Consolidated financial statements
Rosneft Oil Company
for the year ended December 31, 2016

with independent auditor's report

Contents

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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

Independent auditor's report

To the Shareholders and Board of Directors
of Rosneft Oil Company

Opinion

We have audited the consolidated financial statements of Public Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of non-current assets

We considered this matter to be one of most significance in our audit due to the materiality of the balances of non-current assets to the financial statements, the high level of subjectivity in respect of assumptions underlying the impairment analysis and the significant judgements and estimates made by management. In addition, the combination of the recent drop in oil prices, devaluation of the Russian rouble, change in inflation and cost of debt and uncertainty about future economic growth affects the Company's business prospects and could thus result in an impairment of the Company's assets.

Significant assumptions included discount rates, forecast prices of oil and petroleum products and production forecasts. Significant judgements and estimates included future capital expenditure and oil and gas reserves available for development and production.

We involved our business valuation specialists in the analysis of management's testing of impairment and calculation of the recoverable amount. We compared oil and petroleum products prices used in the calculation of recoverable amounts to available market forecasts. We compared the discount rate and long-term growth rate to general market indicators and other available evidence.

We tested the mathematical integrity of the impairment models, sensitivity analysis and consistency of use of models (formulas and calculations) with prior periods.

Information on non-current assets and the impairment test performed is disclosed in Note 26 to the consolidated financail statement.

Estimation of oil and gas reserves and resources

We considered this matter to be one of most significance in our audit due to the fact that the estimate of hydrocarbon reserves and resources has a significant impact on the impairment test, depreciation, depletion and amortization and decommissioning provisions.

We performed procedures to assess competence, capabilities and objectivity of the external expert engaged by the Company to estimate volumes of oil and gas reserves and resources. We assessed the assumptions used by the external expert and compared the assumptions to the macroeconomic indicators, hydrocarbon production, operating costs, capital expenditures forecasts and other performance indicators, approved by the Company's management. We compared the updated estimates of reserves and resources to the estimates included in the consideration of impairment, depreciation, depletion and amortization and decommissioning provisions.

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Information on the estimation of oil and gas reserves and resources is disclosed in Note 4 to the consolidated financail statement to the financial statements as part of significant accounting estimates as well as in the supplementary oil and gas disclosure in Note 43 to the consolidated financail statement.

Approaches to the assessment of control, joint control and significant influence

We considered this matter to be one of most significance in our audit due to the fact that during 2015 and 2016 the Company entered into several agreements to sell non-controlling interest in existing subsidiaries and was required to make significant judgements in respect of retention of control or joint control. This judgement depends on assessing the power over an investee and existing rights that give it the current ability to direct the relevant activities.

We reviewed purchase and sale contracts and additional agreements beween the Company and buyers of non-controlling interests and analyzed the Company's ability to use its power over the investees to affect the amount of the Company's returns in order to assess management assertions about retention of control in those subsidiaries where the Company concluded that only non-controlling ownership interests have been disposed of.

Information about significant disposals is disclosed in Note 18 to the consolidated financail statement.

Other matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information accompanying the consolidated financial statements which has been disclosed as Supplementary oil and gas disclosure on page 87 is presented for purposes of additional analysis and is not within the scope of International Financial Reporting Standards. Such information has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

Information other than the financial statements and auditor's report thereon

Other information comprises the Management's discussion and analysis of financial condition and results of operations for 2016 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the 2016 Annual report, which is expected to be made available to us after that date. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the audit committee of the board of directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Konstantin I. Petrov.

D.E. Lobachev
General director
Ernst & Young LLC

February 22, 2017

Details of the audited 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-regulated 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

Consolidated Balance Sheet

(in billions of Russian rubles)

	Notes	As of December 31, 2016	2015 (restated)
ASSETS			
Current assets			
Cash and cash equivalents	20	**790**	559
Restricted cash	20	**2**	2
Other short-term financial assets	21	**447**	986
Accounts receivable	22	**485**	367
Inventories	23	**283**	219
Prepayments and other current assets	24	**293**	271
Total current assets		**2,300**	2,404
Non-current assets			
Property, plant and equipment	25	**7,090**	5,896
Intangible assets	26	**59**	48
Other long-term financial assets	27	**808**	510
Investments in associates and joint ventures	28	**411**	353
Bank loans granted		**26**	18
Deferred tax assets	17	**22**	25
Goodwill	26	**230**	230
Other non-current non-financial assets	29	**84**	8
Total non-current assets		**8,730**	7,088
Assets held for sale	8	–	150
Total assets		**11,030**	9,642
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	30	**583**	476
Loans and borrowings and other financial liabilities	31	**1,671**	1,040
Income tax liabilities		**6**	8
Other tax liabilities	32	**222**	138
Provisions	33	**29**	28
Prepayment on long-term oil and petroleum products supply agreements	34	**255**	120
Other current liabilities		**7**	7
Total current liabilities		**2,773**	1,817
Non-current liabilities			
Loans and borrowings and other financial liabilities	31	**1,914**	2,283
Deferred tax liabilities	17	**785**	582
Provisions	33	**203**	143
Prepayment on long-term oil and petroleum products supply agreements	34	**1,586**	1,785
Other non-current liabilities	35	**43**	40
Total non-current liabilities		**4,531**	4,833
Liabilities associated with assets held for sale	8	-	63
Equity			
Share capital	37	**1**	1
Additional paid-in capital	37	**603**	507
Other funds and reserves		**(497)**	(768)
Retained earnings		**3,202**	3,146
Rosneft shareholders' equity		**3,309**	2,886
Non-controlling interests	18	**417**	43
Total equity		**3,726**	2,929
Total liabilities and equity		**11,030**	9,642

Chief Executive Officer ______________________ I.I. Sechin February 22, 2017

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

Rosneft Oil Company

Consolidated Statement of Profit or Loss

(in billions of Russian rubles, except earnings per share data, and share amounts)

	Notes	For the years ended December 31, 2016	2015
Revenues and equity share in profits of associates and joint ventures			
Oil, gas, petroleum products and petrochemicals sales	9	**4,887**	5,071
Support services and other revenues		**75**	70
Equity share in profits of associates and joint ventures	28	**26**	9
Total revenues and equity share in profits of associates and joint ventures		**4,988**	5,150
Costs and expenses			
Production and operating expenses		**559**	575
Cost of purchased oil, gas, petroleum products and refining costs		**614**	530
General and administrative expenses		**129**	130
Pipeline tariffs and transportation costs		**575**	542
Exploration expenses		**14**	13
Depreciation, depletion and amortization	25, 26	**482**	450
Taxes other than income tax	10	**1,296**	1,277
Export customs duty	11	**657**	925
Total costs and expenses		**4,326**	4,442
Operating income		**662**	708
Finance income	12	**91**	55
Finance expenses	13	**(193)**	(269)
Other income	14	**50**	75
Other expenses	14	**(76)**	(72)
Foreign exchange differences		**(70)**	86
Cash flow hedges reclassified to profit or loss	6	**(147)**	(123)
Income before income tax		**317**	460
Income tax expense	17	**(116)**	(104)
Net income		**201**	356
Net income attributable to:			
- Rosneft shareholders		**181**	355
- non-controlling interests	18	**20**	1
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	19	**17.08**	33.50
Weighted average number of shares outstanding (millions)		**10,598**	10,598

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

Rosneft Oil Company

Consolidated Statement of Other Comprehensive Income

(in billions of Russian rubles)

	Notes	For the years ended December 31, 2016	2015
Net income		**201**	356
Other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent periods			
Foreign exchange differences on translation of foreign operations		**143**	(194)
Foreign exchange cash flow hedges	6	**155**	(92)
Income from changes in fair value of financial assets available-for-sale		**5**	–
Income tax related to other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent periods	6, 17	**(32)**	18
Total other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent periods, net of tax		**271**	(268)
Total comprehensive income, net of tax		**472**	88
Total comprehensive income, net of tax, attributable to:			
- Rosneft shareholders		**452**	87
- non-controlling interests		**20**	1

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

Rosneft Oil Company

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	Total share-holders' equity	Non-controlling interests	Total equity
Balance at January 1, 2015	10,598	1	493	(500)	2,878	2,872	9	2,881
Net income	–	–	–	–	355	355	1	356
Other comprehensive loss	–	–	–	(268)	–	(268)	–	(268)
Total comprehensive (loss)/income	–	–	–	(268)	355	87	1	88
Change of non-controlling interest in subsidiaries (Note 18)	–	–	14	–	–	14	32	46
Disposal of subsidiaries	–	–	–	–	–	–	1	1
Dividends declared on common stock (Note 37)	–	–	–	–	(87)	(87)	–	(87)
Balance at December 31, 2015	10,598	1	507	(768)	3,146	2,886	43	2,929
Net income	**–**	**–**	**–**	**–**	**181**	**181**	**20**	**201**
Other comprehensive income	**–**	**–**	**–**	**271**	**–**	**271**	**–**	**271**
Total comprehensive income	**–**	**–**	**–**	**271**	**181**	**452**	**20**	**472**
Change of non-controlling interest in subsidiaries (Note 18)	**–**	**–**	**96**	**–**	**–**	**96**	**180**	**276**
Acquisition of subsidiaries (Note 7)	–	–	–	–	–	–	**169**	**169**
Disposal of subsidiaries	–	–	–	–	–	–	**(2)**	**(2)**
Dividends declared on common stock (Note 37)	–	–	–	–	**(125)**	**(125)**	–	**(125)**
Other movements	–	–	–	–	–	–	**7**	**7**
Balance at December 31, 2016	**10,598**	**1**	**603**	**(497)**	**3,202**	**3,309**	**417**	**3,726**

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

Rosneft Oil Company

Consolidated Statement of Cash Flows

(in billions of Russian rubles)

	Notes	For the years ended December 31, 2016	2015
Operating activities			
Net income		**201**	356
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	25, 26	**482**	450
Loss on disposal of non-current assets	14	**16**	22
Impairment of assets	14	**23**	6
Dry hole costs		**5**	2
Foreign exchange gain on non-operating activities		**(16)**	(93)
Cash flow hedges reclassified to profit or loss	6	**147**	123
Equity share in profits of associates and joint ventures	28	**(26)**	(9)
Gain on disposal of investments in associates and joint ventures	14	**(29)**	(15)
Loss from disposal of subsidiaries and non-production assets	14	**2**	11
Changes in bad debt provision		**–**	10
Gain on notes write-off		**–**	(20)
Gain from changes in estimates and liabilities write-off		**(2)**	(17)
Finance expenses	13	**193**	269
Finance income	12	**(91)**	(55)
Income tax expense	17	**116**	104
Changes in operating assets and liabilities:			
(Increase)/decrease in accounts receivable, gross		**(53)**	82
(Increase)/decrease in inventories		**(29)**	17
Increase in restricted cash		**–**	(1)
Decrease in prepayments and other current assets		**10**	134
Decrease in accounts payable and accrued liabilities		**(73)**	(47)
Increase/(decrease) in other tax liabilities		**57**	(22)
(Decrease)/increase in current provisions		**(1)**	3
(Decrease)/increase in other current liabilities		**(3)**	3
Increase in other non-current liabilities		**1**	23
(Decrease)/increase in long-term prepayment received on oil and petroleum products supply agreements	34	**(163)**	938
Increase in long-term prepayments made on oil and petroleum products supply agreements	29	**(95)**	–
Interest paid on long-term prepayment on oil and petroleum products supply agreements received		**(15)**	(17)
Long-term loans granted by subsidiary banks		**(19)**	(32)
Repayment of long-term loans granted by subsidiary banks		**6**	28
Acquisition of trading securities		**–**	(4)
Proceeds from sale of trading securities	21	**4**	9
Net cash provided by operating activities before income tax and interest		**648**	2,258
Income tax payments		**(85)**	(112)
Interest received		**58**	31
Dividends received		**11**	18
Net cash provided by operating activities		**632**	2,195

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

Rosneft Oil Company

Consolidated Statement of Cash Flows (continued)

(in billions of Russian rubles)

		For the years ended December 31,	
	Notes	**2016**	**2015**
Investing activities			
Capital expenditures		**(709)**	(595)
(Acquisition of licenses)/repayment of auction fees		**(11)**	(1)
Acquisition of short-term financial assets		**(178)**	(327)
Proceeds from sale of short-term financial assets		**689**	213
Acquisition of long-term financial assets	27	**(403)**	(104)
Proceeds from sale of long-term financial assets		**19**	–
Financing of joint ventures		**(24)**	(23)
Acquisition of interest in associates and joint ventures	28	**(65)**	(49)
Proceeds from sale of investments in associates and joint ventures	28	**–**	95
Acquisition of interest in subsidiary, net of cash acquired	7	**(292)**	(31)
Proceeds from sale of subsidiary, net of cash acquired		**(5)**	
Proceeds from sale of property, plant and equipment		**8**	4
Placements under reverse REPO agreements		**(4)**	(5)
Receipts under reverse REPO agreements		**2**	10
Net cash used in investing activities		**(973)**	(813)
Financing activities			
Proceeds from short-term loans and borrowings and other financial liabilities	31	**1,227**	825
Repayment of short-term loans and borrowings		**(689)**	(678)
Proceeds from long-term loans and borrowings	31	**1,132**	208
Repayment of long-term loans and borrowings		**(1,052)**	(1,125)
Proceeds from other financial liabilities		**49**	–
Repayment of other financial liabilities		**(14)**	(143)
Interest paid		**(143)**	(137)
Proceeds from sale of non-controlling interest in subsidiaries	18	**300**	46
Other financing		**8**	–
Payment of dividends on common stock	37	**(125)**	(87)
Dividends paid to minority		**(1)**	–
Net cash provided by/(used in) financing activities		**692**	(1,091)
Net increase in cash and cash equivalents		**351**	291
Cash and cash equivalents at the beginning of the year	20	**559**	216
Effect of foreign exchange on cash and cash equivalents		**(120)**	52
Cash and cash equivalents at the end of the year	20	**790**	559

1. General

Public Joint Stock Company ("PJSC") Rosneft Oil Company ("Rosneft") and its subsidiaries (collectively, the "Company") are principally engaged in exploration, development, production and sale of crude oil and gas and refining, transportation and sale of petroleum products in the Russian Federation and in certain international markets.

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

Rosneft State Enterprise was incorporated as an open joint stock company on December 7, 1995. All assets and liabilities previously managed by Rosneft State Enterprise were transferred to the Company at their book value effective on that date together with ownership rights to other privatized oil and gas companies belonging to the Government of the Russian Federation (the "State"). The transfer of assets and liabilities was made in accordance with Russian Government Resolution No. 971 dated September 29, 1995, *On the Transformation of Rosneft State Enterprise into Open Joint Stock Company "Oil Company Rosneft"*. These transfers involved the reorganization of assets under the common control of the State and, accordingly, were accounted for at their book value. In 2005, the State contributed the shares of Rosneft to the share capital of JSC ROSNEFTEGAS. As of December 31, 2005, 100% of the shares of Rosneft less one share were owned by JSC ROSNEFTEGAS and one share was owned by the Russian Federation Federal Agency for the Management of Federal Property. Subsequently, JSC ROSNEFTEGAS's ownership interest decreased through additional issue of shares during Rosneft's Initial Public Offering ("IPO") in Russia, an issue of Global Depository Receipts ("GDR") for shares on the London Stock Exchange and the share swap completed during the merger of Rosneft and certain subsidiaries in 2006. In March 2013 in the course of the acquisition of TNK-BP Limited and TNK Industrial Holdings Limited, its subsidiary (collectively with their subsidiaries, "TNK-BP"), JSC ROSNEFTEGAS sold 5.66% of Rosneft shares to BP plc. ("BP"). In December 2016 JSC ROSNEFTEGAS signed an agreement to sell 19.5% of Rosneft shares to a consortium of foreign investors. As of December 31, 2016 JSC ROSNEFTEGAS's ownership interest in Rosneft amounted to 50% plus one share.

Under Russian legislation, natural resources, including oil, gas, precious metals and minerals and other commercial minerals situated in the territory of the Russian Federation are the property of the State until they are extracted. Law of the Russian Federation No. 2395-1, *On Subsurface Resources*, regulates relations arising in connection with the geological study, use and protection of subsurface resources in the territory of the Russian Federation. Pursuant to the law, subsurface resources may be developed only on the basis of a license. A license is issued by the regional governmental body and contains information on the site to be developed and the period of activity, as well as financial and other conditions. The Company holds licenses issued by competent authorities for the geological study, exploration and development of oil and gas blocks, fields, and shelf in areas where its subsidiaries are located.

The Company is subject to export quotas set by the Russian Federation State Pipeline Commission to allow equal access to the limited capacity of the oil pipeline system owned and operated by PJSC AK Transneft. The Company exports certain quantities of crude oil through bypassing the PJSC AK Transneft system thus achieving higher export capacity. The remaining production is processed at the Company's and third parties' refineries for further sale on domestic and international markets.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards, including all International Financial Reporting Standards ("IFRS") and Interpretations issued by the International Accounting Standards Board ("IASB") and effective in the reporting period, and are fully compliant therewith.

These consolidated financial statements have been prepared on a historical cost basis, except certain financial assets and liabilities measured at fair value (Note 38).

Rosneft and its subsidiaries maintain their books and records in accordance with statutory accounting and taxation principles and practices applicable in respective jurisdictions. These consolidated financial statements were derived from the Company's statutory books and records.

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

The consolidated financial statements were approved and authorized for issue by the Chief Executive Officer of the Company on February 22, 2017.

Subsequent events have been evaluated through February 22, 2017, the date these consolidated financial statements were issued.

3. Significant accounting policies

The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the Company's statutory books, which are appropriate for presenting the financial position, results of operations and cash flows in accordance with IFRS. The principal adjustments relate to: (1) recognition of certain expenses; (2) valuation and depreciation of property, plant and equipment; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) accounting for the time value of money; (6) accounting for investments in oil and gas property and conveyances; (7) consolidation principles; (8) recognition and disclosure of guarantees, contingencies, commitments and certain assets and liabilities; (9) business combinations and goodwill; (10) accounting for derivative instruments; (11) purchase price allocation to the identifiable assets acquired and the liabilities assumed.

The consolidated financial statements include the accounts of majority-owned, controlled subsidiaries and special-purpose entities where the Company holds a beneficial interest. All significant intercompany transactions and balances have been eliminated. The equity method is used to account for investments in associates in which the Company has the ability to exert significant influence over the associates' operating and financial policies. Investments in entities where the Company holds the majority of shares, but does not exercise control, are also accounted for using the equity method. Investments in other companies are accounted for at fair value or cost adjusted for impairment, if any.

Business combinations, goodwill and other intangible assets

Acquisitions by the Company of controlling interests in third parties (or interest in their charter capital) are accounted for using the acquisition method.

The date of acquisition is the date when effective control over the acquiree passes to the Company.

3. Significant accounting policies (continued)

Business combinations, goodwill and other intangible assets (continued)

The cost of an acquisition is measured as an aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or a liability should be recognized within profit or loss for the period if they do not represent measurement-period adjustments. If the contingent consideration is classified as equity, it should not be re-measured.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the fair value of net identifiable assets acquired and liabilities assumed. If the aggregate of the consideration transferred and the amount of non-controlling interest is lower than the fair value of the net assets of the subsidiary acquired and liabilities assumed, the difference is recognized in profit or loss for the period.

Associates

Investments in associates are accounted for using the equity method unless they are classified as non-current assets held for sale. Under this method, the carrying value of investments in associates is initially recognized at the acquisition cost.

The carrying value of investments in associates is increased or decreased by the Company’s reported share in the profit or loss and other comprehensive income of the investee after the acquisition date. The Company’s share in the profit or loss and other comprehensive income of an associate is recognized in the Company’s consolidated statement of profit or loss or in the consolidated statement of other comprehensive income, respectively. Dividends paid by the associate are accounted for as a reduction of the carrying value of investments.

The Company’s net investments in associates include the carrying value of the investments in these associates as well as other long-term investments that are, in substance, investments in associates, such as loans. If the share in losses exceeds the carrying value of the investments in associates and the value of other long-term investments related to investments in these associates, the Company ceases to recognize its share in losses when the carrying value reaches zero. Any additional losses are provided for and liabilities are recognized only to the extent that the Company has legal or constructive obligations or has made payments on behalf of the associate.

If the associate subsequently makes profits, the Company resumes recognizing its share in these profits only after its share of the profits equals the share of losses not recognized.

The carrying value of investments in associates is tested for impairment by reconciling its recoverable amount (the higher of its value in use and fair value less costs to sell) to its carrying value, whenever impairment indicators are identified.

3. Significant accounting policies (continued)

Joint arrangements

The Company participates in joint arrangements either in the form of joint ventures or joint operations.

A joint venture implies that the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture involves establishing a legal entity where the Company and other participants have respective equity interests. Equity interests in joint ventures are accounted for under the equity method.

The Company's share in net profit or loss and in other comprehensive income of joint ventures is recognized in the consolidated statement of profit or loss and in the consolidated statement of other comprehensive income, respectively, from the date when joint control commences until the date when joint control ceases. A joint operation implies that the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. In relation to its interest in a joint operation the Company recognizes its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly, its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation, and expenses, including its share of any expenses incurred jointly.

Cash and cash equivalents

Cash represents cash on hand, in the Company's bank accounts, in transit and interest bearing deposits which can be effectively withdrawn at any time without prior notice or any penalties reducing the principal amount of the deposit. Cash equivalents are highly liquid, short-term investments that are readily convertible to known amounts of cash and have original maturities of three months or less from their date of purchase. They are carried at cost plus accrued interest, which approximates fair value. Restricted cash is presented separately in the consolidated balance sheet if its amount is significant.

Financial assets

The Company recognizes financial assets in its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial assets are recognized initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

When financial assets are recognized initially, they are classified as one of the following, as appropriate: (1) financial assets at fair value through profit or loss, (2) loans issued and accounts receivable, (3) financial assets held to maturity, or (4) financial assets available for sale.

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as financial assets at fair value through profit or loss at initial recognition. Financial assets held for trading are those which are acquired principally for the purpose of sale or repurchase in the near future or are part of a portfolio of identifiable financial instruments that have been commonly managed and for which there is evidence of a recent pattern of actual short term profit taking, or which are derivative instruments (unless the derivative instrument is defined as an effective hedging instrument). Financial assets at fair value through profit or loss are classified in the consolidated balance sheet as current assets and changes in the fair value are recognized in the consolidated statement of profit or loss as Finance income or Finance expenses.

3. Significant accounting policies (continued)

Financial assets (continued)

All derivative instruments are recorded in the consolidated balance sheet at fair value in either current financial assets, non-current financial assets, current liabilities related to derivative instruments, or non-current liabilities related to derivative instruments. The recognition and classification of a gain or loss that results from recognition of an adjustment of a derivative instrument at fair value depends on the purpose for issuing or holding the derivative instrument. Gains and losses from derivatives that are not accounted for as hedges under International Accounting Standard ("IAS") 39 *Financial Instruments: Recognition and Measurement* are recognized immediately in the profit or loss for the period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Subsequent to initial recognition, the fair value of financial assets at fair value that are quoted in an active market is defined as bid prices for assets and ask prices for issued liabilities as of the measurement date.

If no active market exists for financial assets, the Company measures the fair value using the following methods:

- analysis of recent transactions with peer instruments between independent parties;
- current fair value of similar financial instruments;
- discounting future cash flows.

The discount rate reflects the minimum return on investment an investor is willing to accept before starting an alternative project, given its risk and the opportunity cost of forgoing other projects.

Loans issued and accounts receivable include non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, not classified as financial assets held for trading and have not been designated as at fair value through profit or loss or available for sale. If the Company cannot recover all of its initial investment in the financial asset due to reasons other than deterioration of its quality, the financial asset is not included in this category. After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the consolidated statement of profit or loss. The losses arising from impairment or gains from impairment reversals are recognized in the consolidated statement of profit or loss.

The Company does not classify financial assets as held to maturity if, during either the current financial year or the two preceding financial years, the Company has sold, transferred or exercised a put option on more than an insignificant (in relation to the total) amount of such investments before maturity, unless: (1) the financial asset was close enough to maturity or the call date so that changes in the market rate of interest did not have a significant effect on the financial asset's fair value; (2) after substantially all of the financial asset's original principal had been collected through scheduled payments or prepayments; or (3) due to an isolated non-recurring event that was beyond the Company's control and could not have been reasonably anticipated by the Company.

Dividends and interest income are recognized in the consolidated statement of profit or loss on an accrual basis. The amount of accrued interest income is calculated using the effective interest rate.

All other financial assets not included in the other categories are designated as financial assets available for sale. Specifically, the shares of other companies not included in the first category are designated as available for sale. In addition, the Company may include any financial asset in this category at the initial recognition.

3. Significant accounting policies (continued)

Financial liabilities

The Company recognizes financial liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial liabilities are recognized initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

When financial liabilities are recognized initially, they are classified as one of the following:

- financial liabilities at fair value through profit or loss;
- other financial liabilities.

Financial liabilities at fair value through profit or loss are financial liabilities held for trading unless such liabilities are linked to the delivery of unquoted equity instruments.

At the initial recognition, the Company may include in this category any financial liability, except for equity instruments that are not quoted in an active market and whose fair value cannot be reliably measured. After initial recognition, however, the liability cannot be reclassified.

Financial liabilities not classified as financial liabilities at fair value through profit or loss are designated as other financial liabilities. Other financial liabilities include, inter alia, trade and other accounts payable, and loans and borrowings payable.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the consolidated statement of profit or loss. Other financial liabilities are carried at amortized cost.

The Company writes off a financial liability (or part of a financial liability) from its balance sheet when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying value of a financial liability (or a part of a financial liability) extinguished or transferred to another party and the redemption value, including any transferred non-monetary assets and assumed liabilities, is recognized in profit or loss. Any previously recognized components of other comprehensive income pertaining to this financial liability are also included in the financial result and are recognized as gains and losses for the period.

Earnings per share

Basic earnings per share is calculated by dividing net earnings attributable to common shares by the weighted average number of common shares outstanding during the corresponding period. In the absence of any securities-to-shares conversion transactions, the amount of basic earnings per share stated in these consolidated financial statements is equal to the amount of diluted earnings per share.

Inventories

Inventories consisting primarily of crude oil, petroleum products, petrochemicals and materials and supplies are accounted for at the weighted average cost unless net realizable value is less than cost. Materials that are used in production are not written down below cost if the finished products into which they will be incorporated are expected to be sold above cost.

3. Significant accounting policies (continued)

Repurchase and resale agreements

Securities sold under repurchase agreements ("REPO") and securities purchased under agreements to resell ("reverse REPO") generally do not constitute a sale of the underlying securities for accounting purposes, and so are treated as collateralized financing transactions. Interest paid or received on all REPO and reverse REPO transactions is recorded in Finance expense or Finance income, respectively, at the contractually specified rate using the effective interest method.

Exploration and production assets

Exploration and production assets include exploration and evaluation assets, mineral rights and oil and gas properties (development assets and production assets).

Exploration and evaluation costs

The Company recognizes exploration and evaluation costs using the successful efforts method as permitted by IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Under this method, costs related to exploration and evaluation (license acquisition costs, exploration and appraisal drilling) are temporarily capitalized in cost centers by field (well) until the drilling program results in the discovery of economically feasible oil and gas reserves.

The length of time necessary for this determination depends on the specific technical or economic difficulties in assessing the recoverability of the reserves. If a determination is made that the well did not encounter oil and gas in economically viable quantities, the well costs are expensed to Exploration expenses in the consolidated statement of profit or loss.

Exploration and evaluation costs, except for costs associated with seismic, topographical, geological, and geophysical surveys, are initially capitalized as exploration and evaluation assets. Exploration and evaluation assets are recognized at cost less impairment, if any, as property, plant and equipment until the existence (or absence) of commercial reserves has been established. The initial cost of exploration and evaluation assets acquired through a business combination is formed as a result of purchase price allocation. The cost allocation to mineral rights to proved properties and mineral rights to unproved properties is performed based on the respective oil and gas reserves information. Exploration and evaluation assets are subject to technical, commercial and management review as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, an impairment test is performed.

If, subsequently, commercial reserves are discovered, the carrying value, less losses from impairment of the respective exploration and evaluation assets, is classified as oil and gas properties (development assets). However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

Development and production

Oil and gas properties (development assets) are accounted for on a field-by-field basis and represent (1) capitalized costs to develop discovered commercial reserves and to put fields into production, and (2) exploration and evaluation costs incurred to discover commercial reserves reclassified from exploration and evaluation assets to oil and gas properties (development assets) following the discovery of commercial reserves.

3. Significant accounting policies (continued)

Development and production (continued)

The cost of oil and gas properties (development assets) also includes the expenditures to acquire such assets, directly identifiable overhead expenses, capitalized financing costs and related asset retirement (decommissioning) obligation costs. Oil and gas properties (development assets) are generally recognized as construction in progress.

Following the commencement of commercial production, oil and gas properties (development assets) are reclassified as oil and gas properties (production assets).

Other property, plant and equipment

Other property, plant and equipment are stated at historical cost as of the acquisition date, except for property, plant and equipment acquired prior to January 1, 2009, which is stated at deemed cost, net of accumulated depreciation and impairment. The cost of maintenance, repairs, and the replacement of minor items of property is charged to operating expenses. Renewals and betterments of assets are capitalized.

Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

Depreciation, depletion and amortization

Oil and gas properties are depleted using the unit-of-production method on a field-by-field basis starting from the commencement of commercial production.

In applying the unit-of-production method to mineral licenses, the depletion rate is based on total proved reserves. In applying the unit-of-production method to producing wells and the related oil and gas infrastructure, the depletion rate is based on proved developed reserves.

Other property, plant and equipment are depreciated using the straight-line method over their estimated useful lives from the time they are ready for use, except for catalysts which are amortized using the unit-of-production method.

Components of other property, plant and equipment and their respective estimated useful lives are as follows:

Property, plant and equipment	Useful life, not more than
Buildings and structures	30-45 years
Plant and machinery	5-25 years
Vehicles and other property, plant and equipment	6-10 years
Service vessels	20 years
Offshore drilling assets	20 years

Land generally has an indefinite useful life and is therefore not depreciated.

Land leasehold rights are amortized on a straight-line basis over their expected useful life, which averages 20 years.

3. Significant accounting policies (continued)

Construction grants

The Company recognizes construction grants from local governments when there is a reasonable assurance that the Company will comply with the conditions attached and that the grant will be received. The construction grants are accounted for as a reduction of the cost of the asset for which the grant is received.

Impairment of non-current assets

The Company assesses at each balance sheet date whether there is any indication that an asset or cash-generating unit may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset or cash-generating unit.

In assessing whether there is any indication that an asset may be impaired, the Company considers internal and external sources of information. It considers at least the following:

External sources of information:

- during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- significant changes with an adverse effect on the Company have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Company operates or in the market to which an asset is dedicated;
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- the carrying amount of the net assets of the Company is more than its market capitalization.

Internal sources of information:

- evidence is available of obsolescence or physical damage of an asset;
- significant changes with an adverse effect on the Company have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used (e.g., the asset becoming idle, or the useful life of an asset is reassessed as finite rather than indefinite);
- information on dividends from a subsidiary, joint venture or associate;
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. Such evidence includes the existence of:
  - cash flows on acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;
  - actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted;
  - a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted losses, flowing from the asset;
  - operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

3. Significant accounting policies (continued)

Impairment of non-current assets (continued)

The following factors indicate that exploration and evaluation assets may be impaired:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The recoverable amount of an asset or a cash-generating unit is the higher of:

- the value in use of an asset (cash-generating unit); and
- the fair value of an asset (cash-generating unit) less costs to sell.

If the asset does not generate cash inflows that are largely independent of those from other assets, its recoverable amount is determined for the asset's cash-generating unit.

The Company initially measures the value in use of a cash-generating unit. When the carrying amount of a cash-generating unit is greater than its value in use, the Company measures the unit's fair value for the purpose of measuring the recoverable amount. When the fair value is less than the carrying value an impairment loss is recognized.

Value in use is determined by discounting the estimated value of the future cash inflows expected to be derived from the asset or cash-generating unit, including cash inflows from its sale. The value of the future cash inflows from a cash-generating unit is determined based on the forecast approved by management of the business unit to which the unit in question pertains.

Impairment of financial assets

At each balance sheet date the Company analyzes whether there is objective evidence of impairment for all categories of financial assets, except those recorded at fair value through profit or loss. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include (but is not limited to) indications that debtors or a group of debtors are experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3. Significant accounting policies (continued)

Capitalized interest

Interest expense on borrowed funds used for capital construction projects and the acquisition of property, plant and equipment is capitalized provided that the interest expense could have been avoided if the Company had not made capital investments. Interest is capitalized only during the period when construction activities are actually in progress and until the resulting properties are put into operation.

Capitalized borrowing costs include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Leasing agreements

Leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the asset, are classified as financial leases and are capitalized at the commencement of the lease at the fair value of the leased property or, if it is lower than the cost, at the present value of the minimum lease payments. Lease payments are apportioned between the finance expenses and reduction of the lease liability in order to achieve a constant rate of interest on the remaining balance of the liabilities. Finance expenses are charged directly to the consolidated statement of profit or loss.

Leased property, plant and equipment are accounted for using the same policies applied to the Company's own assets. In determining the useful life of a leased item of property, plant and equipment, consideration is given to the probability of the title being transferred to the lessee at the end of the lease term.

If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. Where such certainty exists, the asset is depreciated over its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

Asset retirement (decommissioning) obligations

The Company has asset retirement (decommissioning) obligations associated with its core business activities. The nature of the assets and potential obligations are as follows:

The Company's exploration, development and production activities involve the use of wells, related equipment and operating sites, oil gathering and treatment facilities, tank farms and in-field pipelines. Generally, licenses and other regulatory acts require that such assets be decommissioned upon the completion of production. According to these requirements, the Company is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Company's estimates of these obligations are based on current regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Company using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability.

3. Significant accounting policies (continued)

Asset retirement (decommissioning) obligations (continued)

In accordance with IFRS Interpretations Committee ("IFRIC") Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, the provision is reviewed at each balance sheet date as follows:

- upon changes in the estimates of future cash flows (e.g., the costs of and timeframe for abandoning one well) or the discount rate, changes in the amount of the liability are included in the cost of the item of property, plant, and equipment, whereby such cost may not be negative and may not exceed the recoverable value of the item of property, plant, and equipment;
- any changes in the liability due to its nearing maturity (change in the discount) are recognized in Finance expenses.

The Company's refining and distribution activities involve refining operations, marine and other distribution terminals, and retail sales. The Company's refining operations consist of major petrochemical operations and industrial complexes. Legal or contractual asset retirement (decommissioning) obligations related to petrochemical, oil refining and distribution activities are not recognized due to the limited history of such activities in these segments, the lack of clear legal requirements as to the recognition of obligations, as well as the fact that decommissioning periods for such assets are not determinable.

Because of the reasons described above the fair value of an asset retirement (decommissioning) obligation in the refining and distribution segment cannot be reasonably estimated.

Due to continuous changes in the Russian regulatory and legal environment, there could be future changes to the requirements and contingencies associated with the retirement of long-lived assets.

Income tax

Since 2012 Russian tax legislation has allowed income taxes to be calculated on a consolidated basis. The main subsidiaries of the Company were therefore combined into a consolidated group of taxpayers (Note 40). For subsidiaries which are not included in the consolidated group of taxpayers, income tax is calculated on an individual subsidiary basis. Deferred income tax assets and liabilities are recognized in the accompanying consolidated financial statements in the amount determined by the Company in accordance with IAS 12 *Income Taxes*.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax liability is recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - affects neither accounting profit, nor taxable profit;
- investments in subsidiaries when the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

A prior period tax loss planned to be used to reduce the current or future amount of income tax is recognized as a deferred tax asset.

3. Significant accounting policies (continued)

Income tax (continued)

A deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

The Company recognizes deferred tax assets for all deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures, to the extent that the following two conditions are met:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the taxation authority of the same jurisdiction and the Company intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date.

The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are classified as Non-current Deferred tax assets and Non-current Deferred tax liabilities, respectively.

Deferred tax assets and liabilities are not discounted.

Recognition of revenues

Revenues are recognized when risks and rewards pass to the customer, which usually occurs when the title passes to the customer, provided that the contract price is fixed or determinable and collectability of the receivable is reasonably assured. Specifically, domestic sales of crude oil and gas, as well as petroleum products and materials are usually recognized when title passes. For export sales, title generally passes at the border of the Russian Federation and the Company covers transportation expenses (except freight), duties and taxes on those sales (Note 10). Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, volume rebates and reimbursable taxes.

Sales of support services are recognized as services are performed provided that the service price can be determined and no significant uncertainties regarding the receipt of revenues exist.

3. Significant accounting policies (continued)

Transportation expenses

Transportation expenses recognized in the consolidated statement of profit or loss represent all expenses incurred by the Company to transport crude oil for refining and to end customers, and to deliver petroleum products from refineries to end customers (these may include pipeline tariffs and any additional railroad transportation costs, handling costs, port fees, sea freight and other costs).

Refinery maintenance costs

The Company recognizes the costs of overhauls and preventive maintenance performed with respect to oil refining assets as expenses when incurred.

Environmental liabilities

Expenditures that relate to an existing condition caused by past operations, and do not have a future economic benefit, are expensed. Liabilities for these expenditures are recorded when environmental assessments or clean-ups are probable and the costs can be reasonably estimated.

Accounting for contingencies

Certain conditions may exist as of the date of these consolidated financial statements which may further result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management makes an assessment of such contingent liabilities which is based on assumptions and is a matter of opinion. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal or tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve financial guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

Taxes collected from customers and remitted to governmental authorities

Refundable taxes (excise and value-added tax ("VAT")) are deducted from revenues. Other taxes and duties are not deducted from revenues and are recognized as expenses in Taxes other than income tax in the consolidated statement of profit or loss.

VAT and excise receivable and payable are recognized as Prepayments and other current assets and Other tax liabilities in the consolidated balance sheet, respectively.

3. Significant accounting policies (continued)

Functional and presentation currency

The consolidated financial statements are presented in Russian rubles, which is the functional currency of Rosneft Oil Company and all of its subsidiaries operating in the Russian Federation. The functional currency of the foreign subsidiaries is generally the U.S. dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of these transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the profit or loss for the period.

Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities designated as foreign currency cash flow hedging instruments are recognized within other comprehensive income and reclassified to profit or loss in the period when the hedged item affects profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The Company's subsidiaries

The results and financial position of all of the Company's subsidiaries, joint ventures and associates that have a functional currency which is different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at that reporting date;
- income and expenses for each statement of profit or loss and each statement of other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of other comprehensive income.

Prepayment on oil and petroleum products supply agreements

In the course of business the Company enters into long-term oil supply contracts. The contract terms may require the buyer to make a prepayment.

The Company considers long-term oil supply contracts to be regular-way sale contracts entered into and continued to be held for the purpose of the receipt or delivery of non-financial items in accordance with the Company's expected purchase, sale or usage requirements. Regular-way sale contracts are exempted from the scope of IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement.*

3. Significant accounting policies (continued)

Prepayment on oil and petroleum products supply agreements (continued)

Conditions for meeting the definition of a regular-way sale are not met if either of the following applies:

- the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the Company has a practice of settling similar contracts net in cash or via another financial instrument or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);
- for similar contracts, the Company has a practice of taking delivery of the underlying goods and selling them within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or from a dealer's margin.

Prepayments for the delivery of goods or respective deferred revenue are accounted for as non-financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards and interpretations effective as of January 1, 2016.
The following amendments were applied for the first time in 2016:

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

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

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

4. Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements requires management to make a number of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. The actual results, however, could differ from those estimates.

The most significant accounting estimates and assumptions used by the Company's management in preparing the consolidated financial statements include:

- estimation of oil and gas reserves;
- estimation of rights to, recoverability and useful lives of non-current assets;
- impairment of goodwill (Note 26 "Intangible assets and goodwill");
- allowances for doubtful accounts receivable and obsolete and slow-moving inventories (Note 22 "Accounts receivable" and Note 23 "Inventories");
- assessment of asset retirement (decommissioning) obligations (Note 3 "Significant accounting policies", section: "Asset retirement (decommissioning) obligations", and Note 33 "Provisions");
- assessment of legal and tax contingencies, recognition and disclosure of contingent liabilities (Note 41 "Contingencies");
- assessment of deferred income tax assets and liabilities (Note 3 "Significant accounting policies", section: "Income tax", and Note 17 "Income tax");
- assessment of environmental remediation obligations (Note 33 "Provisions" and Note 41 "Contingencies");
- fair value measurements (Note 38 "Fair value of financial instruments");
- assessment of the Company's ability to renew operating leases and to enter into new lease agreements;
- purchase price allocation to the identifiable assets acquired and the liabilities assumed (Note 7 "Acquisition of subsidiaries and shares in joint operations").

Significant estimates and assumptions affecting the reported amounts are those used in determining the economic recoverability of reserves.

Such estimates and assumptions may change over time when new information becomes available, e.g.:

- more detailed information on reserves was obtained (either as a result of more detailed engineering calculations or additional exploration drilling activities);
- supplemental activities to enhance oil recovery were conducted;
- changes were made in economic estimates and assumptions (e.g. a change in pricing factors).

5. New and amended standards and interpretations issued but not yet effective

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. In April 2016, the IASB issued amendments to IFRS 15, which have the same effective date as the new standard: January 1, 2018. The Company is currently assessing the impact of the standard on the consolidated financial statements.

5. New and amended standards and interpretations issued but not yet effective (continued)

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. The final version of IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement,* and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment, IFRS 9 replaces the 'incurred loss' model used in IAS 39 with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of the standard on the consolidated financial statements.

In September 2014, the IASB issued amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* entitled *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. These narrow scope amendments clarify that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not), and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The IASB has postponed the date by when the entities must change these aspects of accounting for transactions between investors and equity accounted investees. Application of the amendments, initially planned for annual periods beginning on or after January 1, 2016, has been deferred. The Company does not expect the amendments to have a material impact on the consolidated financial statements as their requirements are already incorporated in the accounting policy of the Company.

In January 2016, the IASB issued IFRS 16 *Leases*. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and establishes a single lessee accounting model. The most significant effect of the new requirements for the lessee will be an increase in lease assets and financial liabilities. The new standard replaces the previous leases standard, IAS 17 *Leases*, and the related interpretations. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15 *Revenue from Contracts with Customers*. The Company is currently assessing the impact of the standard on the consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* entitled *Disclosure Initiative*. 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. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company is currently assessing the impact of the standard on the consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12 *Income Taxes* entitled Recognition of *Deferred Tax Assets for Unrealised Losses*. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In June 2016, the IASB issued amendments to IFRS 2 *Share-based Payment* entitled *Classification and Measurement of Share-based Payment Transactions*. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

5. New and amended standards and interpretations issued but not yet effective (continued)

In September 2016, the IASB issued amendments to IFRS 4 *Insurance Contracts* entitled *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the Board is developing for IFRS 4. The amendments introduce two approaches, which should reconcile the timing of the application of the two new standards. Under the first approach, the amendments become effective on the date of first-time adoption of IFRS 9; under the second, the amendments become effective for annual periods beginning on or after January 1, 2018. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In December 2016, the IASB issued IFRIC 22 Interpretation entitled *Foreign Currency Transactions and Advance Consideration*. The IFRIC addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements as their requirements are already incorporated in the accounting policy of the Company.

In December 2016, the IASB issued amendments to IAS 40 *Investment Property* entitled *Transfers of Investment Property*. The amendments clarify the requirements on transfers to, or from, investment property. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

6. Capital and financial risk management

Capital management

The Company's capital management objectives are to ensure its ability to continue as a going concern and to optimize the cost of capital in order to enhance value to shareholders.

The Company's management performs a regular assessment of the net debt to capital employed ratio to ensure it meets the Company's current rating requirements.

The Company's capital consists of debt obligations, which include long and short-term loans and borrowings, financial lease liabilities, liabilities related to derivative financial instruments, equity attributable to equity holders of Rosneft that includes share capital, reserves and retained earnings, as well as non-controlling interest. Net debt is a non-IFRS measure and is calculated as the sum of loans and borrowings and other financial liabilities as reported in the consolidated balance sheet, less cash and cash equivalents, other short-term financial assets and certain long-term deposits. The net debt to capital employed ratio enables users to see how significant net debt is relative to capital employed.

The Company's net debt to capital employed ratio was as follows:

	As of December 31,	
	2016	**2015**
Total debt	**3,585**	3,323
Cash and cash equivalents	**(790)**	(559)
Other short-term financial assets and certain deposits	**(905)**	(1,070)
Net debt	**1,890**	1,694
Total equity	**3,726**	2,929
Total capital employed	**5,616**	4,623
Net debt to capital employed ratio, %	**33.7%**	36.6%

6. Capital and financial risk management (continued)

Financial risk management

In the normal course of business the Company is exposed to the following financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Company has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

The Company has developed, documented and approved the relevant policies pertaining to market, credit and liquidity risks and the use of derivative financial instruments.

Foreign currency risk

The Company undertakes transactions denominated in foreign currencies and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying values of monetary assets and liabilities denominated in foreign currencies are presented in the table below:

	Assets		**Liabilities**	
	As of December 31,		**As of December 31,**	
	2016	**2015**	**2016**	**2015**
US$	**1,358**	1,828	(2,226)	(2,793)
EUR	**153**	121	(87)	(113)
Total	**1,511**	1,949	(2,313)	(2,906)

The Company seeks to identify and manage foreign exchange rate risk in a comprehensive manner, including an integrated analysis of natural economic hedges, in order to benefit from the correlation between income and expenses. The Company chooses the currency in which to hold cash, such as the Russian ruble, U.S. dollar or other currency for short-term risk management purposes.

The long-term risk management strategy of the Company may involve the use of derivative or non-derivative financial instruments in order to minimize foreign exchange rate risk exposure.

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.

6. Capital and financial risk management (continued)

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

Changes in the nominal hedging amount during 2016 are presented in the table below:

	US$ million	The equivalent amount at the CBR exchange rate as of December 31, 2016, RUB billion
Nominal amount as of December 31, 2015	3,918	238
Hedging instruments designated	7,000	425
Realized cash flow foreign exchange hedges	(437)	(27)
Hedging instruments de-designated	(8,718)	(529)
Nominal amount as of December 31, 2016	**1,763**	**107**

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

	2016			2015		
	Before income tax	Income tax	Net of tax	Before income tax	Income tax	Net of tax
Total recognized in other comprehensive (loss)/income as of the beginning of the year	**(590)**	**118**	**(472)**	(498)	100	(398)
Foreign exchange effects recognized during the year	**8**	**(2)**	**6**	(215)	43	(172)
Foreign exchange effects reclassified to profit or loss	**147**	**(29)**	**118**	123	(25)	98
Total recognized in other comprehensive (loss)/income for the year	**155**	**(31)**	**124**	(92)	18	(74)
Total recognized in other comprehensive (loss)/income as of the end of the year	**(435)**	**87**	**(348)**	(590)	118	(472)

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

Year	**2017**	**2018**	**2019**	**2020**	**Total**
Reclassification	(145.6)	(145.6)	(145.6)	1.8	**(435)**
Income tax	29.1	29.1	29.1	(0.3)	**87**
Total, net of tax	**(116.5)**	**(116.5)**	**(116.5)**	**1.5**	**(348)**

The expected reclassification is calculated using the Central Bank of Russia ("CBR") exchange rate as of December 31, 2016 and may be different using actual exchange rates in the future.

6. Capital and financial risk management (continued)

Analysis of sensitivity of financial instruments to foreign exchange risk

The level of currency risk is assessed on a monthly basis using sensitivity analysis and is maintained within the limits adopted in line with the Company's policy. The table below summarizes the impact on the Company's income before income tax and equity of the depreciation/(appreciation) of the Russian ruble against the U.S. dollar and euro.

	U.S. dollar effect		Euro effect	
	2016	**2015**	**2016**	**2015**
Currency rate change in %	**20.16%**	27.22%	**20.83%**	27.69%
Gain/(loss)	**147/(147)**	115/(115)	**11/(11)**	(1)/1
Equity	**(234)/234**	(379)/379	**2/(2)**	(41)/41

Interest rate risk

Loans and borrowings raised at variable interest rates expose the Company to interest rate risk arising from the possible movement of variable elements of the overall interest rate.

As of December 31, 2016, the Company's variable rate liabilities totaled RUB 2,033 billion (net of interest payable). The Company analyzes its interest rate exposure, including by performing scenario analysis to measure the impact of an interest rate shift on annual income before income tax.

The table below summarizes the impact of a potential increase or decrease in interest rates on the Company's profit before tax, as applied to the variable element of interest rates on loans and borrowings. The increase/decrease is based on management estimates of potential interest rate movements.

	Increase/decrease in interest rate	Effect on income before income tax
	basis points	RUB billion
2016	**+5**	**(1)**
	-5	**1**
2015	+5	(1)
	-5	1

The sensitivity analysis is limited to variable rate loans and borrowings and is conducted with all other variables held constant. The analysis is prepared with the assumption that the amount of variable rate liability outstanding at the balance sheet date was outstanding for the whole year. The interest rate on variable rate loans and borrowings will effectively change throughout the year in response to fluctuations in market interest rates.

The impact measured through the sensitivity analysis does not take into account other potential changes in economic conditions that may accompany the relevant changes in market interest rates.

6. Capital and financial risk management (continued)

Credit risk

The Company controls its own exposure to credit risk. All external customers and their financial guarantors, other than related parties, undergo a creditworthiness check (including sellers of goods and services who act on a prepayment basis). The Company performs an ongoing assessment and monitoring of the financial position and the risk of default. In the event of a default by the parties on their respective obligations under the financial guarantee contracts, the Company's exposure to credit risk will be limited to the corresponding contract amounts. As of December 31, 2016, management assessed such risk as remote.

In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash and performs trade finance operations. The Company primarily has banking relationships with the Russian subsidiaries of large international banking institutions and certain large Russian banks. The Company's exposure to credit risk is limited to the carrying value of financial assets recognized in the consolidated balance sheet.

Liquidity risk

The Company has mature liquidity risk management processes covering short-term, mid-term and long-term funding. Liquidity risk is controlled through maintaining sufficient reserves and the adequate amount of committed credit facilities and loan funds. Management regularly monitors projected and actual cash flow information, analyzes the repayment schedules of the existing financial assets and liabilities, and performs annual detailed budgeting procedures.

The contractual maturities of the Company's financial liabilities are presented below:

Year ended December 31, 2015	**On demand**	**12 months**	**1 to 5 years**	**> 5 years**	**Total**
Loans and borrowings	–	1,025	1,623	978	3,626
Finance lease liabilities	–	8	23	33	64
Accounts payable to suppliers and contractors	–	263	–	–	263
Salary and other benefits payable	–	63	–	–	63
Banking customer accounts	69	–	–	–	69
Other accounts payable	–	26	–	–	26
Derivative financial liabilities	–	104	–	–	104

Year ended December 31, 2016	**On demand**	**12 months**	**1 to 5 years**	**> 5 years**	**Total**
Loans and borrowings and other financial liabilities	–	**1,699**	**1,460**	**800**	**3,959**
Finance lease liabilities	–	**5**	**15**	**24**	**44**
Accounts payable to suppliers and contractors	–	**337**	–	–	**337**
Salary and other benefits payable	–	**80**	–	–	**80**
Banking customer accounts	**41**	–	–	–	**41**
Other accounts payable	–	**22**	–	–	**22**
Derivative financial liabilities	–	**98**	–	–	**98**
Voluntary offer to acquire shares	–	**50**	–	–	**50**

As of December 31, 2016, the Company's current liabilities exceeded its currents assets. Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Company's working capital requirements and repay its short-term debts and obligations when they become due.

7. Acquisitions of subsidiaries and shares in joint operations

Acquisitions of 2016

Acquisition of shares in refineries in Germany

On December 31, 2016 the Company acquired shares in refineries in Germany as part of the restructuring of Ruhr Oel GmbH, a joint operation with BP Group, engaged in the processing and sale of crude oil in Western Europe (Note 8). As a result of the restructuring, the Company has become a direct holder and increased its shareholdings in Bayernoil Raffineriegesellschaft mbH from 12.5% to 25%; in Mineraloelraffinerie Oberrhein GmbH from 12% to 24%; and in PCK Raffinerie GmbH (PCK) from 35.42% to 54.17%. In exchange, BP has consolidated 100% of the equity of the Gelsenkirchen refinery and solvents production facility DHC Solvent Chemie GmbH.

The total consideration amounted to US$ 1,522 million (RUB 92 billion at the CBR official exchange rate at the acquisition date). The deal enables the Company to significantly strengthen its position in one of the most promising oil product markets in Europe. The Company has become the third-largest oil refiner in the German market and is starting to develop its own business in the country.

The acquired interest was classified as a joint operation, and was accounted for through the recognition of assets, liabilities, income and expenses in respect of the Company's interests in accordance with IFRS 11, *Joint Arrangements.*

As of December 31, 2016, the Company had not yet completed the fair value estimation of assets acquired and liabilities assumed in the refineries in Germany. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months of the acquisition date.

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	
Accounts receivable	15
Inventories	2
Total current assets	**17**
Non-current assets	
Property, plant and equipment	108
Investments in associates and joint ventures	1
Total non-current assets	**109**
Total assets	**126**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	8
Loans and borrowings and other financial liabilities	2
Other tax liabilities	2
Total current liabilities	**12**
Non-current liabilities	
Deferred tax liabilities	13
Other non-current liabilities	9
Total non-current liabilities	**22**
Total liabilities	**34**
Total identifiable net assets at fair value	**92**
Total consideration transferred	**92**

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

Acquisitions of 2016 (continued)

Acquisition of shares in refineries in Germany (continued)

Had the refineries acquisition taken place at the beginning of the reporting period (January 1, 2016), revenues and net income of the combined entity would have been RUB 5,299 billion and RUB 219 billion, respectively, for the year ended December 31, 2016.

Acquisition of JSC Targin

On December 30, 2016 the Company acquired a 100% interest in JSC Targin, a provider of oilfield services.

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	
Accounts receivable	6
Inventories	2
Cash and cash equivalents	2
Total current assets	**10**
Non-current assets	
Property, plant and equipment	12
Total non-current assets	**12**
Total assets	**22**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	4
Loans and borrowings	4
Other current liabilities	1
Total current liabilities	**9**
Non-current liabilities	
Loans and borrowings	4
Total non-current liabilities	**4**
Total liabilities	**13**
Total identifiable net assets at fair value	**9**
Gain on bargain purchase	(5)
Total consideration transferred	**4**

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

Had Targin's acquisition taken place at the beginning of the reporting period (January 1, 2016), revenues and net income of the combined entity would have been RUB 4,982 billion and RUB 197 billion, respectively, for the twelve month period ended December 31, 2016.

As of December 31, 2016 and the date of authorization of these financial statements for issue the Company had not yet completed the fair value estimation of Targin's assets acquired and liabilities assumed. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months of the acquisition date.

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

Acquisitions of 2016 (continued)

Acquisition of PJSC Bashneft Oil Company

On October 12, 2016, the Company completed the acquisition of the state's stake in PJSC Bashneft Oil Company totaling 50.0755% of its charter capital. The consideration transferred totaled RUB 329.69 billion. As a result of the transaction, the Company has obtained control over PJSC Bashneft Oil Company and its subsidiaries ("Bashneft").

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

As a result of the acquisition, the Company expects to expand into new crude oil and petroleum product production and supply areas, increase its liquid hydrocarbon production and refining throughput, as well as realize significant synergies from optimizing oil supplies, transport and logistics costs, drilling cost reductions, and the joint use of both production asset infrastructure and modern technologies.

Significant subsidiaries of Bashneft are listed below:

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

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

Acquisitions of 2016 (continued)

Acquisition of PJSC Bashneft Oil Company (continued)

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

Assets	
Current assets	
Cash and cash equivalents	41
Accounts receivable	14
Inventories	39
Prepayments and other current assets	24
Other financial assets	5
Total current assets	**123**
Non-current assets	
Property, plant and equipment	815
Intangible assets	3
Other financial assets	5
Total non-current assets	**823**
Total assets	**946**
Liabilities	
Current Liabilities	
Accounts payable and accrued liabilities	56
Loans and borrowings	19
Profit tax payable	2
Other tax liabilities	23
Prepayment on long-term oil and petroleum products supply agreements	58
Provisions	1
Total current liabilities	**159**
Non-current Liabilities	
Loans and borrowings	93
Provisions	31
Deferred tax liabilities	112
Other liabilities	2
Total non-current liabilities	**238**
Total liabilities	**397**
Total identifiable net assets at fair value	**549**
Non-controlling interests	(169)
Liability for the mandatory offer	(50)
Total consideration transferred	**330**

Bashneft acquisition cash flow:

Net cash acquired	41
Cash paid	(330)
Net cash outflow	**(289)**

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

Acquisitions of 2016 (continued)

Acquisition of PJSC Bashneft Oil Company (continued)

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

On November 15, 2016, in accordance with Russian legal requirements, Rosneft submitted a mandatory offer to Bashneft for the acquisition of 55,466,137 Bashneft ordinary shares, comprising 37.52% of the total number of Bashneft ordinary shares. The proposed acquisition price amounted to RUB 3,706.41 per Bashneft ordinary share. Following the results of the mandatory offer, determined in February 2017, the Company included a liability of RUB 50 billion in the preliminary purchase price allocation for Bashneft.

Had the Bashneft acquisition taken place at the beginning of the reporting period (January 1, 2016), revenues and net income of the combined entity would have been RUB 5,420 billion and RUB 229 billion, respectively, for the twelve month period ended December 31, 2016.

As of December 31, 2016 and the date of authorization of these financial statements for issue the Company had not yet completed the fair value estimation of Bashneft’s assets acquired and liabilities assumed. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months of the acquisition date. The Company does not anticipate any significant goodwill being recognized upon completion of the fair value estimation.

Other acquisitions

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.

Acquisitions of 2015

Acquisition of AET-Raffineriebeteiligungsgesellschaft mbH

In November 2015 the Company acquired a 66.67% ownership interest in AET-Raffineriebeteiligungsgesellschaft mbH, which represents a 16.67% effective interest in PCK refinery, Schwedt, Germany. The total consideration amounted to euro 321 million (RUB 23 billion at the CBR official exchange rate at the acquisition date) including related stocks of crude oil and petroleum products. The Company made the acquisition in order to develop its target business model in Germany in view of the restructuring of Ruhr Oel GmbH, a joint operation with BP Group, engaged in the processing and sale of crude oil in Western Europe.

The acquired interest was classified as a joint operation, and was accounted for through the recognition of assets, liabilities, income and expenses in respect of the Company’s interests in accordance with IFRS 11, *Joint Arrangements.*

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

Acquisitions of 2015 (continued)

Acquisition of AET-Raffineriebeteiligungsgesellschaft mbH (continued)

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

ASSETS	
Current assets	
Accounts receivable	2
Inventories	2
Prepayments and other current assets	1
Total current assets	**5**
Non-current assets	
Property, plant and equipment	27
Total non-current assets	**27**
Total assets	**32**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	1
Total current liabilities	**1**
Non-current liabilities	
Deferred tax liabilities	6
Other non-current liabilities	2
Total non-current liabilities	**8**
Total liabilities	**9**
Total identifiable net assets at fair value	**23**
Total consideration transferred	**23**

Acquisition of LLC Trican Well Service

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

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

Acquisitions of 2015 (continued)

Acquisition of LLC Trican Well Service (continued)

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

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

Acquisition of LLC Petrol Market Company

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

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

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

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

Acquisitions of 2015 (continued)

Finalization of the allocation of the purchase price of LLC Trican Well Service, LLC Petrol Market Company and PCK refinery

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

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

	Before finalized estimation	Effect from finalized estimation			After finalized estimation
		TWS	Petrol Market	PCK	
Assets					
Current assets	**2,404**	**–**	**–**	**–**	**2,404**
Non-current assets					
Property, plant and equipment	5,895	(1)	(3)	5	5,896
Intangible assets	48	–	–	–	48
Other long-term financial assets	510	–	–	–	510
Investments in associates and joint ventures	353	–	–	–	353
Bank loans granted	18	–	–	–	18
Deferred tax assets	25	–	–	–	25
Goodwill	227	1	2	–	230
Other non-current non-financial assets	8	–	–	–	8
Total non-current assets	**7,084**	**–**	**(1)**	**5**	**7,088**
Assets held for sale	**150**	**–**	**–**	**–**	**150**
Total assets	**9,638**	**–**	**(1)**	**5**	**9,642**
Liabilities and equity					
Current liabilities	**1,817**	**–**	**–**	**–**	**1,817**
Non-current liabilities					
Loans and borrowings and other financial liabilities	2,283	–	–	–	2,283
Deferred tax liabilities	579	–	(1)	4	582
Provisions	143	–	–	–	143
Prepayment on oil supply agreements	1,785	–	–	–	1,785
Other non-current liabilities	39	–	–	1	40
Total non-current liabilities	**4,829**	**–**	**(1)**	**5**	**4,833**
Liabilities associated with assets held for sale	**63**	**–**	**–**	**–**	**63**
Equity					
Share capital	1	–	–	–	1
Additional paid-in capital	507	–	–	–	507
Other funds and reserves	(768)	–	–	–	(768)
Retained earnings	3,146	–	–	–	3,146
Rosneft shareholders' equity	**2,886**	**–**	**–**	–	**2,886**
Non-controlling interest	43	–	–	–	43
Total equity	**2,929**	**–**	**–**	–	**2,929**
Total liabilities and equity	**9,638**	**–**	**(1)**	**5**	**9,642**

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

Acquisitions of 2015 (continued)

Acquisition of CJSC Novokuibyshevsk Petrochemical Company

In March 2015 the Company acquired a 100% share in CJSC Novokuibyshevsk Petrochemical Company ("NPC"). The acquisition allowed the Company to integrate its gas processing assets with petrochemical production and to expand its presence in the petrochemical market sector. The total consideration amounted to US$ 300 million (RUB 18.3 billion at the CBR official exchange rate at the acquisition date).

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

ASSETS	
Current assets	
Accounts receivable	1
Inventories	2
Other current assets	3
Total current assets	**6**
Non-current assets	
Property, plant and equipment	18
Deferred tax assets	1
Other non-current assets	1
Total non-current assets	**20**
Total assets	**26**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	5
Loans and borrowings	7
Other current liabilities	2
Total current liabilities	**14**
Non-current liabilities	
Loans and borrowings	5
Deferred tax liabilities	2
Total non-current liabilities	**7**
Total liabilities	**21**
Total identifiable net assets at fair value	**5**
Goodwill	13
Total consideration transferred	**18**

Goodwill in the amount of RUB 13 billion relates to the expected synergies arising from integration with the Company's nearby oil and gas refining facilities as well as the guaranteed processing of broad fraction of light hydrocarbons from the Company's oilfields. Accordingly, the goodwill was fully attributed to the Refining and distribution segment. The amount of goodwill arising from the acquisition is not tax deductible.

Had the NPC acquisition taken place at the beginning of the reporting period (January 1, 2015), revenues and net income of the combined entity would have been RUB 5,159 billion and RUB 358 billion, respectively, for the twelve month period end December 31, 2015. NPC's revenues and net income for the period from the acquisition date to December 31, 2015 amounted to RUB 13 billion and RUB 0.5 billion, respectively.

8. Assets held for sale

As of December 31, 2016 the Company had completed the restructuring of Ruhr Oel GmbH, a joint operation with BP Group, engaged in the processing and sale of crude oil in Western Europe, and derecognized the assets and liabilities of Ruhr Oel GmbH classified as held for sale in the consolidated balance sheet as of December 31, 2016. The effect from the restructuring of Ruhr Oel GmbH was recognized in Other income in the consolidated statement of profit or loss for the year ended December 31, 2016 (Note 14).

9. 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.

Operating segments in 2016:

	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	**2,542**	**5,012**	**90**	**(2,656)**	**4,988**
Including: Equity share in profits of associates and joint ventures	**17**	**8**	**1**	**–**	**26**
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	**1,504**	**4,862**	**134**	**(2,656)**	**3,844**
Depreciation, depletion and amortization	**392**	**84**	**6**		**482**
Total costs and expenses	**1,896**	**4,946**	**140**	**(2,656)**	**4,326**
Operating income	**646**	**66**	**(50)**	**–**	**662**
Finance income	**–**	**–**	**91**	**–**	**91**
Finance expenses	**–**	**–**	**(193)**	**–**	**(193)**
Total finance expenses	**–**	**–**	**(102)**	**–**	**(102)**
Other income	**–**	**–**	**50**	**–**	**50**
Other expenses	**–**	**–**	**(76)**	**–**	**(76)**
Foreign exchange differences	**–**	**–**	**(70)**	**–**	**(70)**
Cash flow hedges reclassified to profit or loss	**–**	**–**	**(147)**	**–**	**(147)**
Income before income tax	**646**	**66**	**(395)**	**–**	**317**
Income tax expense	**(131)**	**(13)**	**28**	**–**	**(116)**
Net income	**515**	**53**	**(367)**	**–**	**201**

9. Segment information (continued)

Operating segments in 2015:

	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	2,487	5,152	97	(2,586)	5,150
Including: Equity share in profits of associates and joint ventures	2	6	1	–	9
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,530	4,896	152	(2,586)	3,992
Depreciation, depletion and amortization	359	84	7	–	450
Total costs and expenses	1,889	4,980	159	(2,586)	4,442
Operating income	598	172	(62)	–	708
Finance income	–	–	55	–	55
Finance expenses	–	–	(269)	–	(269)
Total finance expenses	–	–	(214)	–	(214)
Other income	–	–	75	–	75
Other expenses	–	–	(72)	–	(72)
Foreign exchange differences	–	–	86	–	86
Cash flow hedges reclassified to profit or loss	–	–	(123)	–	(123)
Income before income tax	598	172	(310)		460
Income tax expense	(120)	(34)	50	–	(104)
Net income	478	138	(260)	–	356

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

	2016	2015
International sales of crude oil, petroleum products and petrochemicals	**3,403**	3,690
International sales of crude oil and petroleum products – CIS, other than Russia	**183**	198
Domestic sales of crude oil, petroleum products and petrochemicals	**1,087**	995
Sales of gas	**214**	188
Total oil, gas, petroleum products and petrochemicals sales	**4,887**	5,071

The Company is not dependent on any of its major customers or any one particular customer, as there is a liquid market for crude oil and petroleum products. As of December 31, 2016, the amount of current receivables from the Company’s largest customer totaled RUB 35 billion, or around 8% of the Company’s trade receivables.

10. Taxes other than income tax

Taxes other than income tax for the years ended December 31 comprise the following:

	2016	2015
Mineral extraction tax	**1,007**	1,091
Excise tax	**197**	103
Property tax	**36**	31
Social charges	**50**	47
Other	**6**	5
Total taxes	**1,296**	1,277

11. Export customs duty

Export customs duty for the years ended December 31 comprises the following:

	2016	2015
Export customs duty on oil sales	**497**	683
Export customs duty on petroleum products and petrochemicals sales	**160**	242
Total export customs duty	**657**	925

12. Finance income

Finance income for the years ended December 31 comprises the following:

	2016	2015
Interest income on:		
Deposits and certificates of deposit	**24**	19
Loans issued	**29**	24
Notes receivable	**4**	3
Bonds	**4**	2
Current/settlement accounts	**10**	2
For the use of funds	**8**	–
Total interest income	**79**	50
Net gain from operations with derivative financial instruments	**10**	4
Other finance income	**2**	1
Total finance income	**91**	55

13. Finance expenses

Finance expenses for the years ended December 31 comprise the following:

	2016	2015
Interest expense on:		
Loans and borrowings	**(80)**	(91)
Prepayment on long-term oil and petroleum products supply agreements (Note 34)	**(90)**	(58)
Other interest expenses	**(7)**	(2)
Total interest expenses	**(177)**	(151)
Net loss from operations with derivative financial instruments	**–**	(104)
Increase in provision due to the unwinding of a discount	**(15)**	(13)
Other finance expenses	**(1)**	(1)
Total finance expenses	**(193)**	(269)

The weighted average rates used to determine the amount of borrowing costs eligible for capitalization were 4.82% and 8.83% p.a. in 2016 and 2015, respectively.

14. Other income and expenses

Other income for the years ended December 31 comprises the following:

	2016	2015
Liability write-off (Note 41)	**5**	37
Effect from disposal of investments in associates (Note 28)	**–**	15
Effect from disposal of subsidiaries and shares in joint operations (Note 8)	**33**	–
Insurance indemnity	**–**	17
Compensation payment for licenses from joint venture parties	**2**	–
Other	**10**	6
Total other income	**50**	75

The effect from the disposal of subsidiaries and shares in joint operations mainly includes the effect from the restructuring of Ruhr Oel GmbH. It is calculated as the difference between the fair value of the direct shareholding acquired in the refineries in Germany – Bayernoil Raffineriegesellschaft mbH, Mineraloelraffinerie Oberrhein GmbH and PCK (Note 7) – and the carrying value of the disposed assets and liabilities of Ruhr Oel GmbH (Note 8) as of December 31, 2016. The effect from the restructuring of Ruhr Oel GmbH includes the cumulative foreign exchange differences recognized in other comprehensive income, accumulated in shareholders' equity and reclassified to profit upon the disposal of Ruhr Oel GmbH.

Other expenses for the years ended December 31 comprise the following:

	2016	2015
Sale and disposal of property, plant and equipment and intangible assets	**(16)**	(22)
Disposal of companies and non-production assets	**(2)**	(11)
Impairment of assets	**(23)**	(6)
Social payments, charity, sponsorship, financial aid	**(16)**	(14)
Other	**(19)**	(19)
Total other expenses	**(76)**	(72)

The impairment of assets relates to a number of market quoted financial assets and certain other assets which were impaired due to a sustained decrease in market prices.

15. Personnel expenses

Personnel expenses for the years ended December 31 comprise the following:

	2016	2015
Salary	**211**	195
Statutory insurance contributions	**51**	47
Expenses on non-statutory defined contribution plan	**5**	5
Other employee benefits	**11**	10
Total personnel expenses	**278**	257

Personnel expenses are included in Production and operating expenses, General and administrative expenses and Other expenses in the consolidated statement of profit or loss.

16. Operating leases

Operating lease agreements have various terms and conditions and primarily consist of indefinite tenancy agreements for the lease of land plots under oilfield pipelines and petrol stations, agreements for the lease of rail cars and rail tank cars for periods over 12 months, and agreements for the lease of land plots for industrial sites of the Company's oil refining plants. The agreements provide for an annual revision of the rental rates and contractual terms and conditions.

Total operating lease expenses for the years ended December 31, 2016 and 2015 amounted to RUB 28 billion and RUB 26 billion, respectively. The expenses were recognized within Production and operating expenses, General and administrative expenses and Other expenses in the consolidated statement of profit or loss.

Future minimum lease payments under non-cancellable operating leases as of December 31 are as follows:

	2016	2015
Less than 1 year	**26**	25
From 1 to 5 years	**83**	71
Over 5 years	**188**	200
Total future minimum lease payments	**297**	296

17. Income tax

Income tax expenses for the years ended December 31 comprise the following:

	2016	2015
Current income tax	**39**	123
Prior period adjustments	**(4)**	(2)
Current income tax expense	**35**	121
Deferred tax relating to the origination and reversal of temporary differences	**81**	(17)
Deferred income tax expense/(benefit)	**81**	(17)
Total income tax expense	**116**	104

In 2016 and 2015, the Company's subsidiaries domiciled in the Russian Federation applied the standard Russian income tax rate of 20%, except for applicable regional tax relief. The income tax rates applicable for subsidiaries incorporated in other jurisdictions may vary from 20% and are calculated according to local regulations.

17. Income tax (continued)

Temporary differences between these consolidated financial statements and tax records gave rise to the following deferred income tax assets and liabilities:

	Consolidated balance sheet as of December 31,		Consolidated statement of profit or loss for the years, ended December 31,	
	2016	**2015 (restated)**	**2016**	**2015**
Short-term accounts receivable	**7**	5	**2**	2
Property, plant and equipment	**10**	8	**2**	–
Short-term accounts payable and accrued liabilities	**9**	8	**–**	(4)
Other current liabilities	**20**	23	**(3)**	(8)
Long-term loans and borrowings and other financial liabilities	**5**	6	**(1)**	3
Long-term provisions	**10**	9	**–**	(3)
Tax loss carry forward	**29**	96	**(69)**	28
Other	**14**	9	**4**	5
Less: deferred tax liabilities offset	***(82)***	*(139)*	**–**	–
Deferred tax assets	**22**	25	**(65)**	23
Inventories	**(10)**	(2)	**(4)**	2
Property, plant and equipment	**(503)**	(442)	**(13)**	(21)
Mineral rights	**(326)**	(255)	**7**	8
Intangible assets	**(5)**	(8)	**3**	–
Investments in associates and joint ventures	**(9)**	(7)	**(2)**	(1)
Other	**(14)**	(7)	**(7)**	6
Less: deferred tax assets offset	***82***	*139*	**–**	–
Deferred tax liabilities	**(785)**	(582)	**(16)**	(6)
Deferred income tax (expense)/benefit			**(81)**	17
Net deferred tax liabilities	**(763)**	(557)		
Recognized in the consolidated balance sheet as following				
Deferred tax assets	**22**	25		
Deferred tax liabilities	**(785)**	(582)		
Net deferred tax liabilities	**(763)**	(557)		

The reconciliation of net deferred tax liabilities is as follows:

	2016	**2015 (restated)**
As of January 1	**(557)**	(570)
Deferred income tax (expense)/benefit, recognized in the consolidated statement of profit or loss	**(81)**	17
Acquisition of subsidiaries and shares in joint operations (Note 7)	**(127)**	(9)
Deferred tax expenses recognized in other comprehensive income	**2**	(3)
Reclassification to assets held for sale	**–**	8
As of December 31	**(763)**	(557)

17. Income tax (continued)

The reconciliation between tax expense and the product of accounting profit multiplied by the 20% tax rate for the years ended December 31 is as follows:

	2016	2015
Income before income tax	**317**	460
Income tax at statutory rate of 20%	**63**	92
Increase/(decrease) resulting from:		
Effect of change in unrecognized deferred tax assets	**6**	23
Effect of income tax rates in other jurisdictions	**4**	3
Effect of special tax treatments	**3**	3
Effect of income tax relief	**(16)**	(18)
Effect of equity share in profits of associates and joint ventures	**(3)**	(1)
Effect of sale of shares in subsidiaries and investments in associates and joint ventures	**38**	(2)
Effect of restructuring of joint ventures	**(6)**	–
Effect of tax on intercompany dividends	**7**	–
Effect of prior period adjustments	**1**	–
Effect of non-taxable income and non-deductible expenses	**19**	4
Income tax	**116**	104

Unrecognized deferred tax assets in the consolidated balance sheet for the years ended December 31, 2016 and 2015 amounted to RUB 39 billion and RUB 37 billion, respectively, related to unused tax losses. In respect of recognized deferred tax assets on tax losses carried forward management considers it probable that future taxable profits will be available for the Company against which these tax losses can be utilized.

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 2015 profits of controlled foreign companies are included in the Company's tax base as of December 31, 2016 and recorded in the tax declaration. The consequences of taxation of controlled foreign companies are accounted for within current and deferred tax liabilities.

18. Non-controlling interests

Non-controlling interests include:

	As of December 31, 2016		2016	As of December 31, 2015		2015
	Non-controlling interest (%)	**Non-controlling interest as of the end of the year**	**Non-controlling interest in net income**	**Non-controlling interest (%)**	**Non-controlling interest as of the end of the year**	**Non-controlling interest in net income**
PJSC Bashneft Oil Company	**39.67**	**172**	**3**	–	–	–
JSC Vankorneft	**49.90**	**141**	**13**	–	–	–
LLC Taas-Yuriakh Neftegazodobycha	**49.90**	**92**	**2**	20.00	31	–
OJSC Grozneftegaz	**49.00**	**3**	**–**	49.00	3	–
JSC Russian Regional Development Bank (VBRR)	**1.66**	**2**	**1**	15.33	1	–
OJSC Rosneft Sakhalin	**45.00**	**2**	**–**	45.00	2	–
CJSC TZK Sheremetyevo	**25.10**	**1**	**–**	25.10	1	–
SIA ITERA Latvija	**–**	**–**	**–**	34.00	2	1
Non-controlling interests in other entities	**various**	**4**	**1**	various	3	–
Total non-controlling interests		**417**	**20**		43	1

In May 2016 the Company sold a 15% share in its subsidiary JSC Vankorneft to Oil and Natural Gas Corporation Videsh Limited for a consideration of RUB 72 billion.

In October 2016 the Company sold a 23.9% share in JSC Vankorneft to a consortium of Indian companies, including Oil India Ltd, Indian Oil Corporation and Bharat Petroresources (the "Consortium"). As of December 31, 2016, the Company received a base payment of RUB 106 billion. The agreement provides for the final settlement.

In October 2016 the Company sold an 11% share in JSC Vankorneft to a subsidiary of Oil and Natural Gas Corporation Videsh Limited. As of December 31, 2016, the Company received a base payment of RUB 49 billion. The agreement provides for the final settlement.

In October 2016 the Company sold a 29.9% share in its subsidiary LLC Taas-Yuryakh Neftegazodovycha to the Consortium for a consideration of RUB 73 billion.

In October 2016 the Company acquired 50.0755% of shares in PJSC Bashneft Oil Company for a total consideration of RUB 330 billion. The non-controlling interest recognized at the acquisition date, including the outcome of the voluntary offer to acquire PJSC Bashneft Oil Company ordinary shares held by minority shareholders, amounted to RUB 169 billion (Note 7).

In November 2015 the Company sold a 20% share in LLC Taas-Yuriakh Neftegazodobycha to BP Russian Investments Ltd for a consideration of RUB 55 billion.

18. Non-controlling interests (continued)

The summarized financial information of subsidiaries that have material non-controlling interests is provided below. This information is based on amounts before inter-company eliminations.

Summarized statement of comprehensive income for 2016:	**PJSC Bashneft Oil Company***	**JSC Vankorneft**	**LLC Taas-Yuriakh Neftegazodobycha**
Revenues	**168**	**299**	**25**
Costs and other income and expenses	**(161)**	**(202)**	**(19)**
Income before income tax	**7**	**97**	**6**
Income tax expense	**–**	**(16)**	**(1)**
Net income	**7**	**81**	**5**
incl. attributable to non-controlling interests	**3**	**13**	**2**

* From the acquisition date.

Summarized statement of comprehensive income for 2015:	**PJSC Bashneft Oil Company**	**JSC Vankorneft**	**LLC Taas-Yuriakh Nefte-gazodobycha**
Revenues	–	372	22
Costs and other income and expenses	–	(294)	30
Income before income tax	**–**	**78**	**52**
Income tax expense	–	(16)	(2)
Net income	**–**	**62**	**50**
incl. attributable to non-controlling interests	–	–	–

Summarized balance sheet as at December 31, 2016:	**PJSC Bashneft Oil Company**	**JSC Vankorneft**	**LLC Taas-Yuriakh Neftegazodobycha**
Current assets	**137**	**99**	**12**
Non-current assets	**820**	**266**	**189**
Total assets	**957**	**365**	**201**
Current liabilities	**119**	**35**	**7**
Non-current liabilities	**282**	**36**	**27**
Equity	**556**	**294**	**167**
Total equity and liabilities	**957**	**365**	**201**
incl. non-controlling interests	**172**	**141**	**92**

Summarized balance sheet as at December 31, 2015:	**PJSC Bashneft Oil Company**	**JSC Vankorneft**	**LLC Taas-Yuriakh Neftegazodobycha**
Current assets	**–**	97	9
Non-current assets	**–**	456	161
Total assets	**–**	**553**	**170**
Current liabilities	–	207	7
Non-current liabilities	–	284	25
Equity	–	62	138
Total equity and liabilities	**–**	**553**	**170**
incl. non-controlling interests	–	–	31

19. Earnings per share

For the years ended December 31 basic and diluted earnings per share comprise the following:

	2016	2015
Net income attributable to shareholders of Rosneft	**181**	355
Weighted average number of issued common shares outstanding (millions)	**10,598**	10,598
Total basic and diluted earnings per share (RUB)	**17.08**	33.50

20. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	As of December 31,	
	2016	2015
Cash on hand and in bank accounts in RUB	**25**	39
Cash on hand and in bank accounts in foreign currencies	**153**	393
Deposits and other cash equivalents in RUB	**609**	124
Other	**3**	3
Total cash and cash equivalents	**790**	559

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

Deposits and other cash equivalents (Note 39) 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 December 31, 2016 and 2015.

21. Other short-term financial assets

Other short-term financial assets comprise the following:

	As of December 31,	
	2016	2015
Financial assets available-for-sale		
Bonds and promissory notes	**116**	46
Stocks and shares	**187**	129
Financial assets held-to-maturity		
Bonds	**2**	1
Loans and accounts receivable		
Loans granted	**4**	3
Loans issued to associates	**22**	2
Notes receivable, net of allowance	**55**	83
Loans granted under reverse repurchase agreements	**2**	–
Deposits and certificates of deposit	**55**	714
Held-for-trading financial assets at fair value through profit or loss		
Corporate bonds	**2**	5
State bonds	**2**	3
Total other short-term financial assets	**447**	986

21. Other short-term financial assets (continued)

As of December 31, 2016 and 2015 available-for-sale bonds and notes comprise the following:

	2016			2015		
Type of security	**Balance**	**Interest rate p.a.**	**Date of maturity**	**Balance**	**Interest rate p.a.**	**Date of maturity**
State and municipal bonds	**65**	7.5-14.15%	October 2017 – March 2030	2	8.0-14.5%	October 2017 – January 2025
Corporate bonds	**31**	3.72-12.85%	January 2017 – September 2032	6	3.72-17.0%	January 2016 – September 2032
Promissory notes	**20**	11.7%	December 2021	38	10.25%-11.1%	September 2019 – September 2020
Total	**116**			46		

As of December 31, 2016 and 2015 held-to-maturity bonds comprise the following:

	2016			2015		
Type of security	**Balance**	**Interest rate p.a.**	**Date of maturity**	**Balance**	**Interest rate p.a.**	**Date of maturity**
Corporate bonds	**1**	5.38-6.0%	February 2017 – April 2017	1	5.3-8.8%	February 2016 – April 2017
State and municipal bonds	**1**	7.94-12.1%	June 2017 – November 2019	–		
Total	**2**			1		

As of December 31, 2016, notes receivable include corporate notes receivable that are denominated in euro with a nominal interest rate of 2.845% p.a. and maturity through April 2017, as well as discounted corporate notes receivable that are denominated in U.S. dollars with a rate of return of 4.5% p.a. and maturity through February 2017.

As of December 31, 2015, notes receivable include corporate notes receivable that are denominated in euro with a nominal interest rate of 2.843% p.a. and maturity through April 2016, as well as corporate notes receivable that are denominated in U.S. dollars with a nominal interest rate of 4.357% p.a. and maturity through August 2016.

As of December 31, 2016, deposits and certificates of deposit denominated in U.S. dollars amount to RUB 47 billion and earn interest ranging from 1.1% to 4.0% p.a. Deposits and certificates of deposit denominated in RUB amount to RUB 7 billion and bear interest rates ranging from 9.9% to 14.0% p.a.

As of December 31, 2015, deposits and certificates of deposit denominated in U.S. dollars amount to RUB 696 billion and earn interest ranging from 0.94% to 4.3% p.a. Deposits and certificates of deposit denominated in RUB amount to RUB 18 billion and bear interest rates ranging from 8.15% to 14.0% p.a.

As of December 31, 2016 and 2015 trading securities comprise the following:

	2016			2015		
Type of security	**Balance**	**Interest rate p.a.**	**Date of maturity**	**Balance**	**Interest rate p.a.**	**Date of maturity**
Corporate bonds	**2**	5.38-11.7%	February 2017 – September 2032	5	5.375-11.3%	February 2016 – September 2032
State and municipal bonds	**2**	2.5-10.9%	April 2017 – August 2023	3	6.9-10.9%	November 2016 – February 2036
Total	**4**			8		

22. Accounts receivable

Accounts receivable include the following:

	As of December 31,	
	2016	**2015**
Trade receivables	**437**	318
Banking loans to customers	**49**	33
Other accounts receivable	**29**	37
Total	**515**	388
Allowance for doubtful accounts	**(30)**	(21)
Total accounts receivable, net of allowance	**485**	367

The allowance for doubtful accounts is recognized at each balance sheet date based on estimates of the Company's management regarding the expected cash inflows to repay accounts receivable.

The Company recognized an allowance for doubtful accounts for all significant past due accounts receivable as of December 31, 2016 and 2015.

As of December 31, 2016 and 2015 accounts receivable were not pledged as collateral for loans and borrowings provided to the Company.

23. Inventories

Inventories comprise the following:

	As of December 31,	
	2016	**2015**
Crude oil and gas	**67**	62
Petroleum products and petrochemicals	**137**	99
Materials and supplies	**79**	58
Total	**283**	219

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

For the years ended December 31:

	2016	**2015**
Cost of inventories recognized as an expense during the period	**795**	690

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

24. Prepayments and other current assets

Prepayments comprise the following:

	As of December 31,	
	2016	**2015**
Value added tax and excise receivable	**166**	144
Prepayments to suppliers	**64**	58
Settlements with customs	**29**	31
Profit and other tax payments	**23**	29
Other	**11**	9
Total prepayments and other current assets	**293**	271

Settlements with customs primarily represent export duties related to the export of crude oil and petroleum products (Note 11).

25. 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, 2015	5,768	1,465	105	7,338
Depreciation, depletion and impairment losses as of January 1, 2015	(1,423)	(281)	(26)	(1,730)
Net book value as of January 1, 2015	4,345	1,184	79	5,608
Prepayments for property, plant and equipment as of January 1, 2015	6	47	5	58
Total as of January 1, 2015	4,351	1,231	84	5,666
Cost				
Acquisition of subsidiaries (Note 7)	4	44	–	48
Additions	518	184	14	716
Disposals	(34)	(6)	(6)	(46)
Reclassification from assets held for sale	–	(194)	–	(194)
Foreign exchange differences	99	27	7	133
Cost of asset retirement (decommissioning) obligations	27	–	–	27
As of December 31, 2015 (restated)	6,382	1,520	120	8,022
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(365)	(78)	(8)	(451)
Disposals and other movements	17	2	–	19
Impairment of assets	(4)	–	–	(4)
Reclassification to assets held for sale (Note 8)	–	79	–	79
Foreign exchange differences	(70)	(10)	(1)	(81)
As of December 31, 2015	(1,845)	(288)	(35)	(2,168)
Net book value as of December 31, 2015 (restated)	4,537	1,232	85	5,854
Prepayments for property, plant and equipment as of December 31, 2015	9	27	6	42
Total as of December 31, 2015 (restated)	4,546	1,259	91	5,896
Cost				
Acquisition of subsidiaries (Note 7)	**671**	**255**	**12**	**938**
Additions	**652**	**109**	**36**	**797**
Disposals and other movements	**(41)**	**(19)**	**(16)**	**(76)**
Foreign exchange differences	**(73)**	**(10)**	**(6)**	**(89)**
Cost of asset retirement (decommissioning) obligations	**22**	**–**	**–**	**22**
As of December 31, 2016	**7,613**	**1,855**	**146**	**9,614**
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	**(399)**	**(81)**	**(8)**	**(488)**
Disposals and other movements	**25**	**4**	**6**	**35**
Impairment of assets	**(1)**	**(1)**	**–**	**(2)**
Foreign exchange differences	**54**	**2**	**1**	**57**
As of December 31, 2016	**(2,166)**	**(364)**	**(36)**	**(2,566)**
Net book value as of December 31, 2016	**5,447**	**1,491**	**110**	**7,048**
Prepayments for property, plant and equipment as of December 31, 2016	**21**	**16**	**5**	**42**
Total as of December 31, 2016	**5,468**	**1,507**	**115**	**7,090**

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

The cost of construction in progress included in property, plant and equipment was RUB 1,570 billion and RUB 1,273 billion as of December 31, 2016 and 2015, respectively.

The depreciation charge for the years ended December 31, 2016 and 2015 includes depreciation which was capitalized as part of the construction cost of property, plant and equipment and the cost of inventory in the amount of RUB 13 billion and RUB 6 billion, respectively.

The Company capitalized RUB 64 billion (including RUB 64 billion in capitalized interest expense) and RUB 99 billion (including RUB 48 billion in capitalized interest expense) of expenses on loans and borrowings in 2016 and 2015, respectively.

During 2016 and 2015 the Company received government grants for capital expenditures in the amount of RUB 8 billion and RUB 11 billion, respectively. Grants are accounted for as a reduction of additions in the Exploration and production segment.

Exploration and evaluation assets

Exploration and evaluation assets included in the Exploration and production segment, including mineral rights to unproved properties, comprise the following:

	2016	2015
Cost as of January 1	**251**	246
Impairment losses as of January 1	**(13)**	(10)
Net book value as of January 1	**238**	236
Cost		
Acquisition of subsidiaries (Note 7)	**7**	–
Capitalized expenditures	**27**	12
Reclassified to development assets	**(18)**	(13)
Expensed	**(5)**	(1)
Utilization of impairment reserve	**(13)**	
Foreign exchange differences	**(5)**	7
As of December 31	**244**	251
Impairment losses		
Utilization/(accrual) of impairment reserve	**13**	(3)
As of December 31	**–**	(13)
Net book value as of December 31	**244**	238

Provision for asset retirement (decommissioning) obligations

The provision for asset retirement (decommissioning) obligations was RUB 99 billion and RUB 59 billion as of December 31, 2016 and 2015, respectively, and included in Property, plant and equipment.

26. Intangible assets and goodwill

Intangible assets and goodwill comprise the following:

	Rights for land lease	Other intangible assets	Total intangible assets	Goodwill
Cost as of January 1, 2015	27	37	64	215
Amortization as of January 1, 2015	(8)	(7)	(15)	–
Net book value as of January 1, 2015	19	30	49	215
Cost				
Additions	7	–	7	–
Acquisition of subsidiaries (Note 7)	–	–	–	16
Disposals	(1)	(7)	(8)	(1)
Foreign exchange differences	3	–	3	–
As of December 31, 2015 (restated)	36	30	66	230
Amortization				
Amortization charge	(3)	(2)	(5)	–
Disposal of amortization	–	3	3	–
Foreign exchange differences	(1)	–	(1)	–
As of December 31, 2015 (restated)	(12)	(6)	(18)	–
Net book value as of December 31, 2015 (restated)	24	24	48	230
Cost				
Additions	**–**	**19**	**19**	**–**
Acquisition of subsidiaries (Note 7)	**–**	**3**	**3**	**–**
Disposals	**(1)**	**(4)**	**(5)**	**–**
Foreign exchange differences	**(1)**	**–**	**(1)**	**–**
As of December 31, 2016	**34**	**48**	**82**	**230**
Amortization				
Amortization charge	**(2)**	**(5)**	**(7)**	**–**
Disposal of amortization	**–**	**1**	**1**	**–**
Foreign exchange differences	**1**	**–**	**1**	**–**
As of December 31, 2016	**(13)**	**(10)**	**(23)**	**–**
Net book value as of December 31, 2016	**21**	**38**	**59**	**230**

The Company performs its annual goodwill impairment test as of October 1 of each year. The impairment test is carried out at the beginning of the fourth quarter of each year using the data that was appropriate at that time. The excess of fair value over identified net assets comprised RUB 1,662 billion and RUB 367 billion for the Exploration and production and Refining and distribution segments, respectively. As a result of the annual test, no impairment of goodwill was identified in 2016 and 2015.

Goodwill acquired through business combinations is allocated to the relevant groups of cash generating units that are its operating segments – the Exploration and production segment and the Refining and distribution segment. In assessing whether goodwill has been impaired, the current values of the operating segments (including goodwill) were compared with their estimated value in use.

	As of December 31,	
	2016	**2015 (restated)**
Goodwill		
Exploration and production	**76**	76
Refining and distribution	**154**	154
Total	**230**	230

26. Intangible assets and goodwill (continued)

The Company has estimated the value in use of the operating segments using a discounted cash flow model. Future cash flows have been adjusted for risks specific to each segment and discounted using a rate that reflects current market assessments of the time value of money and the risks specific to each segment, for which the future cash flow estimates have not been adjusted.

The Company's business plan, approved by the Company's Board of Directors, is the primary source of information for the determination of the operating segments' value in use. The business plan contains internal forecasts of oil and gas production, refinery throughputs, sales volumes of various types of refined products, revenues, operating and capital expenditures. As an initial step in the preparation of these plans, various assumptions, such as oil prices, natural gas prices, refining margins, petroleum product margins and cost inflation rates, are set. These assumptions take into account existing prices, U.S. dollar and RUB inflation rates, other macroeconomic factors and historical trends, as well as market volatility.

In determining the value in use for each of the operating segments, twelve-year period cash flows calculated on the basis of the Company management's forecasts have been discounted and aggregated with the segments' terminal value. The use of a forecast period longer than five years originates from the industry's average investment cycle. In determining the terminal value of the Company's segments in the post-forecast period the Gordon model was used.

Key assumptions applied to the calculation of value in use

Discounted cash flows are most sensitive to changes in the following factors:

- *The discount rate*

  The discount rate calculation is based on the Company's weighted average cost of capital adjusted to reflect the pre-tax discount rate and amounts to 13.4% p.a. in 2016 (13.1% p.a. in 2015).

- *The estimated average annual RUB / U.S. dollar exchange rate*

  The average annual RUB / U.S. dollar exchange rate applied was as follows: RUB 66.0 for 2017 and RUB 62.5 from 2018 onwards.

- *Oil and petroleum products prices*

  The forecasted Urals oil price applied was as follows: RUB 3,168 per barrel for 2017 and RUB 3,313 per barrel from 2018 onwards. The Company's petroleum products price forecasts with regard to the main sales destinations are based on these oil prices with a weighted average price of petroleum products (excluding petrochemicals) of RUB 26.3 thousand per tonne, RUB 27.5 thousand per tonne, RUB 28.1 thousand per tonne and RUB 29.1 thousand per tonne for 2017, 2018, 2019 and from 2020 onwards, respectively.

- *Production volumes*

  Estimated production volumes were based on detailed data for the fields and take into account the field development plans approved by management through the long-term planning process. The model has used average rates of operation decline equal to the natural rates of production decline for the existing assets provided that there is no production drilling. These rates were 8.0% of annual decline for the period after 2028.

The effects of changes in key assumptions are as follows:

Changes in the pre-tax weighted average cost of capital – the long-term increase in the weighted average cost of capital above 14.7% may have a significant effect on the discounted cash flows of the Refining and distribution segment and may lead to the segment's goodwill impairment.

26. Intangible assets and goodwill (continued)

Key assumptions applied to the calculation of value in use (continued)

Changes in oil and petroleum products prices – the long-term decrease in oil prices below RUB 3,059 per barrel for the period 2017 onwards may have a significant effect on the discounted cash flows of the Refining and distribution segment and may lead to the segment's goodwill being impaired. A similar effect can be caused by a long-term decrease (in the forecast period from 2017 onwards) in the weighted average price of petroleum products (excluding petrochemicals) below RUB 27.8 thousand per tonne with oil prices at forecast levels.

Changes in tax regime – Russian oil industry tax regime has a significant influence on the rate of return of the Refining and distribution segment’s refining operations. In case the current tax regime remains unchanged in the long-term perspective, there is a possibility the estimated discounted cash flows will decrease resulting in a goodwill impairment of the segment.

As of December 31, 2016 and 2015 the Company did not have any intangible assets with indefinite useful lives. As of December 31, 2016 and 2015 no intangible assets have been pledged as collateral.

27. Other long-term financial assets

Other long-term financial assets comprise the following:

	As of December 31,	
	2016	**2015**
Bonds	**1**	4
Bank deposits	**494**	112
Financial assets available for sale:		
Shares of OJSC INTER RAO UES	**5**	1
Shares of OJSC Russian Grids	**2**	1
Shares of AS Latvijas Gaze, ASE esti GAAS	**–**	4
Shares of SARAS S.p.A.	**–**	16
Shares of CJSC Modern Shipbuilding Technology	**4**	4
Long-term loans issued to associates and joint ventures	**287**	360
Long-term loans	**12**	4
Loans to employees	**–**	1
Other	**3**	3
Total other long-term financial assets	**808**	510

In 2016, the Company entered into US dollar and euro deposit contracts with interest rates ranging from 0.36% to 2.0% p.a. up to 2022 for a total amount equivalent to RUB 400 billion at the reporting date.

Pursuant to contracts, long-term loans issued to associates and joint ventures are mostly US$ denominated, have a maturity of three to nine years, and bear interest rates ranging from 4% to 15.1% p.a. In 2014 the Company provided a long-term loan to one of its joint ventures in the amount of US$ 4 billion (RUB 226 billion at the CBR official exchange rate at the date of loan issuance), earning interest of 3.5% to 6% p.a. and maturing in 5 years.

As of December 31, 2016 and 2015, there were no overdue long-term financial assets for which no impairment provision was created.

As of December 31, 2016 and 2015, shares were impaired in the amount of RUB 0 billion and RUB 1 billion, respectively.

No long-term financial assets were pledged as collateral as of December 31, 2016 and 2015.

As of December 31, 2016 and 2015, no long-term financial assets were received by the Company as collateral.

28. Investments in associates and joint ventures

Investments in associates and joint ventures comprise the following:

Name of investee	Country	The Company's share as of December 31, 2016, %	As of December 31, 2016	As of December 31, 2015
Joint ventures				
Rosneft Shell Caspian Vent.	Russia	51.00	**1**	1
Taihu Ltd (OJSC Udmurtneft)	Cyprus	51.00	**41**	29
Lanard Holdings Ltd	Cyprus	50.00	**18**	18
CJSC Arktikshelfneftegaz	Russia	50.00	**2**	2
LLC National Oil Consortium	Russia	80.00	**24**	29
OJSC NGK Slavneft	Russia	49.94	**149**	144
TNK Trading International S.A.	Switzerland	50.00	**6**	4
SIA ITERA Latvija	Latvia	66.00	**3**	–
Petroperija S.A., PetroMonagas S.A.	Venezuela	40.00	**41**	15
PETROVICTORIA S.A.	Venezuela	40.00	**26**	31
NVGRES Holdings Limited (NVGRES LLC)	Cyprus	25.01	**6**	5
RN Pechora	Russia	50.10	**8**	8
Associates				
Petrocas Energy International Limited	Cyprus	49.00	**8**	10
CJSC Purgaz	Russia	49.00	**39**	48
Other associates	various	various	**21**	9
			393	353
Initial payments for shares in associates				
Essar Oil Limited	India	–	**18**	–
Total associates and joint ventures			**411**	353

The equity share in profits/(losses) of associates and joint ventures comprises the following:

	The Company's share as of December 31, 2016, %	Share in income/(loss) of equity investees 2016	Share in income/(loss) of equity investees 2015
Taihu Ltd	51.00	**10**	12
OJSC NGK Slavneft	49.94	**5**	1
CJSC Purgaz	49.00	**1**	(6)
National Oil Consortium LLC	80.00	**(1)**	(6)
PetroMonagas S.A.	40.00	**2**	5
Saras S.p.A.	12.00	**–**	2
TNK Trading International S.A.	50.00	**6**	3
Other	various	**3**	(2)
Total equity share in profits of associates and joint ventures		**26**	9

28. Investments in associates and joint ventures (continued)

The unrecognized share of losses of associates and joint ventures comprises the following:

	As of December31,	
Name of investee	**2016**	**2015**
LLC Veninneft	**2**	2
LLP Adai Petroleum Company	**6**	6
Boqueron S.A.	**1**	1
Total unrecognized share of losses of associates and joint ventures	**9**	9

Financial information of significant associates and joint ventures as of December 31, 2016 and 2015 is presented below:

	As of December 31,	
Taihu Ltd	**2016**	**2015**
Cash and cash equivalents	**10**	1
Accounts receivable	**12**	23
Other current assets	**2**	2
Other non-current assets	**86**	83
Total assets	**110**	109
Short-term loans and borrowings	**(3)**	(26)
Income tax liabilities	**–**	(1)
Other current liabilities	**(14)**	(13)
Long-term loans and borrowings	**–**	–
Deferred tax liabilities	**(6)**	(6)
Other non-current liabilities	**(7)**	(6)
Total liabilities	**(30)**	(52)
Net assets	**80**	57
The Company's share, %	**51.00**	51.00
The Company's total share in net assets	**41**	29

Taihu Ltd	**2016**	**2015**
Revenues	**101**	109
Finance income	**–**	6
Finance expenses	**(1)**	(1)
Depreciation, depletion and amortization	**(5)**	(5)
Other expenses	**(70)**	(78)
Income before income tax	**25**	31
Income tax	**(5)**	(7)
Net income	**20**	24
The Company's share, %	**51.00**	51.00
The Company's total share in net income	**10**	12

28. Investments in associates and joint ventures (continued)

The Company's share of the currency translation effect amounted to an income of RUB 2 billion and a loss of RUB 4 billion for the years ended December 31, 2016 and 2015, respectively, which was included in foreign exchange differences in the translation of foreign operations in the consolidated statement of other comprehensive income for 2016 and 2015.

	As of December 31,	
OJSC NGK Slavneft	**2016**	**2015**
Cash and cash equivalents	**4**	8
Accounts receivable	**11**	5
Other current assets	**11**	11
Other non-current assets	**425**	418
Total assets	**451**	442
Short-term loans and borrowings	**(27)**	(27)
Tax liabilities	**(23)**	(15)
Other current liabilities	**(23)**	(26)
Long-term loans and borrowings	**(43)**	(55)
Deferred tax liabilities	**(17)**	(14)
Other non-current liabilities	**(19)**	(16)
Total liabilities	**(152)**	(153)
Net assets	**299**	289
The Company's share, %	**49.94**	49.94
The Company's total share in net assets	**149**	144

OJSC NGK Slavneft	**2016**	**2015**
Revenues	**215**	224
Finance income	**2**	2
Finance expenses	**(7)**	(5)
Depreciation, depletion and amortization	**(52)**	(50)
Other expenses	**(141)**	(163)
Gain before income tax	**17**	8
Income tax	**(6)**	(6)
Net income	**11**	2
The Company's share, %	**49.94**	49.94
The Company's total share in net income	**5**	1

28. Investments in associates and joint ventures (continued)

Initial payment for shares in Essar Oil Limited

In October 2016 the Company signed an agreement to acquire a 49% stake in Essar Oil Limited (hereinafter – "EOL"). As a result of the acquisition, the Company will receive a stake in a modern oil refinery in the Asia-Pacific region in Vadinare, India, which has integrated infrastructure. The EOL business also includes a large network of petrol stations in India operating under the Essar brand. The initial payment amounted to US$ 300 million (RUB 19 billion at the CBR official exchange rate at the date of the transaction).

Investments in Venezuela

In May 2016 the Company increased its stake in the Petromonagas joint venture with the state oil company of Venezuela Petróleos de Venezuela SA (hereinafter – "PDVSA") from 16.7% to 40%. The share of PDVSA was reduced to 60%. The cost of the additional share acquisition was US$ 500 million (RUB 33 billion at the CBR official exchange rate at the date of the transaction).

29. Other non-current non-financial assets

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

	As of December 31,	
	2016	**2015**
Long-term advances issued	**83**	6
Other	**1**	2
Total other non-current non-financial assets	**84**	8

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 a new 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.

30. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	As of December 31,	
	2016	**2015**
Financial liabilities		
Accounts payable to suppliers and contractors	**337**	263
Voluntary offer to acquire PJSC Bashneft Oil Company shares (Note 7)	**50**	–
Salary and other benefits payable	**80**	63
Banking customer accounts	**41**	69
Dividends payable	**–**	1
Other accounts payable	**22**	26
Total financial liabilities	**530**	422
Non-financial liabilities		
Short-term advances received	**53**	54
Total accounts payable and accrued liabilities	**583**	476

30. Accounts payable and accrued liabilities (continued)

In 2016 current accounts payable were settled within 50 days (2015: 44 days) on average. Interest rates on banking customer accounts range from 0.00% to 2.00% p.a. Trade and other payables are non-interest bearing.

31. Loans and borrowings and other financial liabilities

Loans and borrowings comprise the following:

		As of December 31,	
	Currency	**2016**	**2015**
Long-term			
Bank loans	RUB	**173**	41
Bank loans	US$, euro	**1,107**	1,741
Bonds	RUB	**321**	138
Eurobonds	US$	**337**	483
Customer deposits	RUB	**5**	6
Customer deposits	US$, euro	**5**	2
Borrowings	RUB	**31**	5
Borrowings	Euro	**1**	–
Promissory notes payable	US$	**–**	3
Other borrowings	US$	**613**	383
Other borrowings	RUB	**16**	15
Less: current portion of long-term loans and borrowings		***(720)***	*(561)*
Long-term loans and borrowings		**1,889**	2,256
Finance lease liabilities		**22**	31
Other long-term financial liabilities		**4**	–
Less: Current portion of long-term finance lease liabilities		***(1)***	*(4)*
Total long-term loans and borrowings and other financial liabilities		**1,914**	2,283
Short-term			
Bank loans	RUB	**103**	100
Bank loans	US$, euro	**21**	–
Customer deposits	RUB	**61**	30
Customer deposits	US$, euro	**5**	19
Borrowings	US$	**33**	–
Other borrowings	RUB	**516**	–
Other borrowings	US$	**94**	222
REPO	RUB	**15**	–
Current portion of long-term loans and borrowings		***720***	*561*
Short-term loans and borrowings and current portion of long-term loans and borrowings		**1,568**	932
Current portion of long-term finance lease liabilities		***1***	*4*
Other short-term financial liabilities		**4**	–
Short-term liabilities related to derivative financial instruments		**98**	104
Total short-term loans and borrowings and other financial liabilities		**1,671**	1,040
Total loans and borrowings and other financial liabilities		**3,585**	3,323

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

Long-term loans and borrowings

Long-term bank loans comprise the following:

Currency	Interest rate p.a.	Maturity date	As of December 31, 2016	As of December 31, 2015
US$	LIBOR + 1.00% – LIBOR + 3.25%	2017-2029	**1,081**	1,665
EUR	EURIBOR + 0.35% – EURIBOR + 2.40%	2017-2020	**27**	79
RUB	7.50%-13.30%	2017-2021	**173**	41
Total			**1,281**	1,785
Debt issue costs			**(1)**	(3)
Total long-term bank loans			**1,280**	1,782

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 24 billion and RUB 27 billion as of December 31, 2016 and 2015, respectively, and is included in Trade receivables of purchasers and customers.

In March 2013, the Company drew down four long-term unsecured loans from a group of international banks for a total of US$ 31 billion to finance the acquisition of TNK-BP. Two of these four loans were fully repaid in previous years. As of December 31, 2016 the total debt and accrued interest under those loans raised under floating rates and due to mature in December 2017 and February 2018, respectively, amounted to US$ 2.34 billion (RUB 142 billion at the CBR official exchange rate as of December 31, 2016).

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

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

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

Certain RUB denominated loans were acquired through the PJSC Bashneft Oil Company and JSC Targin acquisitions (Note 7).

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

Long-term loans and borrowings (continued)

Non-convertible interest-bearing RUB denominated bearer bonds in circulation comprise the following:

	Security ID	Date of issue	Total volume in RUB billions	Coupon (%)	As of December 31, 2016	As of December 31, 2015
Bonds	04, 05	October 2012	20	8.6%	**20**	20
Bonds	07, 08	March 2013	30	8.0%	**31**	31
Bonds	06, 09, 10	June 2013	40	7.95%	**40**	40
SE Bonds*	БО-05, БО-06	December 2013	40	7.95%	**11**	11
SE Bonds	БО-01, БО-07	February 2014	35	8.90%	**36**	36
SE Bonds	БО-02, БО-03, БО-04 БО-09*	December 2014	65	10.90%**	**56**	–
SE Bonds*	БО-08, БО-10 БО-11, БО-12, БО-13 БО-14	December 2014	160	10.90%**	**–**	–
SE Bonds*	БО-15, БО-16 БО-17, БО-24	December 2014	400	11.40%**	**–**	–
SE Bonds*	БО-18, БО-19, БО-20 БО-21, БО-22, БО-23 БО-25, БО-26	January 2015	400	10.10%**	**–**	–
SE Bonds*	001P-01	December 2016	600	10.10%**	**–**	–
SE Bonds	001P-02	December 2016	30	9.39%**	**30**	–
SE Bonds	001P-03	December 2016	20	9.50%**	**20**	–
Bashneft SE Bonds	04	February 2012	10	9.50%**	**–**	–
	06, 08	February 2013	15	8.65%**	**15**	–
	07, 09	February 2013	15	8.85%**	**16**	–
	БО-05***	May 2014	10	10.70%	**–**	–
	БО-03***, БО-04***	May 2015	10	12.00%	**–**	–
	БО-07***	June 2015	5	12.10%	**–**	–
	БО-02***	May 2016	10	10.50%	**–**	–
	БО-06, БО-08	May 2016	15	10.90%**	**16**	–
	БО-09	October 2016	5	9.30%**	**5**	–
	БО-10, 001P-01R, 001P-02R	December 2016	25	9.50%**	**25**	–
Total long-term RUB bonds					**321**	138

* On the reporting date these issues are partially used as an instrument for other borrowings under repurchase agreements

** For the coupon period effective as of December 31, 2016

*** For the coupon period effective as of day of early repurchase

All of the above bonds are issued with a maturity period of 6 or 10 years with quarterly and semi-annual coupon payments, respectively. All the bonds (excluding 001P-03) allow early repurchase at the request of the bond holder as set in the respective offering documents. In addition, the issuer, at any time and at its discretion, may purchase/repay the bonds early with the possibility of subsequently placing the bonds in the market. Such purchase/repayment of the bonds does not constitute an early redemption.

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

Long-term loans and borrowings (continued)

Certain RUB denominated bonds were acquired through the PJSC Bashneft Oil Company acquisition (Note 7).

In the fourth quarter of 2016 the Company performed certain operations in respect of bonds which were acquired through the PJSC Bashneft Oil Company acquisition: full repayment on schedule (series 01, 02, and 03) with a combined face value of RUB 5.3 billion; early redemption of non-convertible series БО-05 and БО-02 with a combined face value of RUB 20 billion, and the placement of four series of long-term non-convertible certified bonds (БО-09, БО-10, 001P-01R, 001P-02R) with a combined face value of RUB 30 billion, maturity periods of 7, 8 and 10 years, and semi-annual coupon payments at a fixed rate. For bonds series 001P-01R and 001P-02R early repurchase at the request of the bond holder is not allowed, as set out in the respective offering documents.

Corporate Eurobonds comprise the following:

	Coupon rate (%)	Currency	Maturity	As of December 31, 2016	As of December 31, 2015
Eurobonds (Series 1)	3.149%	US$	2017	**61**	74
Eurobonds (Series 2)	4.199%	US$	2022	**123**	147
Eurobonds (Series 2)	7.500%	US$	2016	–	76
Eurobonds (Series 4)	6.625%	US$	2017	**50**	61
Eurobonds (Series 6)	7.875%	US$	2018	**70**	86
Eurobonds (Series 8)	7.250%	US$	2020	**33**	39
Total long-term Eurobonds				**337**	483

In the fourth quarter of 2012, the Company raised funds through the placement of two Eurobonds in the total amount of US$ 3.0 billion. The Eurobonds were placed in two tranches at par: one in the amount of US$ 1.0 billion (RUB 60.7 billion at the CBR official exchange rate as of December 31, 2016) with a coupon of 3.149% p.a. and maturity in March 2017, and the other in the amount of US$ 2.0 billion (RUB 121.3 billion at the CBR official exchange rate as of December 31, 2016) with a coupon of 4.199% p.a. and maturity in March 2022. The funds received were used for general corporate purposes.

Eurobonds of the second, fourth, sixth, seventh and eighth series were assumed through the acquisition of TNK-BP.

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

Customer long-term deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, denominated in RUB and foreign currencies. As of December 31, 2016, RUB denominated deposits bear interest rates ranging from 5.70% to 10.00% p.a. and deposits denominated in foreign currencies bear interest rates ranging from 0.01% to 2.30% p.a.

As of December 31, 2016, the Company had met its obligations in relation to other long-term floating rate borrowings under repurchase agreements, and had entered into new agreements due to mature in 2017 and the first quarter of 2018. As of December 31, 2016 the liabilities of the Company under those transactions amounted to the equivalent of RUB 629 billion (at the CBR official exchange rate as of December 31, 2016). Own corporate bonds were used as an instrument for those transactions.

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

Long-term loans and borrowings (continued)

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

Short-term loans and borrowings

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

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

In the fourth quarter of 2016, the Company drew down funds under a short-term floating rate loan from a Russian bank for an amount of RUB 90 billion.

Customer short-term deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, denominated in RUB and foreign currencies. As of December 31, 2016, RUB denominated deposits bear interest rates ranging from 0.01% to 10.20% p.a. and deposits denominated in foreign currencies bear interest rates ranging from 0.01% to 2.55% p.a.

As of December 31, 2016, the Company had fully met its obligations in relation to other short-term floating rate borrowings under repurchase agreements raised in 2015, and had entered into new long-term and short-term agreements. As of December 31, 2016 the short-term liabilities of the Company under those transactions amounted to the equivalent of RUB 610 billion (at the CBR official exchange rate as of December 31, 2016). Own corporate bonds were used as an instrument for those transactions.

In the fourth quarter of 2016, the Company (its subsidiary bank) received funds under short-term REPO transactions and reported them as secured debt. As of December 31, 2016 liabilities under those transactions were RUB 15 billion. As of December 31, 2016 the fair value of securities under those transactions was RUB 16.5 billion.

Throughout 2016 the Company was current on payments under loan agreements and interest payments.

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

Finance leases

Repayments of finance lease obligations comprise the following:

	As of December 31, 2016		
	Minimum lease payments	Finance expense	Present value of minimum lease payments
Less than 1 year	**5**	**(3)**	**2**
From 1 to 5 years	**15**	**(10)**	**5**
Over 5 years	**24**	**(9)**	**15**
Total	**44**	**(22)**	**22**

	As of December 31, 2015		
	Minimum lease payments	Finance expense	Present value of minimum lease payments
Less than 1 year	8	(4)	4
From 1 to 5 years	23	(14)	9
Over 5 years	33	(15)	18
Total	64	(33)	31

Finance leases entered into by the Company do not contain covenants and are long-term agreements, with certain leases having purchase options at the end of the lease term. Finance leases are denominated in RUB and US$.

Property, plant and equipment under capital leases recognized in Property, plant and equipment (Note 25) comprise the following:

	As of December 31,	
	2016	2015
Buildings	**4**	–
Plant and machinery	**12**	12
Vehicles	**16**	21
Total cost	**32**	33
Less: accumulated depreciation	**(11)**	(9)
Total net book value of leased property	**21**	24

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

Liabilities related to derivative financial instruments

Short-term liabilities related to derivative financial instruments include liabilities related to cross-currency rate swaps.

In accordance with its foreign currency and interest rate risk management policy the Company enters into cross-currency rate swaps to sell US$. The transactions balance the currency of revenues and liabilities and reduce the overall interest rates on borrowings.

The cross-currency rate swaps are recorded in the consolidated balance sheet at fair value. The measurement of the fair value of the transactions is based on a discounted cash flow model and consensus forecasts of foreign currency rates. The consensus forecasts include forecasts of the major international banks and agencies. The Bloomberg system is the main information source for the model.

Derivative financial instruments comprise the following:

	Issue date	Expiry date	Nominal amount as of December 31, 2016		Interest rate type	Fair value of the liabilities as of December 31,	
			US$ million	**RUB billion***		**2016**	**2015**
Swaps	2012	2017	**641**	39	floating	**18**	21
Swaps	2013	2018	**2,138**	130	floating	**56**	59
Swaps	2014	2019	**1,010**	61	floating	**24**	24
Total			**3,789**	230		**98**	104

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

32. Other short-term tax liabilities

Other short-term tax liabilities comprise the following:

	As of December 31,	
	2016	**2015**
Mineral extraction tax	**115**	63
VAT	**69**	49
Excise duties	**25**	15
Personal income tax	**2**	1
Property tax	**9**	8
Other	**2**	2
Total other tax liabilities	**222**	138

33. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2015, including	83	35	25	143
Non-current	*80*	*24*	*3*	*107*
Current	*3*	*11*	*22*	*36*
Provisions charged during the year (Note 41)	11	4	9	24
Increase/(decrease) in the liability resulting from:				
Changes in estimates	(10)	(2)	(15)	(27)
Changes in the discount rate	26	1	–	27
Reclassification to assets held for sale (Note 8)	–	–	(3)	(3)
Foreign exchange differences	5	–	–	5
Unwinding of discount	10	3	–	13
Utilized	(2)	(6)	(3)	(11)
As of December 31, 2015, including	123	35	13	171
Non-current	*119*	*23*	*1*	*143*
Current	*4*	*12*	*12*	*28*
Provisions charged during the year (Note 41)	**6**	**4**	**5**	**15**
Increase/(decrease) in the liability resulting from:				
Changes in estimates	**3**	**4**	**(3)**	**4**
Changes in the discount rate	**13**	**–**	**–**	**13**
Foreign exchange differences	**(5)**	**–**	**–**	**(5)**
Unwinding of discount	**12**	**3**	**–**	**15**
Acquisition of subsidiaries (Note 7)	**28**	**3**	**1**	**32**
Utilized	**(2)**	**(8)**	**(3)**	**(13)**
As of December 31, 2016, including	**178**	**41**	**13**	**232**
Non-current	***174***	***28***	***1***	***203***
Current	***4***	***13***	***12***	***29***

Asset retirement (decommissioning) obligations represent an estimate of the costs of liquidating wells, the reclamation of sand pits, slurry ponds, and disturbed lands, and the dismantling of pipelines and power transmission lines. The budget for payments under asset retirement obligations is prepared on an annual basis. Depending on the current economic environment the entity's actual expenditures may vary from the budgeted amounts.

34. Prepayment under 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 started to be made 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.

	2016	**2015**
As of January 1	**1,905**	967
Acquisition of subsidiaries (Note 7)	**58**	–
Received	**–**	1,027
Reimbursed	**(122)**	(89)
Total prepayment on long-term oil and petroleum products supply agreements	**1,841**	1,905
Less current portion	**(255)**	(120)
Long-term prepayment as of December 31	**1,586**	1,785

The offset amounts under these contracts were RUB 122 billion and RUB 89 billion (US$ 3.85 billion and US$ 2.86 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date) for 2016 and 2015, respectively.

35. Other non-current liabilities

Other non-current liabilities comprise the following:

	As of December 31,	
	2016	**2015**
Shelf project liabilities	**23**	26
Liabilities for investing activities	**7**	12
Liabilities for joint operation contracts in Germany	**10**	–
Other	**3**	2
Total other non-current liabilities	**43**	40

36. Pension benefit obligations

Defined contribution plans

The Company makes payments to the State Pension Fund of the Russian Federation. These payments are calculated by the employer as a percentage of salary expense and are expensed as accrued.

The Company also maintains a defined contribution corporate pension plan to finance the non-state pensions of its employees.

Pension contributions recognized in the consolidated statement of profit or loss were as follows:

	2016	**2015**
State Pension Fund	**43**	39
NPF Neftegarant	**5**	5
Total pension contributions	**48**	44

37. Shareholders' equity

Common shares

As of December 31, 2016 and 2015:

Authorized common shares	
quantity, millions	10,598
amount, billions of RUB	0.6
Issued and fully paid shares	
quantity, millions	10,598
amount, billions of RUB	0.6
Nominal value of 1 common share, RUB	0.01

Since 2011 the Company distributed dividends in the amount of at least 25% of IFRS net income attributable to the Company's shareholders. In 2016 the Company paid dividends for 2015 in the amount of 35% of IFRS net income attributable to the Company's shareholders. In December 2016 the dividend policy was amended accordingly. In compliance with Russian legislation the dividends are distributed from the net profit of PJSC Rosneft Oil Company calculated in accordance with Russian accounting standards.

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

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.

During the second quarter of 2015, additional paid-in capital of the Company decreased by RUB 1 billion as a result of the acquisition of non-controlling interests in subsidiaries.

During the fourth quarter of 2015, additional paid-in capital of the Company increased by RUB 15 billion as a result of the disposal of a 20% interest in a subsidiary (Note 18).

During the second and fourth quarters of 2016, additional paid-in capital of the Company increased by RUB 29 billion and RUB 67 billion as a result of the disposal of interest in a subsidiary (Note 18).

38. 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.

38. 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 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**
Derivative financial instruments	**–**	**(98)**	**–**	**(98)**
Total liabilities measured at fair value	**–**	**(98)**	**–**	**(98)**

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

The fair value of financial assets available for sale, held-for-trading financial assets at fair value through profit or loss and derivative financial instruments included in Level 2 is measured at the present value of future estimated cash flows, using inputs such as market interest rates and market quotes of forward exchange rates.

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

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

	Carrying value		Fair value (Level 2)	
	As of December 31,		As of December 31,	
	2016	**2015**	**2016**	**2015**
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	**(2,004)***	(2,441)	**(1,792)***	(2,137)
Loans and borrowings with a fixed interest rate	**(1,453)**	(748)	**(1,469)**	(777)

* including financial instruments designated as hedging instruments with a carrying value of RUB 107 billion and a fair value of RUB 96 billion.

39. Related party transactions

For the purpose of these 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. In 2016 and 2015 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 (Note 36).

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.

Transactions with shareholders and companies controlled by shareholders

Revenues and income

	2016	2015
Oil, gas, petroleum products and petrochemicals sales	**595**	443
Support services and other revenues	**3**	2
Finance income	**23**	11
Other income	**–**	17
	621	473

Costs and expenses

	2016	2015
Production and operating expenses	**11**	4
Cost of purchased oil, gas, petroleum products and refining costs	**161**	131
Pipeline tariffs and transportation costs	**443**	447
Other expenses	**13**	11
Financial expenses	**4**	62
	632	655

Other operations

	2016	2015
Acquisition of subsidiaries	**330**	–
Proceeds from sale of subsidiaries stock	**–**	46
Loans received	**125**	1
Loans repaid	**(2)**	(4)
Loans and borrowings issued	**(30)**	(13)
Deposits placed	**(47)**	(155)
Deposits repaid	**109**	–

39. Related party transactions (continued)

Transactions with shareholders and companies controlled by shareholders (continued)

Settlement balances

	As of December 31,	
	2016	**2015**
Assets		
Cash and cash equivalents	**549**	316
Accounts receivable	**80**	62
Prepayments and other current assets	**36**	36
Other financial assets	**588**	480
Assets held for sale	**–**	26
	1,253	920
Liabilities		
Accounts payable and accrued liabilities	**47**	42
Loans and borrowings and other financial liabilities	**352**	190
Liabilities associated with assets held for sale	**–**	44
	399	276

Transactions with joint ventures

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

Revenues and income

	2016	**2015**
Oil, gas, petroleum products and petrochemicals sales	**24**	13
Support services and other revenues	**5**	3
Finance income	**22**	18
	51	34

Costs and expenses

	2016	**2015**
Production and operating expenses	**5**	3
Cost of purchased oil, gas, petroleum products and refining costs	**213**	168
Pipeline tariffs and transportation costs	**11**	8
Other expenses	**4**	3
	233	182

Other operations

	2016	**2015**
Loans received	**7**	–
Loans repaid	**(9)**	(4)
Loans and borrowings issued	**(25)**	(21)
Repayment of loans and borrowings issued	**17**	–

39. Related party transactions (continued)

Transactions with joint ventures (continued)

Settlement balances

	As of December 31,	
	2016	**2015**
Assets		
Accounts receivable	**9**	19
Prepayments and other current assets	**1**	1
Other financial assets	**306**	320
	316	340
Liabilities		
Accounts payable and accrued liabilities	**29**	25
Loans and borrowings and other financial liabilities	**8**	2
	37	27

Transactions with associates

Revenues and income

	2016	**2015**
Oil, gas, petroleum products and petrochemicals sales	**67**	12
Support services and other revenues	**3**	–
Finance income	**1**	1
	71	13

Costs and expenses

	2016	**2015**
Production and operating expenses	**5**	1
Cost of purchased oil, gas, petroleum products and refining costs	**9**	6
Other expenses	**8**	3
	22	10

Settlement balances

	As of December 31,	
	2016	**2015**
Assets		
Accounts receivable	**8**	2
Other financial assets	**4**	14
	12	16
Liabilities		
Accounts payable and accrued liabilities	**6**	1
	6	1

39. Related party transactions (continued)

Transactions with non-state pension funds

Costs and expenses

	2016	2015
Other expenses	**5**	5

Settlement balances

	As of December 31,	
	2016	**2015**
Liabilities		
Accounts payable and accrued liabilities	**1**	1
	1	1

Compensation to key management personnel

For the purpose of these consolidated financial statements key management personnel include members of the Management Board of PJSC Rosneft Oil Company and members of the Board of Directors.

Short-term gross benefits of the Management Board members, taking into account personnel rotation, including payroll and bonuses, totaled RUB 2,884 million and RUB 2,884 million in 2016 and 2015, respectively (social security fund contributions, which are not Management Board members' income, totaled RUB 395 million and RUB 376 million, respectively). Short-term gross benefits for 2016 are disclosed in accordance with the Russian securities law on information disclosure. There were no post-employment, severance or share-based benefits paid.

On June 15, 2016, the Annual General Shareholders Meeting approved remuneration to the following members of the Company's Board of Directors for the period of their service in the following amounts: Mr. Andrey Akimov – US$ 560,000 (RUB 37.0 million at the CBR official exchange rate on June 15, 2016); Mr. Matthias Warnig – US$ 580,000 (RUB 38.3 million at the CBR official exchange rate on June 15, 2016); Mr. Oleg Viyugin – US$ 580,000 (RUB 38.3 million at the CBR official exchange rate on June 15, 2016); Mr. Donald Humphreys – US$ 550,000 (RUB 36.3 million at the CBR official exchange rate on June 15, 2016). Remuneration does not include compensation of travel expenses. No remuneration was paid to members of the Board of Directors who are state officials (Andrey Belousov and Alexander Novak) or to Mr. Igor Sechin, the Chairman of the Management Board, for their Board of Directors service.

39. Related party transactions (continued)

Compensation to key management personnel (continued)

On June 17, 2015, the Annual General Shareholders Meeting approved remuneration to the following members of the Company's Board of Directors for the period of their service in the following amounts: Mr. Andrey Akimov – US$ 530,000 (RUB 28.6 million at the CBR official exchange rate on June 17, 2015); Mr. Andrey Bokarev – US$ 530,000 (RUB 28.6 million at the CBR official exchange rate on June 17, 2015); Mr. Matthias Warnig – US$ 580,000 (RUB 31.3 million at the CBR official exchange rate on June 17, 2015); Mr. Nikolai Laverov – US$ 580,000 (RUB 31.3 million at the CBR official exchange rate on June 17, 2015); Mr. Alexander Nekipelov – US$ 660,000 (RUB 35.7 million at the CBR official exchange rate on June 17, 2015); Mr. Donald Humphreys – US$ 580,000 (RUB 31.3 million at the CBR official exchange rate on June 17, 2015); Mr. Artur Chilingarov – US$ 530,000 (RUB 28.6 million at the CBR official exchange rate on June 17, 2015). Remuneration does not include compensation of travel expenses. No remuneration was paid to members of the Board of Directors who are state officials (Andrey Belousov and Alexander Novak) or to Mr. Igor Sechin, the Chairman of the Management Board, for their Board of Directors service.

40. Key subsidiaries

Name	Country of incorporation	Core activity	2016 Preferred and common shares %	2016 Voting shares %	2015 Preferred and common shares %	2015 Voting shares %
Exploration and production						
PJSC Orenburgneft	Russia	Oil and gas development and production	**100.00**	**100.00**	100.00	100.00
JSC Samotlorneftegaz	Russia	Oil and gas development and production	**100.00**	**100.00**	100.00	100.00
JSC Tumenneftegaz	Russia	Oil and gas development and production	**100.00**	**100.00**	100.00	100.00
PJSC Verkhnechonskneftegaz	Russia	Oil and gas development and production	**99.94**	**99.94**	99.94	99.94
JSC Vankorneft	Russia	Oil and gas development and production	**50.10**	**50.10**	100.00	100.00
LLC RN-Yuganskneftegaz	Russia	Oil and gas production operator services	**100.00**	**100.00**	100.00	100.00
PJSC Bashneft Oil Company	Russia	Oil and gas development and production	**52.39**	**61.59**	–	–
Refining, marketing and distribution						
JSC RORC	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
JSC Angarsk Petrochemical Company	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
JSC Novokuybyshev Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
LLC RN-Komsomolsky Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
JSC Syzran Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
JSC Achinsk Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
JSC Kuybyshev Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
PJSC Saratov Oil Refinery	Russia	Petroleum refining	**85.48**	**91.13**	85.48	91.13
JSC PCEC	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
JSC RN-Stolitsa	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
Rosneft Trading S.A.	Switzerland	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
Rosneft Trade Limited	Cyprus Republic	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
Other						
JSC RN Holding	Russia	Holding company	**100.00**	**100.00**	100.00	100.00
LLC Neft-Aktiv	Russia	Investing activity	**100.00**	**100.00**	100.00	100.00
Rosneft Finance S.A.	Luxemburg	Finance services	**100.00**	**100.00**	100.00	100.00
JSC Russian Regional Development Bank (VBRR)	Russia	Banking	**98.34**	**98.34**	84.67	84.67

41. Contingencies

Russian business environment

Russia continues economic reforms and 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 Group'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.

Guarantees and indemnities issued

An unconditional unlimited guarantee in favor of the Government and municipal authorities of Norway is effective in respect of the Company's operations on the Norwegian continental shelf. That guarantee fully covers all potential ongoing environmental liabilities of RN Nordic Oil AS. A parent company guarantee is required by Norwegian legislation and is an essential condition for licensing the operations of RN Nordic Oil AS on the Norwegian continental shelf jointly with Statoil ASA.

The Company's agreements with Eni S.p.A, Statoil ASA and the ExxonMobil Oil Corporation under the Russian Federation shelf exploration program contain mutual guarantees provided in 2013 and 2014 that are unconditional, unlimited and open-ended, and also provide that the partners will pay a commercial discovery bonus to the Company.

The partnership agreement with the ExxonMobil Oil Corporation for difficult to extract oil reserves in Western Siberia contains mutual guarantees that are unconditional, unlimited and open-ended, and provides for production bonus payments to the Company starting from the launch of commercial production.

In the fourth quarter of 2015 in accordance with the cooperation agreement on difficult to extract oil reserves with Statoil ASA, both parties issued parent guarantees on the discharging of the mutual liabilities of their related parties. These guarantees are unconditional, unlimited and open-ended.

In order to facilitate flexible terms and conditions for supplies and payments within hydrocarbon trading contracts, in 2016 the Company issued sureties to banks covering the period up to the year 2022 and totaling euro 9 billion. As of the period-end the probability of events triggering settlement of sureties was assessed as remote.

In course of investing activities, the Company issued sureties to third parties up to the equivalent amount of RUB 103 billion at the CBR official exchange rate as of December 31, 2016. As of the period-end the Company assesses the probability of settlement as remote.

41. Contingencies (continued)

Legal claims

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

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

On December 31, 2015, First National Petroleum Corporation ("FNPC") initiated arbitration proceedings under the Rules of the Arbitration Institute of the Stockholm Chamber of Commerce against OJSC Tyumenneftegaz ("TNG"), a subsidiary of the Company, seeking compensation of losses in the amount more than US$ 260 million (RUB 15.8 billion at the CBR official exchange rate on December 31, 2016) plus interest and arbitration costs for alleged breach of the agreement between FNPC and TNG to incorporate a joint venture "Tumtex" on the territory of the Russian Federation. The hearings are scheduled for March-April 2017.

On March 7, 2011, Norex Petroleum Limited ("Norex") filed a lawsuit against OJSC Tyumen Oil Company, a predecessor of OJCS TNK-BP Holding, subsequently renamed JSC RN Holding, TNK-BP Limited and certain other defendants for the recovery of damages in the amount of US$ 1.5 billion (RUB 91 billion at the CBR official exchange rate on December 31, 2016) and compensation for moral damages caused by the allegedly illegal takeover of the shares of CJSC Corporation Yugraneft owned by Norex by the said entities. The lawsuit was accepted by the Supreme Court of the State of New York (the court of first instance). On September 17, 2012, the Court dismissed Norex's action holding that it was time-barred. Norex filed an appeal against this judgment.

On April 25, 2013, the New York Appeal Department confirmed that the dismissal of Norex's claim was justified. On May 28, 2013, Norex filed a motion for leave to appeal the decision affirming the lower court's dismissal of Norex's complaint with the New York Court of Appeals.

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

41. 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 Decision of the Arbitrazh Court of the Tumen Region dated November 25, 2015 which was upheld by a decision of the appeal instance court dated September 9, 2016. In January 2017 the cassation instance court left the decisions of the lower courts unchanged.

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 revealed as a result of an inspection, penalties and fines to be paid might be material in reference to the tax liability misstatement.

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

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

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

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

41. Contingencies (continued)

Taxation (continued)

In 2014, amendments to tax legislation were adopted aimed at fiscal stimulation of the Russian economy via deoffshorization, and they took effect on January 1, 2015. In particular, these amendments 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 the current and deferred income tax estimates (Note 17).

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 641 billion and RUB 421 billion as of December 31, 2016 and 2015, respectively.

Environmental liabilities

The Company periodically evaluates its environmental liabilities pursuant to environmental regulations. Such liabilities are recognized in the consolidated financial statements as identified. Potential liabilities, that could arise as a result of changes in existing regulations or the regulation of civil litigation or as a result of changes in environmental standards cannot be reliably estimated but may be material. With the existing system of control, management believes that there are no material liabilities for environmental damage other than those recorded in these interim condensed consolidated financial statements.

Other matters

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

42. Events after the reporting period

In January 2017 the Company sold its 12% share in Saras S.p.A to institutional investors. The consideration amounted to euro 175 million (RUB 11 billion at the CBR official exchange rate at the transaction date).

43. Supplementary oil and gas disclosure (unaudited)

IFRS do not require information on oil and gas reserves to be disclosed. While this information has been developed with reasonable care and is disclosed in good faith, it is emphasized that the data represents management's best estimates. Accordingly, this information may not necessarily represent the current financial condition of the Company and its future financial results.

The Company's activities are conducted primarily in Russia, which is considered as a single geographic area.

Capitalized costs relating to oil and gas production are presented below

Consolidated subsidiaries and joint operations

As of December 31:

	2016	**2015 (restated)**
Oil and gas properties related to proved reserves	**7,369**	6,131
Oil and gas properties related to unproved reserves	**244**	251
Total capitalized costs	**7,613**	6,382
Accumulated depreciation and depletion	**(2,166)**	(1,845)
Net capitalized costs	**5,447**	4,537

Costs incurred in oil and gas property acquisition, exploration and development activities are presented below

Consolidated subsidiaries and joint operations

For the years ended December 31:

	2016	**2015 (restated)**
Acquisition of properties – proved oil and gas reserves	**664**	4
Acquisition of properties – unproved oil and gas reserves	**17**	8
Exploration costs	**30**	16
Development costs	**621**	506
Total costs incurred	**1,332**	534

The results of operations relating to oil and gas production are presented below

Consolidated subsidiaries and joint operations

For the years ended December 31:

	2016	**2015**
Revenue	**2,525**	2,485
Production costs (excluding production taxes)	**(317)**	(278)
Selling, general and administrative expenses	**(100)**	(100)
Exploration expense	**(14)**	(13)
Depreciation, depletion and amortization	**(392)**	(359)
Taxes other than income tax	**(1,073)**	(1,139)
Income tax	**(131)**	(120)
Results of operations relating to oil and gas production	**498**	476

43. Supplementary oil and gas disclosure (unaudited) (continued)

Reserve quantity information

Since 2014 the Company has disclosed its reserves calculated in accordance with the Petroleum Resources Management System (PRMS). For the purpose of the evaluation of reserves as of December 31, 2016 and 2015 the Company used oil and gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers. Proved reserves are those estimated quantities of petroleum which, through the analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable from a given date forward from known reservoirs and under defined economic conditions and operating methods. In certain cases, the recovery of such reserves may require considerable investments in wells and related equipment. Proved reserves also include additional oil and gas reserves that will be extracted after the expiry date of license agreements or may be discovered as a result of secondary and tertiary extraction which have been successfully tested and checked for commercial benefit. Proved developed reserves are those quantities of crude oil and gas expected to be recovered from existing wells using existing equipment and operating methods.

Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Due to inherent industry uncertainties and the limited nature of deposit data, estimates of reserves are subject to change as additional information becomes available.

The Company management included in proved reserves those reserves which the Company intends to extract after the expiry of the current licenses. The licenses for the development and production of hydrocarbons currently held by the Company generally expire between 2017 and 2058, and the licenses for the most important deposits expire between 2017 and 2044. In accordance with the effective version of the law of the Russian Federation, *On Subsurface Resources* (the "Law"), licenses are currently granted for a production period determined on the basis of technological and economic criteria applied to the development of a mineral deposit which guarantee the rational use of subsurface resources and necessary environmental protection. In accordance with the Law and upon the gradual expiration of old licenses issued under the previous version of the Law, the Company extends its hydrocarbon production licenses for the whole productive life of the fields. Extension of the licenses depends on compliance with the terms set forth in the existing license agreements. As of the date of these consolidated financial statements, the Company is generally in compliance with all the terms of the license agreements and intends to continue complying with such terms in the future.

The Company's estimates of net proved liquid hydrocarbons and gas reserves and changes thereto for the years ended December 31, 2016 and 2015 are shown in the table below and expressed in million barrels of oil equivalent (liquid hydrocarbons production data was recalculated from tonnes to barrels using field specific coefficients; gas production data was recalculated from cubic meters to barrels of oil equivalent ("boe") using an average ratio).

43. Supplementary oil and gas disclosure (unaudited) (continued)

Reserve quantity information (continued)

Consolidated subsidiaries and joint operations

	2016 million boe	2015 million boe
Beginning of year	**40,359**	40,607
Revisions of previous estimates	**1,169**	761
Extensions and discoveries	**1,038**	691
Improved recovery	**29**	–
Purchase of new reserves	**2,388**	–
Sale of reserves	**(10)**	–
Production	**(1,756)**	(1,700)
End of year	**43,217**	40,359
of which:		
Proved reserves under PSA Sakhalin 1	**279**	276
Proved reserves of assets in Canada	**3**	4
Proved reserves of assets in Vietnam	**20**	19
Proved developed reserves	**20,015**	19,068
Minority interest in total proved reserves	**1,881**	118
Minority interest in proved developed reserves	**1,327**	48

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

The standardized measure of discounted future net cash flows related to the above oil and gas reserves is based on PRMS. Estimated future cash inflows from oil, condensate and gas production are computed by applying the projected prices the company uses in its long-term forecasts to year-end quantities of estimated net proved reserves. Future development and production costs are those estimated future expenditures necessary to develop and produce estimated proved reserves as of year-end based on current expenses and costs and forecasts. In certain cases, future values, either higher or lower than current values, were used as a result of anticipated changes in operating conditions.

Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimate future net pre-tax cash flows, net of the tax bases of related assets.

Discounted future net cash flows are calculated using a 10% p.a. discount factor. Discounting requires year-by-year estimates of future expenditures to be incurred in the periods when the reserves are extracted.

The information provided in the table below does not represent management's estimates of the Company’s expected future cash flows or of the value of its proved oil and gas reserves. Estimates of proved reserves change over time as new information becomes available. Moreover, probable and possible reserves which may become proved in the future are excluded from the calculations. The arbitrary valuation requires assumptions as to the timing and the amount of future development and production costs. The calculations should not be relied upon as an indication of the Company’s future cash flows or of the value of its oil and gas reserves.

43. Supplementary oil and gas disclosure (unaudited) (continued)

Standardized measure of discounted future net cash flows

Consolidated subsidiaries and joint operations

	2016	2015
Future cash inflows	**85,996**	80,084
Future development costs	**(5,410)**	(3,975)
Future production costs	**(45,667)**	(42,578)
Future income tax expenses	**(5,857)**	(6,145)
Future net cash flows	**29,062**	27,386
Discount for estimated timing of cash flows	**(18,718)**	(17,636)
Discounted value of future cash flows as of the end of year	**10,344**	9,750

Share of other (minority) shareholders in discounted value of future cash flows

Consolidated subsidiaries and joint operations

	UOM	2016	2015
Share of other (minority) shareholders in discounted value of future cash flows	RUB billion	**727**	50

Changes therein relating to proved oil and gas reserves

Consolidated subsidiaries and joint operations

	2016	2015 (restated)
Discounted value of future cash flows as of the beginning of year	**9,750**	9,282
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	**(1,035)**	(968)
Changes in price estimates, net	**(607)**	366
Changes in estimated future development costs	**(1,042)**	(636)
Development costs incurred during the period	**621**	506
Revisions of previous reserves estimates	**271**	184
Increase in reserves due to discoveries, less respective expenses	**248**	167
Net change in income taxes	**289**	(79)
Accretion of discount	**975**	928
Net changes due to purchases of oil and gas fields	**876**	–
Net changes due to sales of oil and gas fields	**(2)**	–
Discounted value of future cash flows as of the end of year	**10,344**	9,750

Company's share in costs, inventories and future cash flows of the joint ventures and associates

	UOM	2016	2015
Share in capitalized costs relating to oil and gas producing activities (total)	RUB billion	**197**	208
Share in results of operations for oil and gas producing activities (total)	RUB billion	**17**	2
Share in estimated proved oil and gas reserves	million boe	**2,192**	1,932
Share in estimated proved developed oil and gas reserves	million boe	**1,206**	1,130
Share in discounted value of future cash flows	RUB billion	**619**	424

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)