Consolidated financial statements

Rosneft Oil Company

for the year ended December 31, 2015

with independent auditor's report

Contents

Совершенствуя бизнес,
улучшаем мир

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

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

Independent auditor's report

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

We have audited the accompanying consolidated financial statements of Rosneft Oil Company and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2015, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

Management of Rosneft Oil Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Совершенствуя бизнес,
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rosneft Oil Company and its subsidiaries as at December 31, 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 80 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.

D.E. Lobachev
General director
Ernst & Young LLC

March 29, 2016

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 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors "Russian Audit Chamber"(Association) ("SRO APR"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

Rosneft Oil Company

Consolidated Balance Sheet

(in billions of Russian rubles)

	Notes	As of December 31, 2015	2014
ASSETS			
Current assets			
Cash and cash equivalents	20	**559**	216
Restricted cash	20	**2**	1
Other short-term financial assets	21	**986**	723
Accounts receivable	22	**367**	554
Inventories	23	**219**	233
Prepayments and other current assets	24	**271**	404
Total current assets		**2,404**	2,131
Non-current assets			
Property, plant and equipment	25	**5,895**	5,666
Intangible assets	26	**48**	49
Other long-term financial assets	27	**510**	281
Investments in associates and joint ventures	28	**353**	347
Bank loans granted		**18**	14
Deferred tax assets	17	**25**	24
Goodwill	26	**227**	215
Other non-current non-financial assets	29	**8**	9
Total non-current assets		**7,084**	6,605
Assets held for sale	8	**150**	–
Total assets		**9,638**	8,736
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	30	**476**	494
Loans and borrowings and other financial liabilities	31	**1,040**	1,216
Income tax liabilities		**8**	39
Other tax liabilities	32	**138**	162
Provisions	33	**28**	36
Prepayment on oil supply agreements	34	**120**	80
Other current liabilities		**7**	4
Total current liabilities		**1,817**	2,031
Non-current liabilities			
Loans and borrowings and other financial liabilities	31	**2,283**	2,190
Deferred tax liabilities	17	**579**	594
Provisions	33	**143**	107
Prepayment on oil supply agreements	34	**1,785**	887
Other non-current liabilities	35	**39**	46
Total non-current liabilities		**4,829**	3,824
Liabilities associated with assets held for sale	8	**63**	–
Equity			
Share capital	37	**1**	1
Additional paid-in capital	37	**507**	493
Other funds and reserves		**(768)**	(500)
Retained earnings		**3,146**	2,878
Rosneft shareholders' equity		**2,886**	2,872
Non-controlling interests	18	**43**	9
Total equity		**2,929**	2,881
Total liabilities and equity		**9,638**	8,736

President ______________________ I.I. Sechin   march 29 2016

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, 2015	2014
Revenues and equity share in profits/(losses) of associates and joint ventures			
Oil, gas, petroleum products and petrochemicals sales	9	**5,071**	5,440
Support services and other revenues		**70**	75
Equity share in profits/(losses) of associates and joint ventures	28	**9**	(12)
Total revenues and equity share in profits/(losses) of associates and joint ventures		**5,150**	5,503
Costs and expenses			
Production and operating expenses		**575**	469
Cost of purchased oil, gas, petroleum products and refining costs		**530**	495
General and administrative expenses		**130**	114
Pipeline tariffs and transportation costs		**542**	471
Exploration expenses		**13**	19
Depreciation, depletion and amortization	25, 26	**450**	464
Taxes other than income tax	10	**1,277**	1,195
Export customs duty	11	**925**	1,683
Total costs and expenses		**4,442**	4,910
Operating income		**708**	593
Finance income	12	**55**	30
Finance expenses	13	**(269)**	(219)
Other income	14	**75**	64
Other expenses	14	**(72)**	(54)
Foreign exchange differences		**86**	64
Cash flow hedges reclassified to profit or loss	6	**(123)**	–
Income before income tax		**460**	478
Income tax expense	17	**(104)**	(128)
Net income		**356**	350
Net income attributable to:			
- Rosneft shareholders		**355**	348
- non-controlling interests	18	**1**	2
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	19	**33.50**	32.84
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, 2015	2014
Net income		**356**	350
Other comprehensive (loss)/income – to be reclassified to profit or loss in subsequent periods			
Foreign exchange differences on translation of foreign operations		**(194)**	(87)
Foreign exchange cash flow hedges	6	**(92)**	(498)
Loss from changes in fair value of financial assets available-for-sale		**–**	(1)
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent period	6, 17	**18**	100
Total other comprehensive loss – to be reclassified to profit or loss in subsequent periods, net of tax		**(268)**	(486)
Total comprehensive income/(loss), net of tax		**88**	(136)
Total comprehensive income/(loss), net of tax, attributable to:			
- Rosneft shareholders		**87**	(138)
- non-controlling interests		**1**	2

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, 2014	10,598	1	477	(14)	2,666	3,130	39	3,169
Net income	–	–	–	–	348	348	2	350
Other comprehensive loss	–	–	–	(486)	–	(486)	–	(486)
Total comprehensive (loss)/income	–	–	–	(486)	348	(138)	2	(136)
Acquisition of non-controlling interest in a subsidiary (Note 18)	–	–	16	–	–	16	(32)	(16)
Dividends declared on common stock (Note 37)	–	–	–	–	(136)	(136)	–	(136)
Balance at December 31, 2014	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**

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, 2015	For the years ended December 31, 2014
Operating activities			
Net income		**356**	350
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	25, 26	**450**	464
Loss on disposal of non-current assets	14	**22**	18
Impairment of assets	14	**6**	2
Dry hole costs		**2**	4
Foreign exchange (gain)/loss		**(93)**	146
Cash flow hedges reclassified to profit or loss	6	**123**	–
Equity share in losses/(profits) of associates and joint ventures	28	**(9)**	12
Gain on disposal of investments in associates and joint ventures	14	**(15)**	(56)
Loss from disposal of subsidiaries and non-production assets	14	**11**	6
Movements in bad debt provision		**10**	2
Gain on notes write-off	31	**(20)**	–
Gain from liability write off		**(17)**	–
Finance expenses	13	**269**	219
Finance income	12	**(55)**	(30)
Income tax expense	17	**104**	128
Changes in operating assets and liabilities:			
Decrease/(increase) in accounts receivable, gross		**82**	(89)
Decrease/increase in inventories		**17**	(27)
Increase in restricted cash		**(1)**	–
Decrease/increase in prepayments and other current assets		**134**	(72)
(Decrease)/increase in accounts payable and accrued liabilities		**(47)**	145
(Decrease)/increase in other tax liabilities		**(22)**	1
Increase in current provisions		**3**	4
Increase in other current liabilities		**3**	1
Increase in other non-current liabilities		**23**	16
Increase in long-term prepayment on oil and petroleum products supply agreements	34	**938**	497
Interest paid on long-term prepayment on oil and petroleum products supply agreements		**(17)**	(11)
Long-term loans granted by subsidiary banks		**(32)**	(19)
Repayment of long-term loans granted by subsidiary banks		**28**	17
Acquisition of trading securities		**(4)**	(19)
Proceeds from sale of trading securities		**9**	19
Net cash provided by operating activities before income tax and interest		**2,258**	1,728
Income tax payments		**(112)**	(115)
Interest received		**31**	12
Dividends received		**18**	1
Net cash provided by operating activities		**2,195**	1,626

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)

	Notes	**For the years ended December 31, 2015**	**2014**
Investing activities			
Capital expenditures		**(595)**	(533)
Acquisition of pipeline capacity rights		**–**	(16)
Acquisition of licenses and auction fees		**(1)**	(28)
Acquisition of short-term financial assets		**(327)**	(547)
Proceeds from sale of short-term financial assets		**213**	341
Acquisition of long-term financial assets	27	**(104)**	–
Financing of joint ventures		**(23)**	(173)
Acquisition of interest in associates and joint ventures	28	**(49)**	(21)
Proceeds from sale of investments in associates and joint ventures	28	**95**	21
Acquisition of subsidiaries, net of cash acquired	7	**(31)**	(28)
Sale of property, plant and equipment		**4**	3
Placements under reverse REPO agreements		**(5)**	(9)
Receipts under reverse REPO agreements		**10**	11
Net cash used in investing activities		**(813)**	(979)
Financing activities			
Proceeds from short-term loans and borrowings	31	**825**	274
Repayment of short-term loans and borrowings		**(678)**	(215)
Proceeds from long-term loans and borrowings	31	**208**	362
Repayment of long-term loans and borrowings		**(1,125)**	(817)
Interest paid		**(137)**	(96)
Proceeds from bonds issuance	31	**–**	35
Repayment of other financial liabilities		**(143)**	(12)
Proceeds from sale of non-controlling interest in subsidiary	18	**46**	–
Dividends paid to shareholders		**(87)**	(136)
Acquisition of non-controlling interests in subsidiaries		**–**	(169)
Net cash used in financing activities		**(1,091)**	(774)
Net increase/(decrease) in cash and cash equivalents		**291**	(127)
Cash and cash equivalents at the beginning of the year	20	**216**	275
Effect of foreign exchange on cash and cash equivalents		**52**	68
Cash and cash equivalents at the end of the year	20	**559**	216

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

1. General

Open joint stock company ("OJSC") Rosneft Oil Company ("Rosneft") and its subsidiaries (collectively, the "Company") are principally engaged in the exploration, development, production and sale of crude oil and gas and the refining, transportation and sale of petroleum products in the Russian Federation and in certain international markets.

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 the Government of the Russian Federation (the "State") ownership in other privatized oil and gas companies. 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 an Open Joint Stock Company "Oil Company Rosneft"*. Such transfers represented a 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 OJSC ROSNEFTEGAS. As of December 31, 2005, 100% of the shares of Rosneft less one share were owned by OJSC ROSNEFTEGAS and one share was owned by the Russian Federation Federal Agency for the Management of Federal Property. Subsequently, OJSC ROSNEFTEGAS's ownership interest decreased through additional issuance of shares during Rosneft's Initial Public Offering ("IPO") in Russia, an issuance of Global Depository Receipts ("GDR") for the shares on the London Stock Exchange and the share swap realized during the merger of Rosneft and certain subsidiaries during 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”), OJSC ROSNEFTEGAS sold 5.66% of Rosneft shares to BP plc. ("BP"). As of December 31, 2015 OJSC ROSNEFTEGAS' ownership interest in Rosneft was 69.50%.

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 OJSC AK Transneft. The Company exports certain quantities of crude oil through bypassing the OJSC 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).

2. Basis of preparation (continued)

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 President of the Company on March 29, 2016.

Subsequent events have been evaluated through March 29, 2016, 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. The 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.

Acquisition date is the date when effective control over the acquiree passes to the Company.

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.

3. Significant accounting policies (continued)

Business combinations, goodwill and other intangible assets (continued)

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 interest over the fair value of net identifiable assets acquired and liabilities assumed. If the aggregate of 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 investment in associates includes the carrying value of the investment 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 investment 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.

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 consolidated statement of other comprehensive income, respectively, from the date when joint control commences until the date when joint control ceases.

3. Significant accounting policies (continued)

Joint arrangements (continued)

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.

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, 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.

3. Significant accounting policies (continued)

Financial assets (continued)

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 is 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.

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.

3. Significant accounting policies (continued)

Financial liabilities (continued)

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 the production are not written down below cost if the finished products into which they will be incorporated are expected to be sold above cost.

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 for accounting purposes 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).

3. Significant accounting policies (continued)

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, 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.

Oil and gas properties (development assets) costs include 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).

3. Significant accounting policies (continued)

Other property, plant and equipment

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
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.

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.

3. Significant accounting policies (continued)

Impairment of non-current assets (continued)

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 and reassessing the useful life of an asset 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 for 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 loss, 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.

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.

3. Significant accounting policies (continued)

Impairment of non-current assets (continued)

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 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 not limited to) indications that the debtors or a group of debtors is 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.

Capitalized interest

Interest expense related to the use of 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 lease 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.

3. Significant accounting policies (continued)

Leasing agreements (continued)

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 assets 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.

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 a discounting 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 period for such assets are not determinable.

Because of the reasons described above the fair value of an asset retirement (decommissioning) obligation of 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.

3. Significant accounting policies (continued)

Income tax

From 2012 Russian tax legislation allows income taxes to be calculated on a consolidated basis. The main subsidiaries of the Company were therefore combined into the Consolidated group of taxpayers (Note 40). For subsidiaries which are not included in the Consolidated group of taxpayers, income tax was 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;
- the 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 reduce the current or future amount of income tax is recognized as a deferred tax asset.

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.

3. Significant accounting policies (continued)

Income tax (continued)

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.

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.

3. Significant accounting policies (continued)

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, value-added tax (“VAT”)) are deducted from revenues. Non-refundable 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.

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. A 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 nominated 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.

3. Significant accounting policies (continued)

Functional and presentation currency (continued)

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 a regular way sales entered into and continued to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements. A regular way sale contracts are exempted from the scope of IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*.

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 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 item and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or 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.

3. Significant accounting policies (continued)

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, 2015.

The following new standard was applied for the first time in 2015:

- *Defined Benefit Plans: Employee Contributions* – Amendments to IAS 19 *Employee Benefits*. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

The application of this standard had no significant impact on the Company's financial position or results of operations.

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", Topic "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", Topic "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 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.:

- obtaining more detailed information on reserves (either as a result of more detailed engineering calculations or additional exploration drilling activities);
- conducting supplemental activities to enhance oil recovery;
- changes 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. The Company is currently assessing the impact of the standard on the consolidated financial statements.

In May 2014, the IASB issued an amendment to IFRS 11 *Joint Arrangements*, entitled *Accounting for Acquisitions of Interests in Joint Operations*. 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. The amendment is effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Company is currently assessing the impact of the amendment on the consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*, entitled *Clarification of Acceptable Methods of Depreciation and Amortization*. 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. These amendments are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

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 postponed the date the entities must change these aspects of accounting for the transactions between the investors and equity accounted investees. Application of the amendments, initially planned for annual periods beginning on or after January 1, 2016, was 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 December 2014, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*. These amendments are part of the initiative to improve presentation and disclosure in financial reports. These amendments are effective for annual periods beginning on or after January 1, 2016 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 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.

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,	
	2015	**2014**
Total debt	**3,323**	3,406
Cash and cash equivalents	**(559)**	(216)
Other short-term financial assets and certain long-term deposits	**(1,070)**	(723)
Net debt	**1,694**	2,467
Total equity	**2,929**	2,881
Total capital employed	**4,623**	5,348
Net debt to capital employed ratio, %	**36.6%**	46.1%

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.

6. Capital and financial risk management (continued)

Foreign currency risk

The Company undertakes transactions nominated 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 nominated in foreign currencies.

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

	Assets		**Liabilities**	
	As of December 31,		**As of December 31,**	
	2015	**2014**	**2015**	**2014**
US$	**1,828**	1,150	**(2,793)**	(2,687)
EUR	**121**	124	**(113)**	(163)
Total	**1,949**	1,274	**(2,906)**	(2,850)

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 nominated borrowings as a hedge of the expected highly probable U.S. dollar nominated export revenue stream in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

A portion of future monthly export revenues expected to be received in U.S. dollars over the period from January 2015 through December 2019 was designated as a hedged item. The nominal amounts of the hedged item and the hedging instruments were equal. To the extent that a change in the foreign currency rate impacts the fair value of the hedging instrument, the effects are recognized in other comprehensive income or loss and then reclassified to profit or loss in the same period in which the hedged item affects the profit or loss.

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

Changes in the nominal hedging amount during 2015 are presented in the table below:

	US$ million	**The equivalent amount at the CBR exchange rate as of December 31, 2015, RUB billion**
Nominal amount as of December 31, 2014	29,490	2,149
Hedging instruments designated	20,963	1,527
Realized cash flow foreign exchange hedges	(3,113)	(226)
Hedging instruments de-designated	(43,422)	(3,165)
Nominal amount as of December 31, 2015	**3,918**	**285**

6. Capital and financial risk management (continued)

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

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

	2015			2014		
	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	**(498)**	**100**	**(398)**	–	–	–
Foreign exchange effects recognized during the year	**(215)**	**43**	**(172)**	(498)	100	(398)
Foreign exchange effects reclassified to profit or loss	**123**	**(25)**	**98**	–	–	–
Total recognized in other comprehensive (loss)/income for the year	**(92)**	**18**	**(74)**	(498)	100	(398)
Total recognized in other comprehensive (loss)/income as of the end of the year	**(590)**	**118**	**(472)**	(498)	100	(398)

The schedule of the expected reclassification of the accumulated foreign exchange loss from other comprehensive income to profit or loss, as of December 31, 2015, is presented below:

Year	**2016**	**2017**	**2018**	**2019**	**Total**
Reclassification	(147.5)	(147.5)	(147.5)	(147.5)	**(590)**
Income tax	29.5	29.5	29.5	29.5	**118**
Total, net of tax	**(118)**	**(118)**	**(118)**	**(118)**	**(472)**

The expected reclassification is calculated using the Central Bank of Russia ("CBR") exchange rate as of December 31, 2015 and may be different using actual exchange rates in the future.

Sensitivity analysis for foreign exchange risk on financial instruments

The level of currency risk is assessed on a monthly basis using a 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 as a result of the depreciation/(appreciation) of the Russian ruble against the U.S. dollar and euro.

	U.S. dollar effect		Euro effect	
	2015	**2014**	**2015**	**2014**
Currency rate change in %	**27.22%**	28.10%	**27.69%**	28.59%
Gain/(loss)	**115/(115)**	267/(267)	**(1)/1**	(8)/8
Equity	**(379)/379**	(148)/148	**(41)/41**	(34)/34

6. Capital and financial risk management (continued)

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, 2015, the Company's variable rate liability, based on LIBOR and EURIBOR alone, totaled RUB 2,337 billion (net of interest payable). In 2015 and 2014, variable rate funds raised by the Company were primarily nominated in U.S. dollars and euros.

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 LIBOR 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**
2015	**+5**	**(1)**
	-5	**1**
2014	+3	(1)
	-3	1

The potential impact of a change in EURIBOR is insignificant.

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.

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, 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, 2015, 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.

6. Capital and financial risk management (continued)

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, 2014	**On demand**	**12 months**	**1 to 5 years**	**> 5 years**	**Total**
Loans and borrowings	–	1,181	1,604	870	3,655
Finance lease liabilities	–	6	10	7	23
Accounts payable to suppliers and contractors	–	272	–	–	272
Salary and other benefits payable	–	55	–	–	55
Banking customer accounts	62	–	–	–	62
Other accounts payable	–	34	–	–	34
Derivative financial liabilities	–	137	–	–	137

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**

Loans and borrowings above exclude certain Yukos related borrowings and promissory notes payable that were carried in the books of the former Yukos subsidiaries that the Company acquired at auctions for the sale of Yukos's assets.

7. Acquisitions of subsidiaries and shares in joint operations

Acquisitions in 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 Raffinerie GmbH 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 planned transaction involving the reorganization 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. Acquisition of subsidiaries and shares in joint operations (continued)

Acquisitions in 2015 (continued)

As of December 31, 2015, the Company had not yet completed the fair value estimation of AET-Raffineriebeteiligungsgesellschaft mbH's assets acquired and liabilities assumed. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months from 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	2
Inventories	2
Prepayments and other current assets	1
Total current assets	**5**
Non-current assets	
Property, plant and equipment	22
Total non-current assets	**22**
Total assets	**27**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	1
Total current liabilities	**1**
Non-current liabilities	
Deferred tax liabilities	2
Other non-current liabilities	1
Total non-current liabilities	**3**
Total liabilities	**4**
Total identifiable net assets at fair value	**23**
Total consideration transferred	**23**

Had the AET-Raffineriebeteiligungsgesellschaft mbH 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 5,156 billion and RUB 356 billion, respectively, for the year ended December 31, 2015.

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).

As of December 31, 2015 the Company had not yet completed the fair value estimation of TWS' assets acquired and liabilities assumed. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months from the acquisition date.

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

Acquisitions in 2015 (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	
Accounts receivable	4
Inventories	2
Cash and cash equivalents	1
Total current assets	**7**
Non-current assets	
Property, plant and equipment	5
Total non-current assets	**5**
Total assets	**12**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	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	**10**
Total consideration transferred	**10**

The acquisition of TWS does not contemplate any contingent consideration, except for working capital and net debt adjustments.

Had the TWS 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 5,154 billion and RUB 358 billion, respectively, for the year ended December 31, 2015.

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. Consideration paid amounted to US$ 40 million (RUB 2.7 billion at the CBR official exchange rate at the acquisition date).

As of December 31, 2015 the Company had not yet completed the fair value estimation of Petrol Market's assets acquired and liabilities assumed. Preliminarily, the excess of the purchase price over the provisionally determined values of net assets was allocated to the fixed assets acquired. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months from the acquisition date.

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

Acquisitions in 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 allows 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 year ended 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.

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

Acquisitions in 2014

Acquisition of LLC Orenburg Drilling Company

In February 2014 the Company obtained control over LLC Orenburg Drilling Company ("ODC"). The acquisition of a 100% interest in this company was completed in April 2014. The consideration amounted to US$ 247 million (RUB 8.8 billion at the CBR official exchange rate at the date of the transaction).

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
Total current assets	**4**
Non-current assets	
Property, plant and equipment	6
Intangible assets	1
Total non-current assets	**7**
Total assets	**11**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	3
Loans and borrowings	1
Total current liabilities	**4**
Non-current liabilities	
Loans and borrowings	1
Deferred tax liabilities	1
Total non-current liabilities	**2**
Total liabilities	**6**
Total identifiable net assets at fair value	**5**
Goodwill	4
Total consideration transferred	**9**

Goodwill in the amount of RUB 4 billion relates to the expected synergies arising from the improved efficiency of drilling project implementation at the Company's greenfields and brownfields through cost control at each stage of well construction. Accordingly, the goodwill was fully attributed to the Exploration and production segment.

In the fourth quarter of 2014 the allocation of the purchase price of ODC was finalized. The acquisition of ODC did not contemplate any contingent consideration.

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

Acquisitions it 2014 (continued)

Acquisition of assets from Weatherford International plc.

On July 31, 2014, the Company completed the acquisition of a controlling interest in 8 entities engaged in drilling and workover services in Russia and Venezuela from Weatherford International plc (the "Weatherford assets") for a total consideration of RUB 18 billion (US$ 0.5 billion at the CBR official exchange rate at the date of the transaction). This acquisition allows the Company to strengthen its position in the drilling and workover services market and to increase the efficiency of drilling and hydrocarbons production.

The allocation of the purchase price of Weatherford assets was finalized in the second quarter of 2015. The impact of the finalized estimate on the consolidated balance sheet and statement of profit or loss for 2014 was not significant.

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	6
Inventories	2
Total current assets	**8**
Non-current assets	
Property, plant and equipment	16
Deferred tax asset	1
Total non-current assets	**17**
Total assets	**25**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	5
Total current liabilities	**5**
Non-current liabilities	
Deferred tax liabilities	2
Total non-current liabilities	**2**
Total liabilities	**7**
Total identifiable net assets at fair value	**18**
Total consideration transferred	**18**

Acquisition of CJSC Bishkek Oil Company

In September 2014 the Company acquired a 100% interest in four entities of the Bishkek Oil Company ("BOC") engaged in the retail and wholesale of petroleum products in the Republic of Kyrgyzstan through its own network of gas stations and a tank farm. The acquisition consideration amounted to US$ 39 million (RUB 1.5 billion at the CBR official exchange rate at the date of the transaction), including contingent consideration. The BOC purchase price allocation was completed in the second quarter of 2015. The impact of the finalized estimate on the consolidated balance sheet and statement of profit or loss for 2014 was not significant.

8. Assets held for sale

As of December 31, 2015 the Company classified certain assets as assets held for sale based on the Board of Directors decisions and binding agreements with the buyers of the assets.

The assets and liabilities of JV Ruhr Oel GmbH ("ROG") are classified as held for sale in the consolidated balance sheet as of December 31, 2015 and measured at the lower of their carrying amount or fair value less costs to sell, as presented in the table below:

ASSETS	
Current assets	
Accounts receivable	26
Inventories	2
Prepayments and other current assets	2
Total current assets	**30**
Non-current assets	
Property, plant and equipment	110
Investments in associates and joint ventures	3
Total non-current assets	**113**
Total assets held for sale	**143**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	13
Loans and borrowings and other financial liabilities	2
Other tax liabilities	3
Provisions	3
Total current liabilities	**21**
Non-current liabilities	
Loans and borrowings and other financial liabilities	2
Deferred tax liabilities	8
Other non-current liabilities	31
Total non-current liabilities	**41**
Total liabilities associated with assets held for sale	**62**
Net assets associated with assets held for sale	**81**
Amounts included in accumulated other comprehensive income	
Foreign exchange differences on translation of foreign operations	38
Other funds and reserves associated with assets held for sale	**38**

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 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**

9. Segment information (continued)

Operating segments in 2014 (restated):

	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	2,144	5,438	90	(2,169)	5,503
Including: Equity share in profits of associates and joint ventures	(10)	(2)	–	–	(12)
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,366	5,129	120	(2,169)	4,446
Depreciation, depletion and amortization	383	71	10	–	464
Total costs and expenses	1,749	5,200	130	(2,169)	4,910
Operating income	395	238	(40)	–	593
Finance income	–	–	30	–	30
Finance expenses	–	–	(219)	–	(219)
Total finance expenses	–	–	(189)	–	(189)
Other income	–	–	64	–	64
Other expenses	–	–	(54)	–	(54)
Foreign exchange differences	–	–	64	–	64
Cash flow hedges reclassified to profit or loss	–	–	–	–	–
Income before income tax	395	238	(155)	–	478
Income tax expense	(79)	(48)	1	–	(128)
Net income	316	190	(156)	–	350

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

	2015	2014
International sales of crude oil, petroleum products and petrochemicals	**3,690**	4,090
International sales of crude oil and petroleum products – CIS, other than Russia	**198**	170
Domestic sales of crude oil, petroleum products and petrochemicals	**995**	1,012
Sales of gas	**188**	168
Total oil, gas, petroleum products and petrochemicals sales	**5,071**	5,440

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, 2015, the amount of current receivables from the Company's largest customer totaled RUB 37 billion, or around 12% 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:

	2015	2014
Mineral extraction tax	**1,091**	982
Excise tax	**103**	139
Property tax	**31**	28
Social charges	**47**	38
Other	**5**	8
Total taxes	**1,277**	1,195

11. Export customs duty

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

	2015	2014
Export customs duty on oil sales	**683**	1,224
Export customs duty on petroleum products and petrochemicals sales	**242**	459
Total export customs duty	**925**	1,683

12. Finance income

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

	2015	2014
Interest income on:		
Deposits and certificates of deposit	**19**	12
Loans issued	**24**	10
Notes receivable	**3**	2
Bonds	**2**	3
Current/settlement accounts	**2**	1
Other interest income	**–**	1
Total interest income	**50**	29
Net gain from operations with derivative financial instruments	**4**	–
Gain from disposal of financial assets	**–**	1
Other finance income	**1**	–
Total finance income	**55**	30

13. Finance expenses

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

	2015	2014
Interest expense on:		
Loans and borrowings	**(91)**	(57)
Prepayment on long-term oil and petroleum products supply agreements (Note 34)	**(58)**	(28)
Other interest expenses	**(2)**	(2)
Total interest expenses	**(151)**	(87)
Net loss from operations with derivative financial instruments	**(104)**	(122)
Increase in provision due to the unwinding of a discount	**(13)**	(9)
Loss from disposal of financial assets	**–**	(1)
Other finance expenses	**(1)**	–
Total finance expenses	**(269)**	(219)

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization is 8.83% and 5.42% p.a. in 2015 and 2014, respectively.

14. Other income and expenses

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

	2015	2014
Gain from the sale of LLC Yugragazpererabotka (Note 27)	**–**	56
Liability write-off (Note 41)	**37**	–
Compensation payment for licenses from joint venture parties	**–**	1
Effect from disposal of investments in affiliated companies (Note 28)	**15**	–
Insurance indemnity (Note 41)	**17**	–
Other	**6**	7
Total other income	**75**	64

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

	2015	2014
Sale and disposal of property, plant and equipment and intangible assets	**(22)**	(18)
Disposal of companies and non-production assets	**(11)**	(6)
Impairment of assets	**(6)**	(2)
Social payments, charity, sponsorship, financial aid	**(14)**	(12)
Other	**(19)**	(16)
Total other expenses	**(72)**	(54)

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:

	2015	2014
Salary	**195**	178
Statutory insurance contributions	**47**	39
Expenses on non-statutory defined contribution plan	**5**	5
Other employee benefits	**10**	9
Total personnel expenses	**257**	231

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, 2015 and 2014 amounted to RUB 40 billion and RUB 25 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:

	2015	2014
Less than 1 year	**25**	22
From 1 to 5 years	**71**	60
Over 5 years	**200**	173
Total future minimum lease payments	**296**	255

17. Income tax

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

	2015	2014
Current income tax	**123**	223
Prior period adjustments	**(2)**	(5)
Current income tax expense	**121**	218
Deferred tax relating to the origination and reversal of temporary differences	**(17)**	(90)
Deferred income tax benefit	**(17)**	(90)
Total income tax expense	**104**	128

Except for the applicable regional tax relief, the Russian income tax rate of 20% was applied to companies domiciled in the Russian Federation in 2015 and 2014. The income tax rate may vary from 20% for subsidiaries incorporated in other jurisdictions. The rate is calculated according to local fiscal 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,	
	2015	**2014**	**2015**	**2014**
Short-term accounts receivable	**5**	3	**2**	1
Property, plant and equipment	**8**	8	**–**	3
Short-term accounts payable and accrued liabilities	**8**	12	**(4)**	5
Other current liabilities	**23**	31	**(8)**	26
Long-term loans and borrowings and other financial liabilities	**6**	3	**3**	–
Long-term provisions	**9**	12	**(3)**	–
Tax loss carry forward	**96**	67	**28**	58
Other	**9**	4	**5**	–
Less: deferred tax liabilities offset	**(139)**	(116)	**–**	–
Deferred tax assets	**25**	24	**23**	93
Property, plant and equipment and other	**(463)**	(447)	**(14)**	(6)
Mineral rights	**(255)**	(263)	**8**	3
Less: deferred tax assets offset	**139**	116	**–**	–
Deferred tax liabilities	**(579)**	(594)	**(6)**	(3)
Deferred income tax benefit			**17**	90
Net deferred tax liabilities	**(554)**	(570)		
Recognized in the consolidated balance sheet as following				
Deferred tax assets	**25**	24		
Deferred tax liabilities	**(579)**	(594)		
Net deferred tax liabilities	**(554)**	(570)		

The reconciliation of net deferred tax liabilities is as follows:

	2015	**2014**
As of January 1	**(570)**	(634)
Deferred income tax benefit, recognized in the consolidated statement of profit or loss	**17**	90
Acquisition of subsidiaries and shares in joint operations (Note 7)	**(6)**	(1)
Deferred tax expenses recognized in other comprehensive income	**(3)**	(2)
Reclassification to/(from) assets held for sale (Note 8)	**8**	(23)
As of December 31	**(554)**	(570)

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:

	2015	2014
Income before income tax	**460**	478
Income tax at statutory rate of 20%	**92**	96
Increase/(decrease) resulting from:		
Effect of income tax rates in other jurisdictions	**3**	5
Effect of income tax relief	**(18)**	(15)
Effect of tax on dividends received from non-resident company	**–**	32
Effect from change in unrecognized deferred tax assets	**23**	9
Effect of non-taxable income and non-deductible expenses	**4**	1
Income tax	**104**	128

Unrecognized deferred tax assets in the consolidated balance sheet for the years ended December 31, 2015 and 2014 amounted to RUB 37 billion and RUB 14 billion, respectively, related to unused tax losses. Tax loss carry forwards available for utilization by the Company expire in 2016-2025. 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 before their expiration.

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 should increase the tax base of the controlling entities in 2016. The consequences of taxation of subsidiaries' profits, including the taxation of controlled foreign companies, are accounted for within deferred tax liabilities.

18. Non-controlling interests

Non-controlling interests include:

	As of December 31, 2015		2015	As of December 31, 2014		2014
	Non-controlling interest (%)	Non-controlling interest in net assets	Non-controlling interest in net income	Non-controlling interest (%)	Non-controlling interest in net assets	Non-controlling interest in net income
LLC Taas-Yuriakh Neftegazodobycha	20.00	**31**	**–**	–	–	–
OJSC Grozneftegaz	49.00	**3**	**–**	49.00	3	–
SIA ITERA Latvija	34.00	**2**	**1**	34.00	1	–
OJSC Rosneft Sakhalin	45.00	**2**	**–**	45.00	2	–
JSC Russian Regional Development Bank (VBRR)	15.33	**1**	**–**	15.33	1	–
CJSC TZK Sheremetyevo	25.10	**1**	**–**	25.10	1	–
CJSC Vankorneft	–	**–**	**–**	–	–	3
Non-controlling interests in other entities	various	**3**	**–**	various	1	(1)
Non-controlling interests as of the end of the year		**43**	**1**		**9**	**2**

In November 2015 the Company completed the sale of 20% of LLC Taas-Yuriakh Neftegazodobycha, a Company subsidiary, to BP Russian Investments Ltd for US$ 750 million (RUB 55 billion at the CBR official exchange rate as of December 31, 2015) on a zero net debt basis.

19. Earnings per share

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

	2015	2014
Net income attributable to shareholders of Rosneft	**355**	348
Weighted average number of issued common shares outstanding (millions)	**10,598**	10,598
Total basic and diluted earnings per share (RUB)	**33.50**	32.84

20. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	As of December 31,	
	2015	2014
Cash on hand and in bank accounts in RUB	**39**	117
Cash on hand and in bank accounts in foreign currencies	**393**	84
Deposits	**124**	12
Other	**3**	3
Total cash and cash equivalents	**559**	216

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

Deposits are interest bearing and nominated primarily in RUB.

Restricted cash comprises the obligatory reserve of subsidiary banks with the CBR in the amount of RUB 2 billion and RUB 1 billion as of December 31, 2015 and 2014, respectively.

21. Other short-term financial assets

Other short-term financial assets comprise the following:

	As of December 31,	
	2015	2014
Financial assets available-for-sale		
Bonds and promissory notes	**46**	65
Stocks and shares	**129**	61
Financial assets held-to-maturity		
Bonds	**1**	6
Loans and accounts receivable		
Loans granted	**3**	1
Loans issued to associates	**2**	7
Notes receivable, net of allowance	**83**	57
Deposits and certificates of deposit	**714**	512
Held-for-trading financial assets at fair value through profit or loss		
Corporate bonds	**5**	9
State bonds	**3**	5
Total other short-term financial assets	**986**	723

21. Other short-term financial assets (continued)

As of December 31, 2015 and 2014 available-for-sale bonds and notes comprise the following:

	2015			2014		
Type of security	**Balance**	**Interest rate p.a.**	**Date of maturity**	**Balance**	**Interest rate p.a.**	**Date of maturity**
Corporate bonds	**6**	3.72-17.0%	January 2016 – September 2032	7	3.72-11.0%	February 2015 – October 2026
State and municipal bonds	**2**	8.0-14.5%	October 2017 – January 2025	–		
Promissory notes	**38**	10.25-11.1%	September 2019 – September 2020	58	9.5-15.0%	September 2015 – September 2019
Total	**46**			65		

As of December 31, 2015 and 2014 held-to-maturity bonds comprise the following:

	2015			2014		
Type of security	**Balance**	**Interest rate p.a.**	**Date of maturity**	**Balance**	**Interest rate p.a.**	**Date of maturity**
Corporate bonds	**1**	5.3-8.8%	February 2016 – April 2017	3	8.75-10.5%	March 2015 – November 2015
State and municipal bonds	**–**			3	7.0%	June 2015
Total	**1**			6		

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

As of December 31, 2014, notes receivable include corporate notes receivable that are nominated in euro with a nominal interest rate of 2.843% p.a. and with maturity through April 2016 and nominally interest-free corporate notes receivable that are nominated in RUB with a weighted average effective interest rate of 8.62% p.a. with maturity through September 2015.

As of December 31, 2015, deposits and certificates of deposit nominated 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 nominated in RUB amount to RUB 18 billion and bear interest rates ranging from 8.15% to 14.0% p.a.

As of December 31, 2014, deposits and certificates of deposit nominated in U.S. dollars amount to RUB 468 billion and bear interest rates ranging from 0.45% to 4.0% p.a. Deposits and certificates of deposit nominated in RUB amount to RUB 44 billion and bear interest rates ranging from 8.0% to 10.65% p.a.

As of December 31, 2015 and 2014 trading securities comprise the following:

	2015			2014		
Type of security	**Balance**	**Interest rate p.a.**	**Date of maturity**	**Balance**	**Interest rate p.a.**	**Date of maturity**
Corporate bonds	**5**	5.375-11.3%	February 2016 – September 2032	9	5.375-11.3%	February 2015 – September 2044
State and municipal bonds	**3**	6.9-10.9%	November 2016 – February 2036	5	6.9-12.0%	August 2015 – February 2036
Total	**8**			14		

22. Accounts receivable

Accounts receivable include the following:

	As of December 31,	
	2015	**2014**
Trade receivables	**318**	413
Banking loans to customers	**33**	32
Other accounts receivable	**37**	120
Total	**388**	565
Allowance for doubtful accounts	**(21)**	(11)
Total accounts receivable, net of allowance	**367**	554

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, 2015 and 2014.

As of December 31, 2015 and 2014 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,	
	2015	**2014**
Crude oil and gas	**62**	70
Petroleum products and petrochemicals	**99**	115
Materials and supplies	**58**	48
Total	**219**	233

Materials and supplies mostly include spare parts. Petroleum products and petrochemicals include those designated both for sale and for own use.

For the years ended December 31:

	2015	**2014**
Cost of inventories recognized as an expense during the period	**690**	640

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,	
	2015	**2014**
Value added tax and excise receivable	**144**	162
Prepayments to suppliers	**58**	40
Settlements with customs	**31**	142
Profit tax advance payments	**29**	49
Other	**9**	11
Total prepayments and other current assets	**271**	404

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, 2014	5,104	1,197	81	6,382
Depreciation, depletion and impairment losses as of January 1, 2014	(955)	(196)	(18)	(1,169)
Net book value as of January 1, 2014	4,149	1,001	63	5,213
Prepayments for property, plant and equipment as of January 1, 2014	4	49	9	62
Total as of January 1, 2014	4,153	1,050	72	5,275
Cost				
Acquisition of subsidiaries (Note 7)	22	–	–	22
Additions	411	226	16	653
Disposals	(41)	(6)	(3)	(50)
Reclassification from assets held for sale	151	–	–	151
Foreign exchange differences	138	48	11	197
Cost of asset retirement (decommissioning) obligations	(17)	–	–	(17)
As of December 31, 2014	5,768	1,465	105	7,338
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(385)	(71)	(7)	(463)
Disposals and other movements	21	5	1	27
Impairment of assets	(1)	(2)	–	(3)
Foreign exchange differences	(103)	(17)	(2)	(122)
As of December 31, 2014	(1,423)	(281)	(26)	(1,730)
Net book value as of December 31, 2014	4,345	1,184	79	5,608
Prepayments for property, plant and equipment as of December 31, 2014	6	47	5	58
Total as of December 31, 2014	4,351	1,231	84	5,666
Cost				
Acquisition of subsidiaries (Note 7)	**5**	**42**	**–**	**47**
Additions	**518**	**184**	**14**	**716**
Disposals	**(34)**	**(6)**	**(6)**	**(46)**
Reclassification to assets held for sale (Note 8)	**–**	**(194)**	**–**	**(194)**
Foreign exchange differences	**99**	**27**	**7**	**133**
Cost of asset retirement (decommissioning) obligations	**27**	**–**	**–**	**27**
As of December 31, 2015	**6,383**	**1,518**	**120**	**8,021**
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	**4,538**	**1,230**	**85**	**5,853**
Prepayments for property, plant and equipment as of December 31, 2015	**9**	**27**	**6**	**42**
Total as of December 31, 2015	**4,547**	**1,257**	**91**	**5,895**

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

The cost of construction in progress included in property, plant and equipment was RUB 1,273 billion and RUB 1,083 billion as of December 31, 2015 and 2014, respectively.

The depreciation charge for the years ended December 31, 2015 and 2014 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 6 billion and RUB 4 billion, respectively.

The Company capitalized RUB 99 billion (including RUB 48 billion capitalized interest expense) and RUB 54 billion (including RUB 39 billion capitalized interest expense) of expenses on loans and borrowings in 2015 and 2014, respectively.

During 2015 and 2014 the Company received government grants for capital expenditures in the amount of RUB 11 billion and RUB 10 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:

	2015	2014
Cost as of January 1	**246**	175
Impairment losses as of January 1	**(10)**	(10)
Net book value as of January 1	**236**	165
Cost		
Capitalized expenditures	**12**	26
Reclassified to development assets	**(13)**	(13)
Reclassification from assets held for sale	**–**	53
Expensed	**(1)**	(3)
Foreign exchange differences	**7**	8
Cost as of December 31	**251**	246
Impairment losses		
Impairment of assets	**(3)**	–
Impairment losses as of December 31	**(13)**	(10)
Net book value as of December 31	**238**	236

Provision for asset retirement (decommissioning) obligations

The provision for asset retirement (decommissioning) obligations was RUB 59 billion and RUB 37 billion as of December 31, 2015 and 2014, 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, 2014	23	22	45	210
Amortization as of January 1, 2014	(5)	(5)	(10)	–
Net book value as of January 1, 2014	18	17	35	210
Cost				
Additions	–	17	17	–
Acquisition of subsidiaries (Note 7)	–	1	1	5
Disposals	–	(3)	(3)	–
Foreign exchange differences	4	–	4	–
As of December 31, 2014	27	37	64	215
Amortization				
Amortization charge	(2)	(3)	(5)	–
Disposal of amortization	–	1	1	–
Foreign exchange differences	(1)	–	(1)	–
As of December 31, 2014	(8)	(7)	(15)	–
Net book value as of December 31, 2014	19	30	49	215
Cost				
Additions	**7**	**–**	**7**	**–**
Acquisition of subsidiaries (Note 7)	**–**	**–**	**–**	**13**
Disposals	**(1)**	**(7)**	**(8)**	**(1)**
Foreign exchange differences	**3**	**–**	**3**	**–**
As of December 31, 2015	**36**	**30**	**66**	**227**
Amortization				
Amortization charge	**(3)**	**(2)**	**(5)**	**–**
Disposal of amortization	**–**	**3**	**3**	**–**
Foreign exchange differences	**(1)**	**–**	**(1)**	**–**
As of December 31, 2015	**(12)**	**(6)**	**(18)**	**–**
Net book value as of December 31, 2015	**24**	**24**	**48**	**227**

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. Considering the significance of macroeconomic changes in the fourth quarter of 2015, the Company re-performed the test as of December 31, 2015, applying revised macroeconomic forecasts. The excess of fair value over identified net assets comprised RUB 3,061 billion and RUB 326 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 2015 and 2014.

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,	
	2015	**2014**
Goodwill		
Exploration and production	**75**	75
Refining and distribution	**152**	140
Total	**227**	215

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 the segment and discounted using a rate, that reflects current market assessments of the time value of money and the risks specific to the 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 calculation

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 13.1% p.a. in 2015 (11.0% p.a. in 2014).

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

  The average annual RUB / U.S. dollar exchange rate applied was as follows: RUB 68.0, RUB 66.0 and RUB 62.5 for 2016, 2017 and from 2018 onwards, respectively.

- *Oil and petroleum products prices*

  The forecasted Urals oil price applied was as follows: RUB 2,924, RUB 3,168 and RUB 3,313 per barrel for 2016, 2017 and from 2018 onwards, respectively. 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 23.5 thousand per tonne, RUB 25.1 thousand per tonne and RUB 26.2 thousand per tonne for 2016, 2017 and from 2018 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 2027.

As of December 31, 2015 and 2014 the Company did not have any intangible assets with indefinite useful lives. As of December 31, 2015 and 2014 no intangible assets have been pledged as collateral.

26. Intangible assets and goodwill (continued)

Key assumptions applied to calculation (continued)

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 14.4% 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.

Changes in oil and petroleum prices – the long-term decrease in oil prices below RUB 2,980 per barrel for the period 2016 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 2016 onwards) in the weighted average price of petroleum products (excluding petrochemicals) below RUB 25.6 thousand per tonne holding oil prices at forecast levels.

27. Other long-term financial assets

Other long-term financial assets comprise the following:

	As of December 31,	
	2015	**2014**
Bonds	**4**	4
Bank deposits	**112**	6
Financial assets available for sale:		
Shares of OJSC INTER RAO UES	**1**	1
Shares of OJSC Russian Grids	**1**	1
Shares of AS Latvijas Gaze, ASE esti GAAS	**4**	3
Shares of SARAS S.p.A.	**16**	–
Shares of CJSC Modern Shipbuilding Technology	**4**	–
Long-term loans issued to associates and joint ventures	**360**	259
Long-term loans	**4**	–
Loans to employees	**1**	2
Other	**3**	5
Total other long-term financial assets	**510**	281

Pursuant to contracts, long-term loans issued to associates and joint ventures are mostly US$ nominated and have a maturity of three to nine years and bear interest rates ranging from 3.5% to 14.5% 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, 2015 and 2014, there were no overdue long-term financial assets for which no impairment provision was created.

As of December 31, 2015 and 2014, shares were impaired in the amount of RUB 1 billion and RUB 1 billion, respectively.

No long-term financial assets were pledged as collateral as of December 31, 2015 and 2014.

As of December 31, 2015 and 2014, 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, 2015, %	As of December 31, 2015	As of December 31, 2014
Joint ventures				
LLC Polar Lights Company	Russia	–	–	1
Rosneft Shell Caspian Vent.	Russia	51.00	**1**	1
Taihu Ltd (OJSC Udmurtneft)	Cyprus	51.00	**29**	21
Lanard Holdings Ltd	Cyprus	50.00	**18**	18
CJSC Arktikshelfneftegaz	Russia	50.00	**2**	3
LLC National Oil Consortium	Russia	80.00	**29**	27
OJSC NGK Slavneft	Russia	49.94	**144**	143
Petroperija S.A., PetroMonagas S.A.	Venezuela	various	**15**	9
PETROVICTORIA S.A.	Venezuela	40.00	**31**	25
NVGRES Holdings Limited (NVGRES LLC)	Cyprus	25.01	**5**	4
CJSC Messoyakhaneftegaz	Russia	50.00	–	–
CJSC Modern Shipbuilding Technology	Russia	9.89	–	4
RN Pechora	Russia	50.10	8	–
Pipeline consortiums	various	various	–	3
Associates				
Saras S.p.A.	Italy	12.00	–	17
Petrocas Energy International Limited	Cyprus	49.00	**10**	8
CJSC Purgaz	Russia	49.00	**48**	55
Other associates	various	various	**13**	8
Total associates and joint ventures			**353**	347

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

	The Company's share as of December 31, 2015, %	Share in income/(loss) of equity investees 2015	Share in income/(loss) of equity investees 2014
Taihu Ltd	51.00	**12**	11
OJSC NGK Slavneft	49.94	**1**	(17)
CJSC Purgaz	49.00	**(6)**	–
National Oil Consortium LLC	80.00	**(6)**	–
PetroMonagas S.A.	16,67	**5**	(2)
Saras S.p.A.	12.00	**2**	–
Other	various	**1**	(4)
Total equity share in (losses)/profits of associates and joint ventures		**9**	(12)

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

Name of investee	As of December31, 2015	As of December31, 2014
LLC Veninneft	**2**	4
LLP Adai Petroleum Company	**6**	4
Boqueron S.A.	**1**	–
Total unrecognized share of losses of associates and joint ventures	**9**	8

28. Investments in associates and joint ventures (continued)

Financial information of significant associates and joint ventures as of December 31, 2015 and 2014 is presented below:

	As of December 31,	
Taihu Ltd	**2015**	**2014**
Cash and cash equivalents	**1**	1
Accounts receivable	**23**	24
Other current assets	**2**	2
Other non-current assets	**83**	82
Total assets	**109**	109
Short-term loans and borrowings	**(26)**	(11)
Income tax liabilities	**(1)**	(1)
Other current liabilities	**(13)**	(16)
Long-term loans and borrowings	**–**	(27)
Deferred tax liabilities	**(6)**	(6)
Other non-current liabilities	**(6)**	(7)
Total liabilities	**(52)**	(68)
Net assets	**57**	41
The Company's share, %	**51.00**	51.00
The Company's total share in net assets	**29**	21

Taihu Ltd	**2015**	**2014**
Revenues	**109**	116
Finance income	**6**	6
Finance expenses	**(1)**	(1)
Depreciation, depletion and amortization	**(5)**	(4)
Other expenses	**(78)**	(90)
Income before income tax	**31**	27
Income tax	**(7)**	(6)
Net income	**24**	21
The Company's share, %	**51.00**	51.00
The Company's total share in net income	**12**	11

28. Investments in associates and joint ventures (continued)

The Company's share of the currency translation effect amounted to a loss of RUB 4 billion and RUB 10 billion for the years ended December 31, 2015 and 2014, respectively, which was included in foreign exchange differences in the translation of foreign operations in the consolidated statement of other comprehensive income for 2015 and 2014.

	As of December 31,	
OJSC NGK Slavneft	**2015**	**2014**
Cash and cash equivalents	**8**	14
Accounts receivable	**5**	7
Other current assets	**11**	10
Other non-current assets	**418**	415
Total assets	**442**	446
Short-term loans and borrowings	**(27)**	(44)
Tax liabilities	**(15)**	(15)
Other current liabilities	**(26)**	(30)
Long-term loans and borrowings	**(55)**	(47)
Deferred tax liabilities	**(14)**	(11)
Other non-current liabilities	**(16)**	(13)
Total liabilities	**(153)**	(160)
Net assets	**289**	286
The Company's share, %	**49.94**	49.94
The Company's total share in net assets	**144**	143

OJSC NGK Slavneft	**2015**	**2014**
Revenues	**224**	197
Finance income	**2**	1
Finance expenses	**(5)**	(30)
Depreciation, depletion and amortization	**(50)**	(54)
Other expenses	**(163)**	(150)
Loss before income tax	**8**	(36)
Income tax	**(6)**	1
Net loss	**2**	(35)
The Company's share, %	**49.94**	49.94
The Company's total share in net income/(loss)	**1**	(17)

28. Investments in associates and joint ventures (continued)

CJSC Purgaz	As of December 31, 2015	2014
Current assets	**3**	3
Non-current assets	**8**	8
Total assets	**11**	11
Current liabilities	**(13)**	(1)
Non-current liabilities	**(1)**	(1)
Total liabilities	**(14)**	(2)
Net assets	**(3)**	9
The Company's s share, %	**49.00**	49.00
The Company's total share in net assets	**(2)**	4
Goodwill	**50**	51
Total investment	**48**	55

CJSC Purgaz	2015	2014
Revenue	**13**	12
Cost of sales	**(12)**	(11)
Other expenses	**(13)**	(1)
Profit before tax	**(12)**	–
Income tax	**–**	–
Net income	**(12)**	–
The Company's share, %	**49.00**	49.00
The Company's total share in net loss	**(6)**	–

OJSC NGK Slavneft

As a result of the TNK-BP acquisition in 2013 the Company obtained a 49.9% interest in OJSC NGK Slavneft. The investment in OJSC NGK Slavneft of RUB 173 billion at the acquisition date is accounted for as an investment in a joint venture using the equity method.

OJSC NGK Slavneft holds licenses for the exploration and production of oil and gas at 31 license areas located in West Siberia and the Krasnoyarsk region. The annual production of OJSC NGK Slavneft is 15 million tonnes of crude oil. The crude oil produced (excluding export) is processed at OJSC NGK Slavneft's refineries. The OJSC NGK Slavneft's refineries process over 11 million tonnes of hydrocarbons and produce over 5 million tonnes of gasoline annually.

28. Investments in associates and joint ventures (continued)

Investments in Venezuela

As a result of the TNK-BP acquisition in 2013 the Company obtained equity interests in certain assets in Venezuela. The most significant of these investments is in PetroMonagas S.A. in which the Company holds a 16.7% interest. The investment in Venezuela of RUB 17 billion is accounted for as an investment in a joint venture using the equity method.

PetroMonagas S.A. is engaged in the exploration and development of oil and gas fields in the eastern part of the Orinoko Basin. In 2015 PetroMonagas S.A. produced 7.6 million tonnes of oil and 1.1 billion cubic meters of gas. PetroMonagas S.A. is an integrated project involving extra-heavy crude oil extraction and the upgrading, production and export of synthetic crude oil.

On May 23, 2013 the Company entered into a joint venture agreement with Corporación Venezolana del Petróleo, a subsidiary of Petróleos de Venezuela S.A. ("PDVSA"), a Venezuelan state oil company. On November 14, 2013 the Petrovictoria S.A. joint venture was incorporated to explore the heavy oil of Project Carabobo-2 in Venezuela. On August 27, 2014 the Company paid a 40% of bonus in the amount of $440 million (RUB 16 billion at the CBR official exchange rate at the transaction date) for participation in Petrovictoria S.A. as a minority partner.

LLC National Oil Consortium

In January 2013 the Company acquired an additional 20% ownership interest in LLC National Oil Consortium ("NOC") for RUB 6 billion. As a result of this acquisition and the TNK-BP acquisition, the Company's interest in NOC increased to 60%. NOC provides financing for the exploration project at Junin-6 block in Venezuela jointly with a subsidiary of PDVSA. The interest in NOC continues to be accounted for as an equity investment due to joint control under the shareholders’ agreement.

On December 23, 2014 the Company and OJSC Lukoil entered into an agreement on the Company's acquisition of a 20% share in the NOC for the consideration of RUB 8 billion. The acquisition was completed in January 2015. Following the transaction, the Company's ownership interest in NOC increased to 80%, with the remaining 20% interest owned by OJSC Gazprom Neft.

Sale of interest in Saras S.p.A

In October 2015 the Company sold an 8.99% share in Saras S.p.A. (“Saras”) for euro 162.4 million (RUB 11.3 billion at the CBR official exchange rate at the transaction date). The gain from the sale is RUB 8 billion comprising RUB 4 billion of the difference between the carrying value of the investment in the associate and the sale price, and RUB 4 billion of the revaluation of the remaining 12% share to the market value on the basis of the sale price. The Company’s remaining share in Saras was reclassified to Other long-term financial assets as available for sale investments.

Sale of interest LLC Polar Lights Company

In December of 2015 the Company sold its 50% share in LLC Polar Lights Company for US$ 97.6 million (RUB 6.9 billion at the CBR official exchange rate at the transaction date). The gain from the sale totaled RUB 6.9 billion.

Sale of interest in LLC Yugragazpererabotka

In February 2014 the Company entered into an agreement to sell 49% of LLC Yugragazpererabotka, owned through OJSC RN Holding, a subsidiary of the Company, to OJSC Sibur-Holding. The transaction was completed in March 2014. Proceeds from the disposal of the interest in LLC Yugragazpererabotka amounted to RUB 56 billion at the CBR official exchange rate at the date of the disposal.

28. Investments in associates and joint ventures (continued)

Acquisition of interest in Petrocas Energy International Limited and creation of a joint venture

In December 2014 the Company established a joint venture with Petrocas Energy International Limited ("Petrocas") by acquiring a 49% interest in its share capital. The payment of US$ 144 million (RUB 9.3 billion at the CBR official exchange rate at the transaction date) was made in January 2015.

Petrocas owns and operates high-technology storage assets in oil and petroleum products logistics as well as the largest retail network of 140 branded gas stations in Georgia, and engages in trading activities in the Caspian and Black Sea regions.

Creation of RN-Pechora joint venture

In December 2015 the Company and Alltech Group established a joint venture aimed at developing gas production and marketing projects in the Nenets Autonomous District. The Company's share in the joint venture is 50.1%. The Company's investment amounted to RUB 7.5 billion and was accounted for as an investment in a joint venture using the equity method.

29. Other non-current non-financial assets

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

	As of December 31,	
	2015	**2014**
Long-term advances issued	**6**	6
Other	**2**	3
Total other non-current non-financial assets	**8**	9

30. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	As of December 31,	
	2015	**2014**
Financial liabilities		
Accounts payable to suppliers and contractors	**263**	272
Salary and other benefits payable	**63**	55
Banking customer accounts	**69**	62
Dividends payable (Note 37)	**1**	–
Other accounts payable	**26**	34
Total financial liabilities	**422**	423
Non-financial liabilities		
Short-term advances received	**54**	71
Total accounts payable and accrued liabilities	**476**	494

In 2015 current accounts payable were settled within 44 days (2014: 41 days) on average. Interest rates on banking customer accounts range from 0.00% to 5.00% p.a. Trade and other payables are non-interest bearing.

31. Loans and borrowings and other financial liabilities

Loans and borrowings comprise the following:

	Currency	As of December 31, 2015	As of December 31, 2014
Long-term			
Bank loans	RUB	**41**	143
Bank loans	US$, Euro	**1,741**	2,067
Bonds	RUB	**138**	138
Eurobonds	US$	**483**	408
Customer deposits	RUB	**6**	6
Customer deposits	US$, euro	**2**	5
Borrowings	RUB	**5**	–
Borrowings	Euro	**–**	6
Promissory notes payable	US$	**3**	2
Other borrowings	US$	**383**	278
Other borrowings	RUB	**15**	–
Less: current portion of long-term loans and borrowings		**(561)**	(877)
Long-term loans and borrowings		**2,256**	2,176
Finance lease liabilities		**31**	18
Less: Current portion of long-term finance lease liabilities		**(4)**	(4)
Total long-term loans and borrowings and other financial liabilities		**2,283**	2,190
Short-term			
Bank loans	RUB	**100**	53
Customer deposits	RUB	**30**	18
Customer deposits	US$, euro	**19**	6
Promissory notes payable – Yukos related (Note 41)	RUB	**–**	20
Obligations under a repurchase agreement	RUB	**–**	13
Other borrowings	RUB	**–**	15
Other borrowings	US$	**222**	73
Current portion of long-term loans and borrowings		**561**	877
Short-term loans and borrowings and current portion of long-term loans and borrowings		**932**	1,075
Current portion of long-term finance lease liabilities		**4**	4
Short-term liabilities related to derivative financial instruments		**104**	137
Total short-term loans and borrowings and other financial liabilities		**1,040**	1,216
Total loans and borrowings and other financial liabilities		**3,323**	3,406

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, 2015	As of December 31, 2014
US$	LIBOR + 1.00% – LIBOR + 3.50%	2016-2029	**1,665**	1,964
EUR	EURIBOR + 0.35% – EURIBOR + 2.40%	2016-2020	**79**	108
RUB	7.50%-15.8%	2016-2021	**41**	143
Total			**1,785**	2,215
Debt issue costs			**(3)**	(5)
Total long-term bank loans			**1,782**	2,210

Long-term bank loans from foreign banks to finance special-purpose business activities nominated in US$ are partially secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts normally provide the lender with the express right of claim for contractual revenue in the amount of the 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 27 billion and RUB 22 billion as of December 31, 2015 and 2014, respectively, and is included in Trade receivables of purchasers and customers.

In March 2013, the Company drew down four long-term unsecured loans from a group of international banks for a total of US$ 31.04 billion to finance the acquisition of TNK-BP. The first debt agreement of US$ 4.09 billion was entered into with a syndicate of foreign banks for 5 years at floating rates. The second debt agreement was entered into with a syndicate of foreign banks at floating rates in the amount of US$ 12.74 billion for 2 years. The third debt agreement was entered into with a syndicate of foreign banks at floating rates for 2 years in the amount of US$ 11.88 billion. The fourth debt agreement in the amount of US$ 2.33 billion was entered into with a syndicate of foreign banks for 5 years at floating rates. In December 2013 the Company partially repaid a long-term loan from international banks in the amount of US$ 5.1 billion. In 2014, the Company partially repaid two out of four unsecured long-term loans from international banks in the amount of US$ 12.40 billion (RUB 603 billion at the CBR official exchange rate at the transaction date), including US$ 0.76 billion (RUB 28 billion at the CBR official exchange rate at the transaction date) repaid early. In February 2015, the Company repaid early an unsecured long-term loan (attracted to finance the TNK-BP acquisition) and interest to international banks in the amount of US$ 7.2 billion (RUB 473 billion at the CBR official exchange rate at the transaction date). As of December 31, 2015 the total debt for the above loans amounted to US$ 4.48 billion (RUB 327 billion at the CBR official exchange rate as of December 31, 2015).

In March 2014, the Company drew down funds under a long-term fixed rate unsecured loan from a Russian bank for a total amount of RUB 12.5 billion repayable in the first quarter of 2017.

In July-August 2014, the Company drew down funds under a floating rate long-term unsecured loans from Russian banks in the total amount of RUB 18.1 billion equivalent at the CBR official exchange rate as of December 31, 2014 for a term of 5 to 10 years.

In November 2014, the Company drew down funds under a long-term fixed rate loan from a Russian bank in the total amount of RUB 15 billion, repayable in the fourth quarter of 2018. In November 2015 this loan was repaid early.

In November 2015, the Company drew down funds under long-term fixed rate loan from a Russian bank in the total amount of RUB 15 billion, repayable in the fourth quarter of 2018.

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

Long-term loans and borrowings (continued)

In May 2015, the Company repaid early unsecured long-term loans and interest to international banks in the amount of US$ 0.6 billion (RUB 30 billion at the CBR official exchange rate at the payment date), assumed through the TNK-BP acquisition.

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

	Security ID	Date of issue	Total volume in RUB billions	Coupon (%)	As of December 31, 2015	As of December 31, 2014
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-08, БО-09, БО-10 БО-11, БО-12, БО-13 БО-14	December 2014	225	11.9%**	**–**	–
SE Bonds*	БО-15, БО-16 БО-17, БО-24	December 2014	400	13.4%**	**–**	–
SE Bonds*	БО-18, БО-19, БО-20 БО-21, БО-22, БО-23 БО-25, БО-26	January 2015	400	11.9%**	**–**	–
Total long-term RUB bonds					**138**	138

* On the reporting date these issues are partially used as an instrument under REPO transactions.

** For the coupon period effective as of December 31, 2015.

All of the above mentioned bonds are issued with a maturity period of 6 or 10 years with quarterly and semi-annual coupon payments, respectively. The bonds 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 subsequent bonds circulation. Such purchase/repayment of the bonds does not constitute an early redemption.

Corporate Eurobonds comprise the following:

	Coupon rate (%)	Currency	Maturity	As of December 31, 2015	As of December 31, 2014
Eurobonds (Series 1)	3.149%	US$	2017	**74**	57
Eurobonds (Series 2)	4.199%	US$	2022	**147**	114
Eurobonds (Series 7)	6.250%	US$	2015	**–**	29
Eurobonds (Series 2)	7.500%	US$	2016	**76**	61
Eurobonds (Series 4)	6.625%	US$	2017	**61**	48
Eurobonds (Series 6)	7.875%	US$	2018	**86**	68
Eurobonds (Series 8)	7.250%	US$	2020	**39**	31
Total long-term Eurobonds				**483**	408

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

Long-term loans and borrowings (continued)

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. Eurobonds were placed in two tranches at a nominal value: one in the amount of US$ 1.0 billion (RUB 73 billion at the CBR official exchange rate as of December 31, 2015) with a coupon of 3.149% p.a. and a maturity in March 2017, and the other in the amount of US$ 2.0 billion (RUB 146 billion at the CBR official exchange rate as of December 31, 2015) with a coupon of 4.199% p.a. and maturity in March 2022. The funds received will be used for general corporate purposes.

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

In February 2015, the Company fully repaid Eurobonds (Series 7) in the amount of US$ 0.5 billion (RUB 34.5 billion at the CBR official exchange rate at the transaction date) assumed through the TNK-BP acquisition.

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, nominated in RUB and foreign currencies. As of December 31, 2015, RUB nominated deposits bear interest rates ranging from 0.01% to 13.25% p.a. and deposits nominated in foreign currencies bear interest rates ranging from 0.01% to 4.30% p.a.

In the fourth quarter of 2015 the Company attracted other long-term fixed rate borrowed funds under repurchase agreements in the total amount of RUB 15 billion, repayable in the fourth quarter of 2018. Its own corporate bonds were used as an instrument for those transactions.

In December 2015 the Company settled other long-term floating rate borrowings under repurchasing agreements operations and entered into new transactions under more favorable terms. As of December 31, 2015 the liabilities of the Company under those transactions totaled the equivalent of RUB 383 billion (at the CBR official exchange rate as of December 31, 2015) repayable in the fourth quarter of 2017 and the first quarter of 2018. Its own corporate bonds were used as an instrument for those transactions.

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

As of December 31, 2015 and 2014 the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

Short-term loans and borrowings

In the third quarter of 2014, the Company drew down funds from a Russian bank under fixed rate debt agreement totaling RUB 51.96 billion. All funds were repaid in March 2015.

In July 2015, the Company fully repaid a short-term loan and interest to a local bank in an amount equivalent to RUB 22 billion at the CBR official exchange rate at the transaction date.

In January-February 2015, the Company received short-term floating rate loans from a local bank totaling RUB 100 billion.

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, nominated in RUB and foreign currencies. As of December 31, 2015 the RUB nominated deposits bear interest rates ranging from 0.01% to 13.60% p.a. and deposits nominated in foreign currencies bear interest rates ranging from 0.01% to 5.40% p.a.

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

Short-term loans and borrowings (continued)

In March-June 2015, certain OJSC Yukos Oil Company related promissory notes payable were returned to the Company pursuant to relevant agreements (Note 41).

In 2014-2015 the Company received cash under repurchase agreements and recognized these transactions as a collateralized loan. As of December 31, 2014, the liabilities of the Company under repurchase agreements and the fair value of the securities transferred amounted to RUB 13 billion and RUB 13.5 billion, respectively. In 2015 the Company fully met its obligations in relation to these repurchase agreements.

In the fourth quarter of 2015 the Company fully met its obligations in relation to other short-term fixed rate borrowings attracted under repurchase agreements in November 2014 and entered into new long-term fixed rate borrowings, repayable in the fourth quarter of 2018. Its own corporate bonds were used as an instrument for those transactions.

In 2014-2015 the Company attracted other short-term floating rate borrowings under repurchase agreements. As of December 31, 2015 and 2014, the liabilities of the Company under those transactions amounted to the equivalent of RUB 222 billion (at the CBR official exchange rate as of December 31, 2015) and to the equivalent of RUB 73 billion (at the CBR official exchange rate as of December 31, 2014), respectively. Its own corporate bonds were used as an instrument for those transactions. In 2015 the Company met its obligations in relation to other short-term floating rate borrowings under repurchase agreements, attracted in 2014-2015.

In the third quarter of 2015 the Company entered into a long-term river transportation services contract under "take or pay" terms through 2028 and recognized financial lease liabilities in a total amount of RUB 15 billion.

In 2015 the Company was current on payments under loan agreements and interest payments.

Finance leases

Repayments of finance lease obligations comprise the following:

	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**

	As of December 31, 2014		
	Minimum lease payments	**Finance expense**	**Present value of minimum lease payments**
Less than 1 year	6	(2)	4
From 1 to 5 years	10	(2)	8
Over 5 years	7	(1)	6
Total	23	(5)	18

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

Finance leases (continued)

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 nominated 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,	
	2015	**2014**
Plant and machinery	**12**	18
Vehicles	**21**	6
Total cost	**33**	24
Less: accumulated depreciation	**(9)**	(12)
Total net book value of leased property	**24**	12

Liabilities related to derivative financial instruments

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

In accordance with its foreign currency and interest rate risk management policy the Company enters into cross-currency rate swap transactions and currency forward transactions 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 and the currency forward transactions 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, 2015		Interest rate type	Fair value of the liabilities as of December 31,	
			US$ million	**RUB billion***		**2015**	**2014**
Swaps	2012	2015	**–**	**–**	fixed	**–**	54
Swaps	2012	2017	**641**	**47**	floating	**21**	9
Swaps	2013	2018	**2,138**	**156**	floating	**59**	14
Swaps	2014	2015	**–**	**–**	fixed	**–**	29
Swaps	2014	2019	**1,010**	**74**	floating	**24**	6
Forwards	2012	2015	**–**	**–**	–	**–**	25
Total			**3,789**	**277**		**104**	137

* the equivalent nominal amount at the CBR official exchange rate as of December 31, 2015.

In 2015 the Company settled derivative financial instruments opened in 2012-2014 for a nominal amount of US$ 4,494 million (RUB 327 billion at the CBR official exchange rate as of December 31, 2015).

32. Other short-term tax liabilities

Other short-term tax liabilities comprise the following:

	As of December 31,	
	2015	**2014**
Mineral extraction tax	**63**	69
VAT	**49**	55
Excise duties	**15**	11
Personal income tax	**1**	1
Property tax	**8**	7
Other	**2**	19
Total other tax liabilities	**138**	162

33. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2014, including	94	33	11	138
Non-current	*91*	*24*	*1*	*116*
Current	*3*	*9*	*10*	*22*
Provisions charged during the year (Note 41)	4	4	16	24
Increase/(decrease) in the liability resulting from:				
Changes in estimates	(6)	2	(1)	(5)
Change in the discount rate	(15)	(1)	–	(16)
Unwinding of discount	7	2	–	9
Utilized	(1)	(5)	(1)	(7)
As of December 31, 2014, 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)**
Change 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***

Asset retirement (decommissioning) obligations represent an estimate of the costs of liquidating wells, the reclamation of sand pits, slurry ponds, 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 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 the current market prices. The prepayment is settled through the physical deliveries of crude oil and petroleum products.

The prepayments started to be reimbursed in 2015. The Company considers these contracts to be regular sale contracts which were entered into for the purpose of the delivery of a non-financial item in accordance with the Company's expected sale requirements.

	2015	**2014**
As of January 1	**967**	470
Received	**1,027**	497
Reimbursed	**(89)**	–
Total prepayment on long-term oil and petroleum products supply agreements	**1,905**	967
Less current portion	**(120)**	(80)
Long-term prepayment as of December 31	**1,785**	887

The shipments of oil in accordance with the terms of the prepayment contracts started on January 1, 2015. The off-set of prepayments made during 2015 amounted to RUB 89 billion (US$ 2.86 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date).

35. Other non-current liabilities

Other non-current liabilities comprise the following:

	As of December 31,	
	2015	**2014**
Ruhr Oel GmbH liabilities due to BP (Note 8)	**–**	24
Shelf projects liabilities	**26**	19
Liabilities for investing activities	**12**	1
Other	**1**	2
Total other non-current liabilities	**39**	46

Other non-current liabilities mostly comprise shelf project liabilities and liabilities for investing activities.

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:

	2015	**2014**
State Pension Fund	**37**	34
NPF Neftegarant	**5**	5
Total pension contributions	**42**	39

37. Shareholders' equity

Common shares

As of December 31, 2015 and 2014:

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 has distributed dividends in the amount of 25% of IFRS net income attributable to the Company's shareholders. According to Russian legislation the basis of distribution is identified as the current period net profit of OJSC Rosneft Oil Company calculated in accordance with Russian accounting standards.

On June 27, 2014, the Annual General Meeting of Shareholders approved dividends on the Company's common shares for 2013 in the amount of RUB 136 billion, or RUB 12.85 per share. The dividends were paid in the third quarter of 2014.

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.

During the third quarter of 2014, additional paid-in capital of the Company increased by RUB 16 billion as a result of the acquisition of non-controlling interests in subsidiaries.

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).

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, 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)**

	Fair value measurement as of December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Current assets				
Held-for-trading	8	6	–	14
Available-for-sale	1	125	–	126
Non-current assets				
Available-for-sale	–	5	–	5
Derivative financial instruments	–	–	–	–
Total assets measured at fair value	9	136	–	145
Derivative financial instruments	–	(137)	–	(137)
Total liabilities measured at fair value	–	(137)	–	(137)

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 recognized in these consolidated financial statement approximate 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,	
	2015	**2014**	**2015**	**2014**
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	**(2,441)***	(2,413)	**(2,137)***	(1,994)
Loans and borrowings with a fixed interest rate	**(748)**	(838)	**(777)**	(736)
Financial lease liabilities	**(31)**	(18)	**(31)**	(18)

* including financial instruments designated as hedging instruments with a carrying value of RUB 285 billion and a fair value of RUB 250 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 2015 and 2014 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 35).

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. Gas sale prices in the Russian market are regulated by the Federal Antimonopoly Service.

Transactions with shareholders and companies controlled by shareholders

Revenues and income

	2015	2014
Oil, gas, petroleum products and petrochemicals sales	**443**	171
Support services and other revenues	**2**	–
Finance income	**11**	2
Other income	**17**	–
	473	173

Costs and expenses

	2015	2014
Production and operating expenses	**4**	8
Cost of purchased oil, gas, petroleum products and refining costs	**131**	9
Pipeline tariffs and transportation costs	**447**	395
Other expenses	**11**	6
Financial expenses	**62**	44
	655	462

Other operations

	2015	2014
Purchase of financial assets and investments in associates	**–**	(1)
Proceeds from sale of subsidiaries stock	**46**	–
Loans received	**1**	13
Loans repaid	**(4)**	(26)
Loans and borrowings issued	**(13)**	–
Deposits placed	**(155)**	(187)
Deposits repaid	**–**	83

39. Related party transactions (continued)

Transactions with shareholders and companies controlled by shareholders (continued)

Settlement balances

	As of December 31, 2015	As of December 31, 2014
Assets		
Cash and cash equivalents	**316**	24
Accounts receivable	**62**	18
Prepayments and other current assets	**36**	38
Other financial assets	**480**	283
Assets held for sale	**26**	–
	920	363
Liabilities		
Accounts payable and accrued liabilities	**42**	8
Loans and borrowings and other financial liabilities	**190**	159
Liabilities associated with assets held for sale	**44**	–
	276	167

Transactions with joint ventures

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

Revenues and income

	2015	2014
Oil, gas, petroleum products and petrochemicals sales	**13**	10
Support services and other revenues	**3**	2
Finance income	**18**	2
	34	14

Costs and expenses

	2015	2014
Production and operating expenses	**3**	1
Cost of purchased oil, gas, petroleum products and refining costs	**168**	115
Pipeline tariffs and transportation costs	**8**	10
Other expenses	**3**	2
	182	128

Other operations

	2015	2014
Loans received	**–**	5
Loans repaid	**(4)**	–
Loans and borrowings issued	**(21)**	(11)

39. Related party transactions (continued)

Transactions with joint ventures (continued)

Settlement balances

	As of December 31,	
	2015	**2014**
Assets		
Accounts receivable	**19**	15
Prepayments and other current assets	**1**	1
Other financial assets	**320**	246
	340	262
Liabilities		
Accounts payable and accrued liabilities	**25**	23
Loans and borrowings and other financial liabilities	**2**	5
	27	28

Transactions with associates

Revenues and income

	2015	**2014**
Oil, gas, petroleum products and petrochemicals sales	**12**	11
Support services and other revenues	**–**	1
Finance income	**1**	2
	13	14

Costs and expenses

	2015	**2014**
Production and operating expenses	**1**	6
Cost of purchased oil, gas, petroleum products and refining costs	**6**	–
Other expenses	**3**	3
	10	9

Other operations

	2015	**2014**
Loans and borrowings issued	**–**	(1)

Settlement balances

	As of December 31,	
	2015	**2014**
Assets		
Accounts receivable	**2**	17
Other financial assets	**14**	19
	16	36
Liabilities		
Accounts payable and accrued liabilities	**1**	2
	1	2

39. Related party transactions (continued)

Transactions with non-state pension funds

Costs and expenses

	2015	2014
Other expenses	**5**	3

Settlement balances

	As of December 31,	
	2015	**2014**
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 Rosneft Oil Company OJSC 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 2,779 million in 2015 and 2014, respectively (social security fund contributions, which are not Management Board members' income, totaled RUB 376 million and RUB 260 million, respectively, with the increase due to a change in the social security contributions calculation rules). Short-term benefits do not include a onetime bonus paid in 2015 for the achievements in implementing major projects in 2014 (the discovery of Kara oil and gas province, the commencement of commercial production at Berkut, the world's largest drilling platform, in the Sea of Okhotsk, the development of major projects in the Asia-Pacific region), following state awards by the President of the Russian Federation, and a part of 2014 compensation paid in 2015. Short-term gross benefits for 2015 were previously disclosed in accordance with the Russian securities law on information disclosure. There were no post-employment, severance or share-based benefits paid. There was no wages indexation in 2015.

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 state employee members of the Board of Directors (Andrey Belousov, Alexander Novak), nor 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 27, 2014, 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. Matthias Warnig – US$ 580,000 (RUB 19.6 million at the CBR official exchange rate on June 27, 2014); Mr. Andrey Kostin – US$ 560,000 (RUB 18.9 million at the CBR official exchange rate on June 27, 2014); Mr. Nikolai Laverov – US$ 550,000 (RUB 18.6 million at the CBR official exchange rate on June 27, 2014); Mr. John Mack – US$ 580,000 (RUB 19.6 million at the CBR official exchange rate on June 27, 2014); Mr. Alexander Nekipelov – US$ 630,000 (RUB 21.3 million at the CBR official exchange rate on June 27, 2014); Mr. Donald Humphreys – US$ 560,000 (RUB 18.9 million at the CBR official exchange rate on June 27, 2014); Mr. Sergey Chemezov – US$ 530,000 (RUB 17.9 million at the CBR official exchange rate on June 27, 2014). Remuneration does not include compensation of travel expenses. No remuneration was paid to state employee members of the Board of Directors, nor to Mr. Igor Sechin, the Chairman of the Management Board, for their Board of Directors service.

40. Key subsidiaries

			2015		2014	
Name	**Country of incorporation**	**Core activity**	**Preferred and common shares %**	**Voting shares %**	**Preferred and common shares %**	**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
OJSC 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	**100.00**	**100.00**	100.00	100.00
RN-Yuganskneftegaz LLC	Russia	Oil and gas production operator services	**100.00**	**100.00**	100.00	100.00
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						
OJSC RN Holding	Russia	Holding company	**100.00**	**100.00**	100.00	100.00
Neft-Aktiv LLC	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	**84.67**	**84.67**	84.67	84.67

41. Contingencies

Russian business environment

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

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

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

During 2014 and 2015 economic and political instability in Ukraine was increasing. The Company's assets and operations in Ukraine are not significant. The Company's assets and liabilities, related to its activities in Ukraine are recognized based on the appropriate measurements as of December 31, 2015. The Company continues to monitor the situation in Ukraine and to execute a number of measures in order to minimize the effects of possible risks. The risk assessment is constantly reviewed in order to reflect the current situation.

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.

41. Contingencies (continued)

Legal claims

In 2006, Yukos Capital S.a.r.l. ("Yukos Capital") initiated separate international commercial arbitration proceedings against OJSC Yuganskneftegaz, OJSC Samaraneftegaz and OJSC Tomskneft VNK alleging, as grounds for its claims, defaults under various ruble-nominated loans with principal amounts totaling RUB 11.2 billion (OJSC Yuganskneftegaz), RUB 4.35 billion (OJSC Tomskneft VNK) and RUB 2.4 billion (OJSC Samaraneftegaz) plus interest at 9% per annum under each loan. During 2006-2007, international arbitration tribunals issued awards in favor of Yukos Capital, after which Yukos Capital filed claims with various Russian and non-Russian courts seeking recognition and enforcement of the aforementioned international arbitration awards.

During 2007-2013, various Russian arbitration courts declared the above loan agreements to be void; moreover, a competent Russian court annulled the arbitral awards against OJSC Yuganskneftegaz and declined recognition and enforcement in Russia of the arbitral awards against OJSC Tomskneft and OJSC Samaraneftegaz.

The arbitral awards against OJSC Yuganskneftegaz were enforced in the Netherlands despite their annulment by a competent court. Although the Company opposes the judgments of the Netherlands courts for recognition and enforcement of the arbitral awards, on August 11, 2010, it complied with these judgments and made corresponding payments in respect of the claim brought against the Comapny. In foreign jurisdictions, the aforementioned disputes continued in England, seeking payment of the interest accrued on the arbitral award against Rosneft, in the USA, seeking enforcement of international arbitration awards against OJSC Samaraneftegaz and, in France, Ireland, and Singapore, seeking enforcement of award against OJSC Tomskneft VNK.

Further, Yukos International (UK) B.V. initiated proceedings in the Netherlands claiming damages of up to US$ 333 million (RUB 24 billion at the CBR exchange rate at December 31, 2015), plus statutory interest with effect from February 7, 2011, plus costs, against the Company and other co-respondents unrelated to the Company. In these proceedings, Yukos International (UK) B.V. alleged damages supposedly caused by an order by the Amsterdam court to freeze a bank account in 2008. On February 11, 2015, the Amsterdam District Court issued a judgment granting the claim of Yukos International (UK) B.V. that the orders to freeze the funds held in the bank account were issued improperly, but rejected the procedure for calculating damages used by the claimant, pointing out that the damages issue, including the question of whether Yukos International (UK) B.V. is liable itself for the damages it allegedly suffered, should be considered in separate court proceedings.

In March 2015, Rosneft and a number of its subsidiaries including OJSC Samaraneftegaz, OJSC Tomskneft VNK and OJSC ANHK entered into a Settlement Deed with Yukos Finance B.V., Yukos Capital S.a.r.l, Stichting Administratiekantoor Yukos International, Stichting Administratiekantoor Financial Performance Holdings, Consolidated Nile, LP, General Nile, LLC, Yukos International (UK) B.V., Luxtona Limited, Financial Performance Holdings B.V., Yukos Hydrocarbons Investments Limited, CN & GN (PTC) Ltd. and with individuals controlling these entities. Pursuant to the terms and conditions of the Settlement Deed, the parties released all mutual claims and resolved all pending judicial and other disputes including the above disputes, and undertook not to bring any other claims against each other in the future in relation to the bankruptcy and liquidation of Yukos Oil Company. The Deed does not provide for any cash or other payments on the part of Rosneft or its subsidiaries. On March 31, 2015, the parties closed the transaction and executed all the documents necessary for the dismissal of all pending proceedings in the Netherlands, England, Russia, the U.S.A. and other jurisdictions.

41. Contingencies (continued)

Legal claims (continued)

On March 7, 2011, Norex Petroleum Limited ("Norex") filed a lawsuit against OJSC Tyumen Oil Company, a predecessor of OJCS TNK-BP Holding, subsequently renamed to OJSC RN Holding, TNK-BP Limited and certain other defendants in the amount of US$ 1.5 billion (RUB 109 billion at the CBR official exchange rate on December 31, 2015) claiming the recovery of damages and compensation of moral damages caused by the allegedly illegal takeover of the shares of LLC Corporation Yugraneft owned by Norex. The lawsuit was accepted by the Supreme Court of the State of New York (the court of first instance). On September 17, 2012, the Court dismissed Norex's action holding that it was time-barred. Norex filed an appeal against this judgment.

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

On September 12, 2013, the New York Court of Appeals accepted Norex's claim and accepted the appeal for consideration. The hearing was held on May 6, 2014. On June 27, 2014 the New York Court of Appeals issued a decision, satisfying Norex's complaint and sent the case to the court of first instance. The hearing was held on January 12, 2015. On August 25, 2015 the Supreme Court of the State of New York dismissed Norex's lawsuit. On September 29, 2015 Norex requested to be allowed to appeal to the Appeals Board of the Supreme Court of the State of New York. The Court's decision is expected.

In October-November 2014 former minority shareholders of OJSC RN Holding filed a lawsuit against the Company claiming the recovery of damages caused by the forced redemption of shares. Cases are pending before the Court of First Instance.

On December 31, 2015, First National Petroleum Corporation (“FNPC”) filed a lawsuit with the Arbitration Institute of the Stockholm Chamber of Commerce against OJSC Tyumenneftegaz (“TNG”), a subsidiary of Rosneft, seeking compensation of losses in the amount of US$ 200 million (RUB 15 billion at the CBR official exchange rate on December 31, 2015) plus interest and arbitration costs for the presumptive breach of the joint venture agreement on Tumtex between FNPC and TNG. The hearing is expected.

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

Rosneft and its subsidiaries are involved in other litigations which arise from time to time in the course of their business activities. Management believes that the ultimate result of 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.

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

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

41. Contingencies (continued)

Taxation (continued)

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 controlled transactions were expanded. Due to the absence of legal 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 to the consolidated financial statements posed 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 (profit margins) for the controlled transactions annually.

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

Due to the fact that the Company has provided the Russian Federal Tax Service and the regional tax authorities with sufficient explanations concerning the related party transactions made during 2012-2013, the Federal Tax Service did not exercise its right to conduct an examination of the calculation and payment of taxes on related party transactions made during 2012-2013. The period for the Federal Tax Service to make such decisions expired on June 30, 2014 and December 31, 2015 respectively. The Company believes that the risks concerning the related party transactions in 2015 and earlier will not have a material effect on its financial position or results of operations.

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

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

In 2014, amendments to tax legislation were adopted aimed at fiscal stimulation of the Russian economy via deoffshorization, and they took effect on January 1, 2015. In particular, these amendments covered the terms of beneficial ownership, fiscal residence of legal entities, and income tax rules for controlled foreign companies. The Company management accounted for these amendments in the current and deferred income tax estimates (Note 17).

During the reporting period, the tax authorities continued their inspections of Rosneft and some of its subsidiaries for the fiscal years 2010-2015. Rosneft and these subsidiaries are disputing a number of claims by the Federal Tax Service in pre-court and court appeals. The Company management does not expect the results of the inspections to have a material impact on the Company's consolidated balance sheet or results of operations.

Overall, management believes that the Company has paid or accrued all taxes that are applicable. For taxes other than income tax, where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate of the probable outflow of resources that will be required to settle these liabilities. Potential liabilities that management has identified at the reporting date as those that can be subject to different interpretations of tax laws and regulations are not accrued in the consolidated financial statements.

41. Contingencies (continued)

Capital commitments

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

The total amount of contracted but not yet performed deliveries related to the construction and acquisition of property, plant and equipment amounted to RUB 421 billion and RUB 351 billion as of December 31, 2015 and 2014, respectively.

Environmental liabilities

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

In June 2014, an accident took place at the Company's Achinsk refinery. In December 2015, the Company and international insurance companies completed the assessment and calculation of insurance payments, and signed an agreement on the amount of insurance indemnity payable for damages caused by the production break and recovery of the damaged and destroyed property at the Achinsk refinery. The total amount of the insurance indemnity amounted to RUB 17 billion (Note 14).

Other matters

In August 2014, the Company and North Atlantic Drilling Limited ("NADL") signed a framework agreement anticipating the Company’s acquisition of shares in NADL through an exchange of assets and investments in NADL share capital. In April 2015, the Company and NADL agreed to extend the date of termination of the Framework Agreement to May 31, 2017, until which date the parties have the right to effectively terminate the transaction at any time at no cost. The addendum signed also provides for possible renegotiations of the terms of the transaction.

In September 2015 the Company and ONGC Videsh Limited (“ONGC”) entered into sale purchase agreement and a shareholders agreement on the sale of 15% of OJSC Vankorneft to ONGC. As of the date of these consolidated financial statements the parties had not yet complied with all of the conditions precedent, including obtaining the necessary regulatory approvals, in order to complete the transaction in accordance with the terms and conditions of the sale purchase agreement.

42. Events after the reporting period

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

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:

	2015	2014
Oil and gas properties related to proved reserves	**6,132**	5,522
Oil and gas properties related to unproved reserves	**251**	246
Total capitalized costs	**6,383**	5,768
Accumulated depreciation and depletion	**(1,845)**	(1,423)
Net capitalized costs	**4,538**	4,345

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:

	2015	2014
Acquisition of properties – proved oil and gas reserves	**5**	28
Acquisition of properties – unproved oil and gas reserves	**8**	15
Exploration costs	**16**	27
Development costs	**506**	379
Total costs incurred	**535**	449

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

Consolidated subsidiaries and joint operations

For the years ended December 31:

	2015	2014 (restated)
Revenue	**2,485**	2,154
Production costs (excluding production taxes)	**(278)**	(254)
Selling, general and administrative expenses	**(100)**	(75)
Exploration expense	**(13)**	(19)
Depreciation, depletion and amortization	**(359)**	(383)
Taxes other than income tax	**(1,139)**	(1,018)
Income tax	**(120)**	(79)
Results of operations relating to oil and gas production	**476**	326

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

Reserve quantity information

Beginning from 2014 the Company discloses its reserves calculated in accordance with the Petroleum Resources Management System (PRMS). For the purposes of the evaluation of reserves as of December 31, 2015 and 2014 the Company used the 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 2016 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, 2015 and 2014 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

	2015	2014
	mln boe	**mln boe**
Beginning of year	**40,607**	39,330
Revisions of previous estimates	**761**	2,398
Extensions and discoveries	**691**	566
Improved recovery	**–**	–
Purchase of new reserves	**–**	–
Sale of reserves	**–**	–
Production	**(1,700)**	(1,687)
End of year	**40,359**	40,607
of which:		
Proved reserves under PSA Sakhalin 1	**276**	220
Proved reserves of assets in Canada	**4**	5
Proved reserves of assets in Vietnam	**19**	24
Proved developed reserves	**19,068**	18,034
Minority interest in total proved reserves	**118**	63
Minority interest in proved developed reserves	**48**	43

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

	2015	2014
Future cash inflows	**80,084**	78,961
Future development costs	**(3,975)**	(3,934)
Future production costs	**(42,578)**	(41,894)
Future income tax expenses	**(6,145)**	(6,157)
Future net cash flows	**27,386**	26,976
Discount for estimated timing of cash flows	**(17,636)**	(17,694)
Discounted value of future cash flows as of the end of year	**9,750**	9,282

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

Consolidated subsidiaries and joint operations

	UOM	2015	2014
Share of other (minority) shareholders in discounted value of future cash flows	RUB bln	**50**	15

Changes therein relating to proved oil and gas reserves

Consolidated subsidiaries and joint operations

	2015	2014
Discounted value of future cash flows as of the beginning of year	**9,282**	6,136
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	**(968)**	(807)
Changes in price estimates, net	**238**	3,282
Changes in estimated future development costs	**(130)**	109
Development costs incurred during the period	**506**	379
Revisions of previous reserves estimates	**184**	677
Increase in reserves due to discoveries, less respective expenses	**167**	161
Net change in income taxes	**(79)**	(1,019)
Accretion of discount	**928**	614
Net changes due to purchases (sales) oil and gas fields	**–**	–
Other	**(378)**	(250)
Discounted value of future cash flows as of the end of year	**9,750**	9,282

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

	UOM	2015	2014
Share in capitalized costs relating to oil and gas producing activities (total)	RUB bln	**208**	54
Share in results of operations for oil and gas producing activities (total)	RUB bln	**2**	(10)
Share in estimated proved oil and gas reserves	mln boe	**1,932**	2,069
Share in estimated proved developed oil and gas reserves	mln boe	**1,130**	1,244
Share in discounted value of future cash flows	RUB bln	**424**	417

Contact information

Rosneft Oil Company

Legal address:
Russia, 115035, Moscow, Sofiyskaya Embankment, 26/1

Mailing address:
Russia, 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)