



Rosneft Oil Company

**Interim Condensed Consolidated Financial Statements
(Unaudited)**

Three months ended March 31, 2015

Rosneft Oil Company
Interim Condensed Consolidated Financial Statements (unaudited)
Three months ended March 31, 2015

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Report on review of interim condensed consolidated financial statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Open Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), comprising the interim consolidated balance sheet as at March 31, 2015, the related interim consolidated statements of profit or loss, other comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLC

June 26, 2015

Rosneft Oil Company
Interim consolidated balance sheet

(in billions of Russian rubles)

	Notes	March 31, 2015 (unaudited)	December 31, 2014
ASSETS			
Current assets:			
Cash and cash equivalents	10	126	216
Restricted cash		1	1
Other short-term financial assets	11	617	723
Accounts receivable	12	525	554
Inventories	13	224	233
Prepayments and other current assets	14	356	404
Total current assets		1,849	2,131
Non-current assets:			
Property, plant and equipment	15	5,699	5 666
Intangible assets		48	49
Other long-term financial assets		296	281
Investments in associates and joint ventures		349	347
Bank loans granted		12	14
Deferred tax assets		28	24
Goodwill		227	215
Other non-current non-financial assets		9	9
Total non-current assets		6,668	6,605
Total assets		8,517	8,736
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	16	426	494
Loans and borrowings and other financial liabilities	17	1,119	1,216
Income tax liabilities		2	39
Other tax liabilities	18	195	162
Provisions	19	35	36
Prepayment on long-term oil supply agreements	20	91	80
Other current liabilities		5	4
Total current liabilities		1,873	2,031
Non-current liabilities:			
Loans and borrowings and other financial liabilities	17	2,153	2,190
Deferred tax liabilities		590	594
Provisions	19	103	107
Prepayment on long-term oil and oil products supply agreements	20	855	887
Other non-current liabilities		45	46
Total non-current liabilities		3,746	3,824
Equity:			
Share capital		1	1
Additional paid-in capital		493	493
Other funds and reserves		(539)	(500)
Retained earnings		2,934	2,878
Rosneft shareholders' equity		2,889	2,872
Non-controlling interest		9	9
Total equity		2,898	2,881
Total liabilities and equity		8,517	8,736

President  I.I. Sechin

June 26, 2015

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

Rosneft Oil Company

Interim consolidated statement of profit or loss

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

	Notes	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Revenues and equity share in profits/(losses) of associates and joint ventures			
Oil, gas, petroleum products and petrochemicals sales	5	1,267	1,361
Support services and other revenues		19	16
Equity share in profits/(losses) of associates and joint ventures		2	(2)
Total revenues and equity share in profits/(losses) of associates and joint ventures		1,288	1,375
Costs and expenses			
Production and operating expenses		126	98
Cost of purchased oil, gas, petroleum products and refining costs		123	124
General and administrative expenses		27	27
Pipeline tariffs and transportation costs		144	117
Exploration expenses		2	4
Depreciation, depletion and amortization		121	105
Taxes other than income tax	6	338	301
Export customs duty	7	263	415
Total costs and expenses		1,144	1,191
Operating income		144	184
Finance income		15	6
Finance expenses	8	(103)	(41)
Other income	9	9	58
Other expenses	9	(11)	(13)
Foreign exchange differences		17	(84)
Income before income tax		71	110
Income tax expense	6	(15)	(22)
Net income		56	88
Net income attributable to:			
- Rosneft shareholders		56	86
- non-controlling interests		–	2
Net income attributable to Rosneft per common share (in RUB) – basic and diluted			
		5.28	8.11
Weighted average number of shares outstanding (millions)			
		10,598	10,598

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

Rosneft Oil Company

Interim consolidated statement of other comprehensive income

(in billions of Russian rubles)

	Notes	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Net income		56	88
Other comprehensive (loss)/income – to be reclassified to profit or loss in subsequent periods			
Foreign exchange differences on translation of foreign operations		(10)	(11)
Foreign exchange cash flow hedges	21	(37)	–
Gain/(loss) from changes in fair value of financial assets available-for-sale		1	(1)
Income tax related to other comprehensive (loss)/income – to be reclassified to profit or loss in subsequent period		7	–
Total other comprehensive loss – to be reclassified to profit or loss in subsequent periods, net of tax		(39)	(12)
Total comprehensive income, net of tax		17	76
Total comprehensive income, net of tax, attributable to:			
- Rosneft shareholders		17	74
- non-controlling interests		–	2

*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	Other funds and reserves	Retained earnings	Rosneft share- holders' equity	Non- controlling interests	Total equity
Balance at January 1, 2014 (restated)	10,598	1	477	(14)	2,666	3,130	39	3,169
Net income	–	–	–	–	86	86	2	88
Other comprehensive loss	–	–	–	(12)	–	(12)	–	(12)
Total comprehensive (loss)/income	–	–	–	(12)	86	74	2	76
Balance at March 31, 2014 (unaudited restated)	10,598	1	477	(26)	2,752	3,204	41	3,245
Balance at January 1, 2015	10,598	1	493	(500)	2,878	2,872	9	2,881
Net income	–	–	–	–	56	56	–	56
Other comprehensive loss	–	–	–	(39)	–	(39)	–	(39)
Total comprehensive (loss)/income	–	–	–	(39)	56	17	–	17
Balance at March 31, 2015 (unaudited)	10,598	1	493	(539)	2,934	2,889	9	2,898

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

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

	Notes	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Operating activities			
Net income		56	88
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation, depletion and amortization		121	105
Loss on disposal of non-current assets	9	3	4
Impairment of assets	9	–	1
Dry hole costs		–	2
Foreign exchange (gain)/loss on non-operating activities		(14)	117
Realized foreign exchange cash flow hedges		33	–
Equity share in (profits)/losses of associates and joint ventures		(2)	2
Gain on disposal of investments in associates and joint ventures		–	(56)
Loss from disposal of subsidiaries and non-production assets	9	–	1
Finance expenses	8	103	41
Finance income		(15)	(6)
Gain on notes write-off		(5)	–
Income tax expense	6	15	22
<i>Changes in operating assets and liabilities:</i>			
Increase in accounts receivable, gross		(25)	(68)
Decrease/(increase) in inventories		11	(18)
Decrease in prepayments and other current assets		51	13
Decrease in accounts payable and accrued liabilities		(75)	(11)
Increase in other tax liabilities		32	17
Decrease in current provisions		(1)	–
Increase/(decrease) in other current liabilities		1	(3)
(Decrease)/increase in other non-current liabilities		(3)	1
Increase in long-term prepayment on oil supply agreements		–	431
Interest paid on long-term prepayment on oil supply agreements		(5)	(6)
Long-term loans granted by subsidiary banks		(4)	(2)
Repayment of long-term loans granted by subsidiary banks		7	3
Acquisition of trading securities		(1)	(5)
Proceeds from sale of trading securities		2	6
Net cash provided by operating activities before income tax and interest		285	679
Income taxes payments		(53)	(23)
Dividends received		1	–
Interest received		5	2
Net cash provided by operating activities		238	658

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

Rosneft Oil Company

Interim consolidated statement of cash flows (continued)

(in billions of Russian rubles)

	Notes	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Investing activities			
Capital expenditures		(128)	(104)
Acquisition of licenses		(5)	(2)
Auction advances refund		8	–
Acquisition of short-term financial assets		(4)	(335)
Proceeds from sale of short-term financial assets		127	73
Acquisition of long-term financial assets		(1)	–
Acquisition of interest in associates and joint ventures		(18)	–
Acquisition of interest in subsidiary, net of cash acquired		(6)	–
Proceeds from sale of investments in associates and joint ventures		38	21
Sale of property, plant and equipment		1	1
Placements under reverse REPO agreements		(5)	(3)
Receipts under reverse REPO agreements		5	4
Net cash provided by / (used in) investing activities		12	(345)
Financing activities			
Proceeds from short-term loans and borrowings		634	12
Repayment of short-term loans and borrowings		(81)	(76)
Proceeds from long-term loans and borrowings		6	28
Repayment of long-term loans and borrowings		(726)	(224)
Interest paid		(44)	(23)
Proceeds from bonds issuance		–	35
Repayment of other financial liabilities		(138)	(7)
Repayment of liabilities to non-controlling shareholders in subsidiary		–	(149)
Net cash used in financing activities		(349)	(404)
Net decrease in cash and cash equivalents		(99)	(91)
Cash and cash equivalents at beginning of period	10	216	275
Effect of foreign exchange on cash and cash equivalents		9	36
Cash and cash equivalents at end of period	10	126	220

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

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

March 31, 2015

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

1. General

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

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for 2014 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 2014 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 2014 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 2014 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 and prepares financial statements in accordance with accounting and taxation principles and practices mandated by legislation of relevant jurisdictions. The accompanying IFRS interim condensed consolidated financial statements were derived from the Company's statutory books and records.

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

The interim condensed consolidated financial statements for the three months ended March 31, 2015 were approved and authorized for issue by the President of the Company on June 26, 2015.

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

3. Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied and disclosed in the Company's annual consolidated financial statements for 2014 prepared in accordance with IFRS, except for the adoption of a new standard effective as of January 1, 2015.

The following new standard was applied for the first time in 2015:

- *Defined Benefit Plans: Employee Contributions* – Amendments to IAS 19 *Employee Benefits*. The amendments 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.

Application of this standard had no significant impact on the Company's financial position or results of operations.

4. Acquisition of subsidiaries

Acquisition of CJSC Novokuibyshevsk Petrochemical Company

In March 2015 the Company completed an acquisition of a 100% share in CJSC Novokuibyshevsk Petrochemical Company ("NPC"). The acquisition allows the Company to integrate its gas processing assets with the petrochemical production and to expand its presence in the petrochemical market sector. The total consideration amounted to US\$ 300 million (RUB 18.3 billion at the Central Bank of Russia ("CBR") official exchange rate at the date of the acquisition). The terms of the acquisition provide for net debt and tax consideration adjustments, and further provide for an additional compensation to be paid in case the average annual crude oil Brent price exceeds a defined amount.

As of March 31, 2015 the NPC purchase price allocation was not completed. Allocation of the purchase price to fair value of the assets acquired and liabilities assumed will be finalized by the end of 2015.

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

4. Acquisition of subsidiaries (continued)

Acquisition of CJSC Novokuibyshevsk Petrochemical Company (continued)

The following table summarizes the Company's preliminary allocation of the NPC purchase price which is based on the historical value of acquired assets and assumed liabilities:

ASSETS	
Current assets	
Accounts receivable	1
Inventories	2
Other current assets	3
Total current assets	6
Non-current assets	
Property, plant and equipment	20
Deferred tax assets	1
Other non-current assets	1
Total non-current assets	22
Total assets	28
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	5
Loans and borrowings	7
Other current liabilities	2
Total current liabilities	14
Non-current liabilities	
Loans and borrowings	5
Deferred tax liabilities	3
Total non-current liabilities	8
Total liabilities	22
Total identifiable net assets at fair value	6
Goodwill	12
Total consideration transferred	18

Preliminarily, goodwill in the amount of RUB 12 billion relates to the expected synergies arising from integration with the Company's nearby oil and gas refining facilities as well as guaranteed processing of broad fraction of light hydrocarbons from the Company's oilfields. Accordingly, the goodwill was fully attributed to the Refining and distribution segment. The amount of goodwill arisen on acquisition is not tax deductible.

Had the NPC acquisition taken place at the beginning of the reporting period (January 1, 2015), revenues and net income of the combined entity would have been RUB 1,297 billion and RUB 56 billion, respectively, for the period ended March 31, 2015.

Acquisitions of 2014

During 2014 the Company completed several acquisitions, including interest in LLC Orenburg Drilling Company, entities of Weatherford International Plc. ("Weatherford") and of the CJSC Bishkek Oil Company ("Bishkek Oil Company"). As of March 31, 2015 the purchase price allocation of Weatherford and Bishkek Oil Company acquisitions to the fair value of assets acquired and liabilities assumed is preliminary and will be finalized within 12 months from the date of the respective acquisitions.

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

5. Segment information

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

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

Below is performance of the operating segments for the three months ended March 31, 2015 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits/(losses) of associates and joint ventures					
Revenues from external customers	–	1,267	19	–	1,286
Intersegment revenues	612	–	–	(612)	–
Equity share in profits/(losses) of associates and joint ventures	3	(1)	–	–	2
Total revenues and equity share in profits/(losses) of associates and joint ventures	615	1,266	19	(612)	1,288
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	388	1,218	29	(612)	1,023
Depreciation, depletion and amortization	98	21	2	–	121
Total costs and expenses	486	1,239	31	(612)	1,144
Operating income	129	27	(12)	–	144
Finance income					15
Finance expenses					(103)
Total finance expenses					(88)
Other income					9
Other expenses					(11)
Foreign exchange differences					17
Income before income tax					71
Income tax					(15)
Net income					56

Rosneft Oil Company

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

5. Segment information (continued)

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

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits/(losses) of associates and joint ventures					
Revenues from external customers	–	1,361	16	–	1,377
Intersegment revenues	570	–	–	(570)	–
Equity share in losses of associates and joint ventures	(1)	(1)	–	–	(2)
Total revenues and equity share in profits/(losses) of associates and joint ventures	569	1,360	16	(570)	1,375
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	334	1,297	25	(570)	1,086
Depreciation, depletion and amortization	86	17	2	–	105
Total costs and expenses	420	1,314	27	(570)	1,191
Operating income	149	46	(11)	–	184
Finance income					6
Finance expenses					(41)
Total finance expenses					(35)
Other income					58
Other expenses					(13)
Foreign exchange differences					(84)
Income before income tax					110
Income tax					(22)
Net income					88

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

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Oil, gas, petroleum products and petrochemicals sales		
International sales of crude oil, petroleum products and petrochemicals	945	1,031
International sales of crude oil and petroleum products – CIS, other than Russia	49	52
Domestic sales of crude oil, petroleum products and petrochemicals	222	237
Sales of gas	51	41
Total oil, gas, petroleum products and petrochemicals sales	1,267	1,361

Rosneft Oil Company

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

6. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Current income tax expense	25	29
Deferred tax benefit due to the origination and reversal of temporary differences	(10)	(7)
Total income tax expense	15	22

In 2014 certain amendments were introduced into the Russian tax legislation in respect of profit of controlled foreign companies and income of foreign entities. According to these changes undistributed profit of the foreign subsidiaries, recognized as controlled foreign companies, may form an additional tax base for Rosneft and for certain Russian subsidiaries holding investments in foreign entities. In particular, 2015 undistributed profits of controlled foreign companies should increase the tax base of the controlling entities in 2016. The deferred tax liabilities arising as a result of these legislation changes did not have a material effect on the Company's financial position or results of operations for the three months ended March 31, 2015.

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

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Mineral extraction tax	289	246
Excise tax	27	35
Property tax	8	7
Social charges	12	11
Other	2	2
Total taxes other than income tax	338	301

7. Export customs duty

Export customs duty comprises the following:

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Export customs duty on oil sales	185	302
Export customs duty on petroleum products and petrochemicals sales	78	113
Total export customs duty	263	415

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

8. Finance expenses

Finance expenses comprise the following:

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Interest expense on:		
Loans and borrowings	(30)	(14)
Use of funds under terms of prepayment agreements (Note 20)	(12)	(6)
Total interest expenses	(42)	(20)
Net loss from operations with derivative financial instruments	(58)	(19)
Increase in provision due to the unwinding of discount	(3)	(2)
Total finance expenses	(103)	(41)

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Gain from the sale of LLC "Yugragazpererabotka"	–	56
Liability write-off (Note 24)	9	–
Other	–	2
Total other income	9	58
Sale and disposal of property, plant and equipment and intangible assets	3	4
Disposal of companies and non-production assets	1	1
Impairment of assets	–	1
Social payments, charity, sponsorship, financial aid	4	2
Fines and penalties	–	1
Other	3	4
Total other expenses	11	13

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	March 31, 2015 (unaudited)	December 31, 2014
Cash on hand and in bank accounts in RUB	17	117
Cash on hand and in bank accounts in foreign currencies	69	84
Deposits	35	12
Others	5	3
Total cash and cash equivalents	126	216

Rosneft Oil Company

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

11. Other short-term financial assets

Other short-term financial assets comprise the following:

	March 31, 2015 (unaudited)	December 31, 2014
Financial assets available-for-sale		
Bonds and promissory notes	65	65
Stocks and shares	63	61
Financial assets held-to-maturity		
Bonds	5	6
Loans and receivables		
Loans granted	–	1
Loans issued to associates	8	7
Notes receivable	55	57
Deposits and certificates of deposit	408	512
Held-for-trading financial assets at fair value through profit or loss		
Corporate bonds	8	9
State bonds	5	5
Total other short-term financial assets	617	723

As of March 31, 2015 bank deposits and certificates of deposits denominated in US\$ amount to RUB 363 billion and earn interest rates ranging from 0.45% to 4.5% p.a. Deposits and certificates of deposit denominated in RUB amount to RUB 45 billion and earn interest rates ranging from 8.0% to 20.45% p.a.

12. Accounts receivable

Accounts receivable include the following:

	March 31, 2015 (unaudited)	December 31, 2014
Trade receivables	413	413
Banking loans to customers	34	32
Other accounts receivable	89	120
Total	536	565
Allowance for doubtful accounts	(11)	(11)
Total accounts receivable, net of allowance	525	554

No accounts receivable were pledged as collateral for loans and borrowings provided to the Company as of March 31, 2015 and December 31, 2014.

Rosneft Oil Company

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

13. Inventories

Inventories comprise the following:

	March 31, 2015 (unaudited)	December 31, 2014
Crude oil and associated gas	69	70
Petroleum products and petrochemicals	105	115
Materials and supplies	50	48
Total	224	233

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

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
The cost of inventories recognized as an expense during the period	163	145

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

14. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	March 31, 2015 (unaudited)	December 31, 2014
Value added tax and excise receivable	158	162
Prepayments to suppliers	34	40
Settlements with customs	102	142
Profit tax and other taxes advance payments	51	49
Other	11	11
Total prepayments and other current assets	356	404

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

15. Property, plant and equipment and construction in progress

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
<i>Cost as of January 1, 2015</i>	5,768	1,465	105	7,338
<i>Depreciation, depletion and impairment losses as of January 1, 2015</i>	(1,423)	(281)	(26)	(1,730)
<i>Net book value as of January 1, 2015</i>	4,345	1,184	79	5,608
Prepayments for property, plant and equipment as of January 1, 2015	6	47	5	58
Total as of January 1, 2015	4,351	1,231	84	5,666
<i>Cost</i>				
Acquisition of subsidiaries (Note 4)	–	20	–	20
Additions	116	42	2	160
Disposals	(7)	–	–	(7)
Foreign exchange differences	12	(17)	1	(4)
Cost of asset retirement (decommissioning) obligations	(6)	–	–	(6)
<i>As of March 31, 2015</i>	5,883	1,510	108	7,501
<i>Depreciation, depletion and impairment losses</i>				
Depreciation and depletion charge	(97)	(22)	(2)	(121)
Disposals and other movements	3	–	–	3
Foreign exchange differences	(10)	7	–	(3)
<i>As of March 31, 2015</i>	(1,527)	(296)	(28)	(1,851)
<i>Net book value as of March 31, 2015</i>	4,356	1,214	80	5,650
Prepayments for property, plant and equipment as of March 31, 2015	6	35	8	49
Total as of March 31, 2015	4,362	1,249	88	5,699

Depreciation charge for the three months ended March 31, 2015 includes RUB 1 billion of depreciation which was capitalized as part of the construction cost of property, plant and equipment and cost of inventory.

The Company capitalized RUB 28 billion and RUB 8 billion of interest expenses on loans and borrowings for the three months ended March 31, 2015 and 2014, respectively.

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization is 2.63% and 0.93% quarterly for the three months ended March 31, 2015 and 2014, respectively.

Rosneft Oil Company

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

16. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	March 31, 2015 (unaudited)	December 31, 2014
Accounts payable to suppliers and contractors	265	272
Salary and other benefits payable	70	55
Banking customer accounts	40	62
Other accounts payable	24	34
Short-term advances received	27	71
Total accounts payable and accrued liabilities	426	494

Current accounts payable for three month ended March 31, 2015 were settled within 38 days on average (three month ended March 31, 2014: 29 days). Interest rates on banking customer accounts amount to 0.0%-7% p.a. Trade and other payables are non-interest bearing.

17. Loans and borrowings and other financial liabilities

Loans and borrowings and other financial liabilities comprise the following:

	Currency	March 31, 2015 (unaudited)	December 31, 2014
Long-term			
Bank loans	RUB	50	143
Bank loans	US\$, Euro	1,645	2,067
Bonds	RUB	138	138
Eurobonds	US\$	387	408
Customer deposits	RUB	4	6
Customer deposits	US\$, Euro	3	5
Borrowings	Euro	5	6
Promissory notes payable	US\$	3	2
Other borrowings	US\$	260	278
<i>Less: current portion of long-term loans and borrowings</i>		(355)	(877)
Total long-term loans and borrowings		2,140	2,176
Finance lease liabilities		17	18
<i>Less: current portion of long-term finance lease liabilities</i>		(4)	(4)
Total loans and borrowings and other financial liabilities		2,153	2,190
Short-term			
Bank loans	RUB	121	53
Bank loans	US\$, Euro	72	–
Customer deposits	RUB	11	18
Customer deposits	US\$, Euro	6	6
Promissory notes payable – Yukos related (Note 24)	RUB	15	20
Obligations under a repurchase agreement	RUB	5	13
Other borrowings	RUB	15	15
Other borrowings	US\$	459	73
<i>Current portion of long-term loans and borrowings</i>		355	877
Total short-term loans and borrowings and current portion of long-term loans and borrowings		1,059	1,075
<i>Current portion of long-term finance lease liabilities</i>		4	4
Short-term liabilities related to derivative financial instruments		56	137
Total short-term loans and borrowings and other financial liabilities		1,119	1,216
Total loans and borrowings and other financial liabilities		3,272	3,406

Rosneft Oil Company

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

17. Loans and borrowings and other financial liabilities (continued)

Long-term bank loans from foreign banks to finance special-purpose business activities nominated in US\$ are partially secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts are normally provide the lender with the express right of claim for contractual revenue in the amount of failing loan repayments which purchaser generally remit directly through transit currency accounts in lender banks. The outstanding balance of Accounts receivable arising from such contracts amounts to RUB 28 billion and RUB 22 billion as of March 31, 2015 and December 31, 2014, respectively, and is included in Trade receivables of purchasers and customers.

In February 2015, the Company early repaid unsecured long-term loan (attracted to finance the TNK-BP acquisition) and interests to international banks in the amount of US\$ 7.2 billion (RUB 473 billion at the CBR official exchange rate at the transaction date).

In February 2015, the Company fully repaid Eurobonds (Series 7) in the amount of US\$ 500 million (RUB 34.5 billion at the CBR official exchange rate at the transaction date) assumed through the TNK-BP acquisition.

In January-February 2015, the Company received short-term floating rate loans from a local bank totaling RUB 100 billion.

In the first quarter of 2015, the Company attracted other short-term floating rate borrowing of equivalent of RUB 459 billion at the CBR official exchange rate as of March 31, 2015 under repurchase agreements for own corporate bonds.

In March 2015, certain OJSC Yukos Oil Company related promissory notes payable were returned to the Company pursuant to relevant agreements (Note 24).

As of March 31, 2015 and December 31, 2014 the Company was in compliance with all restrictive financial and other debt covenants.

Liabilities related to derivative financial instruments

Open derivative financial instruments comprise the following:

	Issue date	Expiry date	Nominal amount as of		Interest rate type	Fair value of the liabilities	
			March 31, 2015 (unaudited) US\$ million	RUB billion*		March 31, 2015 (unaudited)	December 31, 2014
Swaps	2012	2015	–	–	fixed	–	54
Swaps	2012	2017	641	37	floating	12	9
Swaps	2013	2018	2,138	125	floating	33	14
Swaps	2014	2015	–	–	fixed	–	29
Swaps	2014	2019	1,010	59	floating	11	6
Forwards	2012	2015	–	–	–	–	25
Total			3,789	221		56	137

* the equivalent nominal amount at the CBR official exchange rate as of March 31, 2015.

In the first quarter of 2015 the Company settled derivative financial instruments opened in 2012-2014 for the nominal amount of US\$ 4,494 million (RUB 263 billion at the CBR official exchange rate as of March 31, 2015).

Rosneft Oil Company

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

18. Other current tax liabilities

Other short-term tax liabilities comprise the following:

	March 31, 2015 (unaudited)	December 31, 2014
Mineral extraction tax	101	69
VAT	54	55
Excise duties	11	11
Personal income tax	2	1
Property tax	8	7
Other	19	19
Total other tax liabilities	195	162

19. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2015, including	83	35	25	143
<i>Non-current</i>	80	24	3	107
<i>Current</i>	3	11	22	36
Provisions charged during the year	5	–	1	6
Increase/(decrease) in the liability resulting from:				
Changes in estimates	1	–	(1)	–
Change in the discount rate	(12)	–	–	(12)
Unwinding of discount	2	1	–	3
Utilized	–	(1)	(1)	(2)
As of March 31, 2015 (unaudited), including	79	35	24	138
<i>Non-current</i>	76	24	3	103
<i>Current</i>	3	11	21	35

20. Prepayment on long-term oil and petroleum products supply agreements

During 2013-2014 the Company entered into a number of long-term crude oil and petroleum products supply contracts which involve the receipt of prepayment. The total minimum delivery volume approximates 400 million tonnes of crude oil.

The contracts include the following main terms:

- prepayment amounts shall not to exceed 30% of the total contracted volume of crude oil and petroleum products;
- the crude oil and petroleum products prices are calculated based on current market prices;
- prepayment is settled through the physical deliveries of crude oil and petroleum products.

Rosneft Oil Company

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

20. Prepayment on long-term oil and petroleum products supply agreements (continued)

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

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
As of January 1	967	470
Received	–	431
Less current portion	(91)	(13)
Reimbursed	(21)	–
As of March 31	855	888

The shipments of petroleum products in accordance with the terms of the prepayment contracts started on January 1, 2015. The off-set of prepayments, made during the first quarter of 2015 amounted to RUB 21 billion (US\$ 0.7 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date).

21. Cash flow hedging of the Company's future exports

On October 1, 2014, the Company designated certain U.S. dollar nominated borrowings as a hedge of the expected highly probable U.S. dollar nominated export revenue stream in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

On October 1, 2014 a portion of future monthly export revenues expected to be received in U.S. dollars over the period from January 2015 through December 2019 were designated as a hedged item. The Company's U.S. dollar nominated borrowings were designated as hedging instruments. The nominal amounts of the hedged item and the hedging instruments are equal. To the extent that a change in the foreign currency rate impacts the fair value of the hedging instrument, the effects are recognized in other comprehensive income or loss and then reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

Changes in the nominal amount during the period:

	US\$ million	The equivalent nominal amount at the CBR official exchange rate as of March 31, 2015
Nominal amount as of December 31, 2014	29,490	1,724
Realized cash flow foreign exchange hedges	(1,474)	(86)
The nominal amount as of March 31, 2015	28,016	1,638

Rosneft Oil Company

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

21. Cash flow hedging of the Company's future exports (continued)

The impact of foreign exchange cash flow hedges on other comprehensive income is comprised of the following:

	Before income tax	Income tax	Net of tax
Total recognized in other comprehensive loss as of December 31, 2014	(498)	100	(398)
Foreign exchange cash flow hedges	(70)	14	(56)
Reclassification to revenue in profit or loss	33	(7)	26
Total recognized in other comprehensive loss for three months ended March 31, 2015 (unaudited)	(37)	7	(30)
Total recognized in other comprehensive loss as of March 31, 2015 (unaudited)	(535)	107	(428)

A schedule of the expected reclassification of the accumulated loss from the remeasurement of hedging instruments recognized in other comprehensive income or loss to profit or loss as of March 31, 2015 is as follows:

Year	2015	2016	2017	2018	2019	Total
Reclassification	(85)	(112.5)	(112.5)	(112.5)	(112.5)	(535)
Income tax	17	22.5	22.5	22.5	22.5	107
Total, net of tax	(68)	(90)	(90)	(90)	(90)	(428)

The expected reclassification is calculated using the CBR official exchange rate as of March 31, 2015 and may be different using actual exchange rates in the future.

22. Fair value of financial instruments

The fair value of financial assets and liabilities is determined as follows:

- the fair value of financial assets and liabilities quoted on active liquid markets is determined in accordance with the market prices;
- the 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;
- the fair value of derivative financial instruments is based on market quotes. In illiquid and highly volatile markets fair value is determined on the basis of valuation models that rely on assumptions confirmed by observable market prices or rates as of the reporting date.

Rosneft Oil Company

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

22. Fair value of financial instruments (continued)

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

	Fair value measurement as of March 31, 2015 (unaudited)			Total
	Level 1	Level 2	Level 3	
Assets				
Current assets				
Held-for-trading	7	6	–	13
Available-for-sale	1	127	–	128
Non-current assets				
Available-for-sale	–	5	–	5
Total assets measured at fair value	8	138	–	146
Liabilities				
Derivative financial instruments	–	(56)	–	(56)
Total liabilities measured at fair value	–	(56)	–	(56)

	Fair value measurement as of December 31, 2014			Total
	Level 1	Level 2	Level 3	
Assets				
Current assets				
Held-for-trading	8	6	–	14
Available-for-sale	1	125	–	126
Non-current assets				
Available-for-sale	–	5	–	5
Total assets measured at fair value	9	136	–	145
Liabilities				
Derivative financial instruments	–	(137)	–	(137)
Total liabilities measured at fair value	–	(137)	–	(137)

The 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.

Rosneft Oil Company

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

22. Fair value of financial instruments (continued)

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)	
	March 31, 2015 (unaudited)	December 31, 2014	March 31, 2015 (unaudited)	December 31, 2014
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(2,899)*	(2,413)	(2,121)*	(1,994)
Loans and borrowings with a fixed interest rate	(300)	(838)	(667)	(736)
Financial lease liabilities	(17)	(18)	(17)	(18)

* including the financial instruments designated as hedging instruments with carrying value of RUB 1,638 billion and fair value RUB 1,428 billion.

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

23. Related party transactions

For the purposes of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the 3 month ended March 31, 2015 and 2014 the Company entered into transactions with the following related parties: associates and joint ventures, enterprises directly or indirectly controlled by the Russian Government, key management and pension funds.

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

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

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

Rosneft Oil Company

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

23. Related party transactions (continued)

Transactions with companies directly or indirectly controlled by the Russian Government

Revenues and income

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	48	41
Finance income	5	1
	53	42

Costs and expenses

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Production and operating expenses	2	1
Cost of purchased oil, gas, petroleum products and refining costs	3	3
Pipeline tariffs and transportation costs	110	96
Other expenses	2	13
Finance expenses	25	–
	142	113

Other operations

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Loans received	191	13
Loans repaid	(1)	(25)
Deposits placed	(31)	(194)
Deposits repaid	–	48

Settlement balances

	March 31, 2015 (unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	16	24
Accounts receivable	19	18
Prepayments and other current assets	30	38
Other financial assets	316	283
	381	363
Liabilities		
Accounts payable and accrued liabilities	9	8
Loans and borrowings and other financial liabilities	243	159
	252	167

Rosneft Oil Company

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

23. Related party transactions (continued)

Transactions with joint ventures

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

Revenues and income

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	3	3
Finance income	2	–
	5	3

Costs and expenses

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Production and operating expenses	1	–
Cost of purchased oil, gas, petroleum products and refining costs	30	33
Pipeline tariffs and transportation costs	3	2
	34	35

Settlement balances

	March 31, 2015 (unaudited)	December 31, 2014
Assets		
Accounts receivable	22	15
Prepayments and other current assets	1	1
Other financial assets	255	246
	278	262
Liabilities		
Accounts payable and accrued liabilities	27	23
Loans and borrowings and other financial liabilities	–	5
	27	28

Transactions with associates

Revenues and income

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	3	2
Finance income	1	–
	4	2

Rosneft Oil Company

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

23. Related party transactions (continued)

Transactions with associates (continued)

Costs and expenses

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Production and operating expenses	–	1
Cost of purchased oil, gas, petroleum products and refining costs	2	–
	2	1

Settlement balances

	March 31, 2015 (unaudited)	December 31, 2014
Assets		
Accounts receivable	16	17
Other financial assets	19	19
	35	36
Liabilities		
Accounts payable and accrued liabilities	1	2
	1	2

Transactions with non-state pension funds

Costs and expenses

	Three months ended March 31, 2015 (unaudited)	Three months ended March 31, 2014 (unaudited)
Other expenses	2	1

Settlement balances

	March 31, 2015 (unaudited)	December 31, 2014
Liabilities		
Accounts payable and accrued liabilities	1	1
	1	1

Rosneft Oil Company

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

24. Contingencies

Russian business environment

Russia continues 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 the economic, financial and monetary measures taken by the government. Management believes it is taking the appropriate measures to support the sustainability of the Company's business in the current circumstances.

In 2014, the Russian economy was impacted by a significant drop in crude oil prices and a significant devaluation of the Russian rouble, as well as by sanctions imposed on Russia by several countries. In December 2014, the rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%. The combination of the above resulted in a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. Management believes it is taking the appropriate measures to support the sustainability of the Company's business in the current circumstances.

In 2014, the USA and EU issued a number of sectorial sanctions. These sanctions restrict certain U.S. and EU persons from 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.

During 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 the appropriate measurements as of March 31, 2015. 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 constantly reviewed in order to reflect the current situation.

Legal claims

In 2006, Yukos Capital S.a.r.l. ("Yukos Capital") initiated separate international commercial arbitration proceedings against OJSC Yuganskneftegaz, OJSC Samaraneftgaz and OJSC Tomskneft VNK alleging, as grounds for its claims, defaults under various rouble-denominated loans with principal amounts totaling RUB 11.2 billion (OJSC Yuganskneftegaz), RUB 4.35 billion (OJSC Tomskneft VNK) and RUB 2.4 billion (OJSC Samaraneftgaz) plus interest at 9% per annum under each loan. During 2006-2007, the international arbitration tribunals issued awards in favor of Yukos Capital, after which Yukos Capital filed claims with various Russian and non-Russian courts seeking recognition and enforcement of the aforementioned international arbitration awards.

During 2007-2013, various Russian arbitrazh courts declared the above loan agreements to be void; moreover, a competent Russian court annulled the arbitral awards against OJSC Yuganskneftegaz and declined recognition and enforcement in Russia of the arbitral awards against OJSC Tomskneft and OJSC Samaraneftgaz.

The arbitral awards against OJSC Yuganskneftegaz were enforced in the Netherlands (a court of first instance declined recognition and enforcement) despite their annulment by a competent court. Although Rosneft opposes the judgments of the Netherlands courts for recognition and enforcement of the arbitral awards, on August 11, 2010, it complied with these judgments and made corresponding payments in respect of the claim brought against Rosneft. In foreign jurisdictions, the aforementioned disputes continued in England, seeking payment of the interest accrued on the arbitral award against Rosneft, in the USA, seeking enforcement of international arbitration awards against OJSC Samaraneftgaz and, in France, Ireland, and Singapore, seeking enforcement of award against OJSC Tomskneft VNK.

Rosneft Oil Company

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

24. Contingencies (continued)

Legal claims (continued)

Also, Yukos International (UK) B.V. initiated proceedings in the Netherlands claiming damages of up to US\$ 333 million (RUB 19 billion at the CBR exchange rate at March 31, 2015), plus statutory interest with effect from February 7, 2011, plus costs, against Rosneft and other co-respondents unrelated to Rosneft. In these proceedings, Yukos International (UK) B.V. alleged an injury supposedly caused by the entry of an order by the Amsterdam court to freeze a bank account in 2008. On February 11, 2015, the Amsterdam District Court issued a judgment granting the claim of Yukos International (UK) B.V. that the orders to freeze the funds held in the bank account were issued improperly, but rejected the procedure for calculating damages used by the claimant, pointing out that the damages issue, including the question of whether Yukos International (UK) B.V. is liable itself for the damages it allegedly suffered, should be considered in separate court proceedings.

In March 2015, Rosneft and a number of its subsidiaries including OJSC Samaraneftgaz, OJSC Tomskneft VNK and OJSC ANHK entered into a Settlement Deed with Yukos Finance B.V., Yukos Capital S.a.r.l, Stichting Administratiekantoor Yukos International, Stichting Administratiekantoor Financial Performance Holdings, Consolidated Nile, LP, General Nile, LLC, Yukos International (UK) B.V., Luxtona Limited, Financial Performance Holdings B.V., Yukos Hydrocarbons Investments Limited, CN & GN (PTC) Ltd. and with individuals controlling these entities. Pursuant to the terms and conditions of the Settlement Deed, the parties released all mutual claims and resolved all pending judicial and other disputes including the above disputes, and undertook not bring any other claims against each other in the future in relation to the bankruptcy and liquidation of Yukos Oil Company. The Deed does not provide for any cash or other payments on the part of Rosneft or its subsidiaries. On March 31, 2015, the Parties closed the transaction and executed all the documents necessary for dismissal of all pending proceedings in the Netherlands, England, Russia, U.S.A. and other jurisdictions.

On March 7, 2011, Norex Petroleum Limited ("Norex") filed a lawsuit against OJSC Tyumen Oil Company, a predecessor of OJCS TNK-BP Holding, subsequently renamed to OJSC RN Holding, TNK-BP Limited and certain other defendants in the amount of US\$ 1.5 billion (RUB 88 billion at the CBR official exchange rate on March 31, 2015) 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 the State of New York (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, the New York Court of Appeals accepted Norex's claim and accepted the appeal for consideration. The hearing was held on May 6, 2014. On June 27, 2014 the New York Court of Appeals issued a decision, satisfying Norex's complaint and sent the case to the Court of First Instance. The hearing was held on January 12, 2015. The Court's decision is expected.

In 2013, several individuals, non-controlling shareholders of OJSC RN Holding, filed a number of lawsuits against the Company, claiming the right to receive an offer from the Company to acquire the shares of OJSC RN Holding according to the Russian legislation. On October 25, 2013 Moscow Arbitration 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 barred the plaintiff (one of the shareholders) from transferring the request for the hearing to the Board on Economic Disputes of the Supreme Court of the Russian Federation.

Rosneft Oil Company

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

24. Contingencies (continued)

Legal claims (continued)

In October-November 2014 a former minority shareholders of OJSC RN Holding filed a lawsuit against the Company claiming the recovery of damages caused by the forced redemption of shares. Cases are pending before the Court of First Instance.

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

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

Effective January 1, 2012, the rules of market price defining for the fiscal control purposes 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 major types of controlled transactions between related parties. The Company also researches databases to determine the market price levels (ROIs) for the controlled transactions annually.

In 2012-2014 the Company and the Federal Tax Service signed a pricing agreement with respect to the taxation of oil sales transactions in Russia. 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.

Due to the fact that the Company provided the Russian Federal Tax Service and the regional tax authorities with the sufficient explanations concerning the related party transactions made during 2012, according to the received individual requests, the Federal Tax Service did not use its right to conduct an examination of calculation and payment of the taxes on related party transactions made during 2012 and on June 30, 2014 the period for the Federal Tax Service to make such a decision has expired. 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.

Rosneft Oil Company

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

24. Contingencies (continued)

Taxation (continued)

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 21 subsidiaries. Rosneft became a responsible taxpayer of the group. Since January 1, 2015 under the terms of the agreement, the number of members of the consolidated group of taxpayers is 51.

The Company management believes that the 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.

In 2014, amendments to the tax legislation aimed at fiscal stimulation of the Russian economy deoffshorization were issued, and took effect on January 1, 2015. In particular these amendments in the Russian tax legislation included terms of beneficial ownership, fiscal residence of legal entities, and income tax rules for the controlled foreign companies (Note 6).

During the reporting period, the tax authorities continued their examinations of Rosneft and certain of its subsidiaries for the fiscal years 2010-2014. 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 the results of the examinations to have a material impact on the Company's consolidated balance sheet or results of operations.

Overall, management believes that the Company has paid or accrued all taxes that are applicable. For taxes other than income tax, where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate of the probable outflow of resources, 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 consolidated financial statements.

Capital commitments

The Company and its subsidiaries are engaged in ongoing capital projects for the exploration and development of production facilities and the modernization of refineries and 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 388 billion and RUB 351 billion as of March 31, 2015 and December 31, 2014, 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.

Rosneft Oil Company

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

24. Contingencies (continued)

Other matters

In April 2015 the Company and North Atlantic Drilling Limited agreed to extend the date of termination of the Framework Agreement dated August 20, 2014 to May 31, 2017, until which date the parties have the right to effectively terminate the transaction at any time at no cost. The addendum signed also provides for possible renegotiation of the terms of the transaction.

25. Events after reporting period

In May 2015 the Company agreed heads of terms to acquire an additional 55% interest in certain concession agreements for exploratory blocks in the Brazilian Solimoes Basin from PetroRio for US\$ 55 million. The finalization of the transaction will lead to Company consolidating 100% ownership interest and full operatorship in the Solimoes project. Closing will follow formal approval of the transaction by Agencia Nacional do Petroleo, Gas Natural e Biocombustiveis, Brazil which is anticipated in middle of 2015. The acquisition of the 55% interest in the Solimoes Project will allow the Company to continue the exploration program focused on oil opportunities, and advance joint work with Petrobras on the monetization of discovered gas resources.

On June 17, 2015, the annual General Meeting of Shareholders approved dividends on the Company's common shares for 2014 in the amount of RUB 87 billion or RUB 8.21 per share.

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