



Rosneft Oil Company

Interim Condensed Consolidated Financial Statements
(unaudited)

Three and six months ended June 30, 2017

Rosneft Oil Company
Interim Condensed Consolidated Financial Statements (unaudited)
Three and six months ended June 30, 2017

Contents

Report on review of the interim condensed consolidated financial statements	3
Interim condensed consolidated financial statements	
Interim consolidated balance sheet	5
Interim consolidated statement of profit or loss	6
Interim consolidated statement of other comprehensive income.....	7
Interim consolidated statement of changes in shareholders' equity.....	8
Interim consolidated statement of cash flows.....	9
Notes to the interim condensed consolidated financial statements	
1. General	11
2. Basis of preparation	11
3. Changes in accounting policies.....	12
4. Acquisitions of subsidiaries and shares in joint operations	12
5. Segment information.....	14
6. Income tax and other taxes	18
7. Export customs duty.....	18
8. Finance expenses	19
9. Other income and expenses	19
10. Cash and cash equivalents	20
11. Other short-term financial assets	20
12. Accounts receivable	21
13. Inventories	21
14. Prepayments and other current assets	22
15. Property, plant and equipment and construction in progress.....	22
16. Other non-current non-financial assets	23
17. Accounts payable and accrued liabilities	23
18. Loans and borrowings and other financial liabilities	24
19. Other current tax liabilities	26
20. Provisions	26
21. Prepayment on long-term oil and petroleum products supply agreements.....	27
22. Shareholders' equity	27
23. Non-controlling interest	27
24. Cash flow hedging of the Company's future exports.....	27
25. Fair value of financial instruments.....	29
26. Related party transactions	30
27. Contingencies	35
28. Events after the reporting period	37



Совершенство бизнеса,
улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Report on review of the 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 June 30, 2017, the interim consolidated statement of profit or loss and interim consolidated statement of other comprehensive income for the three and six-month periods, interim consolidated statement of changes in shareholders' equity and interim consolidated statement of cash flows for the six-month period then ended, and notes to the interim condensed consolidated financial statements, including a summary of significant accounting policies ("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

August 4, 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	June 30, 2017 (unaudited)	December 31, 2016 (restated)
ASSETS			
Current assets			
Cash and cash equivalents	10	439	790
Restricted cash	10	2	2
Other short-term financial assets	11	318	447
Accounts receivable	12	516	485
Inventories	13	280	283
Prepayments and other current assets	14	327	293
Total current assets		1,882	2,300
Non-current assets			
Property, plant and equipment	15	7,409	7,087
Intangible assets		57	59
Other long-term financial assets		803	808
Investments in associates and joint ventures		429	411
Bank loans granted		34	26
Deferred tax assets		23	22
Goodwill		239	230
Other non-current non-financial assets	16	129	84
Total non-current assets		9,123	8,727
Total assets		11,005	11,027
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	17	651	583
Loans and borrowings and other financial liabilities	18	2,020	1,671
Income tax liabilities		—	6
Other tax liabilities	19	210	222
Provisions	20	26	29
Prepayment on long-term oil and petroleum products supply agreements	21	225	255
Other current liabilities		6	7
Total current liabilities		3,138	2,773
Non-current liabilities			
Loans and borrowings and other financial liabilities	18	1,417	1,914
Deferred tax liabilities		781	784
Provisions	20	220	203
Prepayment on long-term oil and petroleum products supply agreements	21	1,490	1,586
Other non-current liabilities		42	43
Total non-current liabilities		3,950	4,530
Equity			
Share capital		1	1
Additional paid-in capital		624	603
Other funds and reserves		(398)	(497)
Retained earnings		3,218	3,200
Rosneft shareholders' equity		3,445	3,307
Non-controlling interests	23	472	417
Total equity		3,917	3,724
Total liabilities and equity		11,005	11,027

Chief Executive Officer _____

I.I. Sechin

August 4, 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 June 30, 2017 (unaudited)	Three months ended June 30, 2016 (unaudited)	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited, restated)
Revenues and equity share in profits of associates and joint ventures					
Oil, gas, petroleum products and petrochemicals sales	5	1,368	1,201	2,751	2,227
Support services and other revenues		18	19	36	38
Equity share in profits of associates and joint ventures		13	12	22	15
Total revenues and equity share in profits of associates and joint ventures		1,399	1,232	2,809	2,280
Costs and expenses					
Production and operating expenses		155	123	297	260
Cost of purchased oil, gas, petroleum products and refining costs		199	149	367	279
General and administrative expenses		38	30	74	60
Pipeline tariffs and transportation costs		145	135	298	282
Exploration expenses		3	4	5	7
Depreciation, depletion and amortization		142	113	285	229
Taxes other than income tax	6	439	329	899	560
Export customs duty	7	160	142	326	274
Total costs and expenses		1,281	1,025	2,551	1,951
Operating income		118	207	258	329
Finance income		22	23	56	41
Finance expenses	8	(53)	(44)	(112)	(96)
Other income	9	–	2	1	2
Other expenses	9	(10)	(13)	(20)	(25)
Foreign exchange differences		55	(16)	10	(41)
Cash flow hedges reclassified to profit or loss	24	(37)	(37)	(73)	(74)
Income before income tax		95	122	120	136
Income tax expense	6	(15)	(31)	(19)	(33)
Net income		80	91	101	103
Net income attributable to:					
- Rosneft shareholders		68	89	81	101
- non-controlling interests		12	2	20	2
Net income attributable to Rosneft per common share (in RUB) – basic and diluted		6.42	8.40	7.64	9.53
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, 2017 (unaudited)	Three months ended June 30, 2016 (unaudited)	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited, restated)
Net income		80	91	101	103
Other comprehensive income – to be reclassified to profit or loss in subsequent periods					
Foreign exchange differences on translation of foreign operations		(6)	41	38	118
Foreign exchange cash flow hedges	24	34	37	71	74
(Loss)/income from changes in fair value of financial assets available-for-sale		(1)	3	5	4
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent period		(7)	(9)	(15)	(16)
Total other comprehensive income – to be reclassified to profit or loss in subsequent periods, net of tax		20	72	99	180
Total comprehensive income, net of tax		100	163	200	283
Total comprehensive income, net of tax, attributable to:					
- Rosneft shareholders		88	161	180	281
- non-controlling interests		12	2	20	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, 2016	10,598	1	507	(768)	3,146	2,886	43	2,929
Net income	–	–	–	–	101	101	2	103
Other comprehensive income	–	–	–	180	–	180	–	180
Total comprehensive income	–	–	–	180	101	281	2	283
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, restated)	10,598	1	536	(588)	3,122	3,071	80	3,151
Balance at January 1, 2017 (restated)	10,598	1	603	(497)	3,200	3,307	417	3,724
Net income	–	–	–	–	81	81	20	101
Other comprehensive income	–	–	–	99	–	99	–	99
Total comprehensive income	–	–	–	99	81	180	20	200
Change of non-controlling interest in subsidiaries	–	–	21	–	–	21	44	65
Disposal of subsidiaries	–	–	–	–	–	–	(1)	(1)
Dividends declared on common stock (Note 22)	–	–	–	–	(63)	(63)	(11)	(74)
Other movements	–	–	–	–	–	–	3	3
Balance at June 30, 2017 (unaudited)	10,598	1	624	(398)	3,218	3,445	472	3,917

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, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited, restated)
Operating activities			
Net income		101	103
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation, depletion and amortization		285	229
Loss on disposal of non-current assets	9	5	7
Dry hole costs		2	1
Foreign exchange (gain)/loss on non-operating activities		(12)	5
Cash flow hedges reclassified to profit or loss		73	74
Equity share in profits of associates and joint ventures		(22)	(15)
Loss from disposal of subsidiaries and non-production assets		1	–
Changes in bad debt provision		4	(1)
Finance expenses	8	112	96
Finance income		(56)	(41)
Loss from changes in estimates, impairment and receivables write-off		1	3
Income tax expense	6	19	33
<i>Changes in operating assets and liabilities</i>			
Increase in accounts receivable, gross		(25)	(7)
Decrease/(increase) in inventories		3	(7)
Decrease in restricted cash		–	1
(Increase)/decrease in prepayments and other current assets		(6)	36
Increase/(decrease) in accounts payable and accrued liabilities		10	(92)
(Decrease)/increase in other tax liabilities		(12)	48
Decrease in current provisions		(3)	(3)
Decrease in other long-term liabilities		(1)	–
(Decrease)/increase in other current liabilities		(2)	1
Increase in long-term prepayments given on oil and petroleum products supply agreements		(73)	(32)
Offset of prepayments received on oil and petroleum products supply agreements		(162)	(62)
Interest paid on long-term prepayment on oil and petroleum products supply agreements received		(5)	(8)
Long-term loans granted by subsidiary banks		(14)	(13)
Repayment of long-term loans granted by subsidiary banks		6	6
Proceeds from sale of trading securities		2	3
Net cash provided by operating activities before income tax and interest		231	365
Income tax payments		(54)	(40)
Dividends received		9	6
Interest received		18	27
Net cash provided by operating activities		204	358

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, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited, restated)
Investing activities			
Capital expenditures		(407)	(308)
(Acquisition of licenses) / repayment of auction fees		(24)	(10)
Acquisition of short-term financial assets		(45)	(76)
Proceeds from sale of short-term financial assets		163	467
Acquisition of long-term financial assets		(20)	(23)
Proceeds from sale of long-term financial assets		38	5
Acquisition of interest in associates and joint ventures		(12)	(40)
Acquisition of interest in subsidiary, net of cash acquired	4	(102)	(3)
Proceeds from sale of subsidiary, net of cash acquired		–	(6)
Proceeds from sale of property, plant and equipment		2	6
Placements under reverse REPO agreements		–	(2)
Net cash (used in) / provided by investing activities		(407)	10
Financing activities			
Proceeds from short-term loans and borrowings and other financial liabilities		872	78
Repayment of short-term loans and borrowings		(551)	(365)
Proceeds from long-term loans and borrowings		182	689
Repayment of long-term loans and borrowings		(600)	(427)
Interest paid		(97)	(71)
Repayment of other financial liabilities		(4)	(5)
Proceeds from sale of non-controlling interest in subsidiaries		69	72
Other financing		3	–
Net cash used in financing activities		(126)	(29)
Net (decrease)/increase in cash and cash equivalents		(329)	339
Cash and cash equivalents at beginning of period	10	790	559
Effect of foreign exchange on cash and cash equivalents		(22)	(103)
Cash and cash equivalents at end of period	10	439	795

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, 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 and six months ended June 30, 2017 were approved and authorized for issue by the Chief Executive Officer of the Company on August 4, 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 2017

Acquisition of LLC Independent Petroleum Company – Projects

On April 17, 2017 the Company completed the acquisition of 100% of shares in LLC Independent 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 net of cash acquired. The agreement also envisages a final payment.

As of June 30, 2017 the purchase price allocation of LLC Independent Petroleum Company – Projects to the fair value of assets acquired and liabilities assumed was preliminary and will be finalized within 12 months of the acquisition date.

Rosneft Oil Company

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

4. Acquisitions of subsidiaries and shares in joint operations (continued)

Acquisitions of 2017 (continued)

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

ASSETS	
Current assets	
Cash and cash equivalents	5
Other current assets	4
Total current assets	9
Non-current assets	
Property, plant and equipment	100
Deferred tax assets	2
Total non-current assets	102
Total assets	111
LIABILITIES	
Current liabilities	
Other current liabilities	6
Total current liabilities	6
Non-current liabilities	
Deferred tax liabilities	14
Loans and borrowings	44
Other non-current liabilities	2
Total non-current liabilities	60
Total liabilities	66
Total identifiable net assets at fair value	45
Total consideration transferred	45

Acquisition of LLC Drilling Service Technology

On April 27, 2017 the Company completed the acquisition of 100% of shares in LLC Drilling Service Technology, a company involved in the provision of drilling services in the Khanty- Mansiysk region, for a consideration of RUB 9 billion. Preliminary, the Company allocated the purchase price to the fair value of assets acquired and liabilities assumed, and recognized goodwill on acquisition amounting to RUB 9 billion.

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, and 57.66% of shares of PJSC Bashneft Oil Company. As of June 30, 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.

Rosneft Oil Company

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

5. Segment information

The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The Exploration and production segment is engaged in field exploration and the production of crude oil and natural gas. The Refining and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as in the purchase, sale and transportation of crude oil and petroleum products. Corporate and other unallocated activities are not part of the operating segment and include corporate activity, activities involved in field development, the maintenance of infrastructure and the functioning of the first two segments, as well as banking and finance services, and other activities. Substantially all of the Company's operations and assets are located in the Russian Federation.

Segment performance is evaluated based on both revenues and operating income, which are measured on the same basis as in the consolidated financial statements, but with intersegment transactions revalued at market prices.

The performance of the operating segments for the three months ended June 30, 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	682	1,421	31	(735)	1,399
<i>Including: equity share in profits of associates and joint ventures</i>	<i>9</i>	<i>2</i>	<i>2</i>	<i>–</i>	<i>13</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	470	1,355	49	(735)	1,139
Depreciation, depletion and amortization	118	23	1	–	142
Total costs and expenses	588	1,378	50	(735)	1,281
Operating income	94	43	(19)	–	118
Finance income	–	–	22	–	22
Finance expenses	–	–	(53)	–	(53)
Total finance expenses	–	–	(31)	–	(31)
Other income	–	–	–	–	–
Other expenses	–	–	(10)	–	(10)
Foreign exchange differences	–	–	55	–	55
Cash flow hedges reclassified to profit or loss	–	–	(37)	–	(37)
Income before income tax	94	43	(42)	–	95
Income tax expense	(17)	(8)	10	–	(15)
Net income	77	35	(32)	–	80

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 June 30, 2016 (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	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

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 six months ended June 30, 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	1,457	2,855	57	(1,560)	2,809
<i>Including: equity share in profits of associates and joint ventures</i>	<i>17</i>	<i>4</i>	<i>1</i>	<i>–</i>	<i>22</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	970	2,769	87	(1,560)	2,266
Depreciation, depletion and amortization	235	47	3	–	285
Total costs and expenses	1,205	2,816	90	(1,560)	2,551
Operating income	252	39	(33)	–	258
Finance income	–	–	56	–	56
Finance expenses	–	–	(112)	–	(112)
Total finance expenses	–	–	(56)	–	(56)
Other income	–	–	1	–	1
Other expenses	–	–	(20)	–	(20)
Foreign exchange differences	–	–	10	–	10
Cash flow hedges reclassified to profit or loss	–	–	(73)	–	(73)
Income before income tax	252	39	(171)	–	120
Income tax expense	(47)	(7)	35	–	(19)
Net income	205	32	(136)	–	101

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 six months ended June 30, 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	1,193	2,283	42	(1,238)	2,280
<i>Including: equity share in profits of associates and joint ventures</i>	<i>10</i>	<i>4</i>	<i>1</i>	<i>–</i>	<i>15</i>
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	–	–	(25)	–	(25)
Foreign exchange differences	–	–	(41)	–	(41)
Cash flow hedges reclassified to profit or loss	–	–	(74)	–	(74)
Income before income tax	338	16	(218)	–	136
Income tax expense	(67)	(3)	37	–	(33)
Net income	271	13	(181)	–	103

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, 2017 (unaudited)	Three months ended June 30, 2016 (unaudited)	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
International sales of crude oil, petroleum products and petrochemicals	930	857	1,888	1,560
International sales of crude oil and petroleum products – CIS, other than Russia	61	51	111	91
Domestic sales of crude oil, petroleum products and petrochemicals	330	246	646	468
Sales of gas	47	47	106	108
Total oil, gas, petroleum products and petrochemicals sales	1,368	1,201	2,751	2,227

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 June 30, 2017 (unaudited)	Three months ended June 30, 2016 (unaudited)	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited, restated)
Current income tax expense/(benefit)	21	(2)	39	(1)
Deferred tax (benefit)/expense due to the origination and reversal of temporary differences	(6)	33	(20)	34
Total income tax expense	15	31	19	33

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 the 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 June 30, 2017 (unaudited)	Three months ended June 30, 2016 (unaudited)	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Mineral extraction tax	332	260	690	432
Excise tax	78	47	155	84
Property tax	10	9	18	17
Social charges	16	12	32	25
Other	3	1	4	2
Total taxes other than income tax	439	329	899	560

7. Export customs duty

Export customs duty comprises the following:

	Three months ended June 30, 2017 (unaudited)	Three months ended June 30, 2016 (unaudited)	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Export customs duty on oil sales	119	110	236	209
Export customs duty on petroleum products and petrochemicals sales	41	32	90	65
Total export customs duty	160	142	326	274

Rosneft Oil Company

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

8. Finance expenses

Finance expenses comprise the following:

	Three months ended June 30, 2017 (unaudited)	Three months ended June 30, 2016 (unaudited)	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Interest expenses on:				
Loans and borrowings	(27)	(20)	(56)	(41)
Prepayment on long-term oil and petroleum products supply agreements (Note 21)	(20)	(21)	(41)	(45)
Other interest expenses	(2)	(1)	(3)	(2)
Total interest expenses	(49)	(42)	(100)	(88)
Net gain/(loss) from operations with derivative financial instruments	–	2	–	–
Increase in provision due to the unwinding of discount	(4)	(4)	(8)	(8)
Loss from disposal of financial assets	–	–	(4)	–
Total finance expenses	(53)	(44)	(112)	(96)

The semiannual weighted average rate used to determine the amount of borrowing costs eligible for capitalization are 4.70% and 2.28% for the six months ended June 30, 2017 and 2016, respectively.

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended June 30, 2017 (unaudited)	Three months ended June 30, 2016 (unaudited)	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited, restated)
Compensation payment for licenses from joint venture parties	–	–	1	–
Other	–	2	–	2
Total other income	–	2	1	2
Sale and disposal of property, plant and equipment and intangible assets	(3)	(5)	(5)	(7)
Impairment of assets	(1)	–	(1)	–
Disposal of companies and non-production assets	–	–	(1)	(1)
Social payments, charity, financial aid	(3)	(4)	(6)	(7)
Other	(3)	(4)	(7)	(10)
Total other expenses	(10)	(13)	(20)	(25)

Rosneft Oil Company

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

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	June 30, 2017 (unaudited)	December 31, 2016
Cash on hand and in bank accounts in RUB	40	25
Cash on hand and in bank accounts in foreign currencies	283	153
Deposits and other cash equivalents in RUB	111	609
Other	5	3
Total cash and cash equivalents	439	790

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

Deposits 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 2 billion as of June 30, 2017 and December 31, 2016.

11. Other short-term financial assets

Other short-term financial assets comprise the following:

	June 30, 2017 (unaudited)	December 31, 2016
Financial assets available-for-sale		
Bonds and promissory notes	125	116
Stocks and shares	49	187
Financial assets held-to-maturity		
Bonds	–	2
Loans and receivables		
Loans granted	4	4
Loans issued to associates	26	22
Notes receivable	67	55
Loans granted under reverse repurchase agreements	1	2
Deposits and certificates of deposit	44	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	318	447

Rosneft Oil Company

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

12. Accounts receivable

Accounts receivable include the following:

	June 30, 2017 (unaudited)	December 31, 2016
Trade receivables	476	437
Bank loans to customers	42	49
Other accounts receivable	34	29
Total	552	515
Allowance for doubtful accounts	(36)	(30)
Total accounts receivable, net of allowance	516	485

No accounts receivable were pledged as collateral for loans and borrowings provided to the Company as of June 30, 2017 and December 31, 2016.

13. Inventories

Inventories comprise the following:

	June 30, 2017 (unaudited)	December 31, 2016
Crude oil and gas	66	67
Petroleum products and petrochemicals	132	137
Materials and supplies	82	79
Total inventories	280	283

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

	Three months ended June 30, 2017 (unaudited)	Three months ended June 30, 2016 (unaudited)	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Cost of inventories recognized as an expense during the period	234	179	433	340

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.

Rosneft Oil Company

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

14. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	June 30, 2017 (unaudited)	December 31, 2016
Value added tax and excise receivable	173	166
Prepayments to suppliers	107	64
Settlements with customs	17	29
Profit and other tax payments	19	23
Other	11	11
Total prepayments and other current assets	327	293

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
Depreciation, depletion and impairment losses as of January 1, 2017	(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				
Acquisition of subsidiaries (Note 4)	100	–	–	100
Additions	441	53	9	503
Disposals and other movements	(7)	(3)	(3)	(13)
Foreign exchange differences	(11)	9	(1)	(3)
Cost of asset retirement (decommissioning) obligations	8	–	–	8
As of June 30, 2017	8,144	1,914	148	10,206
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(239)	(45)	(5)	(289)
Disposals and other movements	1	–	3	4
Impairment of assets	–	(1)	–	(1)
Foreign exchange differences	7	–	–	7
As of June 30, 2017	(2,397)	(410)	(38)	(2,845)
Net book value as of June 30, 2017	5,747	1,504	110	7,361
Prepayments for property, plant and equipment as of June 30, 2017	17	13	18	48
Total as of June 30, 2017	5,764	1,517	128	7,409

The depreciation charge for the six months ended June 30, 2017 includes RUB 8 billion of depreciation which was capitalized as part of the construction cost of property, plant and equipment and cost of inventory.

Rosneft Oil Company

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

15. Property, plant and equipment and construction in progress (continued)

The Company capitalized RUB 77 billion (including RUB 50 billion of capitalized interest expense) and RUB 29 billion (including RUB 29 billion of capitalized interest expense) of expenses on loans and borrowings for the six months ended June 30, 2017 and 2016, respectively.

16. Other non-current non-financial assets

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

	June 30, 2017 (unaudited)	December 31, 2016
Long-term advances issued	128	83
Other	1	1
Total other non-current non-financial assets	129	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. In April 2017 the Company made an advance payment of US\$ 1,015 million (RUB 57 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:

	June 30, 2017 (unaudited)	December 31, 2016
Financial liabilities		
Accounts payable to suppliers and contractors	360	337
Mandatory offer to acquire PJSC Bashneft Oil Company shares	–	50
Salary and other benefits payable	76	80
Bank customer accounts	69	41
Dividends payable	75	–
Other accounts payable	34	22
Total financial liabilities	614	530
Non-financial liabilities		
Short-term advances received	37	53
Total accounts payable and accrued liabilities	651	583

Trade and other payables are non-interest bearing. Interest rates on banking 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	June 30, 2017 (unaudited)	December 31, 2016
Long-term			
Bank loans	RUB	215	173
Bank loans	US\$, Euro	947	1,107
Bonds	RUB	382	321
Eurobonds	US\$	219	337
Customer deposits	RUB	8	5
Customer deposits	US\$, Euro	6	5
Borrowings	RUB	28	31
Borrowings	Euro	–	1
Promissory notes payable	US\$	–	–
Other borrowings	US\$	343	613
Other borrowings	RUB	16	16
<i>Less: current portion of long-term loans and borrowings</i>		<i>(779)</i>	<i>(720)</i>
Total long-term loans and borrowings		1,385	1,889
Finance lease liabilities		33	22
Other long-term financial liabilities		4	4
<i>Less: current portion of long-term finance lease liabilities</i>		<i>(5)</i>	<i>(1)</i>
Total long-term loans and borrowings and other financial liabilities		1,417	1,914
Short-term			
Bank loans	RUB	220	103
Bank loans	US\$, Euro	18	21
Customer deposits	RUB	69	61
Customer deposits	US\$, Euro	9	5
Borrowings	US\$	–	33
Other borrowings	RUB	437	516
Other borrowings	US\$	291	94
REPO	RUB	–	15
<i>Current portion of long-term loans and borrowings</i>		<i>779</i>	<i>720</i>
Total short-term loans and borrowings and current portion of long-term loans and borrowings		1,823	1,568
<i>Current portion of long-term finance lease liabilities</i>		<i>5</i>	<i>1</i>
Other short-term financial liabilities		101	4
Short-term liabilities related to derivative financial instruments		91	98
Total short-term loans and borrowings and other financial liabilities		2,020	1,671
Total loans and borrowings and other financial liabilities		3,437	3,585

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 15 billion and RUB 24 billion as of June 30, 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

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 June 30, 2017 the total debt and accrued interest on two outstanding loans having floating rates and due to mature in December 2017 and February 2018, respectively, amounted to US\$ 1.3 billion (RUB 75 billion at the CBR official exchange rate as of June 30, 2017).

In the second quarter of 2017 the Company drew down funds under a long-term floating rate loan from a Russian bank for an amount of RUB 10 billion repayable in the second quarter of 2021.

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 half of 2017, the Company raised funds through the placement of three series documentary non-convertible fixed interest-bearing long-term bonds with a nominal amount of RUB 60 billion and maturity periods of 7, 8 and 10 years. Coupon payments will be made on a semi-annual basis for bonds with maturity periods of 7 and 10 years, and on a quarterly basis for bonds with maturity periods of 8 years. Bonds with maturity periods of 10 years allow early repurchase at the request of the bond holder, as set out in the respective offering documents. Such purchase/repayment of the bonds does not constitute early redemption.

In the second quarter of 2017 the Company continued to settle other long-term floating rate borrowings under repurchasing agreement operations. As of June 30, 2017, the liabilities of the Company under those transactions amounted to the equivalent of RUB 359 billion (at the CBR official exchange rate as of June 30, 2017). The Company's 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 June 30, 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

In the second quarter of 2017 the Company drew down funds under the short-term floating rate loans from Russian banks for a total amount of RUB 87 billion.

In the second quarter 2017, the Company was in compliance with its obligations and entered into new agreements on short-term borrowings under repurchase agreement operations. As of June 30, 2017, the liabilities of the Company under those transactions amounted to the equivalent of RUB 728 billion (at the CBR official exchange rate as of June 30, 2017). Its own corporate bonds were principally used as an instrument for those transactions.

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

Rosneft Oil Company

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

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

Liabilities related to derivative financial instruments

Derivative financial instruments comprise the following:

	Issue date	Expiry date	Nominal amount as of		Interest rate type	Fair value of the liabilities	
			June 30, 2017 (unaudited)			June 30, 2017 (unaudited)	December 31, 2016
			US\$ million	RUB billion*			
Swaps	2012	2017	641	38	floating	17	18
Swaps	2013	2018	2,138	126	floating	52	56
Swaps	2014	2019	1,010	60	floating	22	24
Total			3,789	224		91	98

* the equivalent nominal amount at the CBR official exchange rate as of June 30, 2017.

19. Other current tax liabilities

Other short-term tax liabilities comprise the following:

	June 30, 2017 (unaudited)	December 31, 2016
Mineral extraction tax	98	115
VAT	74	69
Excise duties	25	25
Personal income tax	3	2
Property tax	8	9
Other	2	2
Total other tax liabilities	210	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 (Decrease)/increase in the liability resulting from:	2	2	2	6
Changes in estimates	(5)	1	–	(4)
Change in the discount rate	11	–	–	11
Foreign exchange differences	(1)	–	–	(1)
Unwinding of the discount	7	1	–	8
Utilized	–	(3)	(3)	(6)
As of June 30, 2017 (unaudited), including	192	42	12	246
<i>Non-current</i>	188	30	2	220
<i>Current</i>	4	12	10	26

Rosneft Oil Company

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

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

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

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.

	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
As of January 1	1,841	1,905
Received	–	–
Reimbursed	(126)	(50)
Total prepayment on long-term oil and petroleum products supply agreements	1,715	1,855
Less current portion	(225)	(190)
Long-term prepayment as of June 30	1,490	1,665

The off-set of prepayment, made during the first half of 2017 and 2016 amounted to RUB 126 billion and RUB 50 billion (US\$ 3.81 billion and US\$ 1.6 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 22, 2017 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2016 in the amount of RUB 63.4 billion, or RUB 5.98 per share.

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.

23. Non-controlling interest

On June 29, 2017 the Company completed the sale of a 20% share in PJSC Verkhnechonskneftegaz, a subsidiary, to Beijing Gas Group Co., Ltd. The Company received a preliminary payment of US\$ 1,029 million (RUB 61 billion rubles at the CBR official exchange rate at the transaction closing date) and final settlement is expected to be made by the end of 2017.

24. 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*.

Rosneft Oil Company

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

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

A portion of future monthly export revenues expected to be received in U.S. dollars over the period from January 2015 through December 2021 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 six months ended June 30, 2017:

	US\$ million	Equivalent amount at the CBR exchange rate as of June 30, 2017, RUB billion
Nominal amount as of December 31, 2016	1,763	104
Hedging instruments designated	1,000	59
Realized cash flow foreign exchange hedges	(55)	(3)
Hedging instruments de-designated	(1,726)	(102)
Nominal amount as of June 30, 2017	982	58

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

	For the three months ended June 30, 2017 (unaudited)			For the six months ended June 30, 2017 (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	(398)	80	(318)	(435)	87
Foreign exchange effects recognized during the period	(3)	–	(3)	(2)	–	(2)
Foreign exchange effects reclassified to profit or loss	37	(7)	30	73	(14)	59
Total recognized in other comprehensive income/(loss) for the period (unaudited)	34	(7)	27	71	(14)	57
Total recognized in other funds and reserves as of June 30, 2017 (unaudited)	(364)	73	(291)	(364)	73	(291)

Rosneft Oil Company

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

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

The expected schedule for the reclassification of accumulated foreign exchange loss from other comprehensive income to profit or loss, as of June 30, 2017, is presented below:

Year	2017	2018	2019	2020	2021	Total
Reclassification	(73)	(146)	(146)	2	(1)	(364)
Income tax	15	29	29	–	–	73
Total, net of tax	(58)	(117)	(117)	2	(1)	(291)

The expected reclassification is calculated using the CBR exchange rate as of June 30, 2017 and may be different using actual exchange rates in the future.

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, 2017 (unaudited)			Total
	Level 1	Level 2	Level 3	
Assets				
Current assets				
Held-for-trading	1	1	–	2
Available-for-sale	67	107	–	174
Non-current assets				
Available-for-sale	–	10	–	10
Total assets measured at fair value	68	118	–	186
Liabilities				
Derivative financial instruments	–	(91)	–	(91)
Total liabilities measured at fair value	–	(91)	–	(91)

Rosneft Oil Company

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

25. Fair value of financial instruments (continued)

	Fair value measurement as of December 31, 2016			Total
	Level 1	Level 2	Level 3	
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.

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.

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

	Carrying value		Fair value (Level 2)	
	June 30, 2017 (unaudited)	December 31, 2016	June 30, 2017 (unaudited)	December 31, 2016
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(1,659)*	(2,004)	(1,515)*	(1,792)
Loans and borrowings with a fixed interest rate	(1,549)	(1,453)	(1,596)	(1,469)

* including financial instruments designated as hedging instruments with a carrying value of RUB 58 billion and a fair value of RUB 53 billion.

26. 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 six months ended June 30, 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.

Rosneft Oil Company

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

26. Related party transactions (continued)

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.

Transactions with shareholders and companies controlled by shareholders

Revenues and income

	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	371	301
Support services and other revenues	1	2
Finance income	17	9
	389	312

Costs and expenses

	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Production and operating expenses	8	3
Cost of purchased oil, gas, petroleum products and refining costs	32	80
Pipeline tariffs and transportation costs	234	219
Other expenses	7	7
Finance expenses	3	1
	284	310

Other operations

	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Loans received	79	–
Loans repaid	(15)	(1)
Loans and borrowings issued	–	(7)
Repayment of loans and borrowings issued	10	–
Deposits placed	5	(71)
Deposits repaid	2	386

Rosneft Oil Company

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

26. Related party transactions (continued)

Transactions with shareholders and companies controlled by shareholders (continued)

Settlement balances

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Cash and cash equivalents	50	549
Accounts receivable	84	80
Prepayments and other current assets	45	36
Other financial assets	588	588
	767	1,253
Liabilities		
Accounts payable and accrued liabilities	38	47
Loans and borrowings and other financial liabilities	397	352
	435	399

Transactions with joint ventures

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

Revenues and income

	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	5	7
Support services and other revenues	3	2
Finance income	14	13
	22	22

Costs and expenses

	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Production and operating expenses	3	2
Cost of purchased oil, gas, petroleum products and refining costs	137	98
Pipeline tariffs and transportation costs	3	5
Other expenses	2	2
	145	107

Rosneft Oil Company

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

26. Related party transactions (continued)

Transactions with joint ventures (continued)

Other operations

	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Loans received	–	2
Loans repaid	–	(8)
Loans and borrowing issued	(1)	(17)
Repayment of loans and borrowings issued	28	3

Settlement balances

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Accounts receivable	4	9
Prepayments and other current assets	–	1
Other financial assets	280	306
	284	316
Liabilities		
Accounts payable and accrued liabilities	64	29
Loans and borrowings and other financial liabilities	5	8
	69	37

Transactions with associates

Revenues and income

	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	107	27
Support services and other revenues	1	1
	108	28

Costs and expenses

	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Production and operating expenses	4	1
Cost of purchased oil, gas, petroleum products and refining costs	4	5
Other expenses	6	2
	14	8

Rosneft Oil Company

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

26. Related party transactions (continued)

Transactions with associates (continued)

Other operations

	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Loans and borrowing issued	4	–

Settlement balances

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Cash and cash equivalents	3	–
Accounts receivable	17	8
Other financial assets	8	4
	28	12
Liabilities		
Accounts payable and accrued liabilities	3	6
Loans and borrowings and other financial liabilities	9	–
	12	6

Transactions with non-state pension funds

Costs and expenses

	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)
Other expenses	2	2

Settlement balances

	June 30, 2017 (unaudited)	December 31, 2016
Liabilities		
Accounts payable and accrued liabilities	1	1
	1	1

Rosneft Oil Company

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

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 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 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 of over US\$ 260 million (over RUB 15 billion at the CBR official exchange rate on June 30, 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. Presumably, the next hearing will take place in September 2017. The court decision is expected by the end of 2017.

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 subsequently 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. In May 2017 the Supreme Court of the Russian Federation dismissed the cassation. The decision of the Supreme Court of the Russian Federation was appealed by the plaintiffs. Timing for processing of such appeals is not determined, the Company monitors the current status of the lawsuit on a regular basis.

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, national tax authorities and Ministry of Finance of the Russian Federation. 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.

Rosneft Oil Company

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

27. Contingencies (continued)

Taxation (continued)

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 rules and certain contradictions in the provisions of the 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 2012-2017 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 six months of 2017 and earlier will not have a material effect on its financial position or results of operations.

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 may be subject to different interpretations of tax laws and regulations are not accrued in the consolidated financial statements.

Rosneft Oil Company

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

27. Contingencies (continued)

Capital commitments

The Company and its subsidiaries are engaged in ongoing capital projects for the exploration and development of production facilities and the modernization of refineries and the distribution network. The budgets for these projects are generally set on an annual basis.

The total amount of contracted but not yet performed deliveries related to the construction and acquisition of property, plant and equipment amounted to RUB 747 billion and RUB 641 billion as of June 30, 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.

28. Events after the reporting period

On July 12, 2017 the Company won an auction for the right to develop the Erginskoye area of federal importance. The cost of acquisition will amount to RUB 20 billion. The Erginskoye area located in the Khanty-Mansiysk Autonomous District, was the largest unallocated license area in the Russian Federation. The Erginskoye license area is located close to the Company's major fields that have a developed infrastructure.

In July 2017 the Company drew down funds under a long-term fixed rate loans from local banks for total amount of RUB 130 billion repayable not later the third quarter of 2022.

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)