



Rosneft Oil Company

Interim condensed consolidated financial statements
(unaudited)

Three and nine months ended September 30, 2016

Rosneft Oil Company

Interim condensed consolidated financial statements (unaudited)

Three and nine months ended September 30, 2016

Contents

Report on review of the interim condensed consolidated financial statements.....	2
Interim condensed consolidated financial statements	
Interim consolidated balance sheet.....	3
Interim consolidated statement of profit or loss	4
Interim consolidated statement of other comprehensive income	5
Interim consolidated statement of changes in shareholders' equity.....	6
Interim consolidated statement of cash flows	7
Notes to the interim condensed consolidated financial statements	
1. General.....	9
2. Basis of preparation	9
3. Changes in accounting policies.....	10
4. Acquisition of subsidiaries.....	10
5. Segment information.....	13
6. Income tax and other taxes.....	17
7. Export customs duty.....	17
8. Finance expenses.....	18
9. Other income and expenses.....	18
10. Cash and cash equivalents.....	19
11. Other short-term financial assets.....	19
12. Accounts receivable	20
13. Inventories.....	20
14. Prepayments and other current assets	20
15. Property, plant and equipment and construction in progress	21
16. Other non-current non-financial assets	21
17. Accounts payable and accrued liabilities	22
18. Loans and borrowings and other financial liabilities	22
19. Other current tax liabilities.....	24
20. Provisions.....	24
21. Prepayment on long-term oil and petroleum products supply agreements	25
22. Shareholders' equity	25
23. Non-controlling interest	25
24. Cash flow hedging of the Company's future exports.....	25
25. Fair value of financial instruments.....	27
26. Related party transactions	28
27. Contingencies.....	32
28. Events after the reporting period.....	35

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 Public Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), which comprise the interim consolidated balance sheet as at September 30, 2016, interim consolidated statements of profit or loss and other comprehensive income for the three and nine-month periods and the related interim consolidated statements of changes in shareholders' equity and cash flows for the nine-month period then ended and explanatory notes. Management of the Company is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*. 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 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, *Interim Financial Reporting*.



November 11, 2016

Moscow, Russian Federation

Rosneft Oil Company
Interim Consolidated Balance Sheet
(in billions of Russian rubles)

	Notes	September 30, 2016 (unaudited)	December 31, 2015 (restated)
ASSETS			
Current assets			
Cash and cash equivalents	10	787	559
Restricted cash	10	1	2
Other short-term financial assets	11	416	986
Accounts receivable	12	380	367
Inventories	13	226	219
Prepayments and other current assets	14	266	271
Total current assets		2,076	2,404
Non-current assets			
Property, plant and equipment	15	6,036	5,891
Intangible assets		53	48
Other long-term financial assets		481	510
Investments in associates and joint ventures		391	353
Bank loans granted		26	18
Deferred tax assets		25	25
Goodwill		230	230
Other non-current non-financial assets	16	31	8
Total non-current assets		7,273	7,083
Assets held for sale		136	150
Total assets		9,485	9,637
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	17	405	476
Loans and borrowings and other financial liabilities	18	947	1,040
Income tax liabilities		-	8
Other tax liabilities	19	176	138
Provisions	20	22	28
Prepayment on long-term oil and petroleum products supply agreements	21	220	120
Other current liabilities		6	7
Total current liabilities		1,776	1,817
Non-current liabilities			
Loans and borrowings and other financial liabilities	18	1,980	2,283
Deferred tax liabilities		640	578
Provisions	20	149	143
Prepayment on long-term oil and petroleum products supply agreements	21	1,605	1,785
Other non-current liabilities		43	39
Total non-current liabilities		4,417	4,828
Liabilities associated with assets held for sale		55	63
Equity			
Share capital		1	1
Additional paid-in capital		536	507
Other funds and reserves		(535)	(768)
Retained earnings		3,150	3,146
Rosneft shareholders' equity		3,152	2,886
Non-controlling interest	23	85	43
Total equity		3,237	2,929
Total liabilities and equity		9,485	9,637

Chief Executive Officer



I.I. Sechin

November 11, 2016

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)

		Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
	Notes	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues and equity share in profits of associates and joint ventures					
Oil, gas, petroleum products and petrochemicals sales	5	1,204	1,277	3,431	3,891
Support services and other revenues		18	18	56	55
Equity share in profits of associates and joint ventures		1	1	16	8
Total revenues and equity share in profits of associates and joint ventures		1,223	1,296	3,503	3,954
Costs and expenses					
Production and operating expenses		132	134	392	389
Cost of purchased oil, gas, petroleum products and refining costs		139	146	418	407
General and administrative expenses		31	27	91	86
Pipeline tariffs and transportation costs		138	134	420	408
Exploration expenses		3	2	10	9
Depreciation, depletion and amortization		120	121	349	365
Taxes other than income tax	6	336	322	896	1,009
Export customs duty	7	184	257	458	738
Total costs and expenses		1,083	1,143	3,034	3,411
Operating income		140	153	469	543
Finance income		17	12	58	39
Finance expenses	8	(45)	(60)	(141)	(201)
Other income	9	5	–	7	37
Other expenses	9	(16)	(16)	(38)	(44)
Foreign exchange differences		(14)	83	(55)	95
Cash flow hedges reclassified to profit or loss		(37)	(30)	(111)	(88)
Income before income tax		50	142	189	381
Income tax expense	6	(20)	(29)	(54)	(78)
Net income		30	113	135	303
Net income attributable to:					
- Rosneft shareholders		26	112	129	302
- non-controlling interests		4	1	6	1
Net income attributable to Rosneft per common share (in RUB) – basic and diluted		2.45	10.57	12.17	28.50
Weighted average number of shares outstanding (millions)		10,598	10,598	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)

		Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
	Notes	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income		30	113	135	303
Other comprehensive income – to be reclassified to profit or loss in subsequent periods					
Foreign exchange differences on translation of foreign operations		16	(135)	134	(110)
Foreign exchange cash flow hedges	24	46	(139)	120	(101)
Gain from changes in fair value of financial assets available-for-sale		–	–	4	1
Income tax related to other comprehensive income/(expense) – to be reclassified to profit or loss in subsequent periods		(9)	28	(25)	20
Total other comprehensive income/(expense) – to be reclassified to profit or loss in subsequent periods, net of tax		53	(246)	233	(190)
Total comprehensive income/(expense), net of tax		83	(133)	368	113
Total comprehensive income/(expense), net of tax, attributable to:					
- Rosneft shareholders		79	(134)	362	112
- non-controlling interests		4	1	6	1

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, 2015	10,598	1	493	(500)	2,878	2,872	9	2,881
Net income	–	–	–	–	302	302	1	303
Other comprehensive loss	–	–	–	(190)	–	(190)	–	(190)
Total comprehensive (loss)/ income	–	–	–	(190)	302	112	1	113
Change of interest in subsidiaries	–	–	(1)	–	–	(1)	1	–
Disposal of subsidiaries	–	–	–	–	–	–	1	1
Dividends declared on common stock (Note 22)	–	–	–	–	(87)	(87)	–	(87)
Balance at September 30, 2015 (unaudited)	10,598	1	492	(690)	3,093	2,896	12	2,908
Balance at January 1, 2016	10,598	1	507	(768)	3,146	2,886	43	2,929
Net income	–	–	–	–	129	129	6	135
Other comprehensive income	–	–	–	233	–	233	–	233
Total comprehensive income	–	–	–	233	129	362	6	368
Change of interest in subsidiaries	–	–	29	–	–	29	36	65
Disposal of subsidiaries	–	–	–	–	–	–	(2)	(2)
Dividends declared on common stock (Note 22)	–	–	–	–	(125)	(125)	–	(125)
Other movements	–	–	–	–	–	–	2	2
Balance at September 30, 2016 (unaudited)	10,598	1	536	(535)	3,150	3,152	85	3,237

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

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

	Notes	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Operating activities			
Net income		135	303
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation, depletion and amortization		349	365
Loss on disposal of non-current assets	9	11	14
Dry hole costs		4	2
Impairment of assets	9	–	1
Foreign exchange loss/(gain) on non-operating activities		21	(48)
Cash flow hedges reclassified to profit or loss		111	88
Equity share in profits of associates and joint ventures		(16)	(8)
Loss from disposal of subsidiaries and non-production assets		2	6
Changes in bad debt provision		(1)	–
Gain from changes in estimates and liabilities write-off		(2)	(17)
Finance expenses	8	141	201
Finance income		(58)	(39)
Gain on notes write-off		–	(20)
Income tax expense	6	54	78
<i>Changes in operating assets and liabilities</i>			
(Increase)/decrease in accounts receivable, gross		(10)	17
(Increase)/decrease in inventories		(7)	1
Decrease in restricted cash		1	–
Decrease in prepayments and other current assets		46	89
Decrease in accounts payable and accrued liabilities		(115)	(60)
Increase in other tax liabilities		38	23
Decrease in current provisions		(6)	(1)
Increase in other current liabilities		1	1
Increase in other non-current liabilities		–	9
(Decrease)/increase in long-term prepayment received on oil and petroleum products supply agreements		(106)	963
Increase in long-term prepayments made on oil and petroleum products supply agreements	16	(32)	–
Interest paid on long-term prepayment on oil and petroleum products supply agreements received		(12)	(13)
Long-term loans granted by subsidiary banks		(19)	(19)
Repayment of long-term loans granted by subsidiary banks		6	18
Acquisition of trading securities		–	(4)
Proceeds from sale of trading securities		4	7
Net cash provided by operating activities before income tax and interest		540	1,957
Income tax payments		(60)	(97)
Dividends received		10	14
Interest received		40	18
Net cash provided by operating activities		530	1,892

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

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

	Notes	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Investing activities			
Capital expenditures		(475)	(409)
(Acquisition of licenses)/repayment of auction fees		(3)	6
Acquisition of short-term financial assets		(153)	(269)
Proceeds from sale of short-term financial assets		675	202
Acquisition of long-term financial assets		(42)	(20)
Proceeds from sale of long-term financial assets		7	–
Acquisition of interest in associates and joint ventures		(40)	(18)
Proceeds from sale of investments in associates and joint ventures			61
Acquisition of interest in subsidiary, net of cash acquired	4	(3)	(30)
Proceeds from sale of subsidiary, net of cash acquired		(6)	–
Proceeds from sale of property, plant and equipment		6	3
Placements under reverse REPO agreements		(2)	(5)
Receipts under reverse REPO agreements		2	5
Net cash used in investing activities		(34)	(474)
Financing activities			
Proceeds from short-term loans and borrowings and other financial liabilities		290	794
Repayment of short-term loans and borrowings		(370)	(606)
Proceeds from long-term loans and borrowings		791	83
Repayment of long-term loans and borrowings		(697)	(941)
Interest paid		(108)	(106)
Repayment of other financial liabilities		(7)	(141)
Proceeds from sale of non-controlling share in subsidiary	23	72	8
Payment of dividends on common stock		(125)	(87)
Dividends paid to minority		(1)	–
Net cash used in financing activities		(155)	(996)
Net increase in cash and cash equivalents		341	422
Cash and cash equivalents at beginning of period	10	559	216
Effect of foreign exchange on cash and cash equivalents		(113)	19
Cash and cash equivalents at end of period	10	787	657

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)

Three and nine months ended September 30, 2016

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

1. General

Public Joint Stock Company (“PJSC”) 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.

In accordance with the changes of the Company’s Charter, approved by the Annual General Shareholders’ Meeting on June 15, 2016 (held for the results of 2015), Open Joint Stock Company Rosneft Oil Company was renamed to Public Joint Stock Company Rosneft Oil Company. The Company’s name was changed to conform to the provisions of Chapter Four of the Civil Code of the Russian Federation.

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 2015 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 2015 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 2015 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 2015 audited consolidated financial statements and the notes 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 the 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 and nine months ended September 30, 2016 were approved and authorized for issue by the Chief Executive Officer of the Company on November 11, 2016.

Rosneft Oil Company

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 2015 prepared in accordance with IFRS, except for the adoption of amendments to standards effective as of January 1, 2016. The following amendments were applied for the first time in 2016:

- *Accounting for Acquisitions of Interests in Joint Operations* – amendments to IFRS 11 *Joint Arrangements*. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and requires the application of IFRS 3 *Business Combinations*, for such acquisitions.
- *Clarification of Acceptable Methods of Depreciation and Amortization* – amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*. These amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
- Amendments to IAS 1, *Presentation of Financial Statements*. These amendments are part of the initiative to improve presentation and disclosure in financial reports.

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

Certain prior period balances have been reclassified to conform to the current year presentation.

4. Acquisition of subsidiaries

Acquisitions of 2016

On March 31, 2016 the Company acquired 100% shares in a real estate leasing entity. The cost of the acquisition amounted to RUB 3 billion.

Acquisitions of 2015

During 2015 the Company completed several acquisitions, including 66.67% ownership interest in AET-Raffineriebeteiligungsgesellschaft mbH, which represents 16.67% effective interest in PCK Raffinerie GmbH refinery (Schwedt, Germany) and completed the acquisition of a 100% ownership interest in LLC Trican Well Service, LLC Petrol Market Company and CJSC Novokuibyshevsk Petrochemical Company. The purchase price allocation of CJSC Novokuibyshevsk Petrochemical Company was finalized as of December 31, 2015. As of September 30, 2016 the purchase price allocation of AET-Raffineriebeteiligungsgesellschaft mbH acquisition to the fair value of assets acquired and liabilities assumed is preliminary and will be finalized within 12 months from the dates of the respective acquisitions.

Acquisition of LLC Trican Well Service

In August 2015 the Company completed the acquisition of a 100% ownership interest in LLC Trican Well Service ("TWS"), engaged in pressure pumping services focused on the enhancement of production of conventional oil and gas deposits in Russia. The consideration paid amounted to RUB 10 billion (US\$ 150 million at the CBR official exchange rate at the acquisition date).

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

4. Acquisition of subsidiaries (continued)

Acquisitions in 2015 (continued)

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

Assets	
Current assets	
Accounts receivable	4
Inventories	2
Cash and cash equivalents	1
Total current assets	7
Non-current assets	
Property, plant and equipment	4
Total non-current assets	4
Total assets	11
Liabilities	
Current liabilities	
Accounts payable	1
Total current liabilities	1
Non-current liabilities	
Deferred tax liabilities	1
Total non-current liabilities	1
Total liabilities	2
Total identifiable net assets at fair value	9
Goodwill	1
Total consideration transferred	10

Acquisition of LLC Petrol Market Company

In August 2015 the Company acquired a 100% ownership interest in LLC Petrol Market Company ("Petrol Market") which owns a network of gas stations and oil storage facilities in the Republic of Armenia. Consideration paid amounted to US\$ 40 million (RUB 2.7 billion at the CBR official exchange rate at the acquisition date).

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

Assets	
Non-current assets	
Property, plant and equipment	1
Total non-current assets	1
Total assets	1
Total identifiable net assets at fair value	1
Goodwill	2
Total consideration transferred	3

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

4. Acquisition of subsidiaries (continued)

Acquisitions in 2015 (continued)

Finalization of the allocation of the purchase price of LLC Trican Well Service and LLC Petrol Market Company.

At the date of the issuance of the consolidated financial statements for the year ended December 31, 2015 the Company made a preliminary allocation of the purchase price LLC Trican Well Service and LLC Petrol Market Company to the fair value of assets acquired and liabilities assumed. The allocation of the purchase price of LLC Trican Well Service and LLC Petrol Market Company was finalized during the third quarter of 2016.

The following table summarizes the effect from the finalized estimation on the consolidated balance sheet as of December 31, 2015:

	Before finalized estimation	Effect from finalized estimation		After finalized estimation
		TWS	Petrol Market	
Assets				
Current assets	2,404	–	–	2,404
Non-current assets				
Property, plant and equipment	5,895	(1)	(3)	5,891
Intangible assets	48	–	–	48
Other long-term financial assets	510	–	–	510
Investments in associates and joint ventures	353	–	–	353
Bank loans granted	18	–	–	18
Deferred tax assets	25	–	–	25
Goodwill	227	1	2	230
Other non-current non-financial assets	8	–	–	8
Total non-current assets	7,084	–	(1)	7,083
Assets held for sale	150	–	–	150
Total assets	9,638	–	(1)	9,637
Liabilities and equity				
Current liabilities	1,817	–	–	1,817
Non-current liabilities				
Loans and borrowings and other financial liabilities	2,283	–	–	2,283
Deferred tax liabilities	579	–	(1)	578
Provisions	143	–	–	143
Prepayment on oil supply agreements	1,785	–	–	1,785
Other non-current liabilities	39	–	–	39
Total non-current liabilities	4,829	–	(1)	4,828
Liabilities associated with assets held for sale	63	–	–	63
Equity				
Share capital	1	–	–	1
Additional paid-in capital	507	–	–	507
Other funds and reserves	(768)	–	–	(768)
Retained earnings	3,146	–	–	3,146
Rosneft shareholders' equity	2,886	–	–	2,886
Non-controlling interest	43	–	–	43
Total equity	2,929	–	–	2,929
Total liabilities and equity	9,638	–	(1)	9,637

Rosneft Oil Company

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. The Exploration and production segment is engaged in field exploration and the production of crude oil and natural gas. The Refining and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as in the purchase, sale and transportation of crude oil and petroleum products. Corporate and other unallocated activities are not part of the operating segment and include corporate activity, field development, the maintenance of infrastructure and the 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, but with intersegment transactions revalued at market prices.

Below is performance of the operating segments for the three months ended September 30, 2016 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	602	1,237	18	(634)	1,223
<i>Including: Equity share in profits of associates and joint ventures</i>	–	1	–	–	1
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	373	1,194	30	(634)	963
Depreciation, depletion and amortization	98	20	2	–	120
Total costs and expenses	471	1,214	32	(634)	1,083
Operating income	131	23	(14)	–	140
Finance income	–	–	17	–	17
Finance expenses	–	–	(45)	–	(45)
Total finance expenses	–	–	(28)	–	(28)
Other income	–	–	5	–	5
Other expenses	–	–	(16)	–	(16)
Foreign exchange differences	–	–	(14)	–	(14)
Cash flow hedges reclassified to profit or loss	–	–	(37)	–	(37)
Income before income tax	131	23	(104)	–	50
Income tax expense	(27)	(5)	12	–	(20)
Net income	104	18	(92)	–	30

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 September 30, 2015 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	588	1,306	24	(622)	1,296
<i>Including: Equity share in profits of associates and joint ventures</i>	(1)	3	(1)	–	1
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	380	1,227	37	(622)	1,022
Depreciation, depletion and amortization	97	22	2	–	121
Total costs and expenses	477	1,249	39	(622)	1,143
Operating income	111	57	(15)	–	153
Finance income	–	–	12	–	12
Finance expenses	–	–	(60)	–	(60)
Total finance expenses	–	–	(48)	–	(48)
Other income	–	–	–	–	–
Other expenses	–	–	(16)	–	(16)
Foreign exchange differences	–	–	83	–	83
Cash flow hedges reclassified to profit or loss	–	–	(30)	–	(30)
Income before income tax	111	57	(26)	–	142
Income tax expense	(22)	(11)	4	–	(29)
Net income	89	46	(22)	–	113

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 nine months ended September 30, 2016 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	1,795	3,520	60	(1,872)	3,503
<i>Including: Equity share in profits of associates and joint ventures</i>	10	5	1	–	16
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,042	3,421	94	(1,872)	2,685
Depreciation, depletion and amortization	284	60	5	–	349
Total costs and expenses	1,326	3,481	99	(1,872)	3,034
Operating income	469	39	(39)	–	469
Finance income	–	–	58	–	58
Finance expenses	–	–	(141)	–	(141)
Total finance expenses	–	–	(83)	–	(83)
Other income	–	–	7	–	7
Other expenses	–	–	(38)	–	(38)
Foreign exchange differences	–	–	(55)	–	(55)
Cash flow hedges reclassified to profit or loss	–	–	(111)	–	(111)
Income before income tax	469	39	(319)	–	189
Income tax expense	(94)	(8)	48	–	(54)
Net income	375	31	(271)	–	135

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 nine months ended September 30, 2015 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	1,933	3,951	71	(2,001)	3,954
<i>Including: Equity share in profits of associates and joint ventures</i>	2	5	1	–	8
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,188	3,747	112	(2,001)	3,046
Depreciation, depletion and amortization	295	64	6	–	365
Total costs and expenses	1,483	3,811	118	(2,001)	3,411
Operating income	450	140	(47)	–	543
Finance income	–	–	39	–	39
Finance expenses	–	–	(201)	–	(201)
Total finance expenses	–	–	(162)	–	(162)
Other income	–	–	37	–	37
Other expenses	–	–	(44)	–	(44)
Foreign exchange differences	–	–	95	–	95
Cash flow hedges reclassified to profit or loss	–	–	(88)	–	(88)
Income before income tax	450	140	(209)	–	381
Income tax expense	(90)	(28)	40	–	(78)
Net income	360	112	(169)	–	303

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

	Three months ended September 30, 2016 (unaudited)	Three months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
International sales of crude oil, petroleum products, petrochemicals and LNG	835	907	2,395	2,859
International sales of crude oil and petroleum products – CIS, other than Russia	42	50	133	150
Domestic sales of crude oil, petroleum products and petrochemicals	281	277	749	748
Sales of gas	46	43	154	134
Total oil, gas, petroleum products, petrochemicals sales and LNG	1,204	1,277	3,431	3,891

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 September 30, 2016 (unaudited)	Three months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Current income tax expense	1	65	–	112
Deferred income tax (benefit)/expense due to the origination and reversal of temporary differences	19	(36)	54	(34)
Total income tax expense	20	29	54	78

In 2014 certain amendments were introduced in Russian tax legislation in respect of the profit of controlled foreign companies and income of foreign entities. According to these changes undistributed profit of 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, undistributed 2016 profits of controlled foreign companies should increase the tax base of the controlling entities in 2017. The consequences of taxation of subsidiaries' profits, including the taxation of controlled foreign companies, are accounted for within deferred tax liabilities and current income tax.

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

	Three months ended September 30, 2016 (unaudited)	Three months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Mineral extraction tax	262	276	694	867
Excise tax	52	27	136	78
Property tax	8	7	25	23
Social charges	12	12	37	36
Other	2	–	4	5
Total taxes other than income tax	336	322	896	1,009

7. Export customs duty

Export customs duty comprises the following:

	Three months ended September 30, 2016 (unaudited)	Three months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Export customs duty on oil sales	140	192	349	538
Export customs duty on petroleum products and petrochemicals sales	44	65	109	200
Total export customs duty	184	257	458	738

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

8. Finance expenses

Finance expenses comprise the following:

	Three months ended September 30, 2016 (unaudited)	Three months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Interest expenses on:				
Loans and borrowings	(19)	(22)	(60)	(72)
Prepayment on long-term oil and petroleum products supply agreements (Note 21)	(22)	(14)	(67)	(36)
Other interest expenses	(1)	(1)	(3)	(2)
Total interest expenses	(42)	(37)	(130)	(110)
Net loss from operations with derivative financial instruments	–	(19)	–	(81)
Increase in provision due to the unwinding of discount	(3)	(3)	(11)	(9)
Other finance expenses	–	(1)	–	(1)
Total finance expenses	(45)	(60)	(141)	(201)

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization are 3.45% and 6.19% for the nine months ended September 30, 2016 and 2015, respectively.

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended September 30, 2016 (unaudited)	Three months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Liability write-off (Note 27)	2	–	2	37
Other	3	–	5	–
Total other income	5	–	7	37
Sale and disposal of property, plant and equipment and intangible assets	(4)	(6)	(11)	(14)
Disposal of companies and non-production assets	(2)	(2)	(3)	(6)
Impairment of assets	–	–	–	(1)
Social payments, charity, financial aid	(6)	(3)	(13)	(9)
Other	(4)	(5)	(11)	(14)
Total other expenses	(16)	(16)	(38)	(44)

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	September 30, 2016	December 31, 2015
	(unaudited)	
Cash on hand and in bank accounts in RUB	29	39
Cash on hand and in bank accounts in foreign currencies	535	393
Deposits	221	124
Others	2	3
Total cash and cash equivalents	787	559

Cash accounts nominated in foreign currencies primarily represent cash in US\$.

Deposits are interest bearing and include deposits nominated in RUB of RUB 161 billion as of September 30, 2016.

Restricted cash primarily represents the obligatory reserve of subsidiary banks with the CBR of RUB 1 billion and RUB 2 billion as of September 30, 2016 and December 31, 2015, respectively.

11. Other short-term financial assets

Other short-term financial assets comprise the following:

	September 30, 2016	December 31, 2015
	(unaudited)	
Financial assets available-for-sale		
Bonds and promissory notes	108	46
Stocks and shares	177	129
Financial assets held-to-maturity		
Bonds	2	1
Loans and receivables		
Loans granted	4	3
Loans issued to associates	1	2
Notes receivable	59	83
Loans granted under reverse repurchase agreements	2	–
Deposits and certificates of deposit	59	714
Held-for-trading financial assets at fair value through profit or loss		
Corporate bonds	2	5
State bonds	2	3
Total other short-term financial assets	416	986

As of September 30, 2016 bank deposits and certificates of deposits nominated in US\$ amount to RUB 53 billion and earn interest rates ranging from 0.98% to 3.9% p.a. Deposits and certificates of deposit denominated in RUB amount to RUB 6 billion and earn interest rates ranging from 9.15% to 14.0% p.a.

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

12. Accounts receivable

Accounts receivable include the following:

	September 30, 2016 (unaudited)	December 31, 2015
Trade receivables	344	318
Banking loans to customers	29	33
Other accounts receivable	27	37
Total accounts receivable	400	388
Allowance for doubtful accounts	(20)	(21)
Total accounts receivable, net of allowance	380	367

No accounts receivable were pledged as collateral for loans and borrowings provided to the Company as of September 30, 2016 and December 31, 2015.

13. Inventories

Inventories comprise the following:

	September 30, 2016 (unaudited)	December 31, 2015
Crude oil and gas	70	62
Petroleum products and petrochemicals	94	99
Materials and supplies	62	58
Total inventories	226	219

Petroleum products and petrochemicals include those designated both for sale and for own use.

	Three months ended September 30, 2016 (unaudited)	Three months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Cost of inventories recognized as an expense during the period	171	168	512	503

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:

	September 30, 2016 (unaudited)	December 31, 2015
Value added tax and excise receivable	146	144
Prepayments to suppliers	35	58
Settlements with customs	20	31
Profit and other tax payments	57	29
Other	8	9
Total prepayments and other current assets	266	271

Rosneft Oil Company

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
Cost as of January 1, 2016 (restated)	6,382	1,515	120	8,017
Depreciation, depletion and impairment losses as of January 1, 2016	(1,845)	(288)	(35)	(2,168)
Net book value as of January 1, 2016 (restated)	4,537	1,227	85	5,849
Prepayments for property, plant and equipment as of January 1, 2016	9	27	6	42
Total as of January 1, 2016 (restated)	4,546	1,254	91	5,891
Cost				
Acquisition of subsidiaries	–	–	3	3
Additions	471	62	24	557
Disposals and other movements	(19)	(13)	(12)	(44)
Foreign exchange differences	(56)	(5)	(5)	(66)
Cost of asset retirement (decommissioning) obligations	(1)	–	–	(1)
As of September 30, 2016	6,777	1,559	130	8,466
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(290)	(58)	(6)	(354)
Disposals and other movements	5	4	6	15
Foreign exchange differences	43	1	1	45
As of September 30, 2016	(2,087)	(341)	(34)	(2,462)
Net book value as of September 30, 2016	4,690	1,218	96	6,004
Prepayments for property, plant and equipment as of September 30, 2016	15	14	3	32
Total as of September 30, 2016	4,705	1,232	99	6,036

Depreciation charge for the nine months ended September 30, 2016 includes RUB 10 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 44 billion (including RUB 44 billion of capitalized interest expense) and RUB 69 billion (including RUB 35 billion of capitalized interest expense) of interest expenses on loans and borrowings for the nine months ended September 30, 2016 and 2015, respectively.

16. Other non-current non-financial assets

In May 2016 the Company made an advance payment of US\$ 500 million (RUB 32 billion at the CBR official exchange rate at the date of the transaction) to PDVSA under the crude oil purchase agreement.

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

17. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2016 (unaudited)	December 31, 2015
Financial liabilities		
Accounts payable to suppliers and contractors	260	263
Dividends payable	–	1
Salary and other benefits payable	59	63
Banking customer accounts	35	69
Other accounts payable	25	26
Total financial liabilities	379	422
Non-financial liabilities		
Short-term advances received	26	54
Total accounts payable and accrued liabilities	405	476

Current accounts payable for the nine months ended September 30, 2016 were settled within 41 days on average (nine months ended September 30, 2015: 41 days). Interest rates on banking customer accounts amount to 0.0%-2.0% p.a. Trade and other payables are non-interest bearing.

18. Loans and borrowings and other financial liabilities

Loans and borrowings and other financial liabilities comprise the following:

	Currency	September 30, 2016 (unaudited)	December 31, 2015
Long-term			
Bank loans	RUB	154	41
Bank loans	US\$, euro	1,233	1,741
Bonds	RUB	138	138
Eurobonds	US\$	347	483
Customer deposits	RUB	6	6
Customer deposits	US\$, euro	5	2
Borrowings	RUB	12	5
Promissory notes payable	US\$	–	3
Other borrowings	US\$	627	383
Other borrowings	RUB	15	15
<i>Less: current portion of long-term loans and borrowings</i>		<i>(584)</i>	<i>(561)</i>
Total long-term loans and borrowings		1,953	2,256
Finance lease liabilities		30	31
<i>Less: current portion of long-term finance lease liabilities</i>		<i>(3)</i>	<i>(4)</i>
Total loans and borrowings and other financial liabilities		1,980	2,283
Short-term			
Bank loans	RUB	9	100
Bank loans	US\$, euro	22	–
Customer deposits	RUB	22	30
Customer deposits	US\$, euro	5	19
Other borrowings	US\$	123	222
Other borrowings	RUB	61	–
<i>Current portion of long-term loans and borrowings</i>		<i>584</i>	<i>561</i>
Total short-term loans and borrowings and current portion of long-term loans and borrowings		826	932
<i>Current portion of long-term finance lease liabilities</i>		<i>3</i>	<i>4</i>
Other short-term financial liabilities		14	–
Short-term liabilities related to derivative financial instruments		104	104
Total short-term loans and borrowings and other financial liabilities		947	1,040
Total loans and borrowings and other financial liabilities		2,927	3,323

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

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

Long-term loans and borrowings

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 normally provide the lender with the express right of claim for contractual revenue in the amount of the missed loan repayments, which the purchaser generally remits directly through transit currency accounts in lender banks. The outstanding balance of Accounts receivable arising from such contracts amounts to RUB 25 billion and RUB 27 billion as of September 30, 2016 and December 31, 2015, respectively, and is included in Trade receivables of purchasers and customers.

In March 2013, the Company drew down four long-term unsecured loans from a group of international banks for a total of US\$ 31 billion to finance the acquisition of TNK-BP. Two of these four loans were fully repaid in previous years. As of September 30, 2016 the total debt and accrued interest under those loans raised under floating rates and due to mature in December 2017 and February 2018, respectively, amounted to US\$ 2.88 billion (RUB 182 billion at the CBR official exchange rate as of September 30, 2016).

In the first quarter of 2016, the Company drew down funds under a long-term floating rates unsecured loans from a Russian bank for a total amount of RUB 100 billion repayable in the first quarter of 2021.

In the second quarter of 2016, the Company drew down funds under a long-term fixed rate loan from a Russian bank for an amount of RUB 13 billion repayable in the second quarter of 2021.

In the second quarter of 2016, the Company fully repaid a long-term floating rate loan from a group of international banks for an amount of RUB 32 billion (at the CBR official exchange rate on the transaction date).

In the third quarter of 2016, the Company fully repaid Eurobonds (Series 2) in the nominal amount of US\$ 1.0 billion (RUB 63.2 billion at the CBR official exchange rate at the transaction date) assumed through the TNK-BP acquisition.

As of September 30, 2016, the Company met its obligations in relation to other long-term floating rate borrowings under repurchase agreements, and entered into new agreements due to mature in 2017 and the first quarter of 2018. As of September 30, 2016 the liabilities of the Company under those transactions amounted to the equivalent of RUB 627 billion (at the CBR official exchange rate as of September 30, 2016). Own corporate bonds were used as an instrument for those transactions.

Short-term loans and borrowings

In the first quarter of 2016, the Company fully repaid short-term floating rate loans attracted from a Russian bank in the total amount of RUB 100 billion.

In the second quarter of 2016, the Company drew down funds under a short-term floating rate loan from a Russian bank for an amount of RUB 9 billion.

As of September 30, 2016, the Company fully met its obligations in relation to other short-term floating rate borrowings under repurchase agreements, raised in 2015 and entered into new long-term and short-term agreements. Own corporate bonds and Russian Government Sovereign Eurobonds were used as an instrument for those transactions.

As of September 30, 2016 and December 31, 2015 the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

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

Liabilities related to derivative financial instruments

Derivative financial instruments comprise the following:

	Issue date	Expiry date	Nominal amount as of September 30, 2016 (unaudited)		Interest rate type	Fair value of the liabilities	
						September 30, 2016 (unaudited)	December 31, 2015
			US\$ million	RUB billion*			
Swaps	2012	2017	641	41	floating	20	21
Swaps	2013	2018	2,138	135	floating	59	59
Swaps	2014	2019	1,010	64	floating	25	24
Total			3,789	240		104	104

* the equivalent nominal amount at the CBR official exchange rate as of September 30, 2016.

19. Other current tax liabilities

Other short-term tax liabilities comprise the following:

	September 30, 2016 (unaudited)	December 31, 2015
Mineral extraction tax	86	63
VAT	61	49
Excise duties	17	15
Personal income tax	2	1
Property tax	8	8
Other	2	2
Total other tax liabilities	176	138

20. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2016, including	123	35	13	171
<i>Non-current</i>	119	23	1	143
<i>Current</i>	4	12	12	28
Provisions charged during the year	2	2	3	7
Increase/(decrease) in the liability resulting from:				
Changes in estimates	–	–	(2)	(2)
Change in the discount rate	(3)	–	–	(3)
Foreign exchange differences	(4)	–	–	(4)
Unwinding of discount	9	2	–	11
Utilized	(1)	(5)	(3)	(9)
As of September 30, 2016 (unaudited), including	126	34	11	171
<i>Non-current</i>	123	25	1	149
<i>Current</i>	3	9	10	22

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

21. 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. The crude oil and petroleum product prices are calculated based on the current market prices. The prepayment is settled through the physical deliveries of crude oil and petroleum products.

The prepayments started to be reimbursed in 2015. The Company considers these contracts to be regular 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.

	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
As of January 1	1,905	967
Received	–	1,027
Reimbursed	(80)	(64)
Total prepayment on long-term agreements as of September 30	1,825	1,930
Less current portion	(220)	(105)
Long-term prepayment as of September 30	1,605	1,825

The off-set of prepayments, made during the nine months of 2016 and 2015 amounted to RUB 80 billion and RUB 64 billion (US\$ 2.6 billion and US\$ 2.1 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date), respectively.

22. Shareholders' equity

On June 15, 2016 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2015 in the amount of RUB 125 billion or RUB 11.75 per share.

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

23. Non-controlling interest

On May 31, 2016 the Company sold a 15% shares in Vankorneft JSC, a subsidiary, to Oil and Natural Gas Corporation Videsh Limited for a consideration of RUB 72 billion rubles.

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

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

A portion of future monthly export revenues expected to be received in US\$ over the period from January 2015 through December 2020 was designated as a hedged item. The nominal amounts of the hedged item and the hedging instruments were 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.

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

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

The Company's foreign currency risk management strategy is to hedge future export revenue in the amount of the net monetary position in US\$. The Company aligns the hedged nominal amount to the net monetary position in US\$ on a periodical basis.

Changes in the nominal hedging amount during the nine months ended September 30, 2016:

	US\$ million	The equivalent amount at the CBR exchange rate as of September 30, 2016, RUB billion
Nominal amount as of December 31, 2015	3,918	247
Hedging instruments designated	5,200	328
Realized cash flow foreign exchange hedges	(100)	(6)
Hedging instruments de-designated	(3,918)	(247)
Nominal amount as of September 30, 2016	5,100	322

The impact of foreign exchange cash flow hedges recognized in other comprehensive income is set out below:

	For the three months ended September 30, 2016 (unaudited)			For the nine months ended September 30, 2016 (unaudited)		
	Before			Before		
	income tax	Income tax	Net of tax	income tax	Income tax	Net of tax
Total recognized in other funds and reserves as of the beginning of the period	(516)	103	(413)	(590)	118	(472)
Cash flow hedges recognized during the period	9	(2)	7	9	(2)	7
Cash flow hedges reclassified to profit or loss	37	(7)	30	111	(22)	89
Total recognized in other comprehensive income/(loss) for the period (unaudited)	46	(9)	37	120	(24)	96
Total recognized in other funds and reserves as of September 30, 2016 (unaudited)	(470)	94	(376)	(470)	94	(376)

The expected reclassification of the accumulated foreign exchange loss from other comprehensive income to profit or loss, as of September 30, 2016, is presented below:

Year	2016	2017	2018	2019	2020	Total
Reclassification	(37)	(145)	(145)	(145)	2	(470)
Income tax	7.4	29	29	29	(0.4)	94
Total, net of tax	(29.6)	(116)	(116)	(116)	(1.6)	(376)

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

25. 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 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.

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 September 30, 2016 (unaudited)			
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Held-for-trading	2	2	–	4
Available-for-sale	69	216	–	285
Non-current assets				
Available-for-sale	–	21	–	21
Total assets measured at fair value	71	239	–	310
Liabilities				
Derivative financial instruments	–	(104)	–	(104)
Total liabilities measured at fair value	–	(104)	–	(104)

	Fair value measurement as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Held-for-trading	4	4	–	8
Available-for-sale	2	173	–	175
Non-current assets				
Available-for-sale	–	26	–	26
Total assets measured at fair value	6	203	–	209
Liabilities				
Derivative financial instruments	–	(104)	–	(104)
Total liabilities measured at fair value	–	(104)	–	(104)

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)

25. Fair value of financial instruments (continued)

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

	Carrying value		Fair value (Level 2)	
	September 30, 2016 (unaudited)	December 31, 2015	September 30, 2016 (unaudited)	December 31, 2015
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(2,089)	(2,441)	(1,843)	(2,137)
Loans and borrowings with a fixed interest rate	(690)	(748)	(694)	(777)

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

26. 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. During the nine months ended September 30, 2016 and 2015 the Company entered into transactions with shareholders (including enterprises directly or indirectly controlled by the Russian Government and the BP Group), associates and joint ventures, 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.

The disclosure of related party transactions is presented on an aggregate basis for shareholders and companies controlled by shareholders, associates, joint ventures and non-state pension funds. In addition, there may be additional disclosures 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 Antimonopoly 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 prices close to average market prices.

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

26. Related party transactions (continued)

Transactions with shareholders and companies controlled by shareholders

Revenues and income

	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	456	227
Support services and other revenues	3	1
Finance income	11	7
	470	235

Costs and expenses

	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Production and operating expenses	5	3
Cost of purchased oil, gas, petroleum products and refining costs	124	42
Pipeline tariffs and transportation costs	326	333
Other expenses	10	7
Finance expenses	2	42
	467	427

Other operations

	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Loans received	9	25
Loans repaid	(2)	(3)
Loans and borrowings issued	7	–
Deposits placed	(13)	(22)
Deposits repaid	450	–

Settlement balances

	September 30, 2016 (unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	367	316
Accounts receivable	54	62
Prepayments and other current assets	34	36
Other financial assets	105	480
Assets held for sale	24	26
	584	920
Liabilities		
Accounts payable and accrued liabilities	20	42
Loans and borrowings and other financial liabilities	199	190
Liabilities associated with assets held for sale	38	44
	257	276

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

26. Related party transactions (continued)

Transactions with joint ventures

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

Revenues and income

	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	15	7
Support services and other revenues	4	2
Finance income	18	12
	37	21

Costs and expenses

	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Production and operating expenses	3	2
Cost of purchased oil, gas, petroleum products and refining costs	152	122
Pipeline tariffs and transportation costs	8	4
Other expenses	4	2
	167	130

Other operations

	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Loans received	3	–
Loans repaid	(8)	(5)
Loans and borrowing issued	(23)	(15)
Repayment of loans and borrowings issued	7	–

Settlement balances

	September 30, 2016 (unaudited)	December 31, 2015
Assets		
Accounts receivable	6	19
Prepayments and other current assets	1	1
Other financial assets	321	320
	328	340
Liabilities		
Accounts payable and accrued liabilities	21	25
Loans and borrowings and other financial liabilities	3	2
	24	27

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

26. Related party transactions (continued)

Transactions with associates

Revenues and income

	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	45	8
Support services and other revenues	2	–
Finance income	1	2
	48	10

Costs and expenses

	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Production and operating expenses	3	1
Cost of purchased oil, gas, petroleum products and refining costs	7	5
Other expenses	5	1
	15	7

Settlement balances

	September 30, 2016 (unaudited)	December 31, 2015
Assets		
Accounts receivable	6	2
Other financial assets	14	14
	20	16
Liabilities		
Accounts payable and accrued liabilities	17	1
	17	1

Transactions with non-state pension funds

Costs and expenses

	Nine months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2015 (unaudited)
Other expenses	3	4

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

26. Related party transactions (continued)

Transactions with non-state pension funds (continued)

Settlement balances

	September 30, 2016	December 31, 2015
	(unaudited)	
Liabilities		
Accounts payable and accrued liabilities	<u>1</u>	<u>1</u>
	<u>1</u>	<u>1</u>

27. 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.

In 2016, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian rouble, as well as sanctions imposed on Russia by several countries in 2014. The Rouble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, 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.

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 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, 2015 and the beginning of 2016 economic and political instability in Ukraine increased. 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 September 30, 2016. 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

Since 2006, the Company was involved in legal proceedings arising from claims brought by Yukos Capital S.a.r.l. seeking to collect a debt of RUB 12.9 billion allegedly due pursuant to arbitral awards rendered under four loan agreements from OJSC Yuganskneftegaz (Rosneft's legal predecessor); by Glendale Group Ltd. seeking to collect ca. RUB 3.53 billion in principal, interest, default interest and expenses allegedly due under 8 promissory notes issued by OJSC Yuganskneftegaz; and by Yukos International (UK) B.V. in relation to losses of up to US\$ 333 million plus interest allegedly inflicted by a freezing order issued by Amsterdam court in 2008. The aforementioned disputes were disclosed in detail in the Company's previous quarterly reports.

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

27. Contingencies (continued)

Legal claims (continued)

In March 2015, PJSC Rosneft Oil Company and a group of its subsidiaries entered into a Settlement Agreement with, *inter alia*, Yukos Capital S.a.r.l., Yukos International (UK) B.V., and Financial Performance Holdings B.V. (the legal successor of Glendale Group Ltd.) that terminated the aforementioned disputes. Pursuant to the terms and conditions of the Agreement, PJSC Rosneft Oil Company and the aforementioned companies withdrew all mutual claims and dismissed the legal proceedings. The Agreement does not envisage any cash or other payments from PJSC Rosneft Oil Company or its subsidiaries.

On December 31, 2015, First National Petroleum Corporation (“FNPC”) initiated arbitration proceedings under the Rules of the Arbitration Institute of the Stockholm Chamber of Commerce against OJSC Tyumenneftegaz (“TNG”), a subsidiary of the Company, seeking compensation of losses in the amount more than US\$ 260 million (RUB 16.4 billion at the CBR official exchange rate on September 30, 2016) plus interest and arbitration costs for alleged breach of the agreement between FNPC and TNG to incorporate a joint venture “Tumtex” on the territory of the Russian Federation. The hearings are scheduled for March-April 2017.

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 JSC RN Holding, TNK-BP Limited and certain other defendants for recovery of damages in the amount of US\$ 1.5 billion (RUB 94.7 billion at the CBR official exchange rate on September 30, 2016) and compensation for moral damages caused by the allegedly illegal takeover of the shares of CJSC Corporation Yugraneft owned by Norex by the said entities. The lawsuit was accepted by the Supreme Court of the State of New York (the court of first instance). 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 with the New York Court of Appeals.

On June 27, 2014 the New York Court of Appeals issued a decision, satisfying Norex’s complaint and sent the case for retrial. On August 25, 2015 the Supreme Court of the State of New York dismissed Norex’s lawsuit. On September 29, 2015 Norex filed request to appeal to the Appeals Board of the Supreme Court of the State of New York. On June 29, 2016 (the last day of the period allowed for appeal) Norex filed grounds of appeal which did not contain any objections against the dismissal of the lawsuit in relation to OJSC Tyumen Oil Company (JSC RN Holding) and TNK-BP Limited or reasons on which the dismissal was grounded. The proceedings under the lawsuit in relation to the said companies of the Company are dismissed.

In October-November 2014 former shareholders of JSC RN Holding filed a lawsuit against the Company claiming recovery of damages caused by improper (in the plaintiffs’ view) assessment of the shares’ value in course of their repurchase in accordance with the Federal Law *On Open Joint Stock Companies*. The claims were dismissed by Decision of the Arbitrazh Court of the Tumen Region dated November 25, 2015 which was upheld by decision of the appeal instance court dated September 9, 2016. Further appeal claims are anticipated to be filed by the former shareholders with the cassation instance of the court.

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.

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

27. Contingencies (continued)

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.

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 period of three calendar years preceding the year, when the inspection started.

In accordance with Russian tax legislation, if a misstatement of a tax liability revealed as a result of the inspection, penalties and fines to be paid might be material in reference to the tax liability misstatement.

Effective January 1, 2012, the rules for defining market prices for 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 to the consolidated financial statements by related party transactions, the Company has 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.

As part of the new regime for fiscal control over the pricing of related party transactions in 2012-2016 the Company and the Federal Tax Service have signed a pricing agreement with respect to the taxation of oil sales transactions in Russia.

To date the Russian Federal Tax Service did not exercise its right to conduct tax audits by the rules of transfer pricing for 2012-2013 and these periods are closed to the tax control measures. For subsequent periods the Company has provided sufficient explanations to the Russian Federal Tax Service and the regional tax authorities to the extent necessary for the completed transactions. The Company believes that the risks concerning the related party transactions in 2016 and earlier will not have a material effect on its financial position or results of operations.

In line with the consolidated income tax taxpayer institute enacted in 2012 the Company created a consolidated group of taxpayers which included Rosneft and its 21 subsidiaries from January 1, 2012. Rosneft became the responsible taxpayer of the group. Since January 1, 2016, under the terms of the agreement the number of members of the consolidated group of taxpayers has been 63 (51 in 2015).

In 2014, amendments to tax legislation were adopted aimed at fiscal stimulation of the Russian economy via deoffshorization, and they took effect on January 1, 2015. In particular, these amendments covered the terms of beneficial ownership, fiscal residence of legal entities, and income tax rules for controlled foreign companies. The Company management accounted for these amendments in the current and deferred income tax estimates (Note 6).

During the reporting period, the tax authorities continued their inspections of Rosneft and some of its subsidiaries for the fiscal years 2012-2015. Rosneft and these subsidiaries are disputing a number of claims by the Federal Tax Service in pre-court and court appeals.

The Company management does not expect the results of the inspections to have a material impact on the Company's consolidated balance sheet or results of operations.

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

27. Contingencies (continued)

Taxation (continued)

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 has 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 566 billion and RUB 421 billion as of September 30, 2016 and December 31, 2015, 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 the regulation of civil litigation or as a result 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.

28. Events after the reporting period

On October 5, 2016 the Company sold a 23.9% share in JSC "Vankorneft", its subsidiary, to a consortium of Indian companies, including Indian Oil Corporation и Bharat Petroresources (the "Consortium") for the base consideration of US\$ 2,021 million (RUB 126 billion at the CBR official exchange rate at the transaction closing date).

On October 28, 2016 the Company sold further 11% share in JSC Vankorneft to Oil and Natural Gas Corporation Videsh Limited for the base consideration of US\$ 930 million (RUB 59 billion at the CBR official exchange rate at the transaction closing date). As a result of these transactions, the Company's share in JSC "Vankorneft" amounts to 50.1%.

Further, on October 5, 2016 the Company sold a 29.9% share in LLC "Taas-Yuryakh Neftegazodovycha", its subsidiary, to the Consortium for a preliminary consideration of US\$ 1,173 million (RUB 73 billion at the CBR official exchange rate at the transaction closing date). As a result of this transaction, the Company's share in LLC "Taas-Yuryakh Neftegazodovycha" amounts to 50.1%.

On October 15, 2016 the Company acquired a 49% share in Essar Oil Limited ("EOL") from Essar Energy Holdings Limited and its affiliates. As a result of this transaction, the Company acquired share in the refinery and the related infrastructure located in Vadinar, India. EOL's business also includes a network of Essar branded retail outlets across India.

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

28. Events after the reporting period (continued)

The acquisition price of the 49% share will be determined based on the price of the 100% share of US\$ 12.9 billion (RUB 815 billion at the CBR official exchange rate at September 30, 2016) adjusted for the actual net debt and net working capital valuations at the transaction close date. At the date of these interim condensed consolidated financial statements, the parties have not received all necessary regulatory approvals.

In November 2016, the Company and Beijing Gas Group signed a legally binding share sale agreement relating to 20% shares in PJSC Verkhnechonskneftegaz. As of the date of these interim condensed consolidated financial statements the parties have not yet received all necessary regulatory approvals to complete the transaction.

Acquisition of PJSC Bashneft Oil Company

On October 12, 2016, the Company completed the acquisition of government's stake in PJSC Bashneft Oil Company, representing 50.0755% of its charter capital. Consideration transferred totaled RUB 329.69 billion. As a result of the transaction, the Company obtained control over PJSC Bashneft Oil Company and its subsidiaries ("Bashneft"). The Company accounted for the acquisition of Bashneft as a business combination from that date.

Bashneft is a vertically integrated group of companies, producing and refining crude oil in Russia, selling oil and petroleum products on domestic and international markets. Main upstream and downstream assets of Bashneft comprise oil and gas fields, oil refineries as well as retail network.

As a result of acquisition the Company expects to expand to the new crude oil and petroleum product production and supply areas, increase in liquid hydrocarbon production and refining throughput as well as significant synergies arising from optimization of oil supplies, transport and logistics costs, drilling cost reduction and joint use of production assets' infrastructure, and modern technologies.

Significant subsidiaries of Bashneft are listed below:

Name	Country of incorporation	Core activity	Preferred and common shares	Voting shares
Exploration and production			%	%
LLC Bashneft-Dobycha	Russia	Crude oil and gas production	100	100
LLC Sorovskneft	Russia	Crude oil exploration and development	100	100
LLC Bashneft-Polus	Russia	Crude oil exploration and development	74.9	74.9
Refining, marketing and distribution				
LLC Bashneft-Roznytsa	Russia	Sale of petroleum products	100	100
PJSC Ufaorgsintez	Russia	Petrochemical production	95.06	100

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

28. Events after the reporting period (continued)

Acquisition of PJSC Bashneft Oil Company (continued)

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

Assets	
Current assets	
Cash and cash equivalents	24
Accounts receivable	20
Inventories	25
Prepayments and other current assets	24
Other financial assets	5
Total current assets	98
Non-current assets	
Property, plant and equipment	804
Intangible assets	3
Other financial assets	14
Total non-current assets	821
Total assets	919
Liabilities	
Accounts payable and accrued liabilities	48
Loans and borrowings	109
Prepayment on long-term oil and petroleum products supply agreements	58
Deferred tax liabilities	110
Tax liabilities	20
Other liabilities	33
Total liabilities	378
Total identifiable net assets at fair value	541
Non-controlling interests	(211)
Total consideration transferred	330
Bashneft' acquisition cash flow:	
Net cash acquired	24
Cash paid	(330)
Net cash outflow	(306)

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited) (continued)

28. Events after the reporting period (continued)

Acquisition of PJSC Bashneft Oil Company (continued)

The book value of the accounts receivable approximates its fair value as of the date of acquisition. There are no accounts receivable that are not expected to be collected.

The amount of the non-controlling interest in the acquiree recognized at the acquisition date was measured at the market prices for ordinary and preferred shares and amounted to RUB 211 billion.

Had the Bashneft acquisition taken place at the beginning of the reporting period (January 1, 2016), revenues and net income of the combined entity would have been RUB 3,880 billion and RUB 168 billion, respectively, for the nine month period ended September 30, 2016.

As of September 30, 2016 and the date of authorization of these financial statements for issue the Company had not yet completed the fair value estimation of Bashneft's assets acquired and liabilities assumed. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months from the acquisition date.

Contact information

Rosneft Oil Company

Legal address:

Russian Federation, 115035, Moscow, Sofiyskaya Embankment, 26/1

Mailing address:

Russian Federation, 117997, Moscow, Sofiyskaya Embankment, 26/1

Phone:

+7 (499) 517-88-99

Fax:

+7 (499) 517-72-35

E-mail:

postman@rosneft.ru

Corporate website:

www.rosneft.ru (Russian)
www.rosneft.com (English)