



Rosneft Oil Company

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

Three and nine months ended September 30, 2015

Rosneft Oil Company
Interim Condensed Consolidated Financial Statements (unaudited)
Three and nine months ended September 30, 2015

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Report on review of interim condensed consolidated financial statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Open Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), comprising the interim consolidated balance sheet as at September 30, 2015, the related interim consolidated statements of profit or loss and other comprehensive income for the three and nine-month periods, and the related interim consolidated statements of changes in shareholders' equity and cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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



November 25, 2015

Moscow, Russia

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

	Notes	September 30, 2015 (unaudited)	December 31, 2014
ASSETS			
Current assets			
Cash and cash equivalents	10	657	216
Restricted cash		1	1
Other short-term financial assets	11	869	723
Accounts receivable	12	445	554
Inventories	13	236	233
Prepayments and other current assets	14	318	404
Total current assets		2,526	2,131
Non-current assets			
Property, plant and equipment	15	5,850	5,666
Intangible assets		47	49
Other long-term financial assets		360	281
Investments in associates and joint ventures		363	347
Bank loans granted		16	14
Deferred tax assets		29	24
Goodwill		226	215
Other non-current non-financial assets		8	9
Total non-current assets		6,899	6,605
Total assets		9,425	8,736
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	16	457	494
Loans and borrowings and other financial liabilities	17	980	1,216
Income tax liabilities		17	39
Other tax liabilities	18	187	162
Provisions	19	24	36
Prepayment on long-term oil and petroleum products supply agreements	20	105	80
Other current liabilities		5	4
Total current liabilities		1,775	2,031
Non-current liabilities			
Loans and borrowings and other financial liabilities	17	2,168	2,190
Deferred tax liabilities		569	594
Provisions	19	125	107
Prepayment on long-term oil and petroleum products supply agreements	20	1,825	887
Other non-current liabilities		55	46
Total non-current liabilities		4,742	3,824
Equity			
Share capital	21	1	1
Additional paid-in capital		492	493
Other funds and reserves		(690)	(500)
Retained earnings		3,093	2,878
Rosneft shareholders' equity		2,896	2,872
Non-controlling interest		12	9
Total equity		2,908	2,881
Total liabilities and equity		9,425	8,736

President  I.I. Sechin

November 25, 2015

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

Rosneft Oil Company

Interim Consolidated Statement of Profit or Loss

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

		Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
	Notes	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues and equity share in profits/(losses) of associates and joint ventures					
Oil, gas, petroleum products and petrochemicals sales	5	1,247	1,364	3,803	4,136
Support services and other revenues		18	21	55	55
Equity share in profits/(losses) of associates and joint ventures		1	(3)	8	1
Total revenues and equity share in profits/(losses) of associates and joint ventures		1,266	1,382	3,866	4,192
Costs and expenses					
Production and operating expenses		134	122	389	338
Cost of purchased oil, gas, petroleum products and refining costs		146	121	407	363
General and administrative expenses		27	30	86	84
Pipeline tariffs and transportation costs		134	113	408	348
Exploration expenses		2	4	9	13
Depreciation, depletion and amortization		121	116	365	330
Taxes other than income tax	6	322	303	1,009	919
Export customs duty	7	257	413	738	1,258
Total costs and expenses		1,143	1,222	3,411	3,653
Operating income		123	160	455	539
Finance income		12	9	39	21
Finance expenses	8	(60)	(61)	(201)	(112)
Other income	9	–	2	37	64
Other expenses	9	(16)	(13)	(44)	(36)
Foreign exchange differences		83	(95)	95	(150)
Income before income tax		142	2	381	326
Income tax expense	6	(29)	(1)	(78)	(65)
Net income		113	1	303	261
Net income attributable to:					
- Rosneft shareholders		112	–	302	257
- non-controlling interests		1	1	1	4
Net income attributable to Rosneft per common share (in RUB) – basic and diluted		10.57	–	28.50	24.25
Weighted average number of shares outstanding (millions)		10,598	10,598	10,598	10,598

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

Rosneft Oil Company
Interim Consolidated Statement of other Comprehensive Income

(in billions of Russian rubles)

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Notes	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income	113	1	303	261
Other comprehensive (loss)/income– to be reclassified to profit or loss in subsequent periods				
Foreign exchange differences on translation of foreign operations	(135)	(27)	(110)	(28)
Foreign exchange effects recognized during the period	22 (139)	–	(101)	–
Gain/(loss) from changes in fair value of financial assets available-for-sale	–	–	1	(1)
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent period	28	–	20	–
Total other comprehensive loss – to be reclassified to profit or loss in subsequent periods, net of tax	(246)	(27)	(190)	(29)
Total comprehensive (loss)/income, net of tax	(133)	(26)	113	232
Total comprehensive (loss)/income, net of tax, attributable to:				
- Rosneft shareholders	(134)	(27)	112	228
- non-controlling interests	1	1	1	4

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

Rosneft Oil Company

Interim Consolidated Statement of Changes in Shareholders' Equity

(in billions of Russian rubles, except share amounts)

	Number of shares (millions)	Share capital	Additional paid-in capital	Other funds and reserves	Retained earnings	Rosneft share- holders' equity	Non- controlling interests	Total equity
Balance at January 1, 2014 (restated)	10,598	1	477	(14)	2,666	3,130	39	3,169
Net income	–	–	–	–	257	257	4	261
Other comprehensive loss	–	–	–	(29)	–	(29)	–	(29)
Total comprehensive (loss)/income	–	–	–	(29)	257	228	4	232
Change in ownership interests in subsidiaries	–	–	16	–	–	16	(32)	(16)
Dividends declared on common stock (Note 21)	–	–	–	–	(136)	(136)	–	(136)
Balance at September 30, 2014 (unaudited restated)	10,598	1	493	(43)	2,787	3,238	11	3,249
Balance at January 1, 2015	10,598	1	493	(500)	2,878	2,872	9	2,881
Net income	–	–	–	–	302	302	1	303
Other comprehensive loss	–	–	–	(190)	–	(190)	–	(190)
Total comprehensive (loss)/income	–	–	–	(190)	302	112	1	113
Change of interest in subsidiaries	–	–	(1)	–	–	(1)	1	–
Disposal of subsidiaries	–	–	–	–	–	–	1	1
Dividends declared on common stock (Note 21)	–	–	–	–	(87)	(87)	–	(87)
Balance at September 30, 2015 (unaudited)	10,598	1	492	(690)	3,093	2,896	12	2,908

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

Rosneft Oil Company
Interim Consolidated Statement of Cash Flows
(in billions of Russian rubles)

	Notes	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Operating activities			
Net income		303	261
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation, depletion and amortization		365	330
Loss on sale and disposal of non-current assets	9	14	11
Impairment of assets	9	1	1
Dry hole costs		2	3
Foreign exchange (gain)/loss on non-operating activities		(48)	243
Realized foreign exchange cash flow hedges		88	–
Equity share in profits of associates and joint ventures		(8)	(1)
Gain on disposal of investments in associates and joint ventures		–	(56)
Loss from disposal of subsidiaries and non-production assets	9	6	5
Bad debt loss		–	1
Gain from changes in estimates and liabilities write-off		(17)	–
Finance expenses	8	201	112
Finance income		(39)	(21)
Gain on notes write-off		(20)	–
Income tax expense	6	78	65
<i>Changes in operating assets and liabilities:</i>			
Increase in accounts receivable, gross		(47)	(116)
Decrease/(increase) in inventories		1	(13)
Decrease in prepayments and other current assets		89	15
(Decrease)/increase in accounts payable and accrued liabilities		(60)	42
Increase/(decrease) in other tax liabilities		23	(4)
Decrease in current provisions		(1)	–
Increase/(decrease) in other current liabilities		1	(1)
Increase in other non-current liabilities		9	3
Increase in long-term prepayment on oil and petroleum products supply agreements		1,027	497
Interest paid on long-term prepayment on oil and petroleum products supply agreements		(13)	(7)
Long-term loans granted by subsidiary banks		(19)	(13)
Repayment of long-term loans granted by subsidiary banks		18	10
Acquisition of trading securities		(4)	(17)
Proceeds from sale of trading securities		7	14
Net cash provided by operating activities before income tax and interest		1,957	1,364
Income tax payments		(97)	(103)
Dividends received		14	1
Interest received		18	6
Net cash provided by operating activities		1,892	1,268

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

Rosneft Oil Company
Interim Consolidated Statement of Cash Flows (continued)
(in billions of Russian rubles)

	Notes	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Investing activities			
Capital expenditures		(409)	(370)
Acquisition of the right to a part of pipeline capacity		–	(16)
Auction advance refunds / (acquisition of licenses and auction advances)		6	(8)
Acquisition of short-term financial assets		(269)	(459)
Proceeds from sale of short-term financial assets		202	95
Acquisition of long-term financial assets		(20)	(1)
Proceeds from sale of long-term financial assets		–	1
Financing of joint venture		–	(69)
Acquisition of interest in associates and joint ventures		(18)	(20)
Proceeds from sale of investments in associates and joint ventures		61	20
Acquisition of interests in subsidiaries, net of cash acquired	4	(30)	(28)
Sale of property, plant and equipment		3	2
Placements under reverse REPO agreements		(5)	(8)
Receipts under reverse REPO agreements		5	5
Net cash used in investing activities		(474)	(856)
Financing activities			
Proceeds from short-term loans and borrowings		794	118
Repayment of short-term loans and borrowings		(606)	(115)
Proceeds from long-term loans and borrowings		83	54
Repayment of long-term loans and borrowings		(941)	(303)
Interest paid		(106)	(66)
Proceeds from bonds issuance		–	35
Repayment of other financial liabilities		(141)	(7)
Prepayment on sale of non-controlling share in subsidiary	25	8	–
Payment of dividends on common stock		(87)	(136)
Acquisition of non-controlling interests in subsidiaries		–	(169)
Net cash used in financing activities		(996)	(589)
Net increase/(decrease) in cash and cash equivalents		422	(177)
Cash and cash equivalents at beginning of period	10	216	275
Effect of foreign exchange on cash and cash equivalents		19	41
Cash and cash equivalents at end of period	10	657	139

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

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Three and nine months ended September 30, 2015

(all amounts in tables are in billions of Russian rubles, except as noted otherwise)

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.

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for 2014 prepared in accordance with International Financial Reporting Standards ("IFRS").

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Company has omitted disclosures which would substantially duplicate the information contained in its 2014 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequently to the issuance of its 2014 audited consolidated financial statements. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's 2014 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all the adjustments necessary to present fairly the Company's financial position, results of operations, statements of changes in shareholders' equity and cash flows for the interim reporting periods.

The Company maintains its books and records and prepares financial statements in accordance with accounting and taxation principles and practices mandated by legislation of relevant jurisdictions. The accompanying IFRS interim condensed consolidated financial statements were derived from the Company's statutory books and records.

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

The interim condensed consolidated financial statements for the nine months ended September 30, 2015 were approved and authorized for issue by the President of the Company on November 25, 2015.

3. Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied and disclosed in the Company's annual consolidated financial statements for 2014 prepared in accordance with IFRS, except for the adoption of one new standard effective as of January 1, 2015.

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

3. Changes in accounting policies (continued)

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. Acquisition of subsidiaries

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 Central Bank of Russia ("CBR") official exchange rate at the acquisition date).

As of September 30, 2015 the Company had not yet completed the fair value estimation of TWS assets acquired and liabilities assumed. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months from the acquisition date.

The following table summarizes the Company's preliminary allocation of the TWS purchase price:

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 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 3,870 billion and RUB 303 billion, respectively, for the nine-month period ended September 30, 2015.

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

4. Acquisition of subsidiaries (continued)

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 September 30, 2015 the Company had not yet completed the fair value estimation of Petrol Market assets acquired and liabilities assumed. Preliminarily, the purchase price 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.

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 terms of the acquisition provide for net debt and tax consideration adjustments, and further provide for additional compensation to be paid in case the average annual crude oil Brent price exceeds a defined amount.

As of September 30, 2015 the Company had not yet completed the fair value estimation of NPC assets acquired and liabilities assumed. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized by the end of 2015.

The following table summarizes the Company's preliminary allocation of the NPC purchase price which is based on the historical value of the acquired assets and assumed liabilities:

ASSETS	
Current assets	
Accounts receivable	1
Inventories	2
Other current assets	3
Total current assets	6
Non-current assets	
Property, plant and equipment	20
Deferred tax assets	1
Other non-current assets	1
Total non-current assets	22
Total assets	28
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	3
Total non-current liabilities	8
Total liabilities	22
Total identifiable net assets at fair value	6
Goodwill	12
Total consideration transferred	18

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

4. Acquisition of subsidiaries (continued)

Acquisition of CJSC Novokuibyshevsk Petrochemical Company (continued)

Preliminarily, goodwill in the amount of RUB 12 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 3,875 billion and RUB 303 billion, respectively, for the nine month period ended September 30, 2015. NPC's revenues and net income for the period from the acquisition date to September 30, 2015 amounted to RUB 9 billion and RUB 0.4 billion, respectively.

Acquisitions in 2014

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 acquisition). The 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 effect of the finalized estimation 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

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

4. Acquisition of subsidiaries (continued)

Acquisitions in 2014 (continued)

Acquisition of 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 results of the final purchase price allocation do not materially differ from the preliminary allocation.

5. Segment information

The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. Exploration and production segment is engaged in the field exploration and production of crude oil and natural gas. Refining and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as the purchase, sale and transportation of crude oil and petroleum products. Corporate and other unallocated activities do not represent an operating segment and comprise corporate activity, activities involved in field development, maintenance of infrastructure and 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, and on the revaluation of intersegment transactions at market prices.

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(continued)

5. Segment information (continued)

The performance of the operating segments for the three months ended September 30, 2015 (unaudited) is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	–	1,247	18	–	1,265
Intersegment revenues	560	–	–	(560)	–
Equity share in (losses)/profits of associates and joint ventures	(1)	2	–	–	1
Total revenues and equity share in profits of associates and joint ventures	559	1,249	18	(560)	1,266
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	371	1,186	25	(560)	1,022
Depreciation, depletion and amortization	96	22	3	–	121
Total costs and expenses	467	1,208	28	(560)	1,143
Operating income	92	41	(10)	–	123
Finance income					12
Finance expenses					(60)
Total finance expenses					(48)
Other income					–
Other expenses					(16)
Foreign exchange differences					83
Income before income tax					142
Income tax					(29)
Net income					113

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

5. Segment information (continued)

The performance of the operating segments for the three months ended September 30, 2014 (unaudited) is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in losses of associates and joint ventures					
Revenues from external customers	–	1,364	21	–	1,385
Intersegment revenues	544	–	–	(544)	–
Equity share in losses of associates and joint ventures	(3)	–	–	–	(3)
Total revenues and equity share in losses of associates and joint ventures	541	1,364	21	(544)	1,382
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	341	1,275	34	(544)	1,106
Depreciation, depletion and amortization	95	19	2	–	116
Total costs and expenses	436	1,294	36	(544)	1,222
Operating income	105	70	(15)	–	160
Finance income					9
Finance expenses					(61)
Total finance expenses					(52)
Other income					2
Other expenses					(13)
Foreign exchange differences					(95)
Income before income tax					2
Income tax					(1)
Net income					1

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(continued)

5. Segment information (continued)

The performance of the operating segments for the nine months ended September 30, 2015 (unaudited) is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	–	3,803	55	–	3,858
Intersegment revenues	1,849	–	–	(1,849)	–
Equity share in profits of associates and joint ventures	3	5	–	–	8
Total revenues and equity share in profits of associates and joint ventures	1,852	3,808	55	(1,849)	3,866
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,165	3,647	83	(1,849)	3,046
Depreciation, depletion and amortization	293	64	8	–	365
Total costs and expenses	1,458	3,711	91	(1,849)	3,411
Operating income	394	97	(36)	–	455
Finance income					39
Finance expenses					(201)
Total finance expenses					(162)
Other income					37
Other expenses					(44)
Foreign exchange differences					95
Income before income tax					381
Income tax					(78)
Net income					303

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

5. Segment information (continued)

The performance of the operating segments for the nine months ended September 30, 2014 (unaudited) is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Revenues and equity share in profits of associates and joint ventures					
Revenues from external customers	–	4,136	55	–	4,191
Intersegment revenues	1,711	–	–	(1,711)	–
Equity share in profits/(losses) of associates and joint ventures	3	(2)	–	–	1
Total revenues and equity share in profits of associates and joint ventures	1,714	4,134	55	(1,711)	4,192
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,027	3,920	87	(1,711)	3,323
Depreciation, depletion and amortization	270	51	9	–	330
Total costs and expenses	1,297	3,971	96	(1,711)	3,653
Operating income	417	163	(41)	–	539
Finance income					21
Finance expenses					(112)
Total finance expenses					(91)
Other income					64
Other expenses					(36)
Foreign exchange differences					(150)
Income before income tax					326
Income tax					(65)
Net income					261

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

5. Segment information (continued)

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

	Three months ended September 30, 2015 (unaudited)	Three months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Oil, gas, petroleum products and petrochemicals sales				
International sales of crude oil, petroleum products and petrochemicals	877	1,015	2,771	3,144
International sales of crude oil and petroleum products – CIS, other than Russia	50	37	150	129
Domestic sales of crude oil, petroleum products and petrochemicals	277	271	748	745
Sales of gas	43	41	134	118
Total oil, gas, petroleum products and petrochemicals sales	1,247	1,364	3,803	4,136

6. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended September 30, 2015 (unaudited)	Three months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Current income tax expense	(65)	2	(112)	(69)
Deferred tax income/(expense) due to the origination and reversal of temporary differences	36	(3)	34	4
Total income tax expense	(29)	(1)	(78)	(65)

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 deferred tax liabilities arising as a result of these legislation changes did not have a material effect on the Company's financial position or results of operations for the three and nine months ended September 30, 2015.

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

6. Income tax and other taxes (continued)

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

	Three months ended September 30, 2015 (unaudited)	Three months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Mineral extraction tax	276	248	867	758
Excise tax	27	36	78	105
Property tax	7	7	23	21
Social charges	12	9	36	30
Other	–	3	5	5
Total taxes other than income tax	322	303	1,009	919

7. Export customs duty

Export customs duty comprises the following:

	Three months ended September 30, 2015 (unaudited)	Three months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Export customs duty on oil sales	192	307	538	924
Export customs duty on petroleum products and petrochemicals sales	65	106	200	334
Total export customs duty	257	413	738	1,258

8. Finance expenses

Finance expenses comprise the following:

	Three months ended September 30, 2015 (unaudited)	Three months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Interest expense on:				
Loans and borrowings	(22)	(13)	(72)	(39)
Prepayment on long-term oil and petroleum products supply agreements (Note 20)	(14)	(7)	(36)	(19)
Other interest expenses	(1)	–	(2)	(1)
Total interest expenses	(37)	(20)	(110)	(59)
Net loss from operations with derivative financial instruments	(19)	(39)	(81)	(47)
Increase in provision due to the unwinding of discount	(3)	(2)	(9)	(6)
Other finance expenses	(1)	–	(1)	–
Total finance expenses	(60)	(61)	(201)	(112)

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended September 30, 2015 (unaudited)	Three months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Gain from the sale of LLC "Yugragazpererabotka"	–	–	–	56
Liability write-off (Note 25)	–	–	37	–
Compensation payment for licenses from joint venture parties	–	1	–	1
Other	–	1	–	7
Total other income	–	2	37	64
Sale and disposal of property, plant and equipment and intangible assets	(6)	(3)	(14)	(11)
Disposal of companies and non-production assets	(2)	(2)	(6)	(5)
Impairment of assets	–	–	(1)	(1)
Social payments, charity, sponsorship, financial aid	(3)	(4)	(9)	(8)
Other	(5)	(4)	(14)	(11)
Total other expenses	(16)	(13)	(44)	(36)

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	September 30, 2015 (unaudited)	December 31, 2014
Cash on hand and in bank accounts in RUB	16	117
Cash on hand and in bank accounts in foreign currencies	577	84
Deposits	51	12
Others	13	3
Total cash and cash equivalents	657	216

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

11. Other short-term financial assets

Other short-term financial assets comprise the following:

	September 30, 2015 (unaudited)	December 31, 2014
Financial assets available-for-sale		
Bonds and promissory notes	56	65
Stocks and shares	80	61
Financial assets held-to-maturity		
Bonds	2	6
Loans and receivables		
Loans granted	–	1
Loans issued to associates	5	7
Notes receivable	57	57
Deposits and certificates of deposit	660	512
Held-for-trading financial assets at fair value through profit or loss		
Corporate bonds	6	9
State bonds	3	5
Total other short-term financial assets	869	723

As of September 30, 2015 bank deposits and certificates of deposits denominated in US\$ and in RUB amounted to RUB 643 billion and RUB 17 billion, respectively.

12. Accounts receivable

Accounts receivable include the following:

	September 30, 2015 (unaudited)	December 31, 2014
Trade receivables	372	413
Bank loans to customers	31	32
Other accounts receivable	54	120
Total	457	565
Allowance for doubtful accounts	(12)	(11)
Total accounts receivable, net of allowance	445	554

No accounts receivable were pledged as collateral for loans and borrowings provided to the Company as of September 30, 2015 and December 31, 2014.

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

13. Inventories

Inventories comprise the following:

	September 30, 2015 (unaudited)	December 31, 2014
Crude oil and associated gas	65	70
Petroleum products and petrochemicals	108	115
Materials and supplies	63	48
Total	236	233

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

	Three months ended September 30, 2015 (unaudited)	Three months ended September 30, 2014 (unaudited)	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Cost of inventories recognized as an expense during the period	168	164	503	476

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

14. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	September 30, 2015 (unaudited)	December 31, 2014
Value added tax and excise receivable	151	162
Prepayments to suppliers	31	40
Settlements with customs	93	142
Profit tax and other tax advance payments	34	49
Other	9	11
Total prepayments and other current assets	318	404

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(continued)

15. Property, plant and equipment and construction in progress

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
Cost as of January 1, 2015	5,768	1,465	105	7,338
Depreciation, depletion and impairment losses as of January 1, 2015	(1,423)	(281)	(26)	(1,730)
Net book value as of January 1, 2015	4,345	1,184	79	5,608
Prepayments for property, plant and equipment as of January 1, 2015	6	47	5	58
Total as of January 1, 2015	4,351	1,231	84	5,666
Cost				
Acquisition of subsidiaries (Note 4)	5	23	–	28
Additions	372	138	8	518
Disposals	(20)	(7)	(1)	(28)
Foreign exchange differences	61	12	4	77
Cost of asset retirement (decommissioning) obligations	9	–	–	9
As of September 30, 2015	6,195	1,631	116	7,942
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(298)	(62)	(5)	(365)
Disposals and other movements	9	2	–	11
Foreign exchange differences	(45)	(5)	(1)	(51)
As of September 30, 2015	(1,757)	(346)	(32)	(2,135)
Net book value as of September 30, 2015	4,438	1,285	84	5,807
Prepayments for property, plant and equipment as of September 30, 2015	8	27	8	43
Total as of September 30, 2015	4,446	1,312	92	5,850

The depreciation charge for the nine months ended September 30, 2015 includes RUB 4 billion of depreciation which was capitalized as part of the construction cost of property, plant and equipment and cost of inventory.

In the three months ended September 30, 2015 the Company reviewed its estimates of oil and gas reserves for certain assets.

The Company capitalized RUB 69 billion and RUB 28 billion of interest expenses on loans and borrowings for the nine months ended September 30, 2015 and 2014, respectively.

The weighted average rates used to determine the amount of borrowing costs eligible for capitalization were 6.19% and 2.91% for the nine months ended September 30, 2015 and 2014, respectively.

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

16. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2015 (unaudited)	December 31, 2014
Accounts payable to suppliers and contractors	298	272
Salary and other benefits payable	56	55
Bank customer accounts	38	62
Other accounts payable	22	34
Short-term advances received	43	71
Total accounts payable and accrued liabilities	457	494

Current accounts payable for the nine months ended September 30, 2015 were settled within 41 days on average (nine months ended September 30, 2014: 35 days). Interest rates on bank customer accounts amount to 0.0%-5.0% p.a. Trade and other payables are non-interest bearing.

17. Loans and borrowings and other financial liabilities

Loans and borrowings and other financial liabilities comprise the following:

	Currency	September 30, 2015 (unaudited)	December 31, 2014
Long-term			
Bank loans	RUB	47	143
Bank loans	US\$, Euro	1,703	2,067
Bonds	RUB	138	138
Eurobonds	US\$	435	408
Customer deposits	RUB	4	6
Customer deposits	US\$, Euro	3	5
Borrowings	RUB	2	–
Borrowings	Euro	3	6
Promissory notes payable	US\$	3	2
Other borrowings	US\$	309	278
<i>Less: current portion of long-term debts</i>		(506)	(877)
Total long-term loans and borrowings		2,141	2,176
Finance lease liabilities		32	18
<i>Less: current portion of long-term finance lease liabilities</i>		(5)	(4)
Total loans and borrowings and other financial liabilities		2,168	2,190
Short-term			
Bank loans	RUB	100	53
Bank loans	US\$, Euro	1	–
Customer deposits	RUB	17	18
Customer deposits	US\$, Euro	5	6
Promissory notes payable – Yukos related (Note 25)	RUB	–	20
Obligations under a repurchase agreement	RUB	–	13
Other borrowings	RUB	16	15
Other borrowings	US\$	250	73
<i>Current portion of long-term debts</i>		506	877
Total short-term loans and borrowings and current portion of long-term loans and borrowings		895	1,075
<i>Current portion of long-term finance lease liabilities</i>		5	4
Short-term liabilities related to derivative financial instruments		80	137
Total short-term loans and borrowings and other financial liabilities		980	1,216
Total loans and borrowings and other financial liabilities		3,148	3,406

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

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

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 to contractual revenue in the amount of the missed loan repayments which the purchaser generally remits directly through transit currency accounts in lender banks. The outstanding balance of Accounts receivable arising from such contracts amounted to RUB 28 billion and RUB 22 billion as of September 30, 2015 and December 31, 2014, respectively, and is included in Trade receivables of purchasers and customers.

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).

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.

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

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.

During the first nine months of 2015, the Company attracted other short-term floating rate borrowings under repurchase agreements for its own corporate bonds. As of September 30, 2015 the Company's liabilities under those transactions were equivalent to RUB 250 billion (at the CBR official exchange rate as of September 30, 2015). Its own corporate bonds were used as an instrument for those transactions.

In March-June 2015, certain OJSC Yukos Oil Company related promissory notes payable were returned to the Company pursuant to relevant agreements (Note 25).

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

As of September 30, 2015 and December 31, 2014 the Company was in compliance with all restrictive financial and other debt covenants.

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

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

Liabilities related to derivative financial instruments

Derivative financial instruments comprise the following:

	Issue date	Expiry date	Nominal amount as of		Interest rate type	Fair value of liabilities	
			September 30, 2015 (unaudited)			September 30, 2015 (unaudited)	December 31, 2014
			US\$ million	RUB billion*			
Swaps	2012	2015	–	–	fixed	–	54
Swaps	2012	2017	641	42	floating	15	9
Swaps	2013	2018	2,138	142	floating	48	14
Swaps	2014	2015	–	–	fixed	–	29
Swaps	2014	2019	1,010	67	floating	17	6
Forwards	2012	2015	–	–	–	–	25
Total			3,789	251		80	137

* the equivalent nominal amount at the CBR official exchange rate as of September 30, 2015.

In the first nine months of 2015 the Company settled derivative financial instruments opened in 2012-2014 for the nominal amount of US\$ 4,494 million (RUB 298 billion at the CBR official exchange rate as of September 30, 2015).

18. Other current tax liabilities

Other short-term tax liabilities comprise the following:

	September 30, 2015	
	(unaudited)	December 31, 2014
Mineral extraction tax	87	69
VAT	55	55
Excise duties	13	11
Personal income tax	2	1
Property tax	8	7
Other	22	19
Total other tax liabilities	187	162

19. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2015, including	83	35	25	143
<i>Non-current</i>	80	24	3	107
<i>Current</i>	3	11	22	36
Provisions charged during the year	7	2	6	15
Increase/(decrease) in the liability resulting from:				
Changes in estimates	–	–	(15)	(15)
Change in the discount rate	2	–	–	2
Foreign exchange differences	2	–	–	2
Unwinding of discount	7	2	–	9
Utilized	(1)	(4)	(2)	(7)
As of September 30, 2015 (unaudited), including	100	35	14	149
<i>Non-current</i>	98	26	1	125
<i>Current</i>	2	9	13	24

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

20. Prepayment under long-term oil and petroleum products supply agreements

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

	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
As of January 1	967	470
Received	1,027	497
Reimbursed	(64)	–
Total prepayment on long-term oil and petroleum products supply agreements as of September 30	1,930	967
Less current portion	(105)	(55)
Long-term prepayment as of September 30	1,825	912

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 the first nine months of 2015 amounted to RUB 64 billion (US\$ 2.1 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date).

21. Shareholders' equity

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

On June 27, 2014 the Annual General Shareholders' Meeting 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.

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.

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

22. 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 revenue 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 set equal. To the extent that a change in the foreign currency rate impacts the fair value of the hedging instrument, the effects are recognized in other comprehensive income or loss and then reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

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

Changes in the nominal hedging amount during the nine months ended September 30, 2015:

	Designation of October 1, 2014		Designation of April 1, 2015		Designation of August 31, 2015		Total	
	US\$ million	RUB billion*	US\$ million	RUB billion*	US\$ million	RUB billion*	US\$ million	RUB billion*
Nominal amount as of December 31, 2014	29,490	1,953	–	–	–	–	29,490	1,953
Hedging instruments designated	–	–	16,888	1,119	1,300	86	18,188	1,205
Realized cash flow foreign exchange hedges	(1,474)	(98)	(1,482)	(98)	(25)	(2)	(2,981)	(198)
Hedging instruments de- designated	(28,016)	(1,855)	(15,406)	(1,021)	–	–	(43,422)	(2,876)
Nominal amount as of September 30, 2015	–	–	–	–	1,275	84	1,275	84

* The equivalent amount at the CBR exchange rate as of September 30, 2015.

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

	For 3 months ended September 30, 2015 (unaudited)			For 9 months ended September 30, 2015 (unaudited)		
	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 period	(460)	92	(368)	(498)	100	(398)
Foreign exchange effects recognized during the period	(169)	34	(135)	(189)	38	(151)
Reclassified to revenue in profit or loss	30	(6)	24	88	(18)	70
Total recognized in other comprehensive income/(loss) for the period (unaudited)	(139)	28	(111)	(101)	20	(81)
Total recognized in other comprehensive (loss)/income as of September 30, 2015 (unaudited)	(599)	120	(479)	(599)	120	(479)

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

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

A schedule of the expected reclassification of the accumulated foreign exchange loss from other comprehensive income to profit or loss, as of September 30, 2015, is presented below:

Year	2015	2016	2017	2018	2019	Total
Reclassification	(35)	(141)	(141)	(141)	(141)	(599)
Income tax	7	28.25	28.25	28.25	28.25	120
Total, net of tax	(28)	(112.75)	(112.75)	(112.75)	(112.75)	(479)

The expected reclassification is calculated using the CBR exchange rate as of September 30, 2015 and may be different using actual exchange rates in the future.

23. Fair value of financial instruments

The fair value of financial assets and liabilities is determined as follows:

- the fair value of financial assets and liabilities quoted on active liquid markets is determined in accordance with market prices;
- the fair value of other financial assets and liabilities is determined in accordance with generally accepted models and is based on discounted cash flow analysis that relies on prices used for existing transactions in the current market;
- the fair value of derivative financial instruments is based on market quotes. In illiquid and highly volatile markets fair value is determined on the basis of valuation models that rely on assumptions confirmed by observable market prices or rates as of the reporting date.

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 September 30, 2015 (unaudited)			
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Held-for-trading	5	4	–	9
Available-for-sale	2	134	–	136
Non-current assets				
Available-for-sale	–	6	–	6
Total assets measured at fair value	7	144	–	151
Liabilities				
Derivative financial instruments	–	(80)	–	(80)
Total liabilities measured at fair value	–	(80)	–	(80)

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

23. Fair value of financial instruments (continued)

	Fair value measurement as of December 31, 2014			Total
	Level 1	Level 2	Level 3	
Assets				
Current assets				
Held-for-trading	8	6	–	14
Available-for-sale	1	125	–	126
Non-current assets				
Available-for-sale	–	5	–	5
Total assets measured at fair value	9	136	–	145
Liabilities				
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 interim condensed consolidated financial statements equals their fair value. The carrying value of accounts receivable, accounts payable, loans issued and other financial assets recognized in these interim condensed consolidated financial statements approximates their fair value.

	Carrying value		Fair value (Level 2)	
	September 30, 2015 (unaudited)	December 31, 2014	September 30, 2015 (unaudited)	December 31, 2014
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(2,324)*	(2,413)	(2,058)*	(1,994)
Loans and borrowings with a fixed interest rate	(712)	(838)	(719)	(736)
Financial lease liabilities	(32)	(18)	(32)	(18)

* including financial instruments designated as hedging instruments with a carrying value of RUB 84 billion and a fair value of RUB 74 billion.

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

24. Related party transactions

For the purposes of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the nine months ended September 30, 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.

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.

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Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

24. Related party transactions (continued)

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

	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	227	122
Support services and other revenues	1	–
Finance income	7	2
	235	124

Costs and expenses

	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Production and operating expenses	3	5
Cost of purchased oil, gas, petroleum products and refining costs	42	8
Pipeline tariffs and transportation costs	333	295
Other expenses	7	4
Finance expenses	42	29
	427	341

Other operations

	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Purchase of financial assets and investments in associates	–	(1)
Loans received	25	27
Loans repaid	(3)	(18)
Deposits placed	(22)	(193)
Deposits repaid	–	49

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

24. Related party transactions (continued)

Transactions with shareholders and companies controlled by shareholders (continued)

Settlement balances

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	485	24
Accounts receivable	101	18
Prepayments and other current assets	30	38
Other financial assets	351	283
	967	363
Liabilities		
Accounts payable and accrued liabilities	29	8
Loans and borrowings and other financial liabilities	206	159
Other non-current liabilities	29	–
	264	167

Transactions with joint ventures

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

Revenues and income

	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	7	7
Support services and other revenues	2	2
Finance income	12	–
	21	9

Costs and expenses

	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Production and operating expenses	2	1
Cost of purchased oil, gas, petroleum products and refining costs	122	90
Pipeline tariffs and transportation costs	4	7
Other expenses	2	1
	130	99

Other operations

	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Loans repaid	(5)	–
Loans and borrowing issued	(15)	–

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

24. Related party transactions (continued)

Transactions with joint ventures (continued)

Settlement balances

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Accounts receivable	9	15
Prepayments and other current assets	1	1
Other financial assets	306	246
	316	262
Liabilities		
Accounts payable and accrued liabilities	30	23
Loans and borrowings and other financial liabilities	–	5
	30	28

Transactions with associates

Revenues and income

	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	8	6
Support services and other revenues	–	2
Finance income	2	1
	10	9

Costs and expenses

	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Production and operating expenses	1	4
Cost of purchased oil, gas, petroleum products and refining costs	5	–
Other expenses	1	2
	7	6

Other operations

	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Loans and borrowings issued	–	(1)

Settlement balances

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Accounts receivable	11	17
Other financial assets	20	19
	31	36
Liabilities		
Accounts payable and accrued liabilities	2	2
	2	2

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

24. Related party transactions (continued)

Transactions with non-state pension funds

Costs and expenses

	Nine months ended September 30, 2015 (unaudited)	Nine months ended September 30, 2014 (unaudited)
Other expenses	4	3

Settlement balances

	September 30, 2015 (unaudited)	December 31, 2014
Liabilities		
Accounts payable and accrued liabilities	–	1
	–	1
	–	1

25. Contingencies

Russian business environment

Russia continues to carry out economic reforms and develop 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 continued to be negatively impacted by a significant drop in crude oil prices and the significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries in 2014. The ruble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decreases 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 the potential to produce oil in the Russian Federation. The Company takes account of 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 economic and political instability increased in Ukraine and it continued during the first nine months of 2015. 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 appropriate measurements as of September 30, 2015. The Company continues to monitor the situation in Ukraine and to take 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.

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

25. Contingencies (continued)

Legal claims

In 2006, Yukos Capital S.a.r.l. ("Yukos Capital") initiated separate international commercial arbitration proceedings against OJSC Yuganskneftegaz, OJSC Samaraneftgaz and OJSC Tomskneft VNK alleging, as grounds for its claims, defaults under various ruble-denominated loans with principal amounts totaling RUB 11.2 billion (OJSC Yuganskneftegaz), RUB 4.35 billion (OJSC Tomskneft VNK) and RUB 2.4 billion (OJSC Samaraneftgaz) 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 arbitrazh 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 Samaraneftgaz.

The arbitral awards against OJSC Yuganskneftegaz were enforced in the Netherlands (a court of first instance declined recognition and enforcement) despite their annulment by a competent court. Although Rosneft 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 Rosneft. 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 Samaraneftgaz and, in France, Ireland, and Singapore, seeking enforcement of award against OJSC Tomskneft VNK.

Also, Yukos International (UK) B.V. initiated proceedings in the Netherlands claiming damages of up to US\$ 333 million (RUB 22 billion at the CBR exchange rate at September 30, 2015), plus statutory interest with effect from February 7, 2011, plus costs, against Rosneft and other co-respondents unrelated to Rosneft. 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 Samaraneftgaz, 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.

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

25. 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 99 billion at the CBR official exchange rate on September 30, 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 a 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.

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.

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.

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

25. Contingencies (continued)

Taxation (continued)

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 (ROIs) 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, 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 and on June 30, 2014 the period for the Federal Tax Service to make such a decision expired. The Company believes that the risks concerning the related party transactions in 2012 will not have a material effect on the Company's 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, 2015 under the terms of the agreement the number of members of the consolidated group of taxpayers has been 51.

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 interim condensed consolidated financial statements.

In 2014, amendments to tax legislation aimed at fiscal stimulation of the Russian economy via deoffshorization were adopted, and took effect on January 1, 2015. In particular these amendments to Russian tax legislation covered the terms of beneficial ownership, fiscal residence of legal entities, and income tax rules for controlled foreign companies (Note 6).

During the reporting period, the tax authorities continued their inspections of Rosneft and some of its subsidiaries for the fiscal years 2011-2014. Rosneft and these subsidiaries are disputing a number of claims by the Federal Tax Service in pre-court and court appeals. The Company management does not expect the results of the inspections to have a material impact on the Company's consolidated balance sheet or results of operations.

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

Capital commitments

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

Rosneft Oil Company

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

25. Contingencies (continued)

Capital commitments (continued)

The total amount of contracted but not yet performed deliveries related to the construction and acquisition of property, plant and equipment amounted to RUB 349 billion and RUB 351 billion as of September 30, 2015 and December 31, 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 environmental standards, or as a result of civil litigation cannot be reliably estimated but may be material. With the existing system of control, management believes that there are no material liabilities for environmental damage other than those recorded in these interim condensed consolidated financial statements.

Other matters

In April 2015 the Company and North Atlantic Drilling Limited agreed to extend the date of termination of the Framework Agreement dated August 20, 2014 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 renegotiation of the terms of the transaction.

In June 2015 the Company and BP Russian Investments Ltd entered into a series of agreements for the sale of 20% of LLC Taas-Yuriakh Neftegazodobycha to BP Russian Investments Ltd. In accordance with the terms of these agreements BP Russian Investments Ltd made a RUB 8 billion partial payment to the Company. As of the date of these interim condensed consolidated financial statements the parties have not completed a number of conditions precedent necessary for the transaction to close.

26. Events after the reporting period

On October 9, 2015 the Company acquired an additional 55% working interest in certain concession agreements for exploratory blocks in the Brazilian Solimoes Basin from PetroRio (the former HRT) for a total consideration of US\$ 55 million (RUB 3.4 billion at the CBR official exchange rate as of the acquisition date). As a result, the Company obtained a 100% ownership interest and operatorship in the Solimoes project.

On October 22, 2015 the Company sold an 8.99% share in Saras S.p.A., an associate, to institutional investors. The consideration amounted to Euro 162 million (RUB 11.6 billion at the CBR official exchange rate at the transaction closing date).

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