	1,265	1,149
Production costs (excluding production taxes)	**204**	84	70
Selling, general and administrative expenses	**20**	16	27
Exploration expense	**17**	23	13
Depreciation, depletion and amortization	**329**	167	164
Unwinding of discount	**7**	4	5
Taxes other than income tax	**857**	577	430
Income tax	**62**	77	65
Results of operations relating to oil and gas production	**413**	317	375

43. Supplementary oil and gas disclosure (unaudited) (continued)

Reserve quantity information

For the purposes of evaluation of reserves as of December 31, 2013, 2012 and 2011 the Company used the oil and gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers, prepared in accordance with United States Securities and Exchange Commission (SEC) definitions. Proved reserves are those estimated quantities of crude oil and gas which, by analysis of geological and engineering data, demonstrate with reasonable certainty to be recoverable in the future from existing reservoirs under the existing economic and operating conditions. In certain cases, recovery of such reserves may require considerable investments in wells and related equipment. Proved reserves also include additional oil and gas reserves that will be extracted after the expiry date of license agreements or may be discovered as a result of secondary and tertiary extraction which have been successfully tested and checked for commercial benefit. Proved developed reserves are the quantities of crude oil and gas expected to be recovered from existing wells using existing equipment and operating methods.

Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances are estimates of proved undeveloped reserves attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless those techniques have been proved effective by actual tests in the area and in the same reservoir. Due to inherent industry uncertainties and the limited nature of deposit data, estimates of reserves are subject to change as additional information becomes available.

The Company management included in proved reserves those reserves which the Company intends to extract after the expiry of the current licenses. The licenses for the development and production of hydrocarbons currently held by the Company generally expire between 2014 and 2053, and the licenses for the most important deposits expire between 2014 and 2053. In accordance with the effective version of the law of the Russian Federation, *On Subsurface Resources* (the "Law"), licenses are currently granted for a production period determined on the basis of technological and economic criteria applied to the development of a mineral deposit which guarantee rational use of subsurface resources and necessary environmental protection.

In accordance with the Law and upon gradual expiration of old licenses issued under the previous version of the Law, the Company extends its hydrocarbon production licenses for the whole productive life of the fields. Extension of the licenses depends on compliance with the terms set forth in existing license agreements. As of the date of these consolidated financial statements, the Company is generally in compliance with all the terms of the license agreements and intends to continue complying with such terms in the future.

The Company’s estimates of net proved oil and gas reserves and changes thereto for the years ended December 31, 2013, 2012 and 2011 are shown in the table below and expressed in million barrels of oil equivalent (oil production data was recalculated from tons to barrels using a field specific in the range from 6.71 to 8.87 barrels per ton, gas production data was recalculated from cubic meters to barrels of oil equivalent ("boe") using a ratio of 35.3/6 cubic meters per barrel).

43. Supplementary oil and gas disclosure (unaudited) (continued)

Reserve quantity information (continued)

Consolidated subsidiaries and joint operations:

As of years ended December 31:

	2013	2012 (restated)	2011 (restated)
	mln boe	**mln boe**	**mln boe**
Beginning of year	**17,392**	16,995	14,613
Beginning of year –reserves of associated companies as of December 31, 2012	**970**		
Revisions of previous estimates	**(437)**	1,355	2,196
Extensions and discoveries	**1,279**	775	1,092
Improved recovery	**51**	–	–
Purchase of new reserves (Note 7)	**13,063**	1	–
Sale of reserves	–	(806)	–
Production	**(1,530)**	(928)	(906)
End of year	**30,788**	17,392	16,995
of which:			
Proved reserves under PSA Sakhalin 1	**76**	87	95
Proved reserves of Tomskneft	**613**	619	643
Proved reserves of assets in Canada	**5**	1	–
Proved reserves of assets in Vietnam	**27**	–	–
Proved developed reserves	**17,570**	11,267	10,892
Minority interest in total proved reserves	**161**	118	109
Minority interest in proved developed reserves	**123**	86	71

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

The standardized measure of discounted future net cash flows related to the above oil and gas reserves is calculated in accordance with the provisions set by U.S. Securities and Exchange Commission (SEC). Estimated future cash inflows from oil, condensate and gas production are computed by applying the 12 month average prices (reference prices) calculated as unweighted arithmetic average of the first-day-of-the-month price for each month within the 12 month period prior to the end of the reporting period, unless prices are defined by contractual arrangements, to year-end quantities of estimated net proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce estimated proved reserves as of year-end based on current expenses and costs and forecasts. In certain cases, future values, either higher or lower than current values, were used because of anticipated changes in operating conditions, but no general escalation that might result from inflation was applied. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future net pre-tax cash flows, net of the tax bases of related assets.

43. Supplementary oil and gas disclosure (unaudited) (continued)

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves (continued)

Discounted future net cash flows are calculated using a 10% p.a. discount factor. Discounting requires a year-by-year estimates of future expenditures to be incurred in the periods when the reserves will be extracted.

The information provided in the table below does not represent management's estimates of the Company's expected future cash flows or of the value of its proved oil and gas reserves. Estimates of proved reserves change over time as new information becomes available. Moreover, probable and possible reserves which may become proved in the future are excluded from the calculations. The arbitrary valuation prescribed under provisions set by SEC requires assumptions as to the timing and the amount of future development and production costs. The calculations should not be relied upon as an indication of the Company's future cash flows or of the value of its oil and gas reserves.

Standardized measure of discounted future net cash flows:

Consolidated subsidiaries and joint operations:

	2013	2012 (restated)	2011 (restated)
Future cash inflows	**38,531**	21,970	19,444
Future development costs	**(2,995)**	(1,169)	(1,018)
Future production costs	**(20,796)**	(11,314)	(10,255)
Future income tax expenses	**(2,250)**	(1,553)	(1,332)
Future net cash flows	**12,490**	7,934	6,839
Discount for estimated timing of cash flows	**(7,461)**	(4,730)	(4,018)
Discounted value of future cash flows as of the end of year	**5,029**	3,204	2,821

Share of other (minority) shareholders in discounted value of future cash flows

	UOM	2013	2012 (restated)	2011 (restated)
Share of other (minority) shareholders in discounted value of future cash flows	RUB bln	**25**	29	32

43. Supplementary oil and gas disclosure (unaudited) (continued)

Changes therein relating to proved oil and gas reserves

Consolidated subsidiaries and joint operations:

	2013	2012 (restated)	2011 (restated)
Discounted value of future cash flows as of the beginning of year	**3,204**	2,821	2,275
Discounted value of future cash flows as of the beginning of year (associated companies)	**112**	–	–
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	**(828)**	(588)	(622)
Changes in price estimates, net	**(278)**	260	341
Changes in future development costs	**(177)**	(118)	73
Development costs incurred during the period	**345**	301	260
Revisions of previous reserves estimates	**(71)**	151	223
Increase in reserves due to discoveries, less respective expenses	**217**	144	221
Net change in income taxes	**83**	30	(142)
Accretion of discount	**332**	282	228
Net changes due to purchases (sales) oil and gas fields	**2,083**	(68)	–
Effect of proportionate consolidation of OAO Tomskneft	**(16)**	24	105
Other	**23**	(35)	(141)
Discounted value of future cash flows as of the end of year	**5,029**	3,204	2,821

Company's share in costs, inventories and future cash flows of the joint ventures and associates

	UOM	2013	2012 (restated)	2011 (restated)
Share in capitalized costs relating to oil and gas producing activities (total)	RUB bln	**139**	81	31
Share in results of operations for oil and gas producing activities (total)	RUB bln	**11**	26	15
Share in estimated proved oil and gas reserves	mln boe	**1,920**	1,634	622
Share in estimated proved developed oil and gas reserves	mln boe	**1,305**	909	399
Share in discounted value of future cash flows	RUB bln	**286**	214	166

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