



Rosneft Oil Company

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

Three and six months ended June 30, 2016

Rosneft Oil Company
Interim Condensed Consolidated Financial Statements (unaudited)
Three and six months ended June 30, 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 Public Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), comprising the interim consolidated balance sheet as at June 30, 2016, the related interim consolidated statements of profit or loss and other comprehensive income for the three and six-month periods, and the related interim consolidated statements of changes in shareholders' equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLC

August 15, 2016

Moscow, Russia

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

	Notes	June 30, 2016 (unaudited)	December 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents	10	795	559
Restricted cash	10	1	2
Other short-term financial assets	11	563	986
Accounts receivable	12	382	367
Inventories	13	226	219
Prepayments and other current assets	14	262	271
Total current assets		2,229	2,404
Non-current assets			
Property, plant and equipment	15	5,969	5,895
Intangible assets		54	48
Other long-term financial assets		471	510
Investments in associates and joint ventures		393	353
Bank loans granted		21	18
Deferred tax assets		24	25
Goodwill		227	227
Other non-current non-financial assets	16	33	8
Total non-current assets		7,192	7,084
Assets held for sale		134	150
Total assets		9,555	9,638
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	17	545	476
Loans and borrowings and other financial liabilities	18	844	1,040
Income tax liabilities		–	8
Other tax liabilities	19	186	138
Provisions	20	25	28
Prepayment on long-term oil and petroleum products supply agreements	21	190	120
Other current liabilities		6	7
Total current liabilities		1,796	1,817
Non-current liabilities			
Loans and borrowings and other financial liabilities	18	2,095	2,283
Deferred tax liabilities		622	579
Provisions	20	137	143
Prepayment on long-term oil and petroleum products supply agreements	21	1,665	1,785
Other non-current liabilities		34	39
Total non-current liabilities		4,553	4,829
Liabilities associated with assets held for sale		53	63
Equity			
Share capital		1	1
Additional paid-in capital		536	507
Other funds and reserves		(588)	(768)
Retained earnings		3,124	3,146
Rosneft shareholders' equity		3,073	2,886
Non-controlling interest	23	80	43
Total equity		3,153	2,929
Total liabilities and equity		9,555	9,638

Chief Executive Officer

I.I. Sechin

August 15, 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 June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 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	1,201	1,314	2,227	2,614
Support services and other revenues		19	18	38	37
Equity share in profits of associates and joint ventures		12	5	15	7
Total revenues and equity share in profits of associates and joint ventures		1,232	1,337	2,280	2,658
Costs and expenses					
Production and operating expenses		123	129	260	255
Cost of purchased oil, gas, petroleum products and refining costs		149	138	279	261
General and administrative expenses		30	32	60	59
Pipeline tariffs and transportation costs		135	130	282	274
Exploration expenses		4	5	7	7
Depreciation, depletion and amortization		113	123	229	244
Taxes other than income tax	6	329	349	560	687
Export customs duty	7	142	218	274	481
Total costs and expenses		1,025	1,124	1,951	2,268
Operating income		207	213	329	390
Finance income		23	12	41	27
Finance expenses	8	(44)	(38)	(96)	(141)
Other income	9	2	28	2	37
Other expenses	9	(13)	(17)	(22)	(28)
Foreign exchange differences		(16)	(5)	(41)	12
Cash flow hedges reclassified to profit or loss		(37)	(25)	(74)	(58)
Income before income tax		122	168	139	239
Income tax expense	6	(31)	(34)	(34)	(49)
Net income		91	134	105	190
Net income attributable to:					
- Rosneft shareholders		89	134	103	190
- non-controlling interests		2	-	2	-
Net income attributable to Rosneft per common share (in RUB) – basic and diluted		8.40	12.64	9.72	17.93
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)

	Notes	Three months ended June 30, 2016 (unaudited)	Three months ended June 30, 2015 (unaudited)	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Net income		91	134	105	190
Other comprehensive income – to be reclassified to profit or loss in subsequent periods					
Foreign exchange differences on translation of foreign operations		41	32	118	22
Foreign exchange cash flow hedges	24	37	75	74	38
Gain from changes in fair value of financial assets available-for-sale		3	–	4	1
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent period		(9)	(15)	(16)	(8)
Total other comprehensive income – to be reclassified to profit or loss in subsequent periods, net of tax		72	92	180	53
Total comprehensive income, net of tax		163	226	285	243
Total comprehensive income, net of tax, attributable to:					
- Rosneft shareholders		161	226	283	243
- non-controlling interests		2	–	2	–

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

Rosneft Oil Company

Interim Consolidated Statement of Changes in Shareholders' Equity

(in billions of Russian rubles, except share amounts)

	Number of shares (millions)	Share capital	Additional paid-in capital	Other funds and reserves	Retained earnings	Rosneft share- holders' equity	Non- controlling interests	Total equity
Balance at January 1, 2015	10,598	1	493	(500)	2,878	2,872	9	2,881
Net income	–	–	–	–	190	190	–	190
Other comprehensive income	–	–	–	53	–	53	–	53
Total comprehensive income	–	–	–	53	190	243	–	243
Change of interest in subsidiaries	–	–	(1)	–	–	(1)	1	–
Disposal of subsidiaries	–	–	–	3	–	3	1	4
Dividends declared on common stock (Note 22)	–	–	–	–	(87)	(87)	–	(87)
Balance at June 30, 2015 (unaudited)	10,598	1	492	(444)	2,981	3,030	11	3,041
Balance at January 1, 2016	10,598	1	507	(768)	3,146	2,886	43	2,929
Net income	–	–	–	–	103	103	2	105
Other comprehensive income	–	–	–	180	–	180	–	180
Total comprehensive income	–	–	–	180	103	283	2	285
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	–	–	–	–	–	–	1	1
Balance at June 30, 2016 (unaudited)	10,598	1	536	(588)	3,124	3,073	80	3,153

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	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Operating activities			
Net income		105	190
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation, depletion and amortization		229	244
Loss on disposal of non-current assets	9	7	8
Dry hole costs		1	–
Impairment of assets	9	–	1
Foreign exchange loss /(gain) on non-operating activities		5	(29)
Cash flow hedges reclassified to profit or loss		74	58
Equity share in profits of associates and joint ventures		(15)	(7)
Loss from disposal of subsidiaries and non-production assets		–	4
Changes in bad debt provision		(1)	1
Gain from changes in estimates and liabilities write-off		–	(17)
Finance expenses	8	96	141
Finance income		(41)	(27)
Gain on notes write-off		–	(20)
Income tax expense	6	34	49
<i>Changes in operating assets and liabilities:</i>			
(Increase)/decrease in accounts receivable, gross		(7)	19
Increase in inventories		(7)	(3)
Decrease in restricted cash		1	–
Decrease in prepayments and other current assets		36	87
Decrease in accounts payable and accrued liabilities		(92)	(64)
Increase in other tax liabilities		48	39
Decrease in current provisions		(3)	(2)
Increase in other current liabilities		1	2
Increase in long-term prepayments given on oil and petroleum products supply agreements	16	(32)	–
Offset of long-term prepayments received on oil and petroleum products supply agreements		(62)	(42)
Interest paid on long-term prepayment on oil and petroleum products supply agreements received		(8)	(9)
Long-term loans granted by subsidiary banks		(13)	(11)
Repayment of long-term loans granted by subsidiary banks		6	13
Acquisition of trading securities		–	(2)
Proceeds from sale of trading securities		3	4
Net cash provided by operating activities before income tax and interest		365	627
Income tax payments		(40)	(75)
Dividends received		6	9
Interest received		27	8
Net cash provided by operating activities		358	569

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	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Investing activities			
Capital expenditures		(308)	(269)
(Acquisition of licenses)/repayment of auction fees		(10)	6
Acquisition of short-term financial assets		(76)	(26)
Proceeds from sale of short-term financial assets		467	165
Acquisition of long-term financial assets		(23)	(7)
Proceeds from sale of long-term financial assets		5	–
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)	(14)
Proceeds from sale of subsidiary, net of cash acquired		(6)	–
Proceeds from sale of property, plant and equipment		6	2
Placements under reverse REPO agreements		(2)	(5)
Receipts under reverse REPO agreements		–	5
Net cash provided by/(used in) investing activities		10	(100)
Financing activities			
Proceeds from short-term loans and borrowings and other financial liabilities		78	757
Repayment of short-term loans and borrowings		(365)	(247)
Proceeds from long-term loans and borrowings		689	55
Repayment of long-term loans and borrowings		(427)	(845)
Interest paid		(71)	(67)
Repayment of other financial liabilities		(5)	(139)
Proceeds from sale of non-controlling share in subsidiary	23	72	8
Net cash used in financing activities		(29)	(478)
Net increase/(decrease) in cash and cash equivalents		339	(9)
Cash and cash equivalents at beginning of period	10	559	216
Effect of foreign exchange on cash and cash equivalents		(103)	6
Cash and cash equivalents at end of period	10	795	213

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 six months ended June 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.

On July 8, 2016 Open Joint Stock Company Rosneft Oil Company was renamed into Public Joint Stock Company Rosneft Oil Company. The change in the Company's legal status is reflected in the new version of the Charter approved by the Annual General Shareholders' Meeting held on the results for 2015. The Company's name was changed so that it conforms with 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 six months ended June 30, 2016 were approved and authorized for issue by the Chief Executive Officer of the Company on August 15, 2016.

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. As of June 30, 2016 the purchase price allocation of AET-Raffineriebeteiligungsgesellschaft mbH, LLC Trican Well Service and 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 dates of the respective acquisitions.

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 June 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	678	1,230	20	(696)	1,232
<i>Including: Equity share in profits of associates and joint ventures</i>	9	2	1	–	12
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	375	1,201	32	(696)	912
Depreciation, depletion and amortization	93	19	1	–	113
Total costs and expenses	468	1,220	33	(696)	1,025
Operating income	210	10	(13)	–	207
Finance income	–	–	23	–	23
Finance expenses	–	–	(44)	–	(44)
Total finance expenses	–	–	(21)	–	(21)
Other income	–	–	2	–	2
Other expenses	–	–	(13)	–	(13)
Foreign exchange differences	–	–	(16)	–	(16)
Cash flow hedges reclassified to profit or loss	–	–	(37)	–	(37)
Income before income tax	210	10	(98)	–	122
Income tax expense	(41)	(2)	12	–	(31)
Net income	169	8	(86)	–	91

5. Segment information (continued)

Below is performance of the operating segments for the three months ended June 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	694	1,330	26	(713)	1,337
<i>Including: Equity share in profits of associates and joint ventures</i>	1	3	1	–	5
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	410	1,266	38	(713)	1,001
Depreciation, depletion and amortization	99	21	3	–	123
Total costs and expenses	509	1,287	41	(713)	1,124
Operating income	185	43	(15)	–	213
Finance income	–	–	12	–	12
Finance expenses	–	–	(38)	–	(38)
Total finance expenses	–	–	(26)	–	(26)
Other income	–	–	28	–	28
Other expenses	–	–	(17)	–	(17)
Foreign exchange differences	–	–	(5)	–	(5)
Cash flow hedges reclassified to profit or loss	–	–	(25)	–	(25)
Income before income tax	185	43	(60)	–	168
Income tax expense	(37)	(9)	12	–	(34)
Net income	148	34	(48)	–	134

5. Segment information (continued)

Below is performance of the operating segments for the six months ended June 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	1,193	2,283	42	(1,238)	2,280
<i>Including: Equity share in profits of associates and joint ventures</i>	10	4	1	–	15
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	669	2,227	64	(1,238)	1,722
Depreciation, depletion and amortization	186	40	3	–	229
Total costs and expenses	855	2,267	67	(1,238)	1,951
Operating income	338	16	(25)	–	329
Finance income	–	–	41	–	41
Finance expenses	–	–	(96)	–	(96)
Total finance expenses	–	–	(55)	–	(55)
Other income	–	–	2	–	2
Other expenses	–	–	(22)	–	(22)
Foreign exchange differences	–	–	(41)	–	(41)
Cash flow hedges reclassified to profit or loss	–	–	(74)	–	(74)
Income before income tax	338	16	(215)	–	139
Income tax expense	(67)	(3)	36	–	(34)
Net income	271	13	(179)	–	105

5. Segment information (continued)

Below is performance of the operating segments for the six months ended June 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	1,345	2,645	47	(1,379)	2,658
<i>Including: Equity share in profits of associates and joint ventures</i>	3	2	2	–	7
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	808	2,520	75	(1,379)	2,024
Depreciation, depletion and amortization	198	42	4	–	244
Total costs and expenses	1,006	2,562	79	(1,379)	2,268
Operating income	339	83	(32)	–	390
Finance income	–	–	27	–	27
Finance expenses	–	–	(141)	–	(141)
Total finance expenses	–	–	(114)	–	(114)
Other income	–	–	37	–	37
Other expenses	–	–	(28)	–	(28)
Foreign exchange differences	–	–	12	–	12
Cash flow hedges reclassified to profit or loss	–	–	(58)	–	(58)
Income before income tax	339	83	(183)	–	239
Income tax expense	(68)	(17)	36	–	(49)
Net income	271	66	(147)	–	190

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

	Three months ended June 30, 2016 (unaudited)	Three months ended June 30, 2015 (unaudited)	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
International sales of crude oil, petroleum products, petrochemicals and LNG	857	974	1,560	1,952
International sales of crude oil and petroleum products – CIS, other than Russia	51	51	91	100
Domestic sales of crude oil, petroleum products and petrochemicals	246	249	468	471
Sales of gas	47	40	108	91
Total oil, gas, petroleum products, petrochemicals sales and LNG	1,201	1,314	2,227	2,614

6. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended June 30, 2016 (unaudited)	Three months ended June 30, 2015 (unaudited)	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Current income tax (benefit)/expense	(2)	22	(1)	47
Deferred tax expense due to the origination and reversal of temporary differences	33	12	35	2
Total income tax expense	31	34	34	49

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 June 30, 2016 (unaudited)	Three months ended June 30, 2015 (unaudited)	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Mineral extraction tax	260	302	432	591
Excise tax	47	24	84	51
Property tax	9	8	17	16
Social charges	12	12	25	24
Other	1	3	2	5
Total taxes other than income tax	329	349	560	687

7. Export customs duty

Export customs duty comprises the following:

	Three months ended June 30, 2016 (unaudited)	Three months ended June 30, 2015 (unaudited)	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Export customs duty on oil sales	110	161	209	346
Export customs duty on petroleum products and petrochemicals sales	32	57	65	135
Total export customs duty	142	218	274	481

8. Finance expenses

Finance expenses comprise the following:

	Three months ended June 30, 2016 (unaudited)	Three months ended June 30, 2015 (unaudited)	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Interest expense on:				
Loans and borrowings	(20)	(20)	(41)	(50)
Prepayment on long-term oil and petroleum products supply agreements (Note 21)	(21)	(10)	(45)	(22)
Other interest expenses	(1)	(1)	(2)	(1)
Total interest expenses	(42)	(31)	(88)	(73)
Net gain/(loss) from operations with derivative financial instruments	2	(4)	–	(62)
Increase in provision due to the unwinding of discount	(4)	(3)	(8)	(6)
Total finance expenses	(44)	(38)	(96)	(141)

The semiannual weighted average rate used to determine the amount of borrowing costs eligible for capitalization are 2.28% and 3.56% for the six months ended June 30, 2016 and 2015, respectively.

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended June 30, 2016 (unaudited)	Three months ended June 30, 2015 (unaudited)	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Liability write-off (Note 27)	–	28	–	37
Other	2	–	2	–
Total other income	2	28	2	37
Sale and disposal of property, plant and equipment and intangible assets	(5)	(5)	(7)	(8)
Disposal of companies and non-production assets	–	(3)	(1)	(4)
Impairment of assets	–	(1)	–	(1)
Social payments, charity, financial aid	(4)	(2)	(7)	(6)
Other	(4)	(6)	(7)	(9)
Total other expenses	(13)	(17)	(22)	(28)

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	June 30, 2016 (unaudited)	December 31, 2015
Cash on hand and in bank accounts in RUB	36	39
Cash on hand and in bank accounts in foreign currencies	469	393
Deposits	287	124
Others	3	3
Total cash and cash equivalents	795	559

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

Deposits are interest bearing and include deposits nominated in RUB of RUB 106 billion and deposits nominated in US\$ of RUB 181 billion as of June 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 June 30, 2016 and December 31, 2015, respectively.

11. Other short-term financial assets

Other short-term financial assets comprise the following:

	June 30, 2016 (unaudited)	December 31, 2015
Financial assets available-for-sale		
Bonds and promissory notes	37	46
Stocks and shares	181	129
Financial assets held-to-maturity		
Bonds	2	1
Loans and receivables		
Loans granted	3	3
Loans issued to associates	2	2
Notes receivable	60	83
Loans granted under reverse repurchase agreements	3	–
Deposits and certificates of deposit	270	714
Held-for-trading financial assets at fair value through profit or loss		
Corporate bonds	3	5
State bonds	2	3
Total other short-term financial assets	563	986

As of June 30, 2016 bank deposits and certificates of deposits nominated in US\$ amount to RUB 262 billion and earn interest rates ranging from 1.15% to 3.9% p.a. Deposits and certificates of deposit denominated in RUB amount to RUB 8 billion and earn interest rates ranging from 9.9% to 14.0% p.a.

12. Accounts receivable

Accounts receivable include the following:

	June 30, 2016 (unaudited)	December 31, 2015
Trade receivables	344	318
Banking loans to customers	24	33
Other accounts receivable	34	37
Total accounts receivable	402	388
Allowance for doubtful accounts	(20)	(21)
Total accounts receivable, net of allowance	382	367

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

13. Inventories

Inventories comprise the following:

	June 30, 2016 (unaudited)	December 31, 2015
Crude oil and gas	65	62
Petroleum products and petrochemicals	100	99
Materials and supplies	61	58
Total inventories	226	219

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

	Three months ended June 30, 2016 (unaudited)	Three months ended June 30, 2015 (unaudited)	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Cost of inventories recognized as an expense during the period	179	172	340	335

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:

	June 30, 2016 (unaudited)	December 31, 2015
Value added tax and excise receivable	157	144
Prepayments to suppliers	34	58
Settlements with customs	15	31
Profit tax payments	48	29
Other	8	9
Total prepayments and other current assets	262	271

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	6,383	1,518	120	8,021
Depreciation, depletion and impairment losses as of January 1, 2016	(1,845)	(288)	(35)	(2,168)
Net book value as of January 1, 2016	4,538	1,230	85	5,853
Prepayments for property, plant and equipment as of January 1, 2016	9	27	6	42
Total as of January 1, 2016	4,547	1,257	91	5,895
Cost				
Acquisition of subsidiaries	–	–	3	3
Additions	305	40	16	361
Disposals and other movements	(10)	(12)	(11)	(33)
Foreign exchange differences	(49)	(3)	(4)	(56)
Cost of asset retirement (decommissioning) obligations	(11)	–	–	(11)
As of June 30, 2016	6,618	1,543	124	8,285
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(190)	(38)	(5)	(233)
Disposals and other movements	3	2	6	11
Foreign exchange differences	38	–	1	39
As of June 30, 2016	(1,994)	(324)	(33)	(2,351)
Net book value as of June 30, 2016	4,624	1,219	91	5,934
Prepayments for property, plant and equipment as of June 30, 2016	17	11	7	35
Total as of June 30, 2016	4,641	1,230	98	5,969

Depreciation charge for the six months ended June 30, 2016 includes RUB 6 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 29 billion (including RUB 29 billion of capitalized interest expense) and RUB 38 billion (including RUB 22 billion of capitalized interest expense) of interest expenses on loans and borrowings for the six months ended June 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.

17. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	June 30, 2016 (unaudited)	December 31, 2015
Financial liabilities		
Accounts payable to suppliers and contractors	253	263
Dividends payable (Note 22)	125	1
Salary and other benefits payable	69	63
Banking customer accounts	45	69
Other accounts payable	29	26
Total financial liabilities	521	422
Non-financial liabilities		
Short-term advances received	24	54
Total accounts payable and accrued liabilities	545	476

Current accounts payable for the six months ended June 30, 2016 were settled within 57 days on average (six months ended June 30, 2015: 47 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	June 30, 2016 (unaudited)	December 31, 2015
Long-term			
Bank loans	RUB	154	41
Bank loans	US\$, euro	1,338	1,741
Bonds	RUB	138	138
Eurobonds	US\$	425	483
Customer deposits	RUB	4	6
Customer deposits	US\$, euro	5	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>		<i>(676)</i>	<i>(561)</i>
Total long-term loans and borrowings		2,071	2,256
Finance lease liabilities		27	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		2,095	2,283
Short-term			
Bank loans	RUB	9	100
Bank loans	US\$, euro	21	–
Customer deposits	RUB	11	30
Customer deposits	US\$, euro	4	19
Other borrowings	US\$	–	222
<i>Current portion of long-term loans and borrowings</i>		<i>676</i>	<i>561</i>
Total short-term loans and borrowings and current portion of long-term loans and borrowings		721	932
<i>Current portion of long-term finance lease liabilities</i>		<i>3</i>	<i>4</i>
Other short-term financial liabilities		18	–
Short-term liabilities related to derivative financial instruments		102	104
Total short-term loans and borrowings and other financial liabilities		844	1,040
Total loans and borrowings and other financial liabilities		2,939	3,323

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 27 billion and RUB 28 billion as of June 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 June 30, 2016 the total debt and accrued interest under the first and the fourth loans raised under floating rates and due to mature in December 2017 and February 2018, respectively, amounted to US\$ 3.4 billion (RUB 219 billion at the CBR official exchange rate as of June 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 first half 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 mature in 2017 and the first quarter of 2018. As of June 30, 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 June 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.

In the first half of 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 agreements due to mature in the first quarter 2018. Own corporate bonds were used as an instrument for those transactions. As of June 30, 2016 the Company has not short-term liabilities under those transactions.

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

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		Interest rate type	Fair value of the liabilities	
			June 30, 2016 (unaudited)			June 30, 2016 (unaudited)	December 31, 2015
			US\$ million	RUB billion*			
Swaps	2012	2017	641	41	floating	20	21
Swaps	2013	2018	2,138	137	floating	59	59
Swaps	2014	2019	1,010	65	floating	23	24
Total			3,789	243		102	104

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

19. Other current tax liabilities

Other short-term tax liabilities comprise the following:

	June 30, 2016 (unaudited)	December 31, 2015
Mineral extraction tax	93	63
VAT	61	49
Excise duties	20	15
Personal income tax	2	1
Property tax	8	8
Other	2	2
Total other tax liabilities	186	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 (Decrease)/increase in the liability resulting from:	1	1	3	5
Changes in estimates	–	–	(1)	(1)
Change in the discount rate	(12)	–	–	(12)
Foreign exchange differences	(3)	–	–	(3)
Unwinding of discount	6	2	–	8
Utilized	(1)	(3)	(2)	(6)
As of June 30, 2016 (unaudited), including	114	35	13	162
<i>Non-current</i>	111	25	1	137
<i>Current</i>	3	10	12	25

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 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.

	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
As of January 1	1,905	967
Received	–	–
Reimbursed	(50)	(42)
Total prepayment on long-term agreements as of June 30	1,855	925
Less current portion	(190)	(97)
Long-term prepayment as of June 30	1,665	828

The off-set of prepayments, made during the first half of 2016 and 2015 amounted to RUB 50 billion and RUB 42 billion (US\$ 1.6 billion and US\$ 1.3 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% share in JCS Vankorneft, a subsidiary, to Oil and Natural Gas Corporation Videsh Limited. As of June 30, 2016 the Company received the base payment of RUB 72 billion. The agreement terms provide for a final payment. The amount of the final payment is still being under consideration by the parties as of the date of these interim condensed consolidated financial statements.

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 2019 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.

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 six months ended June 30, 2016:

	US\$ million	The equivalent amount at the CBR exchange rate as of June 30, 2016, RUB billion
Nominal amount as of December 31, 2015	3,918	252
Hedging instruments designated	–	–
Realized cash flow foreign exchange hedges	–	–
Hedging instruments de-designated	(3,918)	(252)
Nominal amount as of June 30, 2016	–	–

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

	For the three months ended June 30, 2016 (unaudited)			For the six months ended June 30, 2016 (unaudited)		
	Before income tax	Income tax	Net of tax	Before income tax	Income tax	Net of tax
Total recognized in other funds and reserves as of the beginning of the period	(553)	111	(442)	(590)	118	(472)
Cash flow hedges recognized during the period	–	–	–	–	–	–
Cash flow hedges reclassified to profit or loss	37	(8)	29	74	(15)	59
Total recognized in other comprehensive income/(loss) for the period (unaudited)	37	(8)	29	74	(15)	59
Total recognized in other funds and reserves as of June 30, 2016 (unaudited)	(516)	103	(413)	(516)	103	(413)

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

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

Year	2016	2017	2018	2019	Total
Reclassification	(73.5)	(147.5)	(147.5)	(147.5)	(516)
Income tax	14.5	29.5	29.5	29.5	103
Total, net of tax	(59)	(118)	(118)	(118)	(413)

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 June 30, 2016 (unaudited)			Total
	Level 1	Level 2	Level 3	
Assets				
Current assets				
Held-for-trading	3	2	–	5
Available-for-sale	3	215	–	218
Non-current assets				
Available-for-sale	–	21	–	21
Total assets measured at fair value	6	238	–	244
Liabilities				
Derivative financial instruments	–	(102)	–	(102)
Total liabilities measured at fair value	–	(102)	–	(102)

25. Fair value of financial instruments (continued)

	Fair value measurement as of December 31, 2015			Total
	Level 1	Level 2	Level 3	
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.

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)	
	June 30, 2016 (unaudited)	December 31, 2015	June 30, 2016 (unaudited)	December 31, 2015
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(2,099)	(2,441)	(1,844)	(2,137)
Loans and borrowings with a fixed interest rate	(693)	(748)	(751)	(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 six months ended June 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.

26. Related party transactions (continued)

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. Gas wholesale prices for domestic market are regulated by the state and the benchmark prices are those, used by PJSC Gazprom and its associated companies to sell their extracted gas. Gas sale prices, regulated by the state affects and, probably, will affect the sale prices for gas, extracted by the Company.

Transactions with shareholders and companies controlled by shareholders

Revenues and income

	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	301	112
Support services and other revenues	2	1
Finance income	9	6
	312	119

Costs and expenses

	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Production and operating expenses	3	2
Cost of purchased oil, gas, petroleum products and refining costs	80	15
Pipeline tariffs and transportation costs	219	220
Other expenses	7	4
Finance expenses	1	29
	310	270

Other operations

	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Loans received	–	48
Loans repaid	(1)	(1)
Loans and borrowings issued	(7)	–
Deposits placed	(71)	(9)
Deposits repaid	386	–

26. Related party transactions (continued)

Transactions with shareholders and companies controlled by shareholders (continued)

Settlement balances

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	486	316
Accounts receivable	55	62
Prepayments and other current assets	58	36
Other financial assets	96	480
Assets held for sale	22	26
	717	920
Liabilities		
Accounts payable and accrued liabilities	141	42
Loans and borrowings and other financial liabilities	187	190
Other non-current liabilities	36	44
	364	276

Transactions with joint ventures

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

Revenues and income

	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	7	2
Support services and other revenues	2	1
Finance income	13	8
	22	11

Costs and expenses

	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Production and operating expenses	2	2
Cost of purchased oil, gas, petroleum products and refining costs	98	79
Pipeline tariffs and transportation costs	5	2
Other expenses	2	1
	107	84

Other operations

	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Loans received	2	–
Loans repaid	(8)	(5)
Loans and borrowing issued	(17)	(1)
Repayment of loans and borrowings issued	3	–

26. Related party transactions (continued)

Transactions with joint ventures (continued)

Settlement balances

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Accounts receivable	7	19
Prepayments and other current assets	1	1
Other financial assets	323	320
	331	340
Liabilities		
Accounts payable and accrued liabilities	20	25
Loans and borrowings and other financial liabilities	3	2
	23	27

Transactions with associates

Revenues and income

	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	27	5
Support services and other revenues	1	–
Finance income	–	1
	28	6

Costs and expenses

	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Production and operating expenses	1	1
Cost of purchased oil, gas, petroleum products and refining costs	5	3
Other expenses	2	1
	8	5

Settlement balances

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Accounts receivable	5	2
Other financial assets	14	14
	19	16
Liabilities		
Accounts payable and accrued liabilities	20	1
	20	1

26. Related party transactions (continued)

Transactions with non-state pension funds

Costs and expenses

	Six months ended June 30, 2016 (unaudited)	Six months ended June 30, 2015 (unaudited)
Other expenses	2	3

Settlement balances

	June 30, 2016 (unaudited)	December 31, 2015
Liabilities		
Accounts payable and accrued liabilities	1	1
	1	1

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 June 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.

27. Contingencies (continued)

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 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.

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 more than US\$ 260 million (RUB 16.7 billion at the CBR official exchange rate on June 30, 2016) plus interest and arbitration costs for the presumptive breach of the joint venture agreement on Tumtex between FNPC and TNG. The hearing on the case is 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 the amount of US\$ 1.5 billion (RUB 96 billion at the CBR official exchange rate on June 30, 2016) claiming the recovery of damages and compensation for moral damages caused by the allegedly illegal takeover of the shares of CJSC 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 JSC 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 by Tumen district arbitrary court on November 25, 2015 and March 15, 2016. The claimants filed appeals, and the court of appeal has accepted their appeals for consideration.

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

27. Contingencies (continued)

Legal claims (continued)

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

Taxation

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

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.

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 carried out 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 carried out 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).

27. Contingencies (continued)

Taxation (continued)

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.

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 557 billion and RUB 421 billion as of June 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.

Other matters

In March 2016, the Company and Oil India, Indian Oil and Bharat Petroresources signed a legally binding share sale agreement relating to a 29.9% participatory share in LLC Taas-Yuryakh Neftegasodobycha. 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.

In June 2016 the Company and Oil India, Indian Oil and Bharat Petroresources signed a legally binding share sale agreement for the sale of a 23.9% share in JSC Vankorneft. 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.

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