



**Rosneft Oil Company**

Interim Condensed Consolidated Financial Statements  
(Unaudited)

*Three and six months ended June 30, 2012*

# Rosneft Oil Company

## Interim Condensed Consolidated Financial Statements (unaudited)

Three and six months ended June 30, 2012

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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, comprising the interim consolidated balance sheet as at June 30, 2012, the related interim consolidated statements of comprehensive income for the three and six-month periods ended June 30, 2012, the related interim consolidated statements of changes in shareholders' equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### **Scope of review**

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

### **Conclusion**

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



August 1, 2012

**Rosneft Oil Company**  
**Consolidated balance sheet**  
*(in billions of Russian rubles)*

	Notes	June 30, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	9	138	166
Restricted cash		4	4
Financial assets	10	102	150
Accounts receivable, net of allowance of RUB 5 and RUB 5, respectively	11	227	217
Inventories	12	131	126
Prepayments and other current assets	13	163	152
<b>Total current assets</b>		<b>765</b>	<b>815</b>
<b>Non-current assets:</b>			
Property, plant and equipment	14	2,376	2,231
Intangible assets		24	22
Financial assets	16	30	34
Investments in associates and joint ventures	15	157	114
Bank loans granted, net of allowance of RUB 1 and RUB 1, respectively		13	13
Deferred tax assets		14	13
Goodwill		132	132
Other non-current non-financial assets		3	3
<b>Total non-current assets</b>		<b>2,749</b>	<b>2,562</b>
Assets held for sale	16	4	-
<b>Total assets</b>		<b>3,518</b>	<b>3,377</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	17	242	181
Loans and borrowings		136	152
Finance lease liabilities		2	1
Liabilities related to derivative financial instruments		2	4
Income tax liabilities		2	3
Other tax liabilities	18	65	66
Provisions	19	5	6
Other current liabilities		1	1
<b>Total current liabilities</b>		<b>455</b>	<b>414</b>
<b>Non-current liabilities:</b>			
Loans and borrowings	20	689	596
Finance lease liabilities		6	5
Deferred tax liabilities		233	234
Provisions	19	68	57
Other non-current liabilities		1	2
<b>Total non-current liabilities</b>		<b>997</b>	<b>894</b>
<b>Equity:</b>			
Share capital	21	1	1
Treasury shares		(292)	(224)
Additional paid-in capital		385	386
Other funds and reserves		(9)	(5)
Retained earnings		1,948	1,877
<b>Rosneft shareholders' equity</b>		<b>2,033</b>	<b>2,035</b>
Non-controlling interest		33	34
<b>Total equity</b>		<b>2,066</b>	<b>2,069</b>
<b>Total liabilities and equity</b>		<b>3,518</b>	<b>3,377</b>

President  I.I. Sechin

August 1, 2012

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

# Rosneft Oil Company

## Consolidated statement of comprehensive income

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

	Notes	Three months ended June 30, 2012 (unaudited)	Three months ended June 30, 2011 (unaudited)	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
<b>Revenues</b>					
Oil and gas sales	5	370	338	748	666
Petroleum products and petrochemicals sales	5	338	301	698	549
Support services and other revenues		10	12	20	24
<b>Total revenues</b>		<b>718</b>	651	<b>1,466</b>	1,239
<b>Costs and expenses</b>					
Production and operating expenses		61	44	106	84
Cost of purchased oil, gas, petroleum products and refining costs		85	69	175	101
General and administrative expenses		18	11	33	22
Pipeline tariffs and transportation costs		58	55	118	110
Exploration expenses		4	2	9	5
Depreciation, depletion and amortization		53	55	107	105
Taxes other than income tax	7	158	118	319	224
Export customs duty	6	245	200	452	347
<b>Total costs and expenses</b>		<b>682</b>	554	<b>1,319</b>	998
<b>Operating income</b>		<b>36</b>	97	<b>147</b>	241
Finance income		3	5	9	10
Finance expenses		(2)	(5)	(7)	(10)
Equity share in profits of associates and joint ventures		4	3	13	5
Other income		–	1	1	1
Other expenses	8	(13)	(13)	(18)	(18)
Result of operations with foreign currency, foreign exchange differences		(39)	4	(13)	19
<b>Income/(loss) before income tax</b>		<b>(11)</b>	92	<b>132</b>	248
Income tax	7	3	(25)	(28)	(58)
<b>Net income/(loss)</b>		<b>(8)</b>	67	<b>104</b>	190
<b>Other comprehensive income/(loss)</b>					
Foreign exchange differences on translation of foreign operations		(3)	(2)	(1)	(5)
Gain/(loss) from changes in fair value of financial assets available-for-sale		(2)	1	(3)	1
<b>Total other comprehensive loss, net of tax</b>		<b>(5)</b>	(1)	<b>(4)</b>	(4)
<b>Total comprehensive income/(loss), net of tax</b>		<b>(13)</b>	66	<b>100</b>	186
<b>Net income/(loss)</b>					
attributable to Rosneft shareholders		(8)	67	104	188
attributable to non-controlling interests		–	–	–	2
<b>Total comprehensive income/(loss), net of tax</b>		<b>(13)</b>	66	<b>100</b>	184
attributable to Rosneft shareholders		(13)	66	100	184
attributable to non-controlling interests		–	–	–	2
Net income attributable to Rosneft per common share (in RUB) – basic and diluted		(0.84)	6.99	10.87	19.60
Weighted average number of shares outstanding (millions)		9,556	9,590	9,572	9,594

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

# Rosneft Oil Company

## Consolidated statement of changes in shareholders' equity

*(in billions of Russian rubles, except share amounts)*

	Number of shares (millions)	Share capital	Additional paid-in capital	Treasury shares	Other funds and reserves	Retained earnings	Rosneft share- holders' equity	Non- controlling interests	Total equity
<b>Balance at December 31, 2010</b>	9,599	1	396	(221)	(5)	1,588	1,759	32	1,791
Net income	–	–	–	–	–	188	188	2	190
Other comprehensive loss	–	–	–	–	(4)	–	(4)	–	(4)
<b>Total comprehensive income</b>	–	–	–	–	(4)	188	184	2	186
Purchase of shares (Note 21)	(11)	–	–	(3)	–	–	(3)	–	(3)
Dividends declared on common stock	–	–	–	–	–	(26)	(26)	–	(26)
Change in ownership interest in subsidiaries	–	–	1	–	–	–	1	(2)	(1)
<b>Balance at June 30, 2011</b>	<b>9,588</b>	<b>1</b>	<b>397</b>	<b>(224)</b>	<b>(9)</b>	<b>1,750</b>	<b>1,915</b>	<b>32</b>	<b>1,947</b>
<b>Balance at December 31, 2011</b>	<b>9,588</b>	<b>1</b>	<b>386</b>	<b>(224)</b>	<b>(5)</b>	<b>1,877</b>	<b>2,035</b>	<b>34</b>	<b>2,069</b>
Net income	–	–	–	–	–	104	104	–	104
Other comprehensive loss	–	–	–	–	(4)	–	(4)	–	(4)
<b>Total comprehensive income</b>	–	–	–	–	(4)	104	100	–	100
Purchase of shares (Note 21)	(322)	–	–	(68)	–	–	(68)	–	(68)
Dividends declared on common stock	–	–	–	–	–	(33)	(33)	–	(33)
Change in ownership interest in subsidiaries	–	–	(1)	–	–	–	(1)	(1)	(2)
<b>Balance at June 30, 2012</b>	<b>9,266</b>	<b>1</b>	<b>385</b>	<b>(292)</b>	<b>(9)</b>	<b>1,948</b>	<b>2,033</b>	<b>33</b>	<b>2,066</b>

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

Rosneft Oil Company  
Consolidated statement of cash flows  
*(in billions of Russian rubles)*

	Notes	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
<b>Operating activities</b>			
Net income		104	190
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	14	107	105
Loss on sale and disposal of non-current assets	8	–	4
Asset impairment loss	14	6	–
Dry hole costs		1	1
Foreign exchange loss/(gains)		11	(44)
Equity share in profits of associates and joint ventures		(13)	(5)
Finance expenses		7	10
Finance income		(9)	(10)
Income tax expense	7	28	58
Changes in operating assets and liabilities:			
Increase in accounts receivable, gross		(8)	(4)
Increase in restricted cash		–	(3)
Increase in inventories		(5)	(45)
(Increase)/decrease in prepayments and other current assets		(11)	22
Increase in accounts payable and accrued liabilities		32	41
Increase in other tax liabilities		15	7
Decrease in current provisions		(1)	(1)
Decrease in other current liabilities		(3)	(1)
Long-term bank loans granted		(16)	(32)
Proceeds from long-term bank loans granted		16	31
Acquisition of trading securities		(26)	(18)
Proceeds from sale of trading securities		27	19
<b>Net cash provided by operating activities before income tax and interest</b>		<b>262</b>	<b>325</b>
Income tax payments		(48)	(60)
Interest received		5	5
<b>Net cash provided by operating activities</b>		<b>219</b>	<b>270</b>

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

# Rosneft Oil Company

## Consolidated statement of cash flows (continued)

*(in billions of Russian rubles)*

	<b>Notes</b>	<b>Six months ended June 30, 2012 (unaudited)</b>	<b>Six months ended June 30, 2011 (unaudited)</b>
<b>Investing activities</b>			
Capital expenditures		(239)	(177)
Acquisition of licenses		(1)	(4)
Acquisition of short-term financial assets		(33)	(65)
Proceeds from sale of short-term financial assets		59	111
Acquisition of short-term notes receivable		(34)	(12)
Proceeds from sale of short-term notes receivable		37	–
Proceeds from sale of long-term financial assets		3	–
Acquisition of interest in associates and joint ventures	15	(34)	(47)
Acquisition of a subsidiary, net of cash acquired.	4	(4)	–
Sale of property, plant and equipment		3	1
Placements under reverse REPO agreements		(13)	(15)
Receipts under reverse REPO agreements		30	13
<b>Net cash used in investing activities</b>		<b>(226)</b>	<b>(195)</b>
<b>Financing activities</b>			
Proceeds from short-term loans and borrowings		20	8
Repayment of short-term loans and borrowings		(20)	(2)
Proceeds from long-term loans and borrowings		103	17
Repayment of long-term loans and borrowings		(45)	(62)
Cash paid for acquisition of treasury shares		(68)	(3)
Acquisition of non-controlling interests in subsidiaries		(2)	(1)
Interest paid		(12)	(13)
<b>Net cash used in financing activities</b>		<b>(24)</b>	<b>(56)</b>
Net (decrease)/increase in cash and cash equivalents		(31)	19
Cash and cash equivalents at beginning of period	9	166	127
Effect of foreign exchange on cash and cash equivalents		3	(3)
<b>Cash and cash equivalents at end of period</b>	9	<b>138</b>	<b>143</b>

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



# Rosneft Oil Company

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

Three and six months ended June 30, 2012

*(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 2011 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 2011 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 subsequent to the issuance of its 2011 audited consolidated financial statements. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the information presented not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's 2011 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 six months ended June 30, 2012 were approved and authorized for issue by the President of the Company on August 1, 2012.

### **3. Significant 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 IFRS annual consolidated financial statements for the year ended December 31, 2011.

#### **Seasonality of operations**

The Company's operations are not seasonal. Income and expenses are recognized on a straight-line basis throughout the year.

# Rosneft Oil Company

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

### 4. Business combinations

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

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

Property, plant and equipment	1
Intangible assets	4
<b>Total non-current assets</b>	<b>5</b>
Deferred tax liabilities	1
<b>Total non-current liabilities</b>	<b>1</b>
<b>Total net assets acquired</b>	<b>4</b>

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

### 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.

# Rosneft Oil Company

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

### 5. Segment information (continued)

Below is performance of the operating segments for the three months ended June 30, 2012 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
<b>Revenues</b>					
Revenues from external customers	12	698	8	–	718
Intersegment revenues	252	–	–	(252)	–
<b>Total revenues</b>	<b>264</b>	<b>698</b>	<b>8</b>	<b>(252)</b>	<b>718</b>
<b>Costs and expenses</b>					
Costs and expenses other than depreciation, depletion and amortization	161	699	21	(252)	629
Depreciation, depletion and amortization	45	6	2	–	53
<b>Total costs and expenses</b>	<b>206</b>	<b>705</b>	<b>23</b>	<b>(252)</b>	<b>682</b>
<b>Operating income</b>	<b>58</b>	<b>(7)</b>	<b>(15)</b>	<b>–</b>	<b>36</b>
Finance income					3
Finance expenses					(2)
<b>Total finance income</b>					<b>1</b>
Equity share in profits of associates and joint ventures					4
Other income					–
Other expenses					(13)
Result of operations with foreign currency, foreign exchange differences					(39)
<b>Loss before income tax</b>					<b>(11)</b>
Income tax					3
<b>Net loss</b>					<b>(8)</b>

Below is performance of the operating segments for the three months ended June 30, 2011 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
<b>Revenues</b>					
Revenues from external customers	12	629	10	–	651
Intersegment revenues	253	–	–	(253)	–
<b>Total revenues</b>	<b>265</b>	<b>629</b>	<b>10</b>	<b>(253)</b>	<b>651</b>
<b>Costs and expenses</b>					
Costs and expenses other than depreciation, depletion and amortization	121	617	14	(253)	499
Depreciation, depletion and amortization	49	6	–	–	55
<b>Total costs and expenses</b>	<b>170</b>	<b>623</b>	<b>14</b>	<b>(253)</b>	<b>554</b>
<b>Operating income</b>	<b>95</b>	<b>6</b>	<b>(4)</b>	<b>–</b>	<b>97</b>
Finance income					5
Finance expenses					(5)
<b>Total finance expenses</b>					<b>–</b>
Equity share in profits of associates and joint ventures					3
Other income					1
Other expenses					(13)
Result of operations with foreign currency, foreign exchange differences					4
<b>Income before income tax</b>					<b>92</b>
Income tax					(25)
<b>Net income</b>					<b>67</b>

# Rosneft Oil Company

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

### 5. Segment information (continued)

Below is performance of the operating segments for the six months ended June 30, 2012 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
<b>Revenues</b>					
Revenues from external customers	23	1,429	14	–	1,466
Intersegment revenues	553	–	–	(553)	–
<b>Total revenues</b>	<b>576</b>	<b>1,429</b>	<b>14</b>	<b>(553)</b>	<b>1,466</b>
<b>Costs and expenses</b>					
Costs and expenses other than depreciation, depletion and amortization	325	1,402	38	(553)	1,212
Depreciation, depletion and amortization	90	14	3	–	107
<b>Total costs and expenses</b>	<b>415</b>	<b>1,416</b>	<b>41</b>	<b>(553)</b>	<b>1,319</b>
<b>Operating income</b>	<b>161</b>	<b>13</b>	<b>(27)</b>	<b>–</b>	<b>147</b>
Finance income					9
Finance expenses					(7)
<b>Total finance income</b>					<b>2</b>
Equity share in profits of associates and joint ventures					13
Other income					1
Other expenses					(18)
Result of operations with foreign currency, foreign exchange differences					(13)
<b>Income before income tax</b>					<b>132</b>
Income tax					(28)
<b>Net income</b>					<b>104</b>

Below is performance of the operating segments for the six months ended June 30, 2011 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
<b>Revenues</b>					
Revenues from external customers	26	1,195	18	–	1,239
Intersegment revenues	535	–	–	(535)	–
<b>Total revenues</b>	<b>561</b>	<b>1,195</b>	<b>18</b>	<b>(535)</b>	<b>1,239</b>
<b>Costs and expenses</b>					
Costs and expenses other than depreciation, depletion and amortization	234	1,165	29	(535)	893
Depreciation, depletion and amortization	92	12	1	–	105
<b>Total costs and expenses</b>	<b>326</b>	<b>1,177</b>	<b>30</b>	<b>(535)</b>	<b>998</b>
<b>Operating income</b>	<b>235</b>	<b>18</b>	<b>(12)</b>	<b>–</b>	<b>241</b>
Finance income					10
Finance expenses					(10)
<b>Total finance expenses</b>					<b>–</b>
Equity share in profits of associates and joint ventures					5
Other income					1
Other expenses					(18)
Result of operations with foreign currency, foreign exchange differences					19
<b>Income before income tax</b>					<b>248</b>
Income tax					(58)
<b>Net income</b>					<b>190</b>

# Rosneft Oil Company

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

### 5. Segment information (continued)

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

	Three months ended June 30, 2012 (unaudited)	Three months ended June 30, 2011 (unaudited)	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
<b>Oil and gas sales</b>				
Export sales of crude oil – Europe and other destinations	261	235	507	447
Export sales of crude oil – Asia	86	87	191	186
Export sales of crude oil – CIS, other than Russia	15	12	36	24
Domestic sales of crude oil	2	1	4	2
Domestic sales of gas	6	3	10	7
<b>Total oil and gas sales</b>	<b>370</b>	<b>338</b>	<b>748</b>	<b>666</b>

	Three months ended June 30, 2012 (unaudited)	Three months ended June 30, 2011 (unaudited)	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
<b>Petroleum products and petrochemicals sales</b>				
Export sales of petroleum products – Europe	129	111	296	202
Export sales of petroleum products – Asia	56	58	115	112
Export sales of petroleum products – CIS, other than Russia	2	2	4	3
Domestic sales of petroleum products	128	114	239	212
Domestic sales of petrochemical products	3	3	6	6
Sales of petrochemical products – Europe	20	13	38	14
<b>Total petroleum products and petrochemicals sales</b>	<b>338</b>	<b>301</b>	<b>698</b>	<b>549</b>

### 6. Export customs duty

Export customs duty comprises the following:

	Three months ended June 30, 2012 (unaudited)	Three months ended June 30, 2011 (unaudited)	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
Export customs duty on oil and gas sales	192	158	347	268
Export customs duty on petroleum products and petrochemicals sales	53	42	105	79
<b>Total export customs duty</b>	<b>245</b>	<b>200</b>	<b>452</b>	<b>347</b>

# Rosneft Oil Company

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

### 7. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended June 30, 2012 (unaudited)	Three months ended June 30, 2011 (unaudited)	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
Current income tax	(5)	29	30	69
Deferred tax (benefit)/expense due to the origination and reversal of temporary differences	2	(4)	(2)	(11)
<b>Total income tax</b>	<b>(3)</b>	<b>25</b>	<b>28</b>	<b>58</b>

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

	Three months ended June 30, 2012 (unaudited)	Three months ended June 30, 2011 (unaudited)	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
Mineral extraction tax	129	95	262	181
Excise tax	18	14	36	26
Property tax	3	3	6	6
Other	8	6	15	11
<b>Total taxes other than income tax</b>	<b>158</b>	<b>118</b>	<b>319</b>	<b>224</b>

### 8. Other expenses

Other expenses comprise:

	Three months ended June 30, 2012 (unaudited)	Three months ended June 30, 2011 (unaudited)	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
Sale and disposal of property, plant and equipment and intangible assets	(1)	(3)	–	(4)
Disposal of companies and non-production assets	(7)	(3)	(8)	(4)
Charity, sponsorship, financial aid, social payments	(4)	(6)	(6)	(7)
Other	(1)	(1)	(4)	(3)
<b>Total other expenses</b>	<b>(13)</b>	<b>(13)</b>	<b>(18)</b>	<b>(18)</b>

### 9. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	June 30, 2012 (unaudited)	December 31, 2011
Cash on hand and in bank accounts in RUB	22	22
Cash on hand and in bank accounts in foreign currencies	74	62
Deposits	41	80
Other	1	2
<b>Total cash and cash equivalents</b>	<b>138</b>	<b>166</b>

# Rosneft Oil Company

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

### 10. Short-term financial assets

Short-term financial assets comprise the following:

	June 30, 2012 (unaudited)	December 31, 2011
<b>Financial assets available for sale:</b>		
Bonds	18	13
Stocks and shares	5	2
<b>Loans and receivables:</b>		
Loans granted	7	2
Loans issued to associates	2	4
Notes receivable, net of allowance	32	36
Loans granted under reverse repurchase agreements	5	22
Deposits and deposit certificates	8	21
Structured deposits	7	31
<b>Held-for-trading financial assets at fair value through profit or loss:</b>		
Corporate bonds	16	16
Government bonds	2	3
<b>Total short-term financial assets</b>	<b>102</b>	<b>150</b>

### 11. Accounts receivable, net of allowance

Accounts receivable, net of allowance, include the following:

	June 30, 2012 (unaudited)	December 31, 2011
Trade receivables	188	183
Banking loans to customers	27	24
Other accounts receivable	17	15
<b>Total</b>	<b>232</b>	<b>222</b>
Valuation allowance for doubtful accounts	(5)	(5)
<b>Total accounts receivable, net of allowance</b>	<b>227</b>	<b>217</b>

As of June 30, 2012 and December 31, 2011, accounts receivable were not pledged as collateral for loans and borrowings provided to the Company.

### 12. Inventories

Inventories comprise the following:

	June 30, 2012 (unaudited)	December 31, 2011
Crude oil and associated gas	40	46
Petroleum products and petrochemicals	57	46
Materials and supplies	20	23
Work in progress	14	11
<b>Total inventories</b>	<b>131</b>	<b>126</b>

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

# Rosneft Oil Company

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

### 12. Inventories (continued)

	Three months ended June 30, 2012 (unaudited)	Three months ended June 30, 2011 (unaudited)	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
The cost of inventories expensed during the period	86	68	183	103

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, General and administrative expenses.

### 13. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	June 30, 2012 (unaudited)	December 31, 2011
Value added tax and excise tax recoverable	78	62
Prepayments to suppliers	23	25
Prepaid customs duties	29	51
Other taxes	28	11
Other	5	3
<b>Total prepayments and other current assets</b>	<b>163</b>	<b>152</b>

### 14. Property, plant and equipment

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
<b>Cost</b>				
As of December 31, 2011	2,204	472	98	2,774
Additions and other movements	172	65	16	253
Disposals and other movements	(10)	(2)	(7)	(19)
Exchange differences	2	–	–	2
As of June 30, 2012	2,368	535	107	3,010
<b>Depreciation, depletion and impairment losses</b>				
As of December 31, 2011	(474)	(84)	(32)	(590)
Depreciation and depletion charge	(85)	(17)	(5)	(107)
Disposals and other movements	1	1	–	2
Impairment of assets	(6)	–	–	(6)
Exchange differences	(1)	–	–	(1)
As of June 30, 2012	(565)	(100)	(37)	(702)
<b>Net book value</b>				
As of December 31, 2011	1,730	388	66	2,184
As of June 30, 2012	1,803	435	70	2,308
<b>Prepayments for property, plant and equipment</b>				
As of December 31, 2011	11	29	7	47
As of June 30, 2012	8	52	8	68
<b>Total as of December 31, 2011</b>	<b>1,741</b>	<b>417</b>	<b>73</b>	<b>2,231</b>
<b>Total as of June 30, 2012 (unaudited)</b>	<b>1,811</b>	<b>487</b>	<b>78</b>	<b>2,376</b>



## Rosneft Oil Company

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

#### **14. Property, plant and equipment (continued)**

The Company capitalized RUB 10.3 billion and RUB 5.8 billion of interest expenses on loans and borrowings for the six months ended June 30, 2012 and 2011, respectively.

During the second quarter of 2012 the Company recognized an impairment of unproved property of RUB 5.7 billion. The corresponding expense was recorded in Disposal of companies and non-production assets in Other expenses in the consolidated statement of comprehensive income (Note 8).

#### **15. Investments in joint ventures and associates**

##### *Taas-Yuryakh Neftegazodobycha LLC*

In March 2012, the Company acquired 35.3% interest in Taas-Yuryakh Neftegazodobycha LLC from Sberbank Capital LLC for RUB 13 billion. Taas-Yuryakh Neftegazodobycha LLC holds licenses for oil production at the Srednebotuobinskoye oil, gas and condensate field located 160 km north of the Eastern Siberia – Pacific Ocean ("ESPO") oil pipeline. This investment was accounted for using the equity method.

##### *Shares of CJSC Arcticshelfneftegaz*

In February 2012, the Company acquired 50% interest in CJSC Arcticshelfneftegaz ("ASNG") through acquisition of 100% interest in ArcticProminvest LLC for RUB 3 billion. ASNG was established for the purpose of raising private investments for the exploration and development of oil and gas resources of the Arctic shelf in the Barents Sea area. ASNG holds a license for the exploration and production of hydrocarbons at the Medyn-Varandei license area. The license is valid until 2025. Two oil fields (Varandei-sea and Medyn-sea) were discovered within the license area. This investment was accounted for using the equity method.

##### *Shares of Fueling Service Complex of International Airport Vnukovo*

In April 2012, the Company acquired 50% interest in Fueling Service Complex of International Airport Vnukovo through acquisition of share in Lanard Holdings Ltd (Cyprus) for RUB 16 billion. International Airport Vnukovo is located in the Moscow Region and is one of the largest air transportation hubs in Russia. The investment was accounted for using the equity method.

#### **16. Assets held for sale**

In March 2012, the Company entered into a sales-purchase agreement for investments in associates OJSC Kubanenergo and OJSC Tomsk Distribution Company with the subsequent purchase of additionally issued shares of OJSC IDGC Holding for the same amount. The Company recorded the disposal group at the fair value less costs to sell with recognition of RUB 1 billion gain in Other income in the consolidated statement of comprehensive income.

The shares of OJSC IDGC Holding were purchased in the second quarter of 2012 in the amount of RUB 4.9 billion and classified as available-for-sale securities in the Non-current financial assets. As of June 30, 2012 Company revaluated the shares and recognized RUB 2 billion loss in Other comprehensive income. The transaction of equity investments sale is planned to be complete by the end of 2012.

Rosneft Oil Company

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

**17. Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities comprise the following:

	<b>June 30, 2012 (unaudited)</b>	<b>December 31, 2011</b>
Accounts payable to suppliers and contractors	109	97
Advances received	21	18
Banking customer accounts	40	40
Salary and other benefits payable	23	17
Dividends (Note 21)	33	–
Other accounts payable	16	9
<b>Total accounts payable and accrued liabilities</b>	<b>242</b>	<b>181</b>

Current accounts payable are normally settled within 36 days on average (2011: 32 days). Interest rates on banking customer accounts amount to 0.01%-2.5% p.a. Trade and other payables are non-interest bearing.

**18. Other tax liabilities**

Other tax liabilities comprise the following:

	<b>June 30, 2012 (unaudited)</b>	<b>December 31, 2011</b>
Mineral extraction tax	37	41
Value added tax	14	13
Excise tax	9	7
Personal income tax	1	–
Property tax	3	3
Other	1	2
<b>Total other tax liabilities</b>	<b>65</b>	<b>66</b>

**19. Provisions**

	<b>Asset retirement obligations</b>	<b>Environmental remediation provision</b>	<b>Legal, tax and other claims</b>	<b>Total</b>
<i>Non-current</i>	54	3	–	57
<i>Current</i>	–	1	5	6
<b>As of December 31, 2011, including</b>	<b>54</b>	<b>4</b>	<b>5</b>	<b>63</b>
Provisions charged during the year	3	1	–	4
Increase (decrease) in the liability resulting from:				
<i>Changes in estimates</i>	3	–	(2)	1
<i>Change in discount rate</i>	3	–	–	3
<i>Unwinding of discount</i>	2	–	–	2
<b>As of June 30, 2012 (unaudited), including</b>	<b>65</b>	<b>5</b>	<b>3</b>	<b>73</b>
<i>Non-current</i>	65	3	–	68
<i>Current</i>	–	2	3	5

# Rosneft Oil Company

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

### **20. Long-term loans and borrowings**

In April 2012, the Company received cash under two long-term unsecured loan agreements. One loan in the amount of US\$ 1.05 billion (RUB 34.5 billion at the CBR official exchange rate as of June 30, 2012) and EUR 0.85 billion (RUB 34.9 billion at the CBR official exchange rate as of June 30, 2012) was received from a syndicate of foreign banks for 5 years at floating rates. Loans were raised for general corporate purposes.

The second loan was received from a Russian bank at a fixed rate in the amount of US\$ 1.0 billion (RUB 32.8 billion at the CBR official exchange rate as of June 30, 2012) repayable in 2015. Loans were raised to finance business activities.

As of June 30, 2012 the loans are fully drawn down.

### **21. Shareholders' equity**

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

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

### **22. Related party transactions**

For the purposes of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the normal course of business the Company enters into transactions with the following related parties: joint ventures and associates; joint operations; enterprises directly or indirectly controlled by the Russian Government; key management personnel; pension funds.

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

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

In the course of its ordinary business, the Company enters into transactions with other companies controlled by the Russian Government. In the Russian Federation, electricity and transport tariffs are regulated by the Federal Tariff Service, an authorized governmental agency of the Russian Federation. Bank loans are recorded based on the market interest rates. Taxes are accrued and paid in accordance with the Russian tax law.

Rosneft Oil Company

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

**22. Related party transactions (continued)**

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

*Revenues and income*

	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
Oil and gas sales	54	23
Petroleum products and petrochemicals sales	13	13
Finance income	1	5
	<b>68</b>	<b>41</b>

*Costs and expenses*

	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
Production and operating expenses	3	2
Pipeline tariffs and transportation costs	91	88
Other expenses	3	2
	<b>97</b>	<b>92</b>

*Other operations*

	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
Purchase of financial assets and investments in associates	(13)	(2)
Loans received	33	–
Loans repaid	–	(3)
Repayment of loans and borrowings issued	1	–
Deposits placed	(6)	(1)
Deposits repaid	51	110
Purchase of shares	(1)	–

*Settlement balances*

	June 30, 2012 (unaudited)	December 31, 2011
<b>Assets</b>		
Cash and cash equivalents	46	55
Accounts receivable, net of allowance	11	11
Prepayments and other current assets	14	16
Financial assets	12	11
	<b>83</b>	<b>93</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	32	2
Loans and borrowings	37	–
	<b>69</b>	<b>2</b>

Rosneft Oil Company

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

**22. Related party transactions (continued)**

**Transactions with joint ventures**

*Revenues and income*

	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
Finance income	1	–
	1	–

*Costs and expenses*

	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
Cost of purchased oil, gas and petroleum products	42	32
Pipeline tariffs and transportation costs	3	2
Other expenses	1	–
	46	34

*Other operations*

	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)
Loans received	1	3
Repayment of loans and borrowings issued	4	1

*Settlement balances*

	June 30, 2012 (unaudited)	December 31, 2011
<b>Assets</b>		
Accounts receivable, net of allowance	5	1
Financial assets	2	6
	7	7
<b>Liabilities</b>		
Accounts payable and accrued liabilities	1	1
Loans and borrowings	8	7
	9	8

Rosneft Oil Company

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

**22. Related party transactions (continued)**

**Transactions with associates**

*Revenues and income*

	<b>Six months ended June 30, 2012 (unaudited)</b>	<b>Six months ended June 30, 2011 (unaudited)</b>
Oil and gas sales	1	1
Petroleum products and petrochemicals sales	1	3
Support services and other revenues	2	3
	<b>4</b>	<b>7</b>

*Costs and expenses*

	<b>Six months ended June 30, 2012 (unaudited)</b>	<b>Six months ended June 30, 2011 (unaudited)</b>
Cost of purchased oil, gas and petroleum products	6	4
Production and operating expenses	1	3
Other expenses	5	2
	<b>12</b>	<b>9</b>

*Other operations*

	<b>Six months ended June 30, 2012 (unaudited)</b>	<b>Six months ended June 30, 2011 (unaudited)</b>
Purchase of financial assets	–	(5)
Repayment of loans and borrowings issued	–	4
Loans and borrowings issued	1	–

*Settlement balances*

	<b>June 30, 2012 (unaudited)</b>	<b>December 31, 2011</b>
<b>Assets</b>		
Accounts receivable, net of allowance	6	8
Financial assets	11	10
	<b>17</b>	<b>18</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	25	8
	<b>25</b>	<b>8</b>

# Rosneft Oil Company

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

### 22. Related party transactions (continued)

#### Transactions with non-state pension fund NPF Neftegarant

##### *Costs and expenses*

	<b>Six months ended June 30, 2012 (unaudited)</b>	<b>Six months ended June 30, 2011 (unaudited)</b>
Other expenses	1	1

### 23. Contingencies

#### Russian business environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Company's future financial position, results of operations and business prospects.

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

#### Legal claims

In 2006, Yukos Capital S.a.r.l., a former subsidiary of Yukos Oil Company, initiated arbitral proceedings against OJSC Yuganskneftegaz, which was subsequently merged into the Company, and OJSC Samaraneftgaz, the Company's subsidiary, in various arbitration courts alleging default under six 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 S.a.r.l. against OJSC Yuganskneftegaz concerning four of the loans in the aggregate amount of approximately RUB 12.9 billion. Arbitration panel formed pursuant to the International Chamber of Commerce ("ICC") rules issued an award against OJSC Samaraneftgaz in the amount of RUB 3.1 billion in loan principal and interest plus post award interest of 9% p.a. on the above amount of loan principal and interest concerning the two other loans.

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

# Rosneft Oil Company

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

### 23. Contingencies (continued)

#### Legal claims (continued)

While the Dutch case was pending, Yukos Capital S.a.r.l. 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 S.a.r.l. continues to seek statutory interest in the High Court of Justice in London in the amount of approximately RUB 4.6 billion as of the date of its Particulars of Claim. On June 14, 2011, the High Court issued an interim decision on two preliminary issues it had agreed to consider prior to reaching a decision on the merits of the claim. Although Yukos Capital S.a.r.l. prevailed on both issues, the court granted the Company leave to appeal, which it used. 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. The case will now return to the High Court of Justice to schedule the timetable for the next steps. The Company intends to defend its position vigorously in the remaining proceedings in England.

In 2007, lawsuits were filed in Russian arbitrazh courts in Moscow and Samara to nullify the loan agreements with Yukos Capital S.a.r.l. Court hearings in both cases were suspended for some time. However, February 1, 2012 the Arbitrazh Court of the Samara Region declared invalid the loan agreements between Yukos Capital S.a.r.l. and OJSC Samaraneftgaz. On July 17, 2012 the 11th Arbitrazh Appellate Court dismissed Yukos Capital S.a.r.l.'s appeal of that judgment.

On July 11, 2012 the Moscow Arbitrazh Court declared invalid the loan agreements between Yukos Capital S.a.r.l. and OJSC Yuganskneftgaz.

On July 2, 2010, Yukos Capital S.a.r.l. 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 Samaraneftgaz noted above. In August 2010, Yukos Capital S.a.r.l. also commenced proceedings in the Arbitrazh Court of the Samara Region seeking enforcement of the same award in the Russian Federation.

On February 15, 2011, the Arbitrazh Court of the Samara Region denied Yukos Capital S.a.r.l.'s enforcement application. The time for cassation appeal from the ruling has lapsed without Yukos Capital S.a.r.l. having filed such an appeal. On May 13, 2011, the U.S. S.D.N.Y. ordered limited discovery solely on the issue of whether the U.S. S.D.N.Y. has jurisdiction to consider Yukos Capital S.a.r.l.'s petition. On January 20, 2012 OJSC Samaraneftgaz filed a motion for summary judgment on the issue of personal jurisdiction. Yukos Capital S.a.r.l. replied on February 17, 2012. OJSC Samaraneftgaz submitted its response on March 5, 2012. On July 24, 2012, the U.S. S.D.N.Y. granted summary judgment to Yukos Capital S.a.r.l. on the issue of personal jurisdiction over OJSC Samaraneftgaz in New York. Whether to enforce the award will be the subject of future proceedings.

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 June 30, 2012, the total amount of administrative fines levied by FAS Russia and its regional bodies against Rosneft and its subsidiaries amounts to RUB 0.8 billion, including a fine of RUB 0.4 billion imposed on one of the Company's subsidiaries which was paid in July, 2012.



# Rosneft Oil Company

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

### 23. Contingencies (continued)

#### Legal claims (continued)

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

#### Taxation

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

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

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

Effective January 1, 2012 the market price defining rules were changed and the list of entities that could be recognized as interdependent entities and list of managed deals were expanded. Due to the absence of law enforcement precedents based on the new rules and certain contradictions in the provisions of the new law, such rules cannot be considered clear and precise. The Company's management is in the process of developing a new approach to assess consequences of the new tax rules, to prevent substantial negative impact on the Company's consolidated financial statements.

According to additions to part one of the Tax code of the Russian Federation, brought by the Federal law of the Russian Federation from November 16, 2011 No. 321-FZ, the Company created the Consolidated group of taxpayers which included 22 of subsidiaries of the Company, including Rosneft. Rosneft became a responsible taxpayer of the group. The Company management believes that creation of the consolidated group of taxpayers does not lead to significant changes of tax burden of the Company for the purpose of these interim condensed consolidated financial statements.

During the reporting period, the tax authorities continued examinations of Rosneft and its certain subsidiaries for 2008-2011 fiscal years. Rosneft and its subsidiaries dispute a number of claims in pre-trial and trial appeal in federal tax service. The Company does not expect results of the examinations to have a material impact on the Company's consolidated financial position or results of operations.

As of June 30, 2012, the amount of VAT potentially unrecoverable from the tax authorities is immaterial.

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

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

# Rosneft Oil Company

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

### **23. Contingencies (continued)**

#### **Capital commitments**

The Company and its subsidiaries are engaged in ongoing capital projects for exploration and development of production facilities and modernization of refineries and the distribution network. The budgets for these projects are generally set on an annual basis. Depending on the current market situation, actual expenditures may differ from the budgeted amounts.

As of June 30, 2012, the Company's contractual commitments for capital construction and purchase of property, plant and equipment amount to RUB 377.6 billion.

#### **Environmental liabilities**

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

### **24. Events after the reporting period**

In July 2012, the Company acquired 6% interest in equity of LLC Oil and Gas Company ITERA for RUB 5 billion in process of acquiring 51% interest in the entity. The expected closing date is no later than September 30, 2012.

In July 2012, the Company entered into an unsecured Loan Agreements with a local state bank for RUB 50 billions under fixed interest rates and maturing in 2015.

# Rosneft Oil Company

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

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