



Rosneft Oil Company

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

Three-month ended March 31, 2017

Rosneft Oil Company
Interim Condensed Consolidated Financial Statements (unaudited)
Three months ended March 31, 2017

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Report on review of interim condensed consolidated financial statements

To the Shareholders and Board of Directors
of Rosneft Oil Company

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Public joint stock company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), which comprise the interim consolidated balance sheet as at March 31, 2017, the interim consolidated statement of profit or loss, interim consolidated statement of other comprehensive income, interim consolidated statement of changes in shareholders' equity and interim consolidated statement of cash flows for the three-month period then ended ("interim financial information").

Management of the Company is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information 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 financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



D.E. Lobachev
General director
Ernst & Young LLC

May 5, 2017

Details of the entity

Name: Rosneft Oil Company
Record made in the State Register of Legal Entities on July 19, 2002, State Registration Number 1027700043502.
Address: Russia, 115035, Moscow, Sofiyskaya embankment, 26/1.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on December 5, 2002, State Registration Number 1027739707203.
Address: Russia, 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of self-regulatory organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

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

	Notes	March 31, 2017 (unaudited)	December 31, 2016 (restated)
ASSETS			
Current assets			
Cash and cash equivalents	10	607	790
Restricted cash	10	3	2
Other short-term financial assets	11	367	447
Accounts receivable	12	458	485
Inventories	13	285	283
Prepayments and other current assets	14	327	293
Total current assets		2,047	2,300
Non-current assets			
Property, plant and equipment	15	7,136	7,087
Intangible assets		57	59
Other long-term financial assets		754	808
Investments in associates and joint ventures		419	411
Bank loans granted		32	26
Deferred tax assets		22	22
Goodwill		230	230
Other non-current non-financial assets	16	81	84
Total non-current assets		8,731	8,727
Total assets		10,778	11,027
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	17	528	583
Loans and borrowings and other financial liabilities	18	2,033	1,671
Income tax liabilities		-	6
Other tax liabilities	19	237	222
Provisions	20	28	29
Prepayment on long-term oil and petroleum products supply agreements	21	243	255
Other current liabilities		7	7
Total current liabilities		3,076	2,773
Non-current liabilities			
Loans and borrowings and other financial liabilities	18	1,325	1,914
Deferred tax liabilities		770	784
Provisions	20	201	203
Prepayment on long-term oil and petroleum products supply agreements	21	1,534	1,586
Other non-current liabilities		41	43
Total non-current liabilities		3,871	4,530
Equity			
Share capital		1	1
Additional paid-in capital		610	603
Other funds and reserves		(418)	(497)
Retained earnings		3,213	3,200
Rosneft shareholders' equity		3,406	3,307
Non-controlling interests		425	417
Total equity		3,831	3,724
Total liabilities and equity		10,778	11,027

Chief Executive Officer  I.I. Sechin

May 5, 2017

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, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited, restated)
Revenues and equity share in profits of associates and joint ventures			
Oil, gas, petroleum products and petrochemicals sales	5	1,383	1,026
Support services and other revenues		18	19
Equity share in profits of associates and joint ventures		9	3
Total revenues and equity share in profits of associates and joint ventures		1,410	1,048
Costs and expenses			
Production and operating expenses		142	137
Cost of purchased oil, gas, petroleum products and refining costs		168	130
General and administrative expenses		36	30
Pipeline tariffs and transportation costs		153	147
Exploration expenses		2	3
Depreciation, depletion and amortization		143	116
Taxes other than income tax	6	460	231
Export customs duty	7	166	132
Total costs and expenses		1,270	926
Operating income		140	122
Finance income		34	18
Finance expenses	8	(59)	(52)
Other income	9	1	–
Other expenses	9	(10)	(12)
Foreign exchange differences		(45)	(25)
Cash flow hedges reclassified to profit or loss	22	(36)	(37)
Income before income tax		25	14
Income tax expense	6	(4)	(2)
Net income		21	12
Net income attributable to:			
- Rosneft shareholders		13	12
- non-controlling interests		8	–
Net income attributable to Rosneft per common share			
(in RUB) – basic and diluted		1.23	1.13
Weighted average number of shares outstanding (millions)		10,598	10,598

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

Rosneft Oil Company

Interim consolidated statement of other comprehensive income

(in billions of Russian rubles)

	Notes	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited, restated)
Net income		21	12
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Foreign exchange differences on translation of foreign operations		44	77
Foreign exchange cash flow hedges	22	37	37
Income from changes in fair value of financial assets available-for-sale		6	1
Income tax related to other comprehensive income to be reclassified to profit or loss in subsequent period		(8)	(7)
Total other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		79	108
Total comprehensive income, net of tax		100	120
Total comprehensive income, net of tax, attributable to:			
- Rosneft shareholders		92	120
- non-controlling interests		8	-

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, 2016	10,598	1	507	(768)	3,146	2,886	43	2,929
Net income	–	–	–	–	12	12	–	12
Other comprehensive income	–	–	–	108	–	108	–	108
Total comprehensive income	–	–	–	108	12	120	–	120
Other movements	–	–	–	–	–	–	1	1
Balance at March 31, 2016 (unaudited, restated)	10,598	1	507	(660)	3,158	3,006	44	3,050
Balance at January 1, 2017 (restated)	10,598	1	603	(497)	3,200	3,307	417	3,724
Net income	–	–	–	–	13	13	8	21
Other comprehensive income	–	–	–	79	–	79	–	79
Total comprehensive income	–	–	–	79	13	92	8	100
Change of non-controlling interest in subsidiaries	–	–	7	–	–	7	–	7
Balance at March 31, 2017 (unaudited)	10,598	1	610	(418)	3,213	3,406	425	3,831

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, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited, restated)
Operating activities			
Net income		21	12
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation, depletion and amortization		143	116
Loss on disposal of non-current assets	9	2	2
Dry hole costs		1	–
Foreign exchange loss on non-operating activities		29	7
Cash flow hedges reclassified to profit or loss		36	37
Equity share in profits of associates and joint ventures		(9)	(3)
Movements in bad debt provision		(1)	1
Loss from disposal of subsidiaries and non-production assets	9	1	1
Finance expenses	8	59	52
Finance income		(34)	(18)
Loss from changes in estimates		1	3
Income tax expense	6	4	2
<i>Changes in operating assets and liabilities</i>			
Decrease in accounts receivable, gross		37	33
(Increase)/decrease in inventories		(2)	9
(Increase)/decrease in restricted cash		(1)	1
(Increase)/decrease in prepayments and other current assets		(37)	31
Decrease in accounts payable and accrued liabilities		(6)	(55)
Increase in other tax liabilities		15	9
Decrease in current provisions		(1)	(2)
Decrease in other non-current liabilities		(2)	(2)
Interest paid on long-term prepayment received on oil and petroleum products supply agreements		(3)	(5)
Decrease in prepayment received on oil and petroleum products supply agreements		(68)	(25)
Long-term loans granted by subsidiary banks		(7)	(6)
Repayment of long-term loans granted by subsidiary banks		1	6
Proceeds from sale of trading securities		1	1
Net cash provided by operating activities before income tax and interest		180	207
Income tax payments		(29)	(14)
Dividends received		2	3
Interest received		10	14
Net cash provided by operating activities		163	210

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

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

	Notes	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited, restated)
Investing activities			
Capital expenditures		(192)	(154)
Acquisition of licenses and auction fees		(15)	(2)
Acquisition of short-term financial assets		(27)	(61)
Proceeds from sale of short-term financial assets		88	397
Acquisition of long-term financial assets		(16)	(17)
Acquisition of interest in associates and joint ventures		(12)	(40)
Proceeds from repayment of long-term loans and maturing deposits		26	–
Acquisition of interest in subsidiary, net of cash acquired		(55)	(3)
Proceeds from sale of subsidiary		–	3
Proceeds from sale of property, plant and equipment		1	6
Net cash (used in)/provided by investing activities		(202)	129
Financing activities			
Proceeds from short-term loans and borrowings and other financial liabilities		583	60
Repayment of short-term loans and borrowings		(322)	(298)
Proceeds from long-term loans and borrowings		86	594
Repayment of long-term loans and borrowings		(415)	(257)
Interest paid		(44)	(42)
Repayment of other financial liabilities		(1)	(2)
Proceeds from sale of non-controlling interest in subsidiaries		8	–
Net cash (used in)/provided by financing activities		(105)	55
Net (decrease)/increase in cash and cash equivalents		(144)	394
Cash and cash equivalents at beginning of period	10	790	559
Effect of foreign exchange on cash and cash equivalents		(39)	(71)
Cash and cash equivalents at end of period	10	607	882

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, 2017

(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.

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 2016 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 2016 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 2016 audited consolidated financial statements. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to ensure that the presented information is not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company’s 2016 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 the 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, 2017 were approved and authorized for issue by the Chief Executive Officer of the Company on May 5, 2017.

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 2016 prepared in accordance with IFRS, except for the adoption of amendments to standards effective as of January 1, 2017.

The following amendments were applied for the first time in 2017:

- *Disclosure Initiative* – amendments to IAS 7 *Statement of Cash Flows*. The amendments require companies to provide a reconciliation of financing cash flows in the statement of cash flows to the opening and closing balances of liabilities arising from financing activities (except for equity balances) in the statement of financial position.
- *Recognition of Deferred Tax Assets for Unrealised Losses* – amendments to IAS 12 *Income Taxes*. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The application of these amendments will have no significant impact on the Company's financial position or results of operations.

4. Acquisitions of subsidiaries and shares in joint operations

Acquisitions of 2016

On March 31, 2016 the Company acquired 100% of shares in a real estate leasing entity. The cost of the acquisition amounted to RUB 3 billion. As of March 31, 2017 the Company had finalized the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed. The finalization of the purchase price allocation did not have a material effect on the Company's financial statements as of December 31, 2016.

In 2016 the Company completed several acquisitions, including shares in refineries in Germany as part of the Ruhr Oel GmbH restructuring, a 100% interest in JSC Targin, 57.66% of shares of PJSC Bashneft Oil Company. As of March 31, 2017 the purchase price allocation of these acquisitions to the fair value of assets acquired and liabilities assumed was preliminary and will be finalized within 12 months of 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, 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.

Rosneft Oil Company

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

5. Segment information (continued)

The performance of the operating segments for the three months ended March 31, 2017 (unaudited) is shown below:

	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	775	1,434	26	(825)	1,410
<i>Including: equity share in profits of associates and joint ventures</i>	8	2	(1)	–	9
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	500	1,414	38	(825)	1,127
Depreciation, depletion and amortization	117	24	2	–	143
Total costs and expenses	617	1,438	40	(825)	1,270
Operating income	158	(4)	(14)	–	140
Finance income	–	–	34	–	34
Finance expenses	–	–	(59)	–	(59)
Total finance expenses	–	–	(25)	–	(25)
Other income	–	–	1	–	1
Other expenses	–	–	(10)	–	(10)
Foreign exchange differences	–	–	(45)	–	(45)
Cash flow hedges reclassified to profit or loss	–	–	(36)	–	(36)
Income before income tax	158	(4)	(129)	–	25
Income tax expense	(30)	1	25	–	(4)
Net income	128	(3)	(104)	–	21

Rosneft Oil Company

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

5. Segment information (continued)

The performance of the operating segments for the three months ended March 31, 2016 (unaudited restated) is shown below:

	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	515	1,053	22	(542)	1,048
<i>Including: equity share in profits of associates and joint ventures</i>	1	2	–	–	3
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	294	1,026	32	(542)	810
Depreciation, depletion and amortization	93	21	2	–	116
Total costs and expenses	387	1,047	34	(542)	926
Operating income	128	6	(12)	–	122
Finance income	–	–	18	–	18
Finance expenses	–	–	(52)	–	(52)
Total finance expenses	–	–	(34)	–	(34)
Other income	–	–	–	–	–
Other expenses	–	–	(12)	–	(12)
Foreign exchange differences	–	–	(25)	–	(25)
Cash flow hedges reclassified to profit or loss	–	–	(37)	–	(37)
Income before income tax	128	6	(120)	–	14
Income tax expense	(26)	(1)	25	–	(2)
Net income	102	5	(95)	–	12

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, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
International sales of crude oil, petroleum products and petrochemicals	958	703
International sales of crude oil and petroleum products – CIS, other than Russia	50	40
Domestic sales of crude oil, petroleum products and petrochemicals	316	222
Sales of gas	59	61
Total oil, gas, petroleum products and petrochemicals sales	1,383	1,026

Rosneft Oil Company

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

6. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited, restated)
Current income tax expense	18	1
Deferred tax (benefit)/expense due to the origination and reversal of temporary differences	(14)	1
Total income tax expense	4	2

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 2017 profits of controlled foreign companies will be included in the Company's 2018 tax base. The consequences of taxation of controlled foreign companies are accounted for within current and deferred tax liabilities.

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

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Mineral extraction tax	358	172
Excise tax	77	37
Property tax	8	8
Social charges	16	13
Other	1	1
Total taxes other than income tax	460	231

7. Export customs duty

Export customs duty comprises the following:

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Export customs duty on oil sales	117	99
Export customs duty on petroleum products and petrochemicals sales	49	33
Total export customs duty	166	132

Rosneft Oil Company

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

8. Finance expenses

Finance expenses comprise the following:

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Interest expenses on:		
Loans and borrowings	(29)	(21)
Prepayment on long-term oil and petroleum products supply agreements (Note 21)	(21)	(24)
Other interest expenses	(1)	(1)
Total interest expenses	(51)	(46)
Net loss from operations with derivative financial instruments	–	(2)
Increase in provision due to the unwinding of a discount	(4)	(4)
Loss from disposal of financial assets	(4)	–
Total finance expenses	(59)	(52)

The weighted average quarterly rates used to determine the amount of borrowing costs eligible for capitalization were 1.55% and 1.26% for the three months ended March 31, 2017 and 2016, respectively.

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Compensation payment for licenses from joint venture parties	1	–
Total other income	1	–
Sale and disposal of property, plant and equipment and intangible assets	(2)	(2)
Disposal of companies and non-production assets	(1)	(1)
Social payments, charity, financial aid	(3)	(3)
Other	(4)	(6)
Total other expenses	(10)	(12)

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	March 31, 2017 (unaudited)	December 31, 2016
Cash on hand and in bank accounts in RUB	27	25
Cash on hand and in bank accounts in foreign currencies	425	153
Deposits and other cash equivalents in RUB	152	609
Other	3	3
Total cash and cash equivalents	607	790

Rosneft Oil Company

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

10. Cash and cash equivalents (continued)

Cash accounts denominated in foreign currencies primarily comprise cash in U.S. dollars.

Deposits and other cash equivalents are interest bearing and denominated primarily in RUB.

Restricted cash comprises the obligatory reserve of subsidiary banks with the CBR in the amount of RUB 3 billion as of March 31, 2017 and RUB 2 billion as of December 31, 2016, respectively.

11. Other short-term financial assets

Other short-term financial assets comprise the following:

	March 31, 2017 (unaudited)	December 31, 2016
Financial assets available-for-sale		
Bonds and promissory notes	115	116
Stocks and shares	105	187
Financial assets held-to-maturity		
Bonds	1	2
Loans and receivables		
Loans granted	4	4
Loans issued to associates	23	22
Notes receivable	69	55
Loans granted under reverse repurchase agreements	2	2
Deposits and certificates of deposit	46	55
Held-for-trading financial assets at fair value through profit or loss		
Corporate bonds	1	2
State bonds	1	2
Total other short-term financial assets	367	447

12. Accounts receivable

Accounts receivable include the following:

	March 31, 2017 (unaudited)	December 31, 2016
Trade receivables	423	437
Bank loans to customers	24	49
Other accounts receivable	41	29
Total	488	515
Allowance for doubtful accounts	(30)	(30)
Total accounts receivable, net of allowance	458	485

No accounts receivable were pledged as collateral for loans and borrowings provided to the Company as of March 31, 2017 and December 31, 2016.

Rosneft Oil Company

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

13. Inventories

Inventories comprise the following:

	March 31, 2017 (unaudited)	December 31, 2016
Crude oil and gas	69	67
Petroleum products and petrochemicals	139	137
Materials and supplies	77	79
Total inventories	285	283

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

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Cost of inventories recognized as an expense during the period	199	161

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

14. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	March 31, 2017 (unaudited)	December 31, 2016
Value added tax and excise receivable	185	166
Prepayments to suppliers	85	64
Settlements with customs	25	29
Profit and other tax payments	20	23
Other	12	11
Total prepayments and other current assets	327	293

Rosneft Oil Company

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

15. Property, plant and equipment and construction in progress

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
Cost as of January 1, 2017 (restated)	7,613	1,855	143	9,611
<i>Depreciation, depletion and impairment losses as of January 1, 2017</i>	(2,166)	(364)	(36)	(2,566)
Net book value as of January 1, 2017 (restated)	5,447	1,491	107	7,045
Prepayments for property, plant and equipment as of January 1, 2017	21	16	5	42
Total as of January 1, 2017 (restated)	5,468	1,507	112	7,087
Cost				
Additions	203	19	3	225
Disposals and other movements	(4)	–	(3)	(7)
Foreign exchange differences	(30)	(8)	(2)	(40)
Cost of asset retirement (decommissioning) obligations	(5)	–	–	(5)
As of March 31, 2017	7,777	1,866	141	9,784
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(119)	(23)	(2)	(144)
Disposals and other movements	1	–	3	4
Foreign exchange differences	19	–	1	20
As of March 31, 2017	(2,265)	(387)	(34)	(2,686)
Net book value as of March 31, 2017	5,512	1,479	107	7,098
Prepayments for property, plant and equipment as of March 31, 2017	11	12	15	38
Total as of March 31, 2017	5,523	1,491	122	7,136

The depreciation charge for the three months ended March 31, 2017 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 23 billion and RUB 15 billion of expenses on loans and borrowings for the three months ended March 31, 2017 and 2016, respectively.

Rosneft Oil Company

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

16. Other non-current non-financial assets

Other non-current non-financial assets comprise the following:

	March 31, 2017 (unaudited)	December 31, 2016
Long-term advances issued	80	83
Other	1	1
Total other non-current non-financial assets	81	84

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 a crude oil purchase agreement. In November 2016 the Company made two advance payments to PDVSA, of US\$ 500 million and US\$ 205 million (RUB 32 billion and RUB 13 billion, respectively, at the CBR official exchange rate at the date of the transactions). In December 2016 the Company made an advance payment of US\$ 280 million (RUB 18 billion at the CBR official exchange rate at the date of the transaction) under the PDVSA crude oil purchase contract.

17. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	March 31, 2017 (unaudited)	December 31, 2016
Financial liabilities		
Accounts payable to suppliers and contractors	299	337
Mandatory offer to acquire PJSC Bashneft Oil Company shares	–	50
Salary and other benefits payable	96	80
Bank customer accounts	66	41
Dividends payable	1	–
Other accounts payable	32	22
Total financial liabilities	494	530
Non-financial liabilities		
Short-term advances received	34	53
Total accounts payable and accrued liabilities	528	583

Trade and other payables are non-interest bearing. Interest rates on bank customer accounts amount to 0.0%-2.0% p.a.

Rosneft Oil Company

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

18. Loans and borrowings and other financial liabilities

Loans and borrowings and other financial liabilities comprise the following:

	Currency	March 31, 2017 (unaudited)	December 31, 2016
Long-term			
Bank loans	RUB	161	173
Bank loans	US\$, Euro	965	1,107
Bonds	RUB	329	321
Eurobonds	US\$	207	337
Customer deposits	RUB	7	5
Customer deposits	US\$, euro	4	5
Borrowings	RUB	33	31
Borrowings	Euro	1	1
Promissory notes payable	US\$	–	–
Other borrowings	US\$	419	613
Other borrowings	RUB	16	16
<i>Less: current portion of long-term loans and borrowings</i>		<i>(843)</i>	<i>(720)</i>
Total long-term loans and borrowings		1,299	1,889
Finance lease liabilities		25	22
Other long-term financial liabilities		4	4
<i>Less: current portion of long-term finance lease liabilities</i>		<i>(3)</i>	<i>(1)</i>
Total long-term loans and borrowings and other financial liabilities		1,325	1,914
Short-term			
Bank loans	RUB	134	103
Bank loans	US\$, Euro	16	21
Customer deposits	RUB	59	61
Customer deposits	US\$, Euro	6	5
Borrowings	US\$	40	33
Other borrowings	RUB	503	516
Other borrowings	US\$	308	94
REPO	RUB	–	15
<i>Current portion of long-term loans and borrowings</i>		<i>843</i>	<i>720</i>
Total short-term loans and borrowings and current portion of long-term loans and borrowings		1,909	1,568
<i>Current portion of long-term finance lease liabilities</i>		<i>3</i>	<i>1</i>
Other short-term financial liabilities		33	4
Short-term liabilities related to derivative financial instruments		88	98
Total short-term loans and borrowings and other financial liabilities		2,033	1,671
Total loans and borrowings and other financial liabilities		3,358	3,585

Long-term loans and borrowings

Long-term bank loans from foreign banks to finance special-purpose business activities denominated 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 to contractual revenue in the amount of the late loan repayments which the purchaser generally remits directly through transit currency accounts with the lender banks. The outstanding balance of Accounts receivable arising from such contracts amounts to RUB 16 billion and RUB 24 billion as of March 31, 2017 and December 31, 2016, respectively, and is included in Trade receivables of purchasers and customers.

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 (continued)

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 Company. Two out of four were fully repaid in previous years. As of March 31, 2017 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 amounted to US\$ 1.8 billion (RUB 102 billion at the CBR official exchange rate as of March 31, 2017).

In March 2017, the Company fully repaid Eurobonds (Series 4) of US\$ 0.8 billion (RUB 46.4 billion at the CBR official exchange rate at the transaction date) assumed through the TNK-BP acquisition.

In March 2017, the Company fully repaid Eurobonds (Series 1) of US\$ 1.0 billion (RUB 58.4 billion at the CBR official exchange rate at the transaction date).

In the first quarter of 2017 the Company continued the settlement of other long-term floating rate borrowings under repurchasing agreement operations. As of March 31, 2017, the liabilities of the Company under those transactions amounted to the equivalent of RUB 435 billion (at the CBR official exchange rate as of March 31, 2017). Own corporate bonds were used as an instrument for those transactions.

The Company is obliged to comply with a number of restrictive financial and other covenants contained in several of its loan agreements. Such covenants include maintaining certain financial ratios.

As of March 31, 2017 and December 31, 2016 the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

Short-term loans and borrowings

As of March 31, 2017, the Company met its obligations in relation to other short-term floating rate borrowings under repurchase agreement operations. As of March 31, 2017, the liabilities of the Company under those transactions amounted to the equivalent of RUB 811 billion (at the CBR official exchange rate as of March 31, 2017). Its own corporate bonds were principally used as an instrument for those transactions.

In the first quarter of 2017 the Company was current on payments under loan agreements and interest payments.

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, 2017 (unaudited)			March 31, 2017 (unaudited)	December 31, 2016
			US\$ million	RUB billion*			
Swaps	2012	2017	641	36	floating	16	18
Swaps	2013	2018	2,138	121	floating	50	56
Swaps	2014	2019	1,010	57	floating	22	24
Total			3,789	214		88	98

* The equivalent nominal amount at the CBR official exchange rate as of March 31, 2017.

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:

	March 31, 2017 (unaudited)	December 31, 2016
Mineral extraction tax	116	115
VAT	84	69
Excise duties	24	25
Personal income tax	2	2
Property tax	9	9
Other	2	2
Total other tax liabilities	237	222

20. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2017, including	178	41	13	232
<i>Non-current</i>	174	28	1	203
<i>Current</i>	4	13	12	29
Provisions charged during the year	1	1	2	4
Increase/(decrease) in the liability resulting from:				
Changes in estimates	(5)	–	–	(5)
Change in the discount rate	(1)	–	–	(1)
Foreign exchange differences	(2)	–	–	(2)
Unwinding of the discount	4	–	–	4
Utilized	–	(1)	(2)	(3)
As of March 31, 2017 (unaudited), including	175	41	13	229
<i>Non-current</i>	171	29	1	201
<i>Current</i>	4	12	12	28

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

During 2013-2014 the Company entered into a number of long-term crude oil and petroleum products supply contracts which involve the receipt of prepayment. The total minimum delivery volume approximates 400 million tonnes. The crude oil and petroleum product prices are calculated based on current market prices. The prepayment is settled through physical deliveries of crude oil and petroleum products.

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)

Deliveries of oil and petroleum products that reduce the prepayment amounts commenced in 2015. The Company considers these contracts to be regular-way contracts which were entered into for the purpose of the delivery of a non-financial item in accordance with the Company's expected sale requirements.

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
As of January 1	1,841	1,905
Received	–	–
Reimbursed	(64)	(25)
Total prepayment on long-term oil and petroleum products supply agreements	1,777	1,880
Less current portion	(243)	(155)
As of March 31	1,534	1,725

The off-set of prepayments, made during the first quarter of 2017 and 2016 amounted to RUB 64 billion and RUB 25 billion (US\$ 1.91 billion and US\$ 0.80 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 denominated borrowings as a hedge of the expected highly probable U.S. dollar denominated 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 2020 was designated as a hedged item. The nominal amounts of the hedged item and the hedging instruments were equal. To the extent that a change in the foreign currency rate impacts the fair value of the hedging instrument, the effects are recognized in other comprehensive income or loss and then reclassified to profit or loss in the same period in which the hedged item affects the 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	Equivalent amount at the CBR exchange rate as of March 31, 2017, RUB billion
Nominal amount as of December 31, 2016	1,763	99
Hedging instruments designated	–	–
Realized cash flow foreign exchange hedges	(37)	(2)
Hedging instruments de-designated	(1,726)	(97)
Nominal amount as of March 31, 2017	–	–

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
Total recognized in other comprehensive (loss)/income as of December 31, 2016	(435)	87	(348)
Foreign exchange effects recognized during the period	1	–	1
Foreign exchange effects reclassified to profit or loss	36	(7)	29
Total recognized in other comprehensive (loss)/income for the three months ended March 31, 2017 (unaudited)	37	(7)	30
Total recognized in other comprehensive (loss)/income as of March 31, 2017 (unaudited)	(398)	80	(318)

The schedule of expected reclassification of accumulated foreign exchange loss from other comprehensive income to profit or loss, as of March 31, 2017, is presented below:

Year	2017	2018	2019	2020	Total
Reclassification	(109)	(145.5)	(145.5)	2	(398)
Income tax	22	29	29	–	80
Total, net of tax	(87)	(116.5)	(116.5)	2	(318)

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 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, 2017 (unaudited)			
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Held-for-trading	61	159	–	220
Available-for-sale				
Non-current assets				
Available-for-sale	–	11	–	11
Total assets measured at fair value	62	171	–	233
Liabilities				
Derivative financial instruments	–	(88)	–	(88)
Total liabilities measured at fair value	–	(88)	–	(88)

	Fair value measurement as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Held-for-trading	2	2	–	4
Available-for-sale	77	226	–	303
Non-current assets				
Available-for-sale	–	11	–	11
Derivative financial instruments	–	–	–	–
Total assets measured at fair value	79	239	–	318
Liabilities				
Derivative financial instruments	–	(98)	–	(98)
Total liabilities measured at fair value	–	(98)	–	(98)

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 these interim condensed consolidated financial statements equals their fair value. The carrying value of accounts receivable and accounts payable, loans issued and other financial assets, financial leases and other financial liabilities recognized in these interim condensed consolidated financial statements approximates their fair value.

	Carrying value		Fair value (Level 2)	
	March 31, 2017 (unaudited)	December 31, 2016	March 31, 2017 (unaudited)	December 31, 2016
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(1,789)	(2,004)	(1,654)	(1,792)
Loans and borrowings with a fixed interest rate	(1,419)	(1,453)	(1,448)	(1,469)

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

24. Related party transactions

For the purpose 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, 2017 and 2016 the Company entered into transactions with shareholders and companies controlled by 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, 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 market interest rates. Taxes are accrued and paid in accordance with applicable tax law. The Company sells crude oil and petroleum products to related parties in the ordinary course of business at prices close to average market prices.

Rosneft Oil Company

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

24. Related party transactions (continued)

Transactions with shareholders and companies controlled by shareholders

Revenues and income

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	186	146
Support services and other revenues	1	–
Finance income	15	4
	202	150

Costs and expenses

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Production and operating expenses	6	1
Cost of purchased oil, gas, petroleum products and refining costs	19	38
Pipeline tariffs and transportation costs	114	117
Other expenses	4	3
Finance expenses	2	2
	145	161

Other operations

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Loans received	23	20
Loans repaid	(14)	(1)
Loans and borrowings issued	–	(11)
Repayment of loans and borrowings issued	21	–
Deposits placed	(3)	(8)
Deposits repaid	2	442

Settlement balances

	March 31, 2017 (unaudited)	December 31, 2016
Assets		
Cash and cash equivalents	222	549
Accounts receivable	67	80
Prepayments and other current assets	40	36
Other financial assets	528	588
	857	1,253
Liabilities		
Accounts payable and accrued liabilities	41	47
Loans and borrowings and other financial liabilities	342	352
	383	399

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, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	2	2
Support services and other revenues	1	1
Finance income	4	5
	7	8

Costs and expenses

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Production and operating expenses	1	1
Cost of purchased oil, gas, petroleum products and refining costs	69	41
Pipeline tariffs and transportation costs	1	2
Other expenses	1	2
	72	46

Other operations

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Loans and borrowings issued	–	(11)
Repayment of loans and borrowings issued	16	–

Settlement balances

	March 31, 2017 (unaudited)	December 31, 2016
Assets		
Accounts receivable	4	9
Prepayments and other current assets	1	1
Other financial assets	279	306
	284	316
Liabilities		
Accounts payable and accrued liabilities	29	29
Loans and borrowings and other financial liabilities	1	8
	30	37

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, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	52	10
	52	10

Costs and expenses

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Production and operating expenses	2	–
Cost of purchased oil, gas, petroleum products and refining costs	2	2
Other expenses	2	1
	6	3

Other operations

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Loans and borrowings issued	(1)	–

Settlement balances

	March 31, 2017 (unaudited)	December 31, 2016
Assets		
Accounts receivable	21	8
Other financial assets	5	4
	26	12
Liabilities		
Accounts payable and accrued liabilities	5	6
Loans and borrowings and other financial liabilities	3	–
	8	6

Rosneft Oil Company

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

24. Related party transactions (continued)

Transactions with non-state pension funds

Costs and expenses

	Three months ended March 31, 2017 (unaudited)	Three months ended March 31, 2016 (unaudited)
Other expenses	1	1

Settlement balances

	March 31, 2017 (unaudited)	December 31, 2016
Liabilities		
Accounts payable and accrued liabilities	1	1
	1	1

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 economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. Ruble interest rates remain high. The combination of the above has resulted in reduced access to capital, a higher cost of capital 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.

Legal claims

On December 31, 2015, First National Petroleum Corporation ("FNPC") initiated arbitration proceedings under the Rules of the Arbitration Institute of the Stockholm Chamber of Commerce against OJSC Tyumenneftegaz ("TNG"), a subsidiary of the Company, seeking compensation of losses over US\$ 260 million (RUB 14.6 billion at the CBR official exchange rate on March 31, 2017) plus interest and arbitration costs for alleged breach of the agreement between FNPC and TNG to incorporate a joint venture "Tumtex" on the territory of the Russian Federation. The hearings are scheduled to take place by the end of 2017.

Rosneft Oil Company

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

25. Contingencies (continued)

Legal claims (continued)

In October-November 2014 former shareholders of JSC RN Holding filed a lawsuit against the Company claiming recovery of damages caused by the improper (in the plaintiffs' view) assessment of the shares' value in the course of their repurchase in accordance with the Federal Law *On Open Joint Stock Companies*. The claims were dismissed by the court of first instance whose ruling was upheld in a ruling of the appeal court. In January 2017 the cassation court left the rulings of the lower courts unchanged. In March 2017 the plaintiffs filed for a cassation with the Supreme Court of the Russian Federation. The ruling of the Supreme Court to either transfer the case to the Judicial Panel on Economic Lawsuits or to dismiss the cassation petition is expected in May 2017.

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

Rosneft and its subsidiaries are involved in other litigation which arises from time to time in the course of their business activities. Management believes that the ultimate result of that litigation 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 is detected as a result of an inspection, penalties and fines to be paid might be material in respect of 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, the Company and the Federal Tax Service signed a number of pricing agreements in 2012-2016 with respect to the taxation of oil sales transactions in Russia.

To date the Russian Federal Tax Service has not exercised its right to conduct tax audits under the rules of transfer pricing for 2012-2013 and these periods are closed to tax control measures. For subsequent periods the Company has provided explanations to the Russian Federal Tax Service and the regional tax authorities to the extent necessary for the completed transactions. The Company believes that risks concerning related party transactions in the first quarter of 2017 and earlier will not have a material effect on its financial position or results of operations.

Rosneft Oil Company

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

25. Contingencies (continued)

Taxation (continued)

In accordance with the consolidated income tax taxpayer institute enacted in 2012 the Company has created a consolidated group of taxpayers which includes Rosneft and its 21 subsidiaries. Rosneft became the responsible taxpayer of the group from January 1, 2012. Since January 1, 2017, under the terms of the agreement the number of members of the consolidated group of taxpayers has been 63.

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 embedded in Russian tax legislation the concepts of actual right to income, fiscal residence of legal entities, and income tax rules for controlled foreign companies. The Company's management has accounted for these amendments in its current and deferred income tax estimates.

During the reporting period, the tax authorities continued their inspections of Rosneft and some of its subsidiaries for the fiscal years 2012-2016. Rosneft and these subsidiaries are disputing a number of claims by the Federal Tax Service in pre-court and court appeals.

The Company's 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 747 billion and RUB 641 billion as of March 31, 2017 and December 31, 2016, respectively.

Environmental liabilities

The Company periodically evaluates its environmental liabilities pursuant to environmental regulations. Such liabilities are recognized in the consolidated financial statements as and when 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.

Rosneft Oil Company

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

25. Contingencies (continued)

Other matters

In November 2016, the Company and Beijing Gas Group signed a legally binding share sale agreement for 20% of shares in PJSC Verkhnechonskneftegaz. As of the date of these consolidated financial statements the parties were in the process of obtaining the necessary regulatory approvals to complete the transaction.

26. Events after the reporting period

On April 17, 2017 the Company completed an acquisition of 100% of shares in LLC National Petroleum Company – Projects, an entity engaged in development of the Kondinsky, Zapadno-Erginsky, Chaprovsky and Novo-Endyrsky license areas in the Khanty-Mansiysk Autonomous District. The base consideration amounted to RUB 40 billion; the agreement also envisages the subsequent adjusting payment. As expected, on completion of the fair valuation of the assets acquired and liabilities assumed, the purchase price will be substantially allocated to the cost of mineral rights. The Company does not anticipate any significant goodwill being recognized upon completion of the fair value estimation.

Contact information

Rosneft Oil Company

Legal address:

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

Mailing address:

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

Phone:

+7 (499) 517-88-99

Fax:

+7 (499) 517-72-35

E-mail:

postman@rosneft.ru

Corporate website:

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