Rosneft Oil Company

Interim Condensed Consolidated Financial Statements (Unaudited)

Three and nine months ended September 30, 2014

Rosneft Oil Company

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Three and nine months ended September 30, 2014

Contents

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Report on review of interim condensed consolidated financial statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Open Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), comprising the interim consolidated balance sheet as at September 30, 2014, the related interim consolidated statements of comprehensive income for the three and nine-month periods ended September 30, 2014, the related interim consolidated statements of changes in shareholders' equity and cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLC

October 28, 2014

Rosneft Oil Company

Interim consolidated balance sheet

(in billions of Russian rubles)

	Notes	September 30, 2014 (unaudited)	December 31, 2013 (restated)
ASSETS			
Current assets			
Cash and cash equivalents	13	**139**	275
Restricted cash		**1**	1
Other current financial assets	14	**671**	232
Accounts receivable	15	**571**	415
Inventories	16	**217**	202
Prepayments and other current assets	17	**317**	330
Total current assets		**1,916**	1,455
Non-current assets			
Property, plant and equipment	18	**5,561**	5,273
Intangible assets	19	**48**	37
Other non-current financial assets	20	**119**	37
Investments in associates and joint ventures	21	**338**	327
Bank loans granted		**15**	12
Deferred tax assets		**16**	14
Goodwill	6	**210**	202
Other non-current non-financial assets		**9**	12
Total non-current assets		**6,316**	5,914
Assets held for sale	7	**–**	162
Total assets		**8,232**	7,531
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	22	**429**	488
Loans and borrowings	23	**1,051**	684
Finance lease liabilities		**4**	4
Liabilities related to derivative instruments		**59**	6
Income tax liabilities		**–**	11
Other tax liabilities	24	**157**	161
Provisions	25	**30**	22
Prepayment on long-term oil supply agreements	26	**55**	–
Other current liabilities		**4**	11
Total current liabilities		**1,789**	1,387
Non-current liabilities			
Loans and borrowings	23	**1,456**	1,676
Finance lease liabilities		**12**	8
Deferred tax liabilities		**669**	648
Provisions	25	**108**	116
Prepayment on long-term oil supply agreements	26	**912**	470
Other non-current liabilities		**34**	28
Total non-current liabilities		**3,191**	2,946
Liabilities associated with assets held for sale	7	**–**	26
Equity			
Share capital	27	**1**	1
Additional paid-in capital	27	**493**	477
Other funds and reserves		**(43)**	(14)
Retained earnings		**2,790**	2,669
Rosneft shareholders' equity		**3,241**	3,133
Non-controlling interest		**11**	39
Total equity		**3,252**	3,172
Total liabilities and equity		**8,232**	7,531

President ____________________ I.I. Sechin October 28, 2014

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

Rosneft Oil Company

Interim Consolidated Statement of Comprehensive Income

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

	Notes	Three months ended September 30, 2014 (unaudited)	Three months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Revenues and equity share in (losses)/profits of associates and joint ventures					
Oil and gas sales	8	**717**	691	**2,203**	1,716
Petroleum products and petrochemicals sales	8	**647**	648	**1,933**	1,576
Support services and other revenues		**21**	14	**55**	40
Equity share in (losses)/profits of associates and joint ventures		**(3)**	3	**1**	12
Total revenues and equity share in (losses)/profits of associates and joint ventures		**1,382**	1,356	**4,192**	3,344
Costs and expenses					
Production and operating expenses		**122**	99	**338**	268
Cost of purchased oil, gas, petroleum products and refining costs		**121**	124	**363**	312
General and administrative expenses		**30**	33	**84**	79
Pipeline tariffs and transportation costs		**113**	108	**348**	281
Exploration expenses		**4**	5	**13**	11
Depreciation, depletion and amortization		**116**	109	**330**	269
Taxes other than income tax	9	**303**	291	**919**	738
Export customs duty	10	**413**	379	**1,258**	981
Total costs and expenses		**1,222**	1,148	**3,653**	2,939
Operating income		**160**	208	**539**	405
Finance income		**9**	7	**21**	14
Finance expenses	11	**(61)**	(11)	**(112)**	(40)
Other income	12	**2**	1	**64**	207
Other expenses	12	**(13)**	(26)	**(36)**	(46)
Foreign exchange differences		**(95)**	9	**(150)**	(57)
Income before income tax		**2**	188	**326**	483
Income tax expense	9	**(1)**	(45)	**(65)**	(66)
Net income		**1**	143	**261**	417
Other comprehensive (loss)/income – to be reclassified to (loss)/profit in subsequent periods					
Foreign exchange differences on translation of foreign operations		**(27)**	3	**(28)**	(10)
(Loss)/gain from changes in fair value of financial assets available-for-sale, net of tax		**–**	–	**(1)**	3
Total other comprehensive (loss)/income – to be reclassified to (loss)/profit in subsequent periods, net of tax		**(27)**	3	**(29)**	(7)
Total comprehensive (loss)/income, net of tax		**(26)**	146	**232**	410
Net income					
attributable to Rosneft shareholders		**–**	141	**257**	409
attributable to non-controlling interests		**1**	2	**4**	8
Total comprehensive (loss)/income, net of tax					
attributable to Rosneft shareholders		**(27)**	144	**228**	402
attributable to non-controlling interests		**1**	2	**4**	8
Net income attributable to Rosneft per common share (in RUB) – basic and diluted		**–**	13.30	**24.25**	40.10
Weighted average number of shares outstanding (millions)		**10,598**	10,598	**10,598**	10,200

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

Rosneft Oil Company

Interim Consolidated Statement of Changes in Shareholders' Equity

(in billions of Russian rubles, except share amounts)

	Number of shares (millions)	Share capital	Additional paid-in capital	Treasury shares	Other funds and reserves	Retained earnings	Rosneft share-holders' equity	Non-controlling interests	Total equity
Balance at January 1, 2013	9,238	1	385	(299)	(6)	2,202	2,283	39	2,322
Net income	–	–	–	–	–	409	409	8	417
Other comprehensive loss	–	–	–	–	(7)	–	(7)	–	(7)
Total comprehensive income/(loss)	–	–	–	–	(7)	409	402	8	410
Sale of treasury shares	1,360	–	28	299	–	–	327	–	327
Dividends declared on common stock	–	–	–	–	–	(85)	(85)	–	(85)
Acquisition of subsidiaries (Note 6)	–	–	–	–	–	–	–	114	114
Change in ownership interest in subsidiaries	–	–	(125)	–	–	–	(125)	224	99
Other changes	–	–	–	–	–	–	–	(2)	(2)
Balance at September 30, 2013 (unaudited)	10,598	1	288	–	(13)	2,526	2,802	383	3,185
Balance at January 1, 2014	**10,598**	**1**	**477**	**–**	**(14)**	**2,662**	**3,126**	**39**	**3,165**
Effect from finalization of allocation of the purchase price of subsidiaries (Note 6)	**–**	**–**	**–**	**–**	**–**	**7**	**7**	**–**	**7**
Balance at January 1, 2014	**10,598**	**1**	**477**	**–**	**(14)**	**2,669**	**3,133**	**39**	**3,172**
Net income	**–**	**–**	**–**	**–**	**–**	**257**	**257**	**4**	**261**
Other comprehensive loss	**–**	**–**	**–**	**–**	**(29)**	**–**	**(29)**	**–**	**(29)**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**(29)**	**257**	**228**	**4**	**232**
Change in ownership interests in subsidiaries	**–**	**–**	**16**	**–**	**–**	**–**	**16**	**(32)**	**(16)**
Dividends declared on common stock (Note 27)	**–**	**–**	**–**	**–**	**–**	**(136)**	**(136)**	**–**	**(136)**
Balance at September 30, 2014 (unaudited)	**10,598**	**1**	**493**	**–**	**(43)**	**2,790**	**3,241**	**11**	**3,252**

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

Rosneft Oil Company

Interim Consolidated Statement of Cash Flows

(in billions of Russian rubles)

	Notes	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited restated)
Operating activities			
Net income		**261**	417
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization		**330**	269
Loss on sale and disposal of non-current assets	12	**11**	9
Asset impairment loss	12	**1**	8
Dry hole costs		**3**	2
Foreign exchange loss		**243**	74
Equity share in profits of associates and joint ventures		**(1)**	(12)
Gain on disposal of investments in associates and joint ventures	21	**(56)**	–
Loss from disposal of companies and non-production assets	12	**5**	2
Loss from increase in bad debt provision		**1**	–
Revaluation of non-controlling interest in OJSC Verkhnechonskneftegaz to its fair value	6	**–**	(38)
Gain on bargain purchase	6	**–**	(167)
Finance expenses	11	**112**	40
Finance income		**(21)**	(14)
Income tax expense	9	**65**	66
Changes in operating assets and liabilities:			
Increase in accounts receivable, gross		**(116)**	(97)
Increase in inventories		**(13)**	(10)
Decrease in restricted cash		**–**	4
Decrease/(increase) in prepayments and other current assets		**15**	(22)
Increase in accounts payable and accrued liabilities		**42**	15
(Decrease)/increase in other tax liabilities		**(4)**	15
Increase in current provisions		**–**	3
(Decrease)/increase in other current liabilities		**(1)**	2
Increase in other non-current liabilities		**3**	20
Increase in long-term prepayment on oil supply agreements		**497**	307
Interest paid for the use of funds under terms of prepayment agreements		**(7)**	(5)
Long-term loans granted by subsidiary banks		**(13)**	(19)
Repayment of long-term loans granted by subsidiary banks		**10**	21
Acquisition of trading securities		**(17)**	(15)
Proceeds from sale of trading securities		**14**	17
Net cash provided by operating activities before income tax and interest		**1,364**	892
Income tax payments		**(103)**	(61)
Interest received		**6**	5
Dividends received		**1**	–
Net cash provided by operating activities		**1,268**	836

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

Rosneft Oil Company

Interim Consolidated Statement of Cash Flows (continued)

(in billions of Russian rubles)

	Notes	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited restated)
Investing activities			
Capital expenditures		**(370)**	(378)
Acquisition of the right to a part of pipeline capacity	19	**(16)**	–
Acquisition of licenses		**(8)**	(8)
Acquisition of current financial assets		**(459)**	(205)
Proceeds from sale of current financial assets		**95**	52
Acquisition of non-current financial assets		**(1)**	(2)
Proceeds from sale of long-term financial assets		**1**	1
Financing of joint venture	20	**(69)**	–
Proceeds from sale of investments in associates and joint ventures	21	**20**	–
Acquisition of interest in associates and joint ventures	21	**(20)**	(24)
Acquisition of subsidiaries, net of cash acquired	6	**(28)**	(1,296)
Sale of property, plant and equipment		**2**	4
Placements under reverse REPO agreements		**(8)**	(6)
Receipts under reverse REPO agreements		**5**	4
Net cash used in investing activities		**(856)**	(1,858)
Financing activities			
Proceeds from short-term loans and borrowings		**118**	6
Repayment of short-term loans and borrowings		**(115)**	(20)
Proceeds from long-term loans and borrowings		**54**	1,051
Repayment of long-term loans and borrowings		**(303)**	(56)
Interest paid		**(66)**	(45)
Proceeds from bonds issuance	23	**35**	70
Repayment of other financial liabilities		**(7)**	(12)
Proceeds from sale of subsidiaries stock		–	48
Payments to shareholders	27	**(305)**	(85)
Net cash (used in) / provided by financing activities		**(589)**	957
Net decrease in cash and cash equivalents		**(177)**	(65)
Cash and cash equivalents at beginning of period	13	**275**	299
Effect of foreign exchange on cash and cash equivalents		**41**	12
Cash and cash equivalents at end of period	13	**139**	246

1. General

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

2. Basis of preparation

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

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

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

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

The interim condensed consolidated financial statements for the three and nine months ended September 30, 2014 were approved and authorized for issue by the President of the Company on October 28, 2014.

3. Changes in accounting policies

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

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

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

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

4. Significant accounting estimates

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

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

5. New standards and interpretations issued but not yet effective

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

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

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

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

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*. Final version of IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. IFRS 9 brings together the requirements for classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment IFRS 9 replaces the ‘incurred loss' model used in IAS 39, by a new ‘expected credit loss' model that will require more timely recognition of expected credit losses. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of the standard on the consolidated financial statements.

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

6. Acquisition of subsidiaries

Finalization of allocation of the purchase price of LLC Basic Jet Fuel Operator, LLC General Avia, LLC Oil and Gas Company ITERA, LLC TNK-Sheremetyevo, LLC Taas-Yuriakh Neftegazodobycha and update of allocation of the purchase price of OJSC Sibneftegas

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

6. Acquisition of subsidiaries (continued)

Finalization of allocation of the purchase price of LLC Basic Jet Fuel Operator, LLC General Avia, LLC Oil and Gas Company ITERA, LLC TNK-Sheremetyevo, LLC Taas-Yuriakh Neftegazodobycha and update of allocation of the purchase price of OJSC Sibneftegas (continued)

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

	Before finalized / updated estimation	Effect from finalized estimation				Effect from updated estimation	After finalized / updated estimation
		Basic Jet Fuel Operator and General Avia	ITERA	Sheremetyevo	Taas-Yuriakh Neftegazo-dobycha	Sibneftegas	
ASSETS							
Current assets	**1,455**	**–**	**–**	**–**	**–**	**–**	**1,455**
Non-current assets							
Property, plant and equipment	5,330	(6)	(14)	1	–	(38)	5,273
Intangible assets	37	–	–	–	–	–	37
Other long-term financial assets	40	–	(3)	–	–	–	37
Investments in associates and joint ventures	327	–	–	–	–	–	327
Bank loans granted	12	–	–	–	–	–	12
Deferred tax assets	14	–	–	–	–	–	14
Goodwill	164	5	12	1	9	11	202
Other non-current non-financial assets	12	–	–	–	–	–	12
Total non-current assets	**5,936**	**(1)**	**(5)**	**2**	**9**	**(27)**	**5,914**
Assets held for sale	**147**	**–**	**–**	**–**	**15**	**–**	**162**
Total assets	**7,538**	**(1)**	**(5)**	**2**	**24**	**(27)**	**7,531**
LIABILITIES AND EQUITY							
Current liabilities	**1,387**	**–**	**–**	**–**	**–**	**–**	**1,387**
Non-current liabilities							
Loans and borrowings	1,676	–	–	–	–	–	1,676
Finance lease liabilities	8	–	–	–	–	–	8
Deferred tax liabilities	660	(1)	(3)	–	–	(8)	648
Provisions	116	–	–	–	–	–	116
Prepayment on long-term oil supply agreements	470	–	–	–	–	–	470
Other non-current liabilities	28	–	–	–	–	–	28
Total non-current liabilities	**2,958**	**(1)**	**(3)**	**–**	**–**	**(8)**	**2,946**
Liabilities associated with assets held for sale	**28**	**–**	**–**	**–**	**(2)**	**–**	**26**
Equity							
Share capital	1	–	–	–	–	–	1
Additional paid-in capital	477	–	–	–	–	–	477
Other funds and reserves	(14)	–	–	–	–	–	(14)
Retained earnings	2,662	–	(2)	2	26	(19)	2,669
Rosneft shareholders' equity	**3,126**	**–**	**(2)**	**2**	**26**	**(19)**	**3,133**
Non-controlling interest	39	–	–	–	–	–	39
Total equity	**3,165**	**–**	**(2)**	**2**	**26**	**(19)**	**3,172**
Total liabilities and equity	**7,538**	**(1)**	**(5)**	**2**	**24**	**(27)**	**7,531**

6. Acquisition of subsidiaries (continued)

Finalization of allocation of the purchase price of LLC Basic Jet Fuel Operator, LLC General Avia, LLC Oil and Gas Company ITERA, LLC TNK-Sheremetyevo, LLC Taas-Yuriakh Neftegazodobycha and update of allocation of the purchase price of OJSC Sibneftegas (continued)

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

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

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	78
Other financial assets	1
Investments in associates and joint ventures	132
Deferred tax assets	1
Total non-current assets	**212**
Total assets	**226**
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	16
Total non-current liabilities	**26**
Total liabilities	**44**
Total identifiable net assets at fair value	**182**
Non-controlling interests measured at preliminary fair value	(1)
Goodwill	8
Total consideration transferred	**189**

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

6. Acquisition of subsidiaries (continued)

Finalization of allocation of the purchase price of LLC Basic Jet Fuel Operator, LLC General Avia, LLC Oil and Gas Company ITERA, LLC TNK-Sheremetyevo, LLC Taas-Yuriakh Neftegazodobycha and update of allocation of the purchase price of OJSC Sibneftegas (continued)

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

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

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	4
Other non-current assets	2
Total non-current assets	**6**
Total assets	**12**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	4
Short-term loans and borrowings	2
Total current liabilities	**6**
Total liabilities	**6**
Total identifiable net assets at fair value	**6**
Non-controlling interests measured at preliminary fair value	(1)
Goodwill	21
Total consideration transferred	**26**

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

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

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

6. Acquisition of subsidiaries (continued)

Finalization of allocation of the purchase price of LLC Basic Jet Fuel Operator, LLC General Avia, LLC Oil and Gas Company ITERA, LLC TNK-Sheremetyevo, LLC Taas-Yuriakh Neftegazodobycha and update of allocation of the purchase price of OJSC Sibneftegas (continued)

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

The following table summarizes the Company's allocation of the LLC Taas-Yuriakh Neftegazodobycha purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
Current assets	
Prepayments and other current assets	2
Total current assets	**2**
Non-current assets	
Property, plant and equipment	34
Mineral rights	120
Total non-current assets	**154**
Total assets	**156**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	4
Total current liabilities	**4**
Non-current liabilities	
Loans and borrowings	1
Deferred tax liabilities	20
Total non-current liabilities	**21**
Total liabilities	**25**
Total identifiable net assets at fair value	**131**
Goodwill	9
Total consideration transferred	**140**

Goodwill in the amount of RUB 9 billion arising on the acquisition of LLC Taas-Yuriakh Neftegazodobycha relates to the expected effect of improved efficiency of Eastern Siberia fields development due to shared infrastructure. Goodwill was fully attributed to Exploration and production segment.

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

6. Acquisition of subsidiaries (continued)

Finalization of allocation of the purchase price of LLC Basic Jet Fuel Operator, LLC General Avia, LLC Oil and Gas Company ITERA, LLC TNK-Sheremetyevo, LLC Taas-Yuriakh Neftegazodobycha and update of allocation of the purchase price of OJSC Sibneftegas (continued)

The following table summarizes the Company's updated preliminary allocation of the OJSC Sibneftegas purchase price 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	134
Intangible assets	2
Total non-current assets	**136**
Total assets	**140**
LIABILITIES	
Non-current liabilities	
Loans and borrowings	15
Deferred tax liabilities	25
Total liabilities	**40**
Total identifiable net assets at fair value	**100**
Goodwill	15
Total consideration transferred	**115**

Goodwill in the amount of RUB 15 billion arising on the acquisition of OJSC Sibneftegas relates to the expected synergies from developing the Company's fields in close proximity to Sibneftegas' infrastructure.

Goodwill in the amount of RUB 4 billion was previously recognized through finalization of allocation of the purchase price of LLC Oil and Gas Company ITERA. Goodwill was fully attributed to Exploration and production segment.

The allocation of the purchase price to the assets acquired and liabilities assumed of OJSC Sibneftegas is preliminary as of September 30, 2014 and will be finalized within 12 months from the acquisition date.

Acquisition of LLC Orenburg Drilling Company

In February 2014 the Company obtained control over LLC Orenburg Drilling Company. The acquisition of a 100% share in this company was completed in April 2014.

The consideration payable amounted to US$ 247 million (RUB 8.8 billion at the CBR official exchange rate at the date of the transaction). Acquisition of LLC Orenburg Drilling Company is the key aspect of a program aimed at the re-equipment of the Company's fleet of drilling units and implementation of a policy to increase internal service share. Acquisition of LLC Orenburg Drilling Company will provide the most important regions of the Company's activities with cost efficient drilling operations.

6. Acquisition of subsidiaries (continued)

Acquisition of LLC Orenburg Drilling Company (continued)

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

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

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

Preliminarily, goodwill in the amount of RUB 7 billion relates to the expected synergies arising from improved efficiency of drilling project implementation at the Company's greenfields and brownfields, in particular by means of cost control at each stage of well construction. Accordingly, the goodwill was fully attributed to the Exploration and production segment.

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

Acquisition of assets from Weatherford International plc.

On July 31, 2014 the Company completed an acquisition of controlling interest in 8 entities engaged in drilling and workover services in Russia and Venezuela from Weatherford International plc ("the Weatherford assets") for a total consideration of RUB 18 billion (US$ 0.5 billion at the CBR official exchange rate at the date of the transaction). The acquisition allows the Company to strengthen its position in drilling and workover services market and increases efficiency of drilling and hydrocarbons production.

6. Acquisition of subsidiaries (continued)

Acquisition of assets from Weatherford International plc. (continued)

As of September 30, 2014 the Weatherford assets purchase price allocation was not completed. Preliminary purchase price allocation is based on the historical value of acquired assets and liabilities. Allocation of the purchase price to fair value of the assets acquired and liabilities assumed will be finalized within 12 months from the acquisition date.

The following table summarizes the Company's preliminary allocation of the Weatherford assets purchase price:

ASSETS	
Current assets	
Accounts receivable	5
Inventories	2
Total current assets	**7**
Non-current assets	
Property, plant and equipment	16
Deferred tax asset	1
Total non-current assets	**17**
Total assets	**24**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	5
Total current liabilities	**5**
Non-current liabilities	
Deferred tax liabilities	1
Total non-current liabilities	**1**
Total liabilities	**6**
Total identifiable net assets at fair value	**18**
Total consideration transferred	**18**

The acquisition of Weatherford assets does not contemplate any contingent consideration, except for working capital adjustments.

Acquisition of Bishkek Oil Company

In September 2014 the Company acquired 100% interest in four companies of Bishkek Oil Company group (hereinafter - "BOC") engaged in retail and wholesale of petroleum products in the Republic of Kyrgyzstan through an own network of gas stations and a tank farm. The acquisition consideration amounted to US$ 39 million (RUB 1.5 billion at the CBR official exchange rate at the date of the transaction), including contingent consideration.

As of September 30, 2014 Bishkek Oil Company purchase price allocation was not completed. Preliminary purchase price allocation is based on the historical value of assets and liabilities. Excess of purchase price over fair value of the acquired BOC net assets 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 amounts of goodwill arisen on acquisitions, mentioned in the Note 6 above, are not tax deductible.

7. Assets held for sale

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

	December 31, 2013
ASSETS	
Current assets	
Advances issued and other current assets	3
Total current assets	**3**
Non-current assets	
Property, plant and equipment	39
Mineral licenses	120
Total non-current assets	**159**
Total assets held for sale	**162**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	3
Total current liabilities	**3**
Non-current liabilities	
Loans and borrowings	3
Deferred tax liabilities	20
Total non-current liabilities	**23**
Total liabilities associated with assets held for sale	**26**

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

8. Segment information

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

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

8. Segment information (continued)

Below is the performance of the operating segments for the three months ended September 30, 2014 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in losses of associates and joint ventures					
Revenues from external customers	–	1,364	21	–	1,385
Intersegment revenues	544	–	–	(544)	–
Equity share in losses of associates and joint ventures	(3)	–	–	–	(3)
Total revenues and equity share in losses of associates and joint ventures	541	1,364	21	(544)	1,382
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	337	1,275	38	(544)	1,106
Depreciation, depletion and amortization	95	21	–	–	116
Total costs and expenses	432	1,296	38	(544)	1,222
Operating income	109	68	(17)	–	160
Finance income					9
Finance expenses					(61)
Total finance expenses					(52)
Other income					2
Other expenses					(13)
Foreign exchange differences					(95)
Income before income tax					2
Income tax					(1)
Net income					1

8. Segment information (continued)

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

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	–	1,339	14	–	1,353
Intersegment revenues	574	–	–	(574)	–
Equity share in profits of associates and joint ventures	3	–	–	–	3
Total revenues and equity share in profits of associates and joint ventures	577	1,339	14	(574)	1,356
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	309	1,273	31	(574)	1,039
Depreciation, depletion and amortization	93	16	–	–	109
Total costs and expenses	402	1,289	31	(574)	1,148
Operating income	175	50	(17)	–	208
Finance income					7
Finance expenses					(11)
Total finance expenses					(4)
Other income					1
Other expenses					(26)
Foreign exchange differences					9
Income before income tax					188
Income tax					(45)
Net income					143

8. Segment information (continued)

Below is the performance of the operating segments for the nine months ended September 30, 2014 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	–	4,136	55	–	4,191
Intersegment revenues	1,711	–	–	(1,711)	–
Equity share in profits of associates and joint ventures	1	–	–	–	1
Total revenues and equity share in profits of associates and joint ventures	1,712	4,136	55	(1,711)	4,192
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,023	3,920	91	(1,711)	3,323
Depreciation, depletion and amortization	270	53	7	–	330
Total costs and expenses	1,293	3,973	98	(1,711)	3,653
Operating income	419	163	(43)	–	539
Finance income					21
Finance expenses					(112)
Total finance expenses					(91)
Other income					64
Other expenses					(36)
Foreign exchange differences					(150)
Income before income tax					326
Income tax					(65)
Net income					261

8. Segment information (continued)

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

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	–	3,292	40	–	3,332
Intersegment revenues	1,373	–	–	(1,373)	–
Equity share in profits of associates and joint ventures	12	–	–	–	12
Total revenues and equity share in profits of associates and joint ventures	1,385	3,292	40	(1,373)	3,344
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	781	3,180	82	(1,373)	2,670
Depreciation, depletion and amortization	225	40	4	–	269
Total costs and expenses	1,006	3,220	86	(1,373)	2,939
Operating income	379	72	(46)	–	405
Finance income					14
Finance expenses					(40)
Total finance expenses					(26)
Other income					207
Other expenses					(46)
Foreign exchange differences					(57)
Income before income tax					483
Income tax					(66)
Net income					417

8. Segment information (continued)

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

	Three months ended September 30, 2014 (unaudited)	Three months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Oil and gas sales				
Export of crude oil – Europe	**408**	444	**1,277**	1,123
Export of crude oil – Asia	**216**	152	**641**	385
Export of crude oil – CIS, other than Russia	**23**	36	**80**	87
Domestic sales of crude oil	**29**	24	**87**	59
Domestic sales of gas	**41**	35	**118**	62
Total oil and gas sales	**717**	691	**2,203**	1,716
Petroleum products and petrochemicals sales				
Export of petroleum products – Europe	**287**	275	**900**	661
Export of petroleum products – Asia	**82**	71	**255**	207
Export of petroleum products – CIS, other than Russia	**14**	32	**49**	59
Domestic sales of petroleum products	**237**	248	**645**	582
Domestic sales of petrochemical products	**4**	2	**13**	8
Export of petrochemical products – Europe	**23**	20	**71**	59
Total petroleum products and petrochemicals sales	**647**	648	**1,933**	1,576

9. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended September 30, 2014 (unaudited)	Three months ended September 30, 2013 (unaudited restated)	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited restated)
Current income tax expense	**2**	(34)	**(69)**	(55)
Deferred tax benefit due to the origination and reversal of temporary differences	**(3)**	(11)	**4**	(11)
Total income tax expense	**(1)**	(45)	**(65)**	(66)

9. Income tax and other taxes (continued)

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

	Three months ended September 30, 2014 (unaudited)	Three months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Mineral extraction tax	**248**	235	**758**	596
Excise tax	**36**	41	**105**	98
Property tax	**7**	6	**21**	16
Social charges	**9**	8	**30**	24
Other	**3**	1	**5**	4
Total taxes other than income tax	**303**	291	**919**	738

10. Export customs duty

Export customs duty comprises the following:

	Three months ended September 30, 2014 (unaudited)	Three months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Export customs duty on oil sales	**307**	273	**924**	725
Export customs duty on gas sales	**–**	1	**–**	1
Export customs duty on petroleum products and petrochemicals sales	**106**	105	**334**	255
Total export customs duty	**413**	379	**1,258**	981

11. Finance expenses

Finance expenses comprise the following:

	Three months ended September 30, 2014 (unaudited)	Three months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Interest expense on:				
Loans and borrowings	**(13)**	(11)	**(39)**	(26)
For the use of funds under terms of prepayment agreements (Note 26)	**(7)**	(2)	**(19)**	(4)
Other interest expenses	**–**	–	**(1)**	(1)
Total interest expenses	**(20)**	(13)	**(59)**	(31)
Net gain/(loss) from operations with derivative financial instruments	**(39)**	5	**(47)**	(4)
Increase in provision due to the unwinding of discount	**(2)**	(3)	**(6)**	(5)
Total finance expenses	**(61)**	(11)	**(112)**	(40)

12. Other income and expenses

Other income and expenses comprise the following:

	Three months ended September 30, 2014 (unaudited)	Three months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Gain from the sale of LLC "Yugragazpererabotka" (Note 21)	**–**	–	**56**	–
Non-cash income on acquisition of subsidiaries, net	**–**	–	**–**	205
Compensation payment for licenses from joint venture parties	**1**	1	**1**	1
Other	**1**	–	**7**	1
Total other income	**2**	1	**64**	207
Sale and disposal of property, plant and equipment and intangible assets	**(3)**	(6)	**(11)**	(9)
Disposal of companies and non-production assets	**(2)**	(1)	**(5)**	(2)
Impairment of assets	**–**	(3)	**(1)**	(8)
Social payments, charity, sponsorship, financial aid	**(4)**	(6)	**(8)**	(8)
Fines and penalties	**–**	(2)	**(1)**	(4)
Other	**(4)**	(8)	**(10)**	(15)
Total other expenses	**(13)**	(26)	**(36)**	(46)

13. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	September 30, 2014 (unaudited)	December 31, 2013
Cash on hand and in bank accounts in RUB	**92**	58
Cash on hand and in bank accounts in foreign currencies	**41**	172
Deposits	**2**	43
Others	**4**	2
Total cash and cash equivalents	**139**	275

14. Other current financial assets

Current financial assets comprise the following:

	September 30, 2014 (unaudited)	December 31, 2013
Financial assets available for sale		
Bonds and promissory notes	**52**	21
Stocks and shares	**44**	22
Loans and receivables		
Loans granted	**2**	17
Loans issued to associates	**4**	4
Notes receivable, net of allowance	**40**	21
Loans granted under reverse repurchase agreements	**4**	1
Deposits and deposit certificates	**506**	131
Held-for-trading financial assets at fair value through profit or loss		
Corporate bonds	**13**	11
State bonds	**6**	4
Total current financial assets	**671**	232

Bank deposits amount to RUB 506 billion and RUB 131 billion as of September 30, 2014 and December 31, 2013, respectively. As of September 30, 2014, bank deposits denominated in US$ amount to RUB 443 billion and earn interest rates ranging from 0.45% to 4.0% p.a. Bank deposits denominated in RUB amount to RUB 63 billion and earn interest rates ranging from 7.5% to 10.65% p.a.

15. Accounts receivable

Accounts receivable, net of allowance, include the following:

	September 30, 2014 (unaudited)	December 31, 2013
Trade receivables	**484**	378
Banking loans to customers	**18**	16
Other accounts receivable	**79**	30
Total	**581**	424
Valuation allowance for doubtful accounts	**(10)**	(9)
Total accounts receivable, net of allowance	**571**	415

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

16. Inventories

Inventories comprise the following:

	September 30, 2014 (unaudited)	December 31, 2013
Crude oil and associated gas	**63**	69
Petroleum products and petrochemicals	**108**	96
Materials and supplies	**46**	37
Total inventories	**217**	202

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

	Three months ended September 30, 2014 (unaudited)	Three months ended September 30, 2013 (unaudited)	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
The cost of inventories recognized as an expense during the period	**164**	156	**476**	440

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

17. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	September 30, 2014 (unaudited)	December 31, 2013
Value added tax and excise tax recoverable	**157**	183
Prepayments to suppliers	**32**	36
Prepaid customs duties	**69**	80
Other taxes	**51**	25
Other	**8**	6
Total prepayments and other current assets	**317**	330

18. 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, 2014 (restated)	5,054	1,193	132	6,379
Acquisition of subsidiaries (Note 6)	–	–	19	19
Reclassification from assets held for sale (Note 7)	159	–	–	159
Additions	286	156	14	456
Disposals	(22)	(7)	(1)	(30)
Exchange differences	36	5	3	44
Cost of asset retirement obligations	(14)	–	–	(14)
As of September 30, 2014	5,499	1,347	167	7,013
Depreciation, depletion and impairment losses				
As of January 1, 2014 (restated)	(923)	(196)	(49)	(1,168)
Depreciation and depletion charge	(270)	(51)	(8)	(329)
Disposals	14	4	1	19
Impairment of assets	(1)	(1)	–	(2)
Exchange differences	(28)	(2)	–	(30)
As of September 30, 2014	(1,208)	(246)	(56)	(1,510)
Net book value				
As of January 1, 2014 (restated)	4,131	997	83	5,211
As of September 30, 2014	4,291	1,101	111	5,503
Prepayments for property, plant and equipment				
As of January 1, 2014	4	49	9	62
As of September 30, 2014	12	37	9	58
Total as of January 1, 2014 (restated)	**4,135**	**1,046**	**92**	**5,273**
Total as of September 30, 2014 (unaudited)	**4,303**	**1,138**	**120**	**5,561**

Depreciation charge for the nine months ended September 30, 2014 includes RUB 3 billion of depreciation which was capitalized as part of the construction cost of property, plant and equipment.

The Company capitalized RUB 28 billion and RUB 24 billion of interest expenses on loans and borrowings for the nine months ended September 30, 2014 and 2013, respectively.

The semiannual weighted average rate used to determine the amount of borrowing costs eligible for capitalization is 2.91% and 3.01% for the nine months ended September 30, 2014 and 2013, respectively.

19. Intangible assets

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

20. Other non-current financial assets

In the second quarter of 2014, the Company provided a long-term loan to its joint venture in the amount of US$ 2 billion (RUB 69 billion at the CBR official exchange rate at the date of loan issue) earning an interest rate of 3.5% and with a maturity period of 5 years.

21. Investments in associates and joint ventures

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

On May 23, 2013 the Company entered into agreement with Venezuelan Corporacion Venezolana del Petroleo, a subsidiary of Petroleos de Venezuela, S.A., to develop heavy oil reserves of Carabobo-2 project in the Republic of Venezuela. Petrovictoria S.A., a joint venture entity, was incorporated on November 14, 2013. On August 27, 2014 the Company paid 40% of the bonus amounting to US$ 440 million (RUB 16 billion at the CBR official exchange rate as of the date of transaction) to the Republic of Venezuela for the participation, as a minority partner, in Petrovictoria S.A. joint venture.

22. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2014 (unaudited)	December 31, 2013
Accounts payable to suppliers and contractors	**289**	187
Voluntary offer to acquire OJSC RN Holding securities (Note 27)	**–**	153
Salary and other benefits payable	**53**	45
Banking customer accounts	**37**	36
Other accounts payable	**19**	22
Short-term advances received	**31**	45
Total accounts payable and accrued liabilities	**429**	488

Current accounts payable for the nine months ended September 30, 2014 were settled within 35 days on average (the nine months ended September 30, 2013: 33 days). Interest rates on banking customer accounts amount to 0.001%-3.0% p.a. Trade and other payables are non-interest bearing.

23. Loans and borrowings

Loans and borrowings comprise the following:

	Currency	September 30, 2014 (unaudited)	December 31, 2013
Long-term			
Bank loans	RUB	**128**	115
Bank loans	US$, Euro	**1,767**	1,711
Bonds	RUB	**168**	131
Eurobonds	US$	**286**	247
Customer deposits	RUB	**10**	12
Customer deposits	US$, Euro	**4**	5
Borrowings	Euro	**4**	–
Promissory notes payable	US$	**2**	–
Less: current portion of long-term loans and borrowings		**(913)**	(545)
Long-term loans and borrowings		**1,456**	1,676
Short-term			
Bank loans	RUB	**77**	2
Bank loans	US$	**30**	88
Customer deposits	RUB	**8**	11
Customer deposits	US$, Euro	**3**	2
Borrowings	Euro	**–**	3
Borrowings – Yukos related (Note 30)	RUB	**–**	11
Promissory notes payable – Yukos related	RUB	**20**	20
Promissory notes payable	RUB	**–**	1
Obligations under a repurchase agreement	RUB	**–**	1
Current portion of long-term loans		**913**	545
Short-term loans and borrowings and current portion of long-term loans		**1,051**	684
Total loans and borrowings		**2,507**	2,360

Generally, long-term bank loans are denominated in US$ and partially secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of the contracts normally provide the lender with an express right of claim for contractual revenue in the amount of the failing loan repayments, which must be remitted directly through transit currency (US$ denominated) accounts in lender banks. Accounts receivable outstanding balance arising out of such contracts amounts to RUB 23 billion and RUB 24 billion as of September 30, 2014 and December 31, 2013, respectively, and is included in trade receivables.

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

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

23. Loans and borrowings (continued)

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

In July-August 2014, the Company drew down funds under a floating rate long-term unsecured loans from Russian banks in total amount of equivalent RUB 12.87 billion at the CBR official exchange rate as of September 30, 2014 for a term of 5 to 10 years.

In third quarter of 2014, the Company drew down funds under a fixed rate short-term loans from Russian banks totaling RUB 74.96 billion.

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

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

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

24. Other current tax liabilities

Other current tax liabilities comprise the following:

	September 30, 2014 (unaudited)	**December 31, 2013**
Mineral extraction tax	**79**	81
Value added tax	**51**	50
Excise tax	**6**	14
Personal income tax	**1**	1
Property tax	**7**	6
Other	**13**	9
Total other tax liabilities	**157**	161

25. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2014, including	**94**	**33**	**11**	**138**
Non-current	**91**	**24**	**1**	**116**
Current	**3**	**9**	**10**	**22**
Provisions charged during the year (Note 30)	2	1	15	18
Increase/(decrease) in provisions resulting from:				
Changes in estimates	–	(2)	(2)	(4)
Change in the discount rate	(16)	–	–	(16)
Unwinding of discount	5	1	–	6
Utilization	(1)	(2)	(1)	(4)
As of September 30, 2014 (unaudited), including	**84**	**31**	**23**	**138**
Non-current	**82**	**24**	**2**	**108**
Current	**2**	**7**	**21**	**30**

26. Prepayment on long-term oil supply agreements

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

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

	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
As of January 1	**470**	–
Received	**497**	307
Less current portion	**(55)**	–
Reimbursed	**–**	–
As of September 30	**912**	307

27. Shareholders' equity

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

On June 27, 2014 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2013 in the amount of RUB 136 billion or RUB 12.85 per share. Dividends were fully paid by the Company during the third quarter of 2014.

During the third quarter of 2014, additional paid in capital of the Company increased by RUB 16 billion as a result of the acquisition of non-controlling interests in subsidiaries.

28. Fair value of financial instruments

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

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

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

	Fair value measurement as of September 30, 2014 (unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Current assets				
Held-for-trading	**9**	**10**	**–**	**19**
Available-for-sale	**7**	**89**	**–**	**96**
Non-current assets				
Available-for-sale	**–**	**5**	**–**	**5**
Total assets measured at fair value	**16**	**104**	**–**	**120**
Current liabilities				
Derivative financial instruments	**–**	**(59)**	**–**	**(59)**
Total liabilities measured at fair value	**–**	**(59)**	**–**	**(59)**

28. Fair value of financial instruments (continued)

	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
Current liabilities				
Derivative financial instruments	–	(6)	–	(6)
Total liabilities measured at fair value	–	(6)	–	(6)

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

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

	Carrying value		Fair value (level 2)	
	As of September 30, 2014 (unaudited)	**As of December 31, 2013**	**As of September 30, 2014 (unaudited)**	**As of December 31, 2013**
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with variable interest rate	**(1,786)**	(1,717)	**(1,703)**	(1,722)
Loans and borrowings with fixed interest rate	**(721)**	(643)	**(685)**	(639)
Financial liabilities at fair value, through profit or loss:				
Derivative financial instruments	**(59)**	(6)	**(59)**	(6)
Financial lease liabilities	**(16)**	(12)	**(16)**	(12)

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

29. Related party transactions

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

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

29. Related party transactions (continued)

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

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

Transactions with companies directly or indirectly controlled by the Russian Government

Revenues and income

	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Oil and gas sales	**86**	76
Petroleum products and petrochemicals sales	**36**	35
Support services and other revenues	**–**	1
Finance income	**2**	1
	124	113

Costs and expenses

	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Production and operating expenses	**5**	11
Cost of purchased oil, gas, petroleum products and refining costs	**8**	1
Pipeline tariffs and transportation costs	**295**	170
Other expenses	**4**	9
Finance expenses	**29**	1
	341	192

Other operations

	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Purchase of financial assets and investments in associates	**(1)**	(8)
Loans received	**27**	–
Loans repaid	**(18)**	(1)
Deposits placed	**(193)**	(66)
Deposits repaid	**49**	20

29. Related party transactions (continued)

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

Settlement balances

	September 30, 2014 (unaudited)	December 31, 2013
Assets		
Cash and cash equivalents	**10**	135
Accounts receivable	**14**	15
Prepayments and other current assets	**29**	25
Other financial assets	**238**	66
	291	241
Liabilities		
Accounts payable and accrued liabilities	**10**	9
Liabilities related to derivative instruments	**28**	–
Loans and borrowings	**136**	125
	174	134

Transactions with joint ventures

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

Revenues and income

	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Oil and gas sales	**2**	3
Petroleum products and petrochemicals sales	**5**	6
Support services and other revenues	**2**	6
	9	15

Costs and expenses

	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Production and operating expenses	**1**	5
Cost of purchased oil, gas, petroleum products and refining costs	**90**	71
Pipeline tariffs and transportation costs	**7**	6
Other expenses	**1**	9
	99	91

29. Related party transactions (continued)

Transactions with joint ventures (continued)

Other operations

	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Loans and borrowings issued	**–**	(1)

Settlement balances

	September 30, 2014 (unaudited)	December 31, 2013
Assets		
Accounts receivable	**6**	5
Prepayments and other current assets	**–**	1
Other financial assets	**5**	4
	11	10
Liabilities		
Accounts payable and accrued liabilities	**24**	17
Loans and borrowings	**–**	1
	24	18

Transactions with associates

Revenues and income

	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Oil and gas sales	**4**	4
Petroleum products and petrochemicals sales	**2**	–
Support services and other revenues	**2**	1
Finance income	**1**	1
	9	6

Costs and expenses

	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Production and operating expenses	**4**	4
Other expenses	**2**	2
	6	6

29. Related party transactions (continued)

Transactions with associates (continued)

Other operations

	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Loans and borrowings issued	**1**	1

Settlement balances

	September 30, 2014 (unaudited)	December 31, 2013
Assets		
Accounts receivable	**3**	1
Other financial assets	**15**	13
	18	14
Liabilities		
Accounts payable and accrued liabilities	**2**	2
	2	2

Transactions with non-state pension funds

Costs and expenses

	Nine months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2013 (unaudited)
Other expenses	**3**	2

30. Contingencies

Political and business environment

Russia is continuing economic reforms and the development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

During nine months of 2014 economic and political instability in Ukraine was increasing. The Company's assets and operations in Ukraine are not significant. The Company's assets and liabilities, related to its activities in Ukraine are recognized based on appropriate measurements as of September 30, 2014. The Company continues to monitor the situation in Ukraine and to execute a number of measures in order to minimize the effects of possible risks. The risk assessment is reviewed constantly to reflect the current situation.

In July-September 2014, USA and EU issued a number of sectorial sanctions. These sanctions restrict certain US and EU persons in providing financing, goods and services in support of exploration or production of deep water, Arctic offshore, or shale projects that have a potential to produce oil in the Russian Federation to certain entities. The Company considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Company's financial position and results of operations.

30. Contingencies (continued)

Guarantees and indemnities issued

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

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

In the second quarter of 2014, the partner agreement that Rosneft and ExxonMobil Oil Corporation entered into in 2013 for seven new offshore projects came into force. These agreements contain mutual guarantees that are unconditional, unlimited and open-ended and that also provide for a commercial discovery bonus to be paid to the Company.

The partner agreement with ExxonMobil Oil Corporation for difficult to extract oil reserves in Western Siberia also contain mutual guarantees that are unconditional, unlimited and open-ended, and that provide for production bonus payments to the Company starting from the moment of commercial production.

Legal claims

In 2006, Yukos Capital S.a.r.l. ("Yukos Capital"), a former subsidiary of Yukos Oil Company, initiated arbitral proceedings against OJSC Yuganskneftegaz, which was subsequently merged into the Company, OJSC Samaraneftegaz, the Company's subsidiary, and Tomskneft, the Company's joint venture company, in various arbitration courts alleging default under nine RUB-denominated loans. The International Commercial Arbitration Court (the "ICAC") at the Russian Federation Chamber of Commerce and Industry issued four arbitration awards in favor of Yukos Capital against OJSC Yuganskneftegaz concerning four of the loans in the aggregate amount of approximately RUB 12.9 billion. On August 15, 2007, the arbitration panel formed pursuant to the International Chamber of Commerce (the "ICC") rules issued an award against OJSC Samaraneftegaz of RUB 3.1 billion in loan principal and interest plus post award interest of 9% p.a. on the above amount of loan principal and interest concerning two other loans. On February 12, 2007, the arbitration panel formed pursuant to the ICC rules issued an award against Tomskneft of RUB 4.35 billion plus interest of 9% per annum, plus default penalties of 0.1% per day (from December 1, 2005, through the date of the award), plus legal costs on three other loans.

In 2007, the Company successfully challenged the ICAC awards and the ICAC awards were set aside by the Russian courts, including the Supreme Arbitrazh Court of the Russian Federation. Yukos Capital, nevertheless, sought to enforce the ICAC awards in the Netherlands. Although the district court in Amsterdam refused to enforce the ICAC awards on the ground that they had been properly set aside by a competent court on April 28, 2009 the Amsterdam Court of Appeal reversed the district court's judgment and allowed Yukos Capital to enforce the ICAC awards in the Netherlands. On June 25, 2010, the Supreme Court of the Netherlands declared inadmissible the Company's appeal of the decision of the Amsterdam Court of Appeal. Although the Company does not agree with the decisions of the Dutch courts above, on August 11, 2010 it complied with these decisions and arranged for payments to be made with respect to the claim against the Company.

30. Contingencies (continued)

Legal claims (continued)

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

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

The hearing took place on May 13-16, 2014. On July 3, 2014, the Court ruled in favor of the Company concerning Article 395 of the Russian Civil Code and granted that, as a matter of Russian law, interest under Article 395 cannot accrue on the ICAC awards prior to the date on which a writ of execution takes legal effect. The Court also ruled that a claim for interest on the sums claimed in the English proceedings is in principle admissible under s.35A of the Senior Courts Act 1981, but whether any such interest should be awarded is a matter for later determination after trial.

On the second preliminary issue, the Court ruled that the Russian annulment decisions are not an absolute bar to Yukos Capital's claim, leaving for trial whether Yukos Capital's claim should be granted. On September 24, 2014, the Company filed its appeal on the second preliminary issue and s.35A issues. Yukos Capital has not appealed the Article 395 issue. Thus, the Court's judgment on the Article 395 issue became final. The schedule for the appeal hearing has not been fixed yet. The Company will continue to defend its position vigorously.

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

On July 2, 2010, Yukos Capital filed a petition with the U.S. District Court for the Southern District of New York (the "U.S. S.D.N.Y.") seeking confirmation of the ICC award against OJSC 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.

30. Contingencies (continued)

Legal claims (continued)

On February 15, 2011, the Arbitrazh Court of the Samara Region denied Yukos Capital's enforcement application. The time for cassation appeal from the ruling has lapsed without Yukos Capital having filed such an appeal.

On August 6, 2013, the U.S. S.D.N.Y. granted Yukos Capital's application for enforcement of the ICC award and later entered judgment in the amount of approximately US$ 186 million (RUB 7 billion at the CBR official exchange rate at September 30, 2014). Samaraneftegaz has appealed the judgment. The hearing of the appeal was conducted on October 2, 2014 and the judgment of the court is pending. 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. The U.S. S.D.N.Y. has also ordered that Samaraneftegaz produce further information and documents concerning its business operations in response to Yukos Capital's discovery requests. Samaraneftegaz filed an appeal against these orders. Samaraneftegaz will continue to defend its position vigorously.

In February 2010, Yukos Capital commenced proceedings against Tomskneft in the Arbitrazh Court of the Tomsk Region seeking to enforce in Russia the abovementioned February 2007 ICC award. On July 7, 2010, the Arbitrazh Court of the Tomsk Region denied Yukos Capital's enforcement application. On October 27, 2010 Yukos Capital's cassation appeal was dismissed. In July 2010, Yukos Capital brought an action against Tomskneft in the Paris Court of First Instance seeking enforcement of the February 2007 ICC award in France. On July 20, 2010, the court issued an ex parte order to allow enforcement. On February 22, 2011, Tomskneft timely filed an appeal against this order in the Paris Court of Appeal, which was granted on January 15, 2013, and the Paris Court of Appeal declared that the award could not be enforced in France.

On August 6, 2013 Yukos Capital filed a brief on appeal to the French Court of Cassation seeking review of the Paris Court of Appeal's judgment declining enforcement. Tomskneft's brief was filed on December 5, 2013. The hearing of the appeal was conducted on October 7, 2014 and the judgment of the court is pending.

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

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

Tomskneft filed on March 26, 2013 a responsive 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. On May 30, 2014, Tomskneft applied for further discovery, which application Yukos Capital moved to strike. The hearing on Tomskneft's discovery application and Yukos Capital's striking out application is scheduled for January 12 and 19, 2015. The schedule for a hearing on the merits in Singapore has not been fixed yet.

30. Contingencies (continued)

Legal claims (continued)

Yukos International (UK) B.V. has initiated proceedings in the Amsterdam District Court claiming damages of up to US$ 333 million (RUB 13 billion at the CBR official exchange rate at September 30, 2014), plus statutory interest with effect from February 7, 2011, plus costs, against Rosneft and other co-respondents unrelated to Rosneft relating to alleged injury supposedly caused by the entry of a freezing order in 2008 that Yukos International (UK) B.V. claims restricted its ability to invest certain funds as it chose. The first court date in this case was June 27, 2012. Rosneft filed its Statement of Defense on October 3, 2012. That statement asserts various defenses including that the court properly granted the freezing order and that Yukos International (UK) B.V. suffered no damages as a result of having its funds deposited in an interest bearing account of its choice.

A hearing on the merits is scheduled for January 9, 2014. At that hearing Yukos International (UK) B.V. amended its claims against Rosneft. Now Yukos International (UK) B.V. filed claims against Rosneft also based on collective responsibility; the purpose of these requirements is to pass one of the co-defendants alleged responsibility for Rosneft. Rosneft responded to these new claims of February 26, 2014. The Court's decision is expected on November 29, 2014.

The Company and its subsidiary participate in arbitral proceedings related to bankruptcy of OJSC Sakhaneftegaz and OJSC Lenaneftegaz for the recovery of certain loans and guarantees of indemnity in the amount of RUB 1.3 billion, stated above account receivable was reserved in full. During 2009-2012, the Federal Antimonopoly Service ("FAS Russia") and its regional bodies claimed that the Company and some of its subsidiaries (associates) violated certain antimonopoly regulations in relation to petroleum products trading and passed respective decisions on administrative liability. As of September 30, 2014, the total amount of administrative fines levied by FAS Russia and its regional bodies against Rosneft and its subsidiaries is immaterial.

On March 7, 2011, Norex Petroleum Limited ("Norex") filed a lawsuit against OJSC Tyumen Oil Company ("TNK"), a predecessor of OJCS TNK-BP Holding, subsequently renamed to OJSC RN Holding, and certain other defendants in the amount of US$ 1.5 billion (RUB 59 billion at the CBR official exchange rate at September 30, 2014) claiming the recovery of damages and compensation of moral damage caused by allegedly illegal takeover of the shares of LLC Corporation Yugraneft owned by Norex. The lawsuit was accepted by the Supreme Court of New York State (first instance court). On September 17, 2012, the Court dismissed Norex's action holding that it was time-barred. Norex filed an appeal against this judgment.

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

On September 12, 2013, New York Court of Appeals accepted Norex's claim. The hearing was held on May 6, 2014. On June 27, 2014 New York Court of Appeals issued a decision, satisfying Norex's complaint and sent the case to the Court of First Instance. On October 10, 2014, the defendants filed motions to dismiss Norex's claims, objections were sent on October 24, 2014. A hearing is expected in December 2014.

30. 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. On one of court decisions a shareholder filed a cassation appeal. Court decisions of First and Appeal Instance are left unchanged by the Federal Arbitration Court of Moscow district order from May 8, 2014. The definition of the Supreme Court from September 11, 2014 refused the plaintiff (one of the shareholders) to transfer request for the hearing to the Board on economic disputes of the Supreme Court of the Russian Federation.

On September 18, 2014 a former minority shareholder of OJSC RN Holding filed a lawsuit against the Company claiming the recovery of damages caused by the forced redemption of shares. A preliminary hearing in Moscow Arbitrazh Court is scheduled for November 18, 2014.

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

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

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

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

Taxation

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

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

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

30. Contingencies (continued)

Taxation (continued)

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

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

In December 2013, the Company and Federal Tax Service 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 agreements were signed as part of the new order of fiscal control over the pricing of related party transactions to match the market parameters.

On June 30, 2014 the period for the Federal Tax Service to make a decision to conduct an examination of calculation and payment of the taxes on related party transactions made during 2012 has expired. Due to the fact that earlier the Company provided the Federal Tax Service with the sufficient documentation and explanations concerning the related party transactions, the Company believes that the risks concerning the related party transactions in 2012 will not have a material effect on the Company's financial position or results of operations.

In line with the additions to part one of the Tax Code of the Russian Federation, instituted by the Federal Law of the Russian Federation of November 16, 2011 No. 321-FZ, the Company created the Consolidated group of taxpayers which included Rosneft and its 22 subsidiaries. Rosneft became a responsible taxpayer of the group. During 2013 the number of members of the consolidated group of taxpayers increased to 44 including Rosneft.

Since January 1, 2014 under the terms of the agreement, the number of members of the consolidated group of taxpayers increased to 58. The Company management believes that creation of the consolidated group of taxpayers does not significantly change the tax burden of the Company for the purpose of these interim condensed consolidated financial statements.

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

30. Contingencies (continued)

Taxation (continued)

As of September 30, 2014, the amount of VAT receivable that is potentially unrecoverable from the tax authorities is immaterial. For current declarations the Company reimburses VAT on a timely basis in accordance with the Tax Code.

Overall, management believes that the Company has paid or accrued all taxes that are applicable. For taxes other than income tax, where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate of the probable outflow of resources, that will be required to settle these liabilities. Potential liabilities that management identified at the reporting date as those that can be subject to different interpretations of tax laws and regulations are not accrued in the interim condensed consolidated financial statements.

Capital commitments

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

The total amount of contracted but not yet performed deliveries related to the construction and acquisition of property, plant and equipment amounted to RUB 339 billion and RUB 328 billion as of September 30, 2014 and December 31, 2013, respectively.

Environmental liabilities

The Company periodically evaluates its environmental liabilities pursuant to environmental regulations. Such liabilities are recognized in the consolidated financial statements as identified. Potential liabilities, that could arise as a result of changes in existing regulations or regulation of civil litigation or of changes in environmental standards cannot be reliably estimated but may be material. With the existing system of control, management believes that there are no material liabilities for environmental damage other than those recorded in these interim condensed consolidated financial statements.

In June 2014 an accident took place at the Company's Achinskiy refinery. The Company is currently evaluating the potential impact of the accident. Additionally, the Company is working on a model for calculating the insurance payments, recovering financial damage from the production break at Achinsk refinery as well as the property insurance payments. Management believes that the damages will not have a material effect on the Company's financial position or results of operations.

Other matters

In August 2014, the Company and North Atlantic Drilling Limited ("NADL") entered into a framework agreement anticipating the acquisition by the Company of shares in NADL through an exchange of assets and investments in NADL share capital. As of September 30, 2014 the parties have not yet received all corporate and regulatory approvals required to complete the transaction.

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