



## **Rosneft Oil Company**

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

*Three months ended March 31, 2016*

Rosneft Oil Company  
Interim Condensed Consolidated Financial Statements (unaudited)  
Three months ended March 31, 2016

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## Report on review of interim condensed consolidated financial statements

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

### *Introduction*

We have reviewed the accompanying interim condensed consolidated financial statements of Open Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), comprising the interim consolidated balance sheet as at March 31, 2016, the related interim consolidated statements of profit or loss, other comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### *Scope of review*

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

### *Conclusion*

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

*Ernst & Young LLC*

June 8, 2016

Moscow, Russia

Rosneft Oil Company  
Interim consolidated balance sheet  
(in billions of Russian rubles)

	Notes	March 31, 2016 (unaudited)	December 31, 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	882	559
Restricted cash	10	1	2
Other short-term financial assets	11	637	986
Accounts receivable	12	326	367
Inventories	13	210	219
Prepayments and other current assets	14	242	271
<b>Total current assets</b>		<b>2,298</b>	<b>2,404</b>
<b>Non-current assets</b>			
Property, plant and equipment	15	5,940	5,895
Intangible assets		46	48
Other long-term financial assets		493	510
Investments in associates and joint ventures		350	353
Bank loans granted		13	18
Deferred tax assets		25	25
Goodwill		227	227
Other non-current non-financial assets	16	42	8
<b>Total non-current assets</b>		<b>7,136</b>	<b>7,084</b>
<b>Assets held for sale</b>		<b>146</b>	<b>150</b>
<b>Total assets</b>		<b>9,580</b>	<b>9,638</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	17	443	476
Loans and borrowings and other financial liabilities	18	986	1,040
Income tax liabilities		-	8
Other tax liabilities	19	147	138
Provisions	20	26	28
Prepayment on long-term oil and petroleum products supply agreements	21	155	120
Other current liabilities		6	7
<b>Total current liabilities</b>		<b>1,763</b>	<b>1,817</b>
<b>Non-current liabilities</b>			
Loans and borrowings and other financial liabilities	18	2,222	2,283
Deferred tax liabilities		582	579
Provisions	20	145	143
Prepayment on long-term oil and petroleum products supply agreements	21	1,725	1,785
Other non-current liabilities		30	39
<b>Total non-current liabilities</b>		<b>4,704</b>	<b>4,829</b>
<b>Liabilities associated with assets held for sale</b>		<b>61</b>	<b>63</b>
<b>Equity</b>			
Share capital		1	1
Additional paid-in capital		507	507
Other funds and reserves		(660)	(768)
Retained earnings		3,160	3,146
<b>Rosneft shareholders' equity</b>		<b>3,008</b>	<b>2,886</b>
Non-controlling interest		44	43
<b>Total equity</b>		<b>3,052</b>	<b>2,929</b>
<b>Total liabilities and equity</b>		<b>9,580</b>	<b>9,638</b>

President  I.I. Sechin

June 8, 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)

	Notes	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
<b>Revenues and equity share in profits of associates and joint ventures</b>			
Oil, gas, petroleum products and petrochemicals sales	5	1,026	1,300
Support services and other revenues		19	19
Equity share in profits of associates and joint ventures		3	2
<b>Total revenues and equity share in profits of associates and joint ventures</b>		<b>1,048</b>	<b>1,321</b>
<b>Costs and expenses</b>			
Production and operating expenses		137	126
Cost of purchased oil, gas, petroleum products and refining costs		130	123
General and administrative expenses		30	27
Pipeline tariffs and transportation costs		147	144
Exploration expenses		3	2
Depreciation, depletion and amortization		116	121
Taxes other than income tax	6	231	338
Export customs duty	7	132	263
<b>Total costs and expenses</b>		<b>926</b>	<b>1,144</b>
<b>Operating income</b>		<b>122</b>	<b>177</b>
Finance income		18	15
Finance expenses	8	(52)	(103)
Other income	9	–	9
Other expenses	9	(9)	(11)
Foreign exchange differences		(25)	17
Cash flow hedges reclassified to profit or loss		(37)	(33)
<b>Income before income tax</b>		<b>17</b>	<b>71</b>
Income tax expense	6	(3)	(15)
<b>Net income</b>		<b>14</b>	<b>56</b>
<b>Net income attributable to:</b>			
- Rosneft shareholders		14	56
- non-controlling interests		–	–
<b>Net income attributable to Rosneft per common share</b>			
<b>(in RUB) – basic and diluted</b>		<b>1.32</b>	<b>5.28</b>
<b>Weighted average number of shares outstanding (millions)</b>		<b>10,598</b>	<b>10,598</b>

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)*

	<b>Notes</b>	<b>Three months ended March 31, 2016 (unaudited)</b>	<b>Three months ended March 31, 2015 (unaudited)</b>
<b>Net income</b>		<b>14</b>	56
<b>Other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent periods</b>			
Foreign exchange differences on translation of foreign operations		77	(10)
Foreign exchange cash flow hedges	22	37	(37)
Gain from changes in fair value of financial assets available-for-sale		1	1
Income tax related to other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent period	22	(7)	7
<b>Total other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent periods, net of tax</b>		<b>108</b>	(39)
<b>Total comprehensive income, net of tax</b>		<b>122</b>	17
<b>Total comprehensive income, net of tax, attributable to:</b>			
- Rosneft shareholders		122	17
- non-controlling interests		–	–

*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
<b>Balance at January 1, 2015</b>	10,598	1	493	(500)	2,878	2,872	9	2,881
Net income	–	–	–	–	56	56	–	56
Other comprehensive loss	–	–	–	(39)	–	(39)	–	(39)
<b>Total comprehensive (loss)/income</b>	–	–	–	(39)	56	17	–	17
<b>Balance at March 31, 2015 (unaudited)</b>	10,598	1	493	(539)	2,934	2,889	9	2,898
<b>Balance at January 1, 2016</b>	<b>10,598</b>	<b>1</b>	<b>507</b>	<b>(768)</b>	<b>3,146</b>	<b>2,886</b>	<b>43</b>	<b>2,929</b>
Net income	–	–	–	–	14	14	–	14
Other comprehensive income	–	–	–	108	–	108	–	108
<b>Total comprehensive income</b>	–	–	–	108	14	122	–	122
Other movements	–	–	–	–	–	–	1	1
<b>Balance at March 31, 2016 (unaudited)</b>	<b>10,598</b>	<b>1</b>	<b>507</b>	<b>(660)</b>	<b>3,160</b>	<b>3,008</b>	<b>44</b>	<b>3,052</b>

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

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

	Notes	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
<b>Operating activities</b>			
Net income		14	56
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation, depletion and amortization		116	121
Loss on disposal of non-current assets	9	2	3
Foreign exchange loss/(gain) on non-operating activities		7	(14)
Cash flow hedges reclassified to profit or loss		37	33
Equity share in profits of associates and joint ventures		(3)	(2)
Movements in bad debt provision		1	–
Loss from disposal of subsidiaries and non-production assets	9	1	1
Finance expenses	8	52	103
Finance income		(18)	(15)
Gain on notes write-off		–	(5)
Income tax expense	6	3	15
<i>Changes in operating assets and liabilities:</i>			
Decrease in accounts receivable, gross		33	3
Decrease in inventories		9	11
Decrease in restricted cash		1	–
Decrease in prepayments and other current assets		31	51
Decrease in accounts payable and accrued liabilities		(55)	(83)
Increase in other tax liabilities		9	32
Decrease in current provisions		(2)	(1)
Increase in other current liabilities		–	1
Decrease in other non-current liabilities		(2)	(3)
Interest paid on long-term prepayment received on oil and petroleum products supply agreements		(5)	(5)
Decrease in long-term prepayment received on oil and petroleum products supply agreements	21	(25)	(21)
Long-term loans granted by subsidiary banks		(6)	(4)
Repayment of long-term loans granted by subsidiary banks		6	7
Acquisition of trading securities		–	(1)
Proceeds from sale of trading securities		1	2
<b>Net cash provided by operating activities before income tax and interest</b>		<b>207</b>	<b>285</b>
Income taxes payments		(14)	(53)
Dividends received		3	1
Interest received		14	5
<b>Net cash provided by operating activities</b>		<b>210</b>	<b>238</b>

*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)*

		Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
	Notes		
<b>Investing activities</b>			
Capital expenditures		(154)	(128)
Acquisition of licenses and auction fees		(2)	3
Acquisition of short-term financial assets		(61)	(4)
Proceeds from sale of short-term financial assets		397	127
Acquisition of long-term financial assets		(17)	(1)
Acquisition of interest in associates and joint ventures		(40)	(18)
Proceeds from sale of investments in associates and joint ventures		–	38
Acquisition of interest in subsidiary, net of cash acquired		(3)	(6)
Proceeds from sale of subsidiary		3	–
Proceeds from sale of property, plant and equipment		6	1
Placements under reverse REPO agreements		–	(5)
Receipts under reverse REPO agreements		–	5
<b>Net cash provided by investing activities</b>		<b>129</b>	<b>12</b>
<b>Financing activities</b>			
Proceeds from short-term loans and borrowings and other financial liabilities		60	634
Repayment of short-term loans and borrowings		(298)	(81)
Proceeds from long-term loans and borrowings		594	6
Repayment of long-term loans and borrowings		(257)	(726)
Interest paid		(42)	(44)
Repayment of other financial liabilities		(2)	(138)
<b>Net cash provided by/(used in) financing activities</b>		<b>55</b>	<b>(349)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>394</b>	<b>(99)</b>
Cash and cash equivalents at beginning of period	10	559	216
Effect of foreign exchange on cash and cash equivalents		(71)	9
<b>Cash and cash equivalents at end of period</b>	10	<b>882</b>	<b>126</b>

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

# Rosneft Oil Company

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

March 31, 2016

*(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 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 related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present fairly the Company's financial position, results of operations, statements of changes in shareholders' equity and cash flows for the interim reporting periods.

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

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

The interim condensed consolidated financial statements for the three months ended March 31, 2016 were approved and authorized for issue by the President of the Company on June 8, 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*. 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 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. As of March 31, 2016 the purchase price allocation of AET-Raffineriebeteiligungsgesellschaft mbH, LLC Trican Well Service, LLC Petrol Market Company acquisitions to the fair value of assets acquired and liabilities assumed is preliminary and will be finalized within 12 months from the date of the respective acquisitions.

# 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, activities involved in 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 March 31, 2016 (unaudited):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>515</b>	<b>1,053</b>	<b>22</b>	<b>(542)</b>	<b>1,048</b>
<i>Including: Equity share in profits of associates and joint ventures</i>	<b>1</b>	<b>2</b>	–	–	<b>3</b>
<b>Costs and expenses</b>					
Costs and expenses other than depreciation, depletion and amortization	<b>294</b>	<b>1,026</b>	<b>32</b>	<b>(542)</b>	<b>810</b>
Depreciation, depletion and amortization	<b>93</b>	<b>21</b>	<b>2</b>	–	<b>116</b>
<b>Total costs and expenses</b>	<b>387</b>	<b>1,047</b>	<b>34</b>	<b>(542)</b>	<b>926</b>
<b>Operating income</b>	<b>128</b>	<b>6</b>	<b>(12)</b>	–	<b>122</b>
Finance income	–	–	<b>18</b>	–	<b>18</b>
Finance expenses	–	–	<b>(52)</b>	–	<b>(52)</b>
<b>Total finance expenses</b>	–	–	<b>(34)</b>	–	<b>(34)</b>
Other income	–	–	–	–	–
Other expenses	–	–	<b>(9)</b>	–	<b>(9)</b>
Foreign exchange differences	–	–	<b>(25)</b>	–	<b>(25)</b>
Cash flow hedges reclassified to profit or loss	–	–	<b>(37)</b>	–	<b>(37)</b>
<b>Income before income tax</b>	<b>128</b>	<b>6</b>	<b>(117)</b>	–	<b>17</b>
Income tax expense	<b>(26)</b>	<b>(1)</b>	<b>24</b>	–	<b>(3)</b>
<b>Net income</b>	<b>102</b>	<b>5</b>	<b>(93)</b>	–	<b>14</b>

Rosneft Oil Company

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

5. Segment information (continued)

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

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
<b>Total revenues and equity share in profits of associates and joint ventures</b>	651	1,315	21	(666)	1,321
<i>Including: Equity share in profits of associates and joint ventures</i>	2	(1)	1	–	2
<b>Costs and expenses</b>					
Costs and expenses other than depreciation, depletion and amortization	398	1,254	37	(666)	1,023
Depreciation, depletion and amortization	99	21	1	–	121
<b>Total costs and expenses</b>	497	1,275	38	(666)	1,144
<b>Operating income</b>	154	40	(17)	–	177
Finance income	–	–	15	–	15
Finance expenses	–	–	(103)	–	(103)
<b>Total finance expenses</b>	–	–	(88)	–	(88)
Other income	–	–	9	–	9
Other expenses	–	–	(11)	–	(11)
Foreign exchange differences	–	–	17	–	17
Cash flow hedges reclassified to profit or loss	–	–	(33)	–	(33)
<b>Income before income tax</b>	154	40	(123)	–	71
Income tax expense	(31)	(8)	24	–	(15)
<b>Net income</b>	123	32	(99)	–	56

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

	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
International sales of crude oil, petroleum products and petrochemicals	703	978
International sales of crude oil and petroleum products – CIS, other than Russia	40	49
Domestic sales of crude oil, petroleum products and petrochemicals	222	222
Sales of gas	61	51
<b>Total oil, gas, petroleum products and petrochemicals sales</b>	1,026	1,300

# 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:

	<b>Three months ended March 31, 2016 (unaudited)</b>	<b>Three months ended March 31, 2015 (unaudited)</b>
Current income tax expense	1	25
Deferred tax expense/(benefit) due to the origination and reversal of temporary differences	2	(10)
<b>Total income tax expense</b>	<b>3</b>	<b>15</b>

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:

	<b>Three months ended March 31, 2016 (unaudited)</b>	<b>Three months ended March 31, 2015 (unaudited)</b>
Mineral extraction tax	172	289
Excise tax	37	27
Property tax	8	8
Social charges	13	12
Other	1	2
<b>Total taxes other than income tax</b>	<b>231</b>	<b>338</b>

### 7. Export customs duty

Export customs duty comprises the following:

	<b>Three months ended March 31, 2016 (unaudited)</b>	<b>Three months ended March 31, 2015 (unaudited)</b>
Export customs duty on oil sales	99	185
Export customs duty on petroleum products and petrochemicals sales	33	78
<b>Total export customs duty</b>	<b>132</b>	<b>263</b>

# Rosneft Oil Company

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

### 8. Finance expenses

Finance expenses comprise the following:

	<b>Three months ended March 31, 2016 (unaudited)</b>	<b>Three months ended March 31, 2015 (unaudited)</b>
<b>Interest expense on:</b>		
Loans and borrowings	(21)	(30)
Prepayment on long-term oil and petroleum products supply agreements (Note 21)	(24)	(12)
Other interest expenses	(1)	–
<b>Total interest expenses</b>	<b>(46)</b>	<b>(42)</b>
Net loss from operations with derivative financial instruments	(2)	(58)
Increase in provision due to the unwinding of a discount	(4)	(3)
<b>Total finance expenses</b>	<b>(52)</b>	<b>(103)</b>

The weighted average quarterly rate used to determine the amount of borrowing costs eligible for capitalization is 1.26% and 2.63% for the three months ended March 31, 2016 and 2015, respectively.

### 9. Other income and expenses

Other income and expenses comprise the following:

	<b>Three months ended March 31, 2016 (unaudited)</b>	<b>Three months ended March 31, 2015 (unaudited)</b>
Liability write-off (Note 25)	–	9
<b>Total other income</b>	–	9
Sale and disposal of property, plant and equipment and intangible assets	(2)	(3)
Disposal of companies and non-production assets	(1)	(1)
Social payments, charity, financial aid	(3)	(4)
Other	(3)	(3)
<b>Total other expenses</b>	<b>(9)</b>	<b>(11)</b>

### 10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	<b>March 31, 2016 (unaudited)</b>	<b>December 31, 2015</b>
Cash on hand and in bank accounts in RUB	59	39
Cash on hand and in bank accounts in foreign currencies	710	393
Deposits	112	124
Others	1	3
<b>Total cash and cash equivalents</b>	<b>882</b>	<b>559</b>

## Rosneft Oil Company

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

#### 10. Cash and cash equivalents (continued)

Cash accounts nominated in foreign currencies represent primarily cash in U.S. dollars.

Deposits are interest bearing and include deposits nominated in RUB of RUB 66 billion and deposits nominated in US\$ of RUB 46 billion as of March 31, 2016.

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

#### 11. Other short-term financial assets

Other short-term financial assets comprise the following:

	March 31, 2016 (unaudited)	December 31, 2015
<b>Financial assets available-for-sale</b>		
Bonds and promissory notes	37	46
Stocks and shares	185	129
<b>Financial assets held-to-maturity</b>		
Bonds	1	1
<b>Loans and receivables</b>		
Loans granted	3	3
Loans issued to associates	2	2
Notes receivable	63	83
Deposits and certificates of deposit	339	714
<b>Held-for-trading financial assets at fair value through profit or loss</b>		
Corporate bonds	4	5
State bonds	3	3
<b>Total other short-term financial assets</b>	637	986

As of March 31, 2016 bank deposits and certificates of deposits denominated in US\$ amount to RUB 310 billion and earn interest rates ranging from 1.15% to 4.3% p.a. Deposits and certificates of deposit denominated in RUB amount to RUB 29 billion and earn interest rates ranging from 8.4% to 14.0% p.a.

#### 12. Accounts receivable

Accounts receivable include the following:

	March 31, 2016 (unaudited)	December 31, 2015
Trade receivables	300	318
Banking loans to customers	23	33
Other accounts receivable	25	37
<b>Total</b>	348	388
Allowance for doubtful accounts	(22)	(21)
<b>Total accounts receivable, net of allowance</b>	326	367

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



## Rosneft Oil Company

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

#### 13. Inventories

Inventories comprise the following:

	<b>March 31, 2016 (unaudited)</b>	<b>December 31, 2015</b>
Crude oil and gas	58	62
Petroleum products and petrochemicals	93	99
Materials and supplies	59	58
<b>Total</b>	<b>210</b>	219

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

	<b>Three months ended March 31, 2016 (unaudited)</b>	<b>Three months ended March 31, 2015 (unaudited)</b>
The cost of inventories recognized as an expense during the period	161	163

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:

	<b>March 31, 2016 (unaudited)</b>	<b>December 31, 2015</b>
Value added tax and excise receivable	148	144
Prepayments to suppliers	38	58
Settlements with customs	20	31
Profit tax payments	27	29
Other	9	9
<b>Total prepayments and other current assets</b>	<b>242</b>	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
<i>Cost as of January 1, 2016</i>	6,383	1,518	120	8,021
<i>Depreciation, depletion and impairment losses as of January 1, 2016</i>	(1,845)	(288)	(35)	(2,168)
<i>Net book value as of January 1, 2016</i>	4,538	1,230	85	5,853
Prepayments for property, plant and equipment as of January 1, 2016	9	27	6	42
<b>Total as of January 1, 2016</b>	<b>4,547</b>	<b>1,257</b>	<b>91</b>	<b>5,895</b>
<i>Cost</i>				
Acquisition of subsidiaries	–	–	3	3
Additions	137	20	15	172
Disposals	(3)	(3)	(6)	(12)
Foreign exchange differences	(26)	(3)	(3)	(32)
Cost of asset retirement (decommissioning) obligations	1	–	–	1
<i>As of March 31, 2016</i>	<b>6,492</b>	<b>1,532</b>	<b>129</b>	<b>8,153</b>
<i>Depreciation, depletion and impairment losses</i>				
Depreciation and depletion charge	(96)	(20)	(2)	(118)
Disposals and other movements	2	2	5	9
Foreign exchange differences	23	1	1	25
<i>As of March 31, 2016</i>	<b>(1,916)</b>	<b>(305)</b>	<b>(31)</b>	<b>(2,252)</b>
<i>Net book value as of March 31, 2016</i>	<b>4,576</b>	<b>1,227</b>	<b>98</b>	<b>5,901</b>
Prepayments for property, plant and equipment as of March 31, 2016	19	16	4	39
<b>Total as of March 31, 2016</b>	<b>4,595</b>	<b>1,243</b>	<b>102</b>	<b>5,940</b>

Depreciation charge for the three months ended March 31, 2016 includes RUB 3 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 15 billion (including RUB 15 billion capitalized interest expense) and RUB 28 billion (including RUB 11 billion capitalized interest expense) of expenses on loans and borrowings for the three months ended March 31, 2016 and 2015, respectively.

**16. Other non-current non-financial assets**

In February 2016 the Company made an advance payment of US\$ 500 million (RUB 39 billion at the CBR official exchange rate at the date of the transaction) to Petróleos de Venezuela S.A. (“PDVSA”) under the crude oil purchase agreement. The agreement provides that PDVSA may settle the prepayment through crude oil deliveries or transfer of equity shares (Note 26).

# 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:

	March 31, 2016 (unaudited)	December 31, 2015
<b>Financial liabilities</b>		
Accounts payable to suppliers and contractors	256	263
Salary and other benefits payable	78	63
Banking customer accounts	39	69
Dividends payable	1	1
Other accounts payable	27	26
<b>Total financial liabilities</b>	<b>401</b>	<b>422</b>
<b>Non-financial liabilities</b>		
Short-term advances received	42	54
<b>Total accounts payable and accrued liabilities</b>	<b>443</b>	<b>476</b>

Current accounts payable for three month ended March 31, 2016 were settled within 49 days on average (three month ended March 31, 2015: 38 days). Interest rates on banking customer accounts amount to 0.0%-2.0% p.a. Trade payables are non-interest bearing.

### 18. Loans and borrowings and other financial liabilities

Loans and borrowings and other financial liabilities comprise the following:

	Currency	March 31, 2016 (unaudited)	December 31, 2015
<b>Long-term</b>			
Bank loans	RUB	141	41
Bank loans	US\$, Euro	1,530	1,741
Bonds	RUB	138	138
Eurobonds	US\$	442	483
Customer deposits	RUB	5	6
Customer deposits	US\$, Euro	4	2
Borrowings	RUB	12	5
Promissory notes payable	US\$	–	3
Other borrowings	US\$	656	383
Other borrowings	RUB	15	15
<i>Less: current portion of long-term loans and borrowings</i>		(747)	(561)
<b>Total long-term loans and borrowings</b>		<b>2,196</b>	<b>2,256</b>
Finance lease liabilities		30	31
<i>Less: current portion of long-term finance lease liabilities</i>		(4)	(4)
<b>Total loans and borrowings and other financial liabilities</b>		<b>2,222</b>	<b>2,283</b>
<b>Short-term</b>			
Bank loans	RUB	–	100
Bank loans	US\$, Euro	22	–
Customer deposits	RUB	38	30
Customer deposits	US\$, Euro	5	19
Other borrowings	US\$	38	222
<i>Current portion of long-term loans and borrowings</i>		747	561
<b>Total short-term loans and borrowings and current portion of long-term loans and borrowings</b>		<b>850</b>	<b>932</b>
<i>Current portion of long-term finance lease liabilities</i>		4	4
Other short-term financial liabilities		25	–
Short-term liabilities related to derivative financial instruments		107	104
<b>Total short-term loans and borrowings and other financial liabilities</b>		<b>986</b>	<b>1,040</b>
<b>Total loans and borrowings and other financial liabilities</b>		<b>3,208</b>	<b>3,323</b>

# 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 are normally provide the lender with the express right of claim for contractual revenue in the amount of failing loan repayments which purchaser generally remit directly through transit currency accounts in lender banks. The outstanding balance of Accounts receivable arising from such contracts amounts to RUB 24 billion and RUB 27 billion as of March 31, 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\$ 31.04 billion to finance the acquisition of TNK-BP Company. Two out of four were fully repaid in previous years. As of March 31, 2016 the total debt and accrued interest under the first and the fourth loans attracted under floating rates and due to maturity in December 2017 and February 2018 amounted to US\$ 3.95 billion (RUB 267 billion at the CBR official exchange rate as of March 31, 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 100.0 billion repayable in the first quarter of 2021.

In the first quarter of 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 maturity in 2017 and the first quarter 2018. As of March 31, 2016 the liabilities of the Company under those transactions amounted to the equivalent of RUB 656 billion (at the CBR official exchange rate as of March 31, 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 100,0 billion.

In the first quarter of 2016 the Company met its obligations in relation to other short-term floating rate borrowings under repurchase agreements, attracted in 2015 and entered into new long-term agreements due to maturity in the first quarter 2018. Own corporate bonds were used as an instrument for those transactions. As of March 31, 2016 the liabilities of the Company under those transactions amounted to the equivalent of RUB 38 billion (at the CBR official exchange rate as of March 31, 2016).

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

#### *Liabilities related to derivative financial instruments*

Derivative financial instruments comprise the following:

	Issue date	Expiry date	Nominal amount as of		Interest rate type	Fair value of the liabilities	
			March 31, 2016 (unaudited) US\$ million	RUB billion*		March 31, 2016 (unaudited)	December 31, 2015
Swaps	2012	2017	641	43	floating	21	21
Swaps	2013	2018	2,138	145	floating	62	59
Swaps	2014	2019	1,010	68	floating	24	24
<b>Total</b>			<b>3,789</b>	<b>256</b>		<b>107</b>	<b>104</b>

\* the equivalent nominal amount at the CBR official exchange rate as of March 31, 2016.

## Rosneft Oil Company

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

#### 19. Other current tax liabilities

Other short-term tax liabilities comprise the following:

	<b>March 31, 2016 (unaudited)</b>	<b>December 31, 2015</b>
Mineral extraction tax	68	63
VAT	50	49
Excise duties	17	15
Personal income tax	2	1
Property tax	9	8
Other	1	2
<b>Total other tax liabilities</b>	<b>147</b>	<b>138</b>

#### 20. Provisions

	<b>Asset retirement obligations</b>	<b>Environmental remediation provision</b>	<b>Legal, tax and other claims</b>	<b>Total</b>
<b>As of January 1, 2016, including</b>	<b>123</b>	<b>35</b>	<b>13</b>	<b>171</b>
<i>Non-current</i>	119	23	1	143
<i>Current</i>	4	12	12	28
Provisions charged during the year	1	–	–	1
Increase/(decrease) in the liability resulting from:				
Changes in estimates	–	–	–	–
Change in the discount rate	–	–	–	–
Foreign exchange differences	(2)	–	–	(2)
Unwinding of discount	3	1	–	4
Utilized	(1)	(1)	(1)	(3)
<b>As of March 31, 2016 (unaudited), including</b>	<b>124</b>	<b>35</b>	<b>12</b>	<b>171</b>
<i>Non-current</i>	120	24	1	145
<i>Current</i>	4	11	11	26

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

## Rosneft Oil Company

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

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

	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
<b>As of January 1</b>	1,905	967
Received	–	–
Reimbursed	(25)	(21)
<b>Total prepayment on long-term oil and petroleum products supply agreements</b>	<b>1,880</b>	<b>946</b>
Less current portion	(155)	(91)
<b>As of March 31</b>	<b>1,725</b>	<b>855</b>

The shipments of petroleum products in accordance with the terms of the prepayment contracts started on January 1, 2015.

The off-set of prepayments, made during the first quarter of 2016 and 2015 amounted to RUB 25 billion and RUB 21 billion (US\$ 0.80 billion and US\$ 0.67 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date), respectively.

#### 22. Cash flow hedging of the Company's future exports

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

A portion of future monthly export revenues expected to be received in U.S. dollars over the period from January 2015 through December 2019 were designated as a hedged item. The 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.

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

Changes in the nominal hedging amount during the period:

	US\$ million	The equivalent amount at the CBR exchange rate as of March 31, 2016, RUB billion
Nominal amount as of December 31, 2015	3,918	265
Hedging instruments designated	–	–
Realized cash flow foreign exchange hedges	–	–
Hedging instruments de-designated	(3,918)	(265)
<b>The nominal amount as of March 31, 2016</b>	<b>–</b>	<b>–</b>

## Rosneft Oil Company

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

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

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

	Before income tax	Income tax	Net of tax
<b>Total recognized in other comprehensive (loss)/income as of December 31, 2015</b>	<b>(590)</b>	<b>118</b>	<b>(472)</b>
Cash flow hedges recognized during the period	–	–	–
Cash flow hedges reclassified to profit or loss	37	(7)	30
<b>Total recognized in other comprehensive (loss)/income for the three months ended March 31, 2016 (unaudited)</b>	<b>37</b>	<b>(7)</b>	<b>30</b>
<b>Total recognized in other comprehensive (loss)/income as of March 31, 2016 (unaudited)</b>	<b>(553)</b>	<b>111</b>	<b>(442)</b>

A schedule of the expected reclassification of the accumulated foreign exchange loss from other comprehensive income to profit or loss, as of March 31, 2016, is presented below:

Year	2016	2017	2018	2019	Total
Reclassification	(110.5)	(147.5)	(147.5)	(147.5)	(553)
Income tax	22.5	29.5	29.5	29.5	111
<b>Total, net of tax</b>	<b>(88)</b>	<b>(118)</b>	<b>(118)</b>	<b>(118)</b>	<b>(442)</b>

#### 23. Fair value of financial instruments

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

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

## Rosneft Oil Company

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

#### 23. Fair value of financial instruments (continued)

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

	Fair value measurement as of March 31, 2016 (unaudited)			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
<b>Current assets</b>				
Held-for-trading	3	4	–	7
Available-for-sale	2	220	–	222
<b>Non-current assets</b>				
Available-for-sale	–	23	–	23
<b>Total assets measured at fair value</b>	5	247	–	252
<b>Liabilities</b>				
Derivative financial instruments	–	(107)	–	(107)
<b>Total liabilities measured at fair value</b>	–	(107)	–	(107)
	Fair value measurement as of December 31, 2015			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
<b>Current assets</b>				
Held-for-trading	4	4	–	8
Available-for-sale	2	173	–	175
<b>Non-current assets</b>				
Available-for-sale	–	26	–	26
<b>Total assets measured at fair value</b>	6	203	–	209
<b>Liabilities</b>				
Derivative financial instruments	–	(104)	–	(104)
<b>Total liabilities measured at fair value</b>	–	(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)

#### 23. Fair value of financial instruments (continued)

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

	Carrying value		Fair value (Level 2)	
	March 31, 2016 (unaudited)	December 31, 2015	March 31, 2016 (unaudited)	December 31, 2015
<b>Financial liabilities</b>				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(2,319)	(2,441)	(2,030)	(2,137)
Loans and borrowings with a fixed interest rate	(727)	(748)	(777)	(777)

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

#### 24. Related party transactions

For the purposes of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the three months ended March 31, 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, joint ventures and associates, 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. Gas sales prices in Russian market are regulated by the Federal Antimonopoly Service.

# Rosneft Oil Company

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

### 24. Related party transactions (continued)

#### Transactions with shareholders and companies controlled by shareholders

##### *Revenues and income*

	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	146	48
Finance income	4	5
	<b>150</b>	<b>53</b>

##### *Costs and expenses*

	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
Production and operating expenses	1	2
Cost of purchased oil, gas, petroleum products and refining costs	38	3
Pipeline tariffs and transportation costs	117	110
Other expenses	3	2
Finance expenses	2	25
	<b>161</b>	<b>142</b>

##### *Other operations*

	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
Loans received	20	191
Loans repaid	(1)	(1)
Loans and borrowings issued	(11)	–
Deposits placed	(8)	(31)
Deposits repaid	442	–

##### *Settlement balances*

	March 31, 2016 (unaudited)	December 31, 2015
<b>Assets</b>		
Cash and cash equivalents	592	316
Accounts receivable	49	62
Prepayments and other current assets	63	36
Other financial assets	118	480
Assets held for sale	25	26
	<b>847</b>	<b>920</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	25	42
Loans and borrowings and other financial liabilities	213	190
Liabilities associated with assets held for sale	42	44
	<b>280</b>	<b>276</b>

# Rosneft Oil Company

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

### 24. Related party transactions (continued)

#### Transactions with joint ventures

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

#### *Revenues and income*

	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	2	3
Support services and other revenues	1	–
Finance income	5	2
	<b>8</b>	<b>5</b>

#### *Costs and expenses*

	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
Production and operating expenses	1	1
Cost of purchased oil, gas, petroleum products and refining costs	41	30
Pipeline tariffs and transportation costs	2	3
Other expenses	2	–
	<b>46</b>	<b>34</b>

#### *Other operations*

	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
Loans and borrowings issued	(11)	–

#### *Settlement balances*

	March 31, 2016 (unaudited)	December 31, 2015
<b>Assets</b>		
Accounts receivable	7	19
Prepayments and other current assets	–	1
Other financial assets	336	320
	<b>343</b>	<b>340</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	26	25
Loans and borrowings and other financial liabilities	9	2
	<b>35</b>	<b>27</b>

# Rosneft Oil Company

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

### 24. Related party transactions (continued)

#### Transactions with associates

##### *Revenues and income*

	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	10	3
Finance income	–	1
	<b>10</b>	<b>4</b>

##### *Costs and expenses*

	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
Cost of purchased oil, gas, petroleum products and refining costs	2	2
Other expenses	1	–
	<b>3</b>	<b>2</b>

##### *Settlement balances*

	March 31, 2016 (unaudited)	December 31, 2015
<b>Assets</b>		
Accounts receivable	3	2
Other financial assets	14	14
	<b>17</b>	<b>16</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	25	1
	<b>25</b>	<b>1</b>

#### Transactions with non-state pension funds

##### *Costs and expenses*

	Three months ended March 31, 2016 (unaudited)	Three months ended March 31, 2015 (unaudited)
Other expenses	1	2

##### *Settlement balances*

	March 31, 2016 (unaudited)	December 31, 2015
<b>Liabilities</b>		
Accounts payable and accrued liabilities	1	1
	<b>1</b>	<b>1</b>

# Rosneft Oil Company

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

### 25. Contingencies

#### Russian business environment

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

The Russian economy was impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as by sanctions imposed on Russia by several countries in 2014. The ruble interest rates remained at high levels following the Central Bank of Russia's key rate increase in December 2014 with a subsequent gradual reduction in 2015. The combination of the above resulted in a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. Management believes it is taking the appropriate measures to support the sustainability of the Company's business in the current circumstances.

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

During 2014, 2015 and the beginning of 2016 economic and political instability in Ukraine was increasing. The Company's assets and operations in Ukraine are not significant. The Company's assets and liabilities, related to its activities in Ukraine are recognized based on the appropriate measurements as of March 31, 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 RUR 12.9 billion allegedly due pursuant to arbitral awards rendered under four loan agreements from Yuganskneftegaz OJSC (Rosneft's legal predecessor); by Glendale Group Ltd. seeking to collect ca. RUR 3.53 billion in principal, interest, default interest and expenses allegedly due under 8 promissory notes issued by Yuganskneftegaz OJSC; and by Yukos International (UK) B.V. in relation to losses of US\$ 333 million plus interest allegedly inflicted by a freezing order issued by an Amsterdam court in 2008. The aforementioned disputes were disclosed in detail in the Company's previous quarterly reports.

In March 2015, Rosneft and a group of its subsidiaries reached 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, Rosneft and the aforementioned companies withdrew all mutual claims and dismissed the legal proceedings. The Agreement does not envisage any cash or other payments from Rosneft or its subsidiaries.

# Rosneft Oil Company

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

### 25. Contingencies (continued)

#### Legal claims (continued)

On December 31, 2015, First National Petroleum Corporation ("FNPC") filed a lawsuit with the Arbitration Institute of the Stockholm Chamber of Commerce against OJSC Tyumenneftegaz ("TNG"), a subsidiary of Rosneft, seeking compensation of losses in the amount of US\$ 200 million (RUB 13.5 billion at the CBR official exchange rate on March 31, 2016) plus interest and arbitration costs for the presumptive breach of the joint venture agreement on Tumtex between FNPC and TNG. The hearing is expected.

On March 7, 2011, Norex Petroleum Limited ("Norex") filed a lawsuit against OJSC Tyumen Oil Company, a predecessor of OJCS TNK-BP Holding, subsequently renamed to OJSC RN Holding, TNK-BP Limited and certain other defendants in the amount of US\$ 1.5 billion (RUB 101 billion at the CBR official exchange rate on March 31, 2016) claiming the recovery of damages and compensation of moral damages caused by the allegedly illegal takeover of the shares of LLC Corporation Yugraneft owned by Norex. The lawsuit was accepted by the Supreme Court of the State of New York (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 requested to be allowed to appeal to the Appeals Board of the Supreme Court of the State of New York. The Appeals Board of the Supreme Court's decision is expected.

In October-November 2014 a former minority shareholders of OJSC RN Holding filed a lawsuit against the Company claiming the recovery of damages caused by the forced redemption of shares. The court of first instance dismissed all claims. Decisions were issued on November 25, 2015 and on March 15, 2016. The claimants filed appeals, the court of the appeal instance accepted their appeals for consideration.

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

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

#### Taxation

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

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

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

# Rosneft Oil Company

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

### 25. Contingencies (continued)

#### Taxation (continued)

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

As part of the new regime for fiscal control over the pricing of related party transactions in 2012-2014 the Company and the Federal Tax Service have signed a pricing agreement with respect to the taxation of oil sales transactions in Russia.

Due to the fact that the Company has provided the Russian Federal Tax Service and the regional tax authorities with sufficient explanations concerning the related party transactions made during 2012-2013, the Federal Tax Service did not exercise its right to conduct an examination of the calculation and payment of taxes on related party transactions made during 2012-2013. The period for the Federal Tax Service to make such decisions expired on June 30, 2014 and December 31, 2015 respectively. 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).

The Company management believes that the creation of the consolidated group of taxpayers does not significantly change the tax burden of the Company for the purpose of these interim condensed consolidated financial statements.

In 2014, amendments to 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.

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.

# Rosneft Oil Company

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

### **25. Contingencies (continued)**

#### **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 404 billion and RUB 421 billion as of March 31, 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 regulation of civil litigation or of changes in environmental standards cannot be reliably estimated but may be material. With the existing system of control, management believes that there are no material liabilities for environmental damage other than those recorded in these interim condensed consolidated financial statements.

#### **Other matters**

In March 2016, the Company and Oil India, Indian Oil and Bharat Petroresources signed a legally binding share sale agreement relating to 29.9% participatory share in Taas-Yuryakh Neftegasodobycha. The document provides for the entry of the Indian companies' consortium into the joint venture established by the Company and BP on the basis of Taas-Yuryakh Neftegasodobycha. The Company will retain a controlling share in the joint venture. The transaction will be closed after set of condition precedents are accomplished.

### **26. Events after reporting period**

In May 2016 the Company acquired from PDVSA additional 23.33% shares in PetroMonagas S.A., a joint venture, increasing its ownership share to 40% for consideration of US\$ 500 million (RUB 39 billion at the CBR official exchange rate at the date of the transaction). The consideration payable for the shares acquired was off-set against the advance payment made in February 2016 under the crude oil purchase agreement that provided for settlement in crude oil deliveries or transfer of equity shares (Note 16).

On May 31, 2016 the Company sold a 15% share in LLC Vankorneft, a subsidiary, to Oil and Natural Gas Corporation Videsh Limited for a preliminary consideration of US\$ 1,268 million (RUB 83.8 billion at the CBR official exchange rate at the transaction closing date).



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