



Rosneft Oil Company

Interim condensed consolidated financial statements
(unaudited)

Three and nine months ended September 30, 2018

Rosneft Oil Company

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Report on Review of Interim Financial Information

To the Shareholders and Board of Directors
of Rosneft Oil Company

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Public joint stock company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), which comprise the interim consolidated balance sheet as at 30 September 2018, interim consolidated statements of profit or loss, interim consolidated statements of other comprehensive income for the three and nine-month periods, interim consolidated statement of changes in shareholders' equity and interim consolidated statement of cash flows for the nine-month period then ended and notes to interim condensed consolidated financial statements, including a summary of significant accounting policies ("interim financial information").

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

Scope of review

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



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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

D.E. Lobachev
Partner
Ernst & Young LLC

6 November 2018

Details of the entity

Name: Rosneft Oil Company
Record made in the State Register of Legal Entities on 12 August 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-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

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

	Notes	September 30, 2018 (unaudited)	December 31, 2017 (restated)
ASSETS			
Current assets			
Cash and cash equivalents	10	434	322
Restricted cash	10	11	13
Other short-term financial assets	11	434	336
Accounts receivable	12	792	843
Inventories	13	405	324
Prepayments and other current assets	14	527	454
Total current assets		2,603	2,292
Non-current assets			
Property, plant and equipment	15	8,359	7,923
Intangible assets		71	73
Other long-term financial assets	11	605	606
Investments in associates and joint ventures		684	635
Bank loans granted		180	121
Deferred tax assets		29	26
Goodwill	16	85	265
Other non-current non-financial assets	17	237	285
Total non-current assets		10,250	9,934
Total assets		12,853	12,226
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	18	1,206	971
Loans and borrowings and other financial liabilities	19	843	2,229
Income tax liabilities		20	39
Other tax liabilities	20	393	278
Provisions	21	37	29
Prepayment on long-term oil and petroleum products supply agreements	22	350	264
Other current liabilities		21	26
Total current liabilities		2,870	3,836
Non-current liabilities			
Loans and borrowings and other financial liabilities	19	3,176	1,783
Deferred tax liabilities		841	813
Provisions	21	288	245
Prepayment on long-term oil and petroleum products supply agreements	22	1,164	1,322
Other non-current liabilities		25	45
Total non-current liabilities		5,494	4,208
Equity			
Share capital		1	1
Additional paid-in capital		626	627
Other funds and reserves		(258)	(322)
Retained earnings		3,511	3,312
Rosneft shareholders' equity		3,880	3,618
Non-controlling interests		609	564
Total equity		4,489	4,182
Total liabilities and equity		12,853	12,226

Chief Executive Officer  I.I. Sechin

November 6, 2018

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, 2018 (unaudited)	Three months ended September 30, 2017 (unaudited, restated)*	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited, restated)*
	Notes				
Revenues and equity share in profits of associates and joint ventures					
Oil, gas, petroleum products and petrochemicals sales	5	2,245	1,461	5,959	4,212
Support services and other revenues		17	20	58	56
Equity share in profits of associates and joint ventures		24	15	56	37
Total revenues and equity share in profits of associates and joint ventures		2,286	1,496	6,073	4,305
Costs and expenses					
Production and operating expenses		170	150	458	447
Cost of purchased oil, gas, petroleum products and refining costs		299	213	816	580
General and administrative expenses		35	41	113	115
Pipeline tariffs and transportation costs		161	146	473	444
Exploration expenses		2	4	7	9
Depreciation, depletion and amortization		163	144	472	440
Taxes other than income tax	6	745	470	1,995	1,369
Export customs duty	7	289	150	744	476
Total costs and expenses		1,864	1,318	5,078	3,880
Operating income		422	178	995	425
Finance income		30	24	89	80
Finance expenses	8	(81)	(56)	(217)	(168)
Other income	9	21	3	59	4
Other expenses	9	(150)	(16)	(237)	(36)
Foreign exchange differences		27	(1)	100	9
Cash flow hedges reclassified to profit or loss	25	(36)	(36)	(109)	(109)
Income before income tax		233	96	680	205
Income tax expense	6	(56)	(27)	(152)	(44)
Net income		177	69	528	161
Net income attributable to:					
- Rosneft shareholders		142	56	451	131
- non-controlling interests		35	13	77	30
Net income attributable to Rosneft per common share (in RUB) – basic and diluted		13.40	5.28	42.56	12.36
Weighted average number of shares outstanding (millions)		10,598	10,598	10,598	10,598

* Some amounts for the three and nine months ended September 30, 2017 have been restated – see Note 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 other comprehensive income

(in billions of Russian rubles)

	Notes	Three months		Nine months	
		ended September 30, 2018 (unaudited)	ended September 30, 2017 (unaudited, restated)*	ended September 30, 2018 (unaudited)	ended September 30, 2017 (unaudited, restated)*
Net income		177	69	528	161
Other comprehensive income – to be reclassified to profit or loss in subsequent periods					
Foreign exchange differences on translation of foreign operations		5	7	(27)	44
Foreign exchange cash flow hedges	25	36	38	110	109
(Loss)/income from changes in fair value of financial assets at fair value through other comprehensive income		(4)	1	(2)	6
Increase in loss allowance for expected credit losses on debt financial assets at fair value through other comprehensive income		2	–	7	–
Equity share in other comprehensive loss of associates and joint ventures		(3)	–	(5)	–
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent periods		(6)	(8)	(22)	(23)
Total other comprehensive income – to be reclassified to profit or loss in subsequent periods, net of tax		30	38	61	136
Other comprehensive income – not to be reclassified to profit or loss in subsequent periods					
Income from changes in fair value of equity financial assets at fair value through other comprehensive income		2	–	4	–
Income tax related to other comprehensive income – not to be reclassified to profit or loss in subsequent periods		(1)	–	(1)	–
Total comprehensive income – not to be reclassified to profit or loss in subsequent periods, net of tax		1	–	3	–
Total comprehensive income, net of tax		208	107	592	297
Total comprehensive income, net of tax, attributable to:					
- Rosneft shareholders		173	94	515	267
- non-controlling interests		35	13	77	30

* Some amounts for the three and nine months ended September 30, 2017 have been restated – see Note 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, 2017 (restated)	10,598	1	603	(497)	3,195	3,302	480	3,782
Net income	–	–	–	–	131	131	30	161
Other comprehensive income	–	–	–	136	–	136	–	136
Total comprehensive income	–	–	–	136	131	267	30	297
Dividends declared (Note 23)	–	–	–	–	(104)	(104)	(29)	(133)
Change of interest in subsidiaries	–	–	21	–	–	21	44	65
Disposal of subsidiaries	–	–	–	–	–	–	(1)	(1)
Other movements	–	–	–	–	–	–	6	6
Balance at September 30, 2017 (unaudited, restated)	10,598	1	624	(361)	3,222	3,486	530	4,016
Balance at January 1, 2018 (restated)	10,598	1	627	(322)	3,312	3,618	564	4,182
Adjustment on initial application of IFRS 9	–	–	–	–	(27)	(27)	(1)	(28)
Balance at January 1, 2018 adjusted for the effect of IFRS 9	10,598	1	627	(322)	3,285	3,591	563	4,154
Net income	–	–	–	–	451	451	77	528
Other comprehensive income	–	–	–	64	–	64	–	64
Total comprehensive income	–	–	–	64	451	515	77	592
Dividends declared (Note 23)	–	–	–	–	(225)	(225)	(55)	(280)
Change of interest in subsidiaries	–	–	–	–	–	–	24	24
Other movements	–	–	(1)	–	–	(1)	–	(1)
Balance at September 30, 2018 (unaudited)	10,598	1	626	(258)	3,511	3,880	609	4,489

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, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited, restated)
Operating activities			
Net income		528	161
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation, depletion and amortization		472	440
Loss on disposal of non-current assets	9	7	6
Dry hole costs		1	2
Offset of prepayments received on oil and petroleum products supply agreements	22	(195)	(190)
Offset of prepayments made on oil and petroleum products supply agreements		129	–
Foreign exchange gain on non-operating activities		(66)	(16)
Cash flow hedges reclassified to profit or loss		109	109
Offset of other financial liabilities		(126)	(67)
Equity share in profits of associates and joint ventures		(56)	(37)
Non-cash income from acquisitions, net	9	(37)	–
Loss from disposal of subsidiaries and non-production assets	9	1	1
Changes in provisions for expected credit losses		2	11
Loss from changes in estimates and impairment of assets		196	8
Finance expenses	8	217	168
Finance income		(89)	(80)
Income tax expense	6	152	44
<i>Changes in operating assets and liabilities</i>			
Decrease/(increase) in accounts receivable, gross		71	(157)
Increase in inventories		(79)	(21)
Decrease/(increase) in restricted cash		6	(4)
(Increase)/decrease in prepayments and other current assets		(30)	17
Increase in long-term prepayments made on oil and petroleum products supply agreements		(40)	(156)
Decrease in accounts payable and accrued liabilities		(50)	(16)
Increase in other tax liabilities		115	14
Decrease in current provisions		(1)	(5)
Decrease in other current liabilities		(5)	(1)
Increase in other non-current liabilities		3	1
Interest paid on long-term prepayment received on oil and petroleum products supply agreements		(4)	(8)
Net increase in operating assets of subsidiary banks		(68)	(24)
Net increase in operating liabilities of subsidiary banks		73	49
Proceeds from sale of trading securities		–	2
Net cash provided by operating activities before income tax and interest		1,236	251
Income tax payments		(165)	(85)
Interest received		50	27
Dividends received		5	19
Net cash provided by operating activities		1,126	212

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)

		Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited, restated)
Investing activities	Notes		
Capital expenditures		(679)	(630)
Acquisition of licenses and auction fee payments		(2)	(29)
Acquisition of short-term financial assets		(191)	(57)
Proceeds from sale of short-term financial assets		88	173
Acquisition of long-term financial assets		(4)	(52)
Proceeds from sale of long-term financial assets		67	88
Acquisition of interest in associates and joint ventures		(1)	(219)
Proceeds from sale of investments in joint ventures		7	–
Acquisition of interest in subsidiaries, net of cash acquired, and joint arrangements		(37)	(182)
Proceeds from sale of property, plant and equipment		4	3
Net cash used in investing activities		(748)	(905)
Financing activities			
Proceeds from short-term loans and borrowings		180	1,194
Repayment of short-term loans and borrowings		(1,289)	(652)
Proceeds from long-term loans and borrowings		1,248	374
Repayment of long-term loans and borrowings		(217)	(725)
Proceeds from other financial liabilities		190	123
Repayment of other financial liabilities		(61)	(7)
Interest paid		(202)	(154)
Repurchase of bonds		(39)	–
Proceeds from sale of non-controlling share in subsidiary		12	69
Other financing		–	5
Dividends paid to Rosneft shareholders		(70)	(63)
Dividends paid to non-controlling shareholders		(35)	(11)
Net cash (used in) / provided by financing activities		(283)	153
Net increase/(decrease) in cash and cash equivalents		95	(540)
Cash and cash equivalents at beginning of period	10	322	790
Effect of foreign exchange on cash and cash equivalents		17	(23)
Cash and cash equivalents at end of period	10	434	227

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, 2018

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

1. General

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

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for 2017 prepared in accordance with International Financial Reporting Standards (“IFRS”).

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Company omitted disclosures which would substantially duplicate the information contained in its 2017 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 2017 audited consolidated financial statements. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to ensure that the presented information is not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company’s 2017 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present fairly the Company’s financial position, results of operations, statements of changes in shareholders’ equity and cash flows for the interim reporting periods.

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

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

The interim condensed consolidated financial statements for the three and nine months ended September 30, 2018 were approved and authorized for issue by the Chief Executive Officer of the Company on November 6, 2018.

Rosneft Oil Company

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

3. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the new standards effective as of January 1, 2018.

The following standards were applied for the first time in 2018:

- *IFRS 9 Financial Instruments*. The final version of IFRS 9 issued in 2014 replaces IAS 39 *Financial Instruments: Recognition and Measurement*, as well as 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. According to the new standard, expected credit losses for Accounts receivable were estimated based on the credit risk of the debtors. The effect of initial application (additional reserves) totaled RUB 27.1 billion pre-tax and was recognized directly in equity, with no effect on net profit in 2017 and 2018.

Also due to the new requirements, certain of the financial instruments of the Company were measured to their fair value as a consequence of the change in classification category from measured at amortized cost to measured at fair value through profit and loss. The effect of initial application (decrease in the carrying value of Other long-term financial assets) totaled RUB 5.2 billion pre-tax and was recognized directly in equity, with no effect on net profit in 2017 and 2018.

- *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. As a result of the analysis performed by the Company, the conclusion was made that the standard has no significant impact of the standard on the consolidated financial statements.

4. Acquisitions of subsidiaries and shares in joint operations

Acquisitions of 2018

Acquisition of a share in a joint venture

During the third quarter of 2018 the Company completed acquisition of a share in a joint venture engaged in exploration and evaluation activities.

As of September 30, 2018, the Company had not yet completed the purchase price allocation to the fair value of assets acquired and liabilities assumed. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months of the dates of the acquisition.

Rosneft Oil Company

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

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

Acquisitions of 2018 (continued)

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

ASSETS	
Current assets	
Cash and cash equivalents	1
Accounts receivable	2
Inventories	1
Total current assets	4
Total assets	4
 LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	1
Other current liabilities	1
Total current liabilities	2
Total liabilities	2
 Identifiable net assets excluding intercompany liabilities and claims existing prior to the acquisition	 2
Fair value of cash consideration transferred	–
Fair value of the Company's investment in a joint venture	1
Intercompany liabilities existing prior to the acquisition	(5)
Total gain on bargain purchase	6

The gain on re-measurement of the Company's investment in a joint venture to the fair value at acquisition date amounting to RUB 1 billion is included in Other income of the Condensed Consolidated Statement of profit and loss.

Acquisition of interests in joint ventures with ExxonMobil

During the second quarter of 2018, following ExxonMobil withdrawal from several joint projects, the Company completed acquisition of interests in joint ventures with ExxonMobil.

As of September 30, 2018, the Company had not yet completed the purchase price allocation to the fair value of assets acquired and liabilities assumed. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months of the dates of the acquisition.

Rosneft Oil Company

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

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

Acquisitions of 2018 (continued)

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

ASSETS	
Current assets	
Cash and cash equivalents	1
Restricted cash	4
Other current assets	2
Total current assets	7
Non-current assets	
Property, plant and equipment	5
Total non-current assets	5
Total assets	12
Identifiable net assets excluding intercompany liabilities and claims existing prior to the acquisition	12
Fair value of cash consideration transferred	–
Fair value of the Company's investments in joint ventures	8
Intercompany liabilities existing prior to the acquisition	(19)
Total gain on bargain purchase	23

The gain on re-measurement of the Company's investments in joint ventures to the fair value at acquisition date amounting to RUB 7 billion is included in Other income of the Condensed Consolidated Statement of profit and loss.

Acquisition of shares in research and development institutions

In June 2018 the Company acquired controlling shares in a number of institutions engaged in research, development and engineering services in oil and gas industry in line with the program of state and municipal property privatization. The cost of acquisition amounted to RUB 2 billion.

Acquisitions of 2017

Finalization of the purchase price allocation of JSCB Peresvet acquisition

In June 2017, the Company acquired a 99.9% share in JSCB Peresvet, a financial institution engaged in banking services. As of September 30, 2017, the purchase price allocation of the acquisition to the fair value of assets acquired and liabilities assumed was preliminary and was finalized during the third quarter of 2018.

Rosneft Oil Company

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

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

Acquisitions of 2017 (continued)

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

ASSETS	
Cash and cash equivalents	1
Obligatory reserves with the Bank of Russia	1
Loans to customers	27
Investment securities available for sale	21
Investment securities held to maturity	13
Expected future benefits from DIA's financial aid in the form of a reduced rate loan	19
Investment property	3
Current profit tax assets	2
Total assets	87
LIABILITIES	
Amounts due to credit institutions	18
Amounts due to customers	15
Debt securities issued	7
Other borrowings	32
Other liabilities	15
Other provisions	2
Total liabilities	89
Total identifiable net assets at fair value	(2)
JSCB Peresvet's liabilities to the Company existing prior to the acquisition	16
Identifiable net assets excluding intercompany liabilities and claims existing prior to the acquisition	14
Fair value of cash consideration transferred	–
Intercompany liabilities and claims existing prior to the acquisition	16
Consideration transferred to be included for the purpose of goodwill	16
Excluding identifiable net assets of JSCB Peresvet	(14)
Goodwill	2

As of September 30, 2017, the Company recognized impairment of goodwill arising on the JSCB Peresvet acquisition. The loss of RUB 2 billion is recognized in Other expenses of the Company's consolidated statement of profit or loss for the nine months ended September 30, 2017 (Note 9).

As a result of finalization of the purchase price allocation of 99.9% share in JSCB Peresvet in the third quarter of 2018, some amounts, included in the Interim consolidated Income statement for the three and nine months ended September 30, 2017 have been revised.

Rosneft Oil Company

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

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

Acquisitions of 2017 (continued)

The following table summarizes the effect from the finalized purchase price allocation of 99.9% share in JSCB Peresvet on the Interim consolidated statement of profit and loss for the three months ended September 30, 2017:

	Before finalized allocation	Effect of finalization	After finalized allocation
Operating income	178	–	178
Finance income	24	–	24
Finance expenses	(56)	–	(56)
Other income	3	–	3
Other expenses	(25)	9	(16)
Foreign exchange differences	(1)	–	(1)
Cash flow hedges reclassified to profit or loss	(36)	–	(36)
Income before income tax	87	9	96
Income tax expense	(27)	–	(27)
Net income	60	9	69
Net income attributable to:			
- Rosneft shareholders	47	9	56
- non-controlling interests	13	–	13
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	4.43	0.85	5.28
Weighted average number of shares outstanding (millions)	10,598	–	10,598

The following table summarizes the effect from the finalized purchase price allocation of 99.9% share in JSCB Peresvet on the Interim consolidated statement of profit and loss for the nine months ended September 30, 2017:

	Before finalized allocation	Effect of finalization	After finalized allocation
Operating income	425	–	425
Finance income	80	–	80
Finance expenses	(168)	–	(168)
Other income	4	–	4
Other expenses	(45)	9	(36)
Foreign exchange differences	9	–	9
Cash flow hedges reclassified to profit or loss	(109)	–	(109)
Income before income tax	196	9	205
Income tax expense	(44)	–	(44)
Net income	152	9	161
Net income attributable to:			
- Rosneft shareholders	122	9	131
- non-controlling interests	30	–	30
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	11.51	0.85	12.36
Weighted average number of shares outstanding (millions)	10,598	–	10,598

Rosneft Oil Company

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

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

Acquisitions of 2017 (continued)

Finalization of the purchase price allocation of 99.9% share in JSCB Peresvet in the third quarter of 2018 did not have a material effect on the consolidated balance sheet as of December 31, 2017.

In 2017 the Company also completed several acquisitions, including a 30% share in the concession agreement for the development of the Zohr field, and obtained control over TNK Trading International S.A. As of September 30, 2018, the preliminary purchase price allocation of these acquisitions to the fair value of assets acquired and liabilities assumed remained unchanged compared to the consolidated financial statements as of December 31, 2017, and will be finalized within 12 months of the dates of the respective acquisition.

5. Segment information

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

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

Rosneft Oil Company

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

5. Segment information (continued)

The performance of the operating segments for the three months ended September 30, 2018 (unaudited) is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	1,335	2,304	33	(1,386)	2,286
<i>Including: equity share in profits of associates and joint ventures</i>	<i>23</i>	<i>–</i>	<i>1</i>	<i>–</i>	<i>24</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	795	2,244	48	(1,386)	1,701
Depreciation, depletion and amortization	130	31	2	–	163
Total costs and expenses	925	2,275	50	(1,386)	1,864
Operating income	410	29	(17)	–	422
Finance income	–	–	30	–	30
Finance expenses	–	–	(81)	–	(81)
Total finance expenses	–	–	(51)	–	(51)
Other income	–	–	21	–	21
Other expenses	–	–	(150)	–	(150)
Foreign exchange differences	–	–	27	–	27
Cash flow hedges reclassified to profit or loss	–	–	(36)	–	(36)
Income before income tax	410	29	(206)	–	233
Income tax expense	(77)	(6)	27	–	(56)
Net income	333	23	(179)	–	177

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, 2017 (unaudited, restated) is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	785	1,522	31	(842)	1,496
<i>Including: equity share in profits of associates and joint ventures</i>	<i>10</i>	<i>5</i>	<i>–</i>	<i>–</i>	<i>15</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	504	1,465	47	(842)	1,174
Depreciation, depletion and amortization	114	27	3	–	144
Total costs and expenses	618	1,492	50	(842)	1,318
Operating income	167	30	(19)	–	178
Finance income	–	–	24	–	24
Finance expenses	–	–	(56)	–	(56)
Total finance expenses	–	–	(32)	–	(32)
Other income	–	–	3	–	3
Other expenses	–	–	(16)	–	(16)
Foreign exchange differences	–	–	(1)	–	(1)
Cash flow hedges reclassified to profit or loss	–	–	(36)	–	(36)
Income before income tax	167	30	(101)	–	96
Income tax expense	(32)	(4)	9	–	(27)
Net income	135	26	(92)	–	69

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, 2018 (unaudited) is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	3,501	6,100	95	(3,623)	6,073
<i>Including: equity share in profits of associates and joint ventures</i>	<i>53</i>	<i>2</i>	<i>1</i>	<i>–</i>	<i>56</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	2,112	5,983	134	(3,623)	4,606
Depreciation, depletion and amortization	374	92	6	–	472
Total costs and expenses	2,486	6,075	140	(3,623)	5,078
Operating income	1,015	25	(45)	–	995
Finance income	–	–	89	–	89
Finance expenses	–	–	(217)	–	(217)
Total finance expenses	–	–	(128)	–	(128)
Other income	–	–	59	–	59
Other expenses	–	–	(237)	–	(237)
Foreign exchange differences	–	–	100	–	100
Cash flow hedges reclassified to profit or loss	–	–	(109)	–	(109)
Income before income tax	1,015	25	(360)	–	680
Income tax expense	(192)	(5)	45	–	(152)
Net income	823	20	(315)	–	528

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, 2017 (unaudited, restated) is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	2,242	4,377	88	(2,402)	4,305
<i>Including: equity share in profits of associates and joint ventures</i>	27	9	1	–	37
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,474	4,234	134	(2,402)	3,440
Depreciation, depletion and amortization	348	86	6	–	440
Total costs and expenses	1,822	4,320	140	(2,402)	3,880
Operating income	420	57	(52)	–	425
Finance income	–	–	80	–	80
Finance expenses	–	–	(168)	–	(168)
Total finance expenses	–	–	(88)	–	(88)
Other income	–	–	4	–	4
Other expenses	–	–	(36)	–	(36)
Foreign exchange differences	–	–	9	–	9
Cash flow hedges reclassified to profit or loss	–	–	(109)	–	(109)
Income before income tax	420	57	(272)	–	205
Income tax expense	(79)	(9)	44	–	(44)
Net income	341	48	(228)	–	161

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, 2018 (unaudited)	Three months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
International sales of crude oil, petroleum products and petrochemicals	1,610	964	4,296	2,852
International sales of crude oil and petroleum products – CIS, other than Russia	99	70	263	181
Domestic sales of crude oil, petroleum products and petrochemicals	481	379	1,236	1,025
Sales of gas	55	48	164	154
Total oil, gas, petroleum products and petrochemicals sales	2,245	1,461	5,959	4,212

Rosneft Oil Company

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

6. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended September 30, 2018 (unaudited)	Three months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Current income tax expense	41	30	125	69
Deferred tax expense /(benefit) due to the origination and reversal of temporary differences	15	(3)	27	(25)
Total income tax expense	56	27	152	44

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

	Three months ended September 30, 2018 (unaudited)	Three months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Mineral extraction tax	640	357	1,661	1,047
Excise tax	77	88	247	243
Property tax	10	10	32	28
Social charges	16	14	50	46
Other	2	1	5	5
Total taxes other than income tax	745	470	1,995	1,369

7. Export customs duty

Export customs duty comprises the following:

	Three months ended September 30, 2018 (unaudited)	Three months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Export customs duty on oil sales	209	111	543	347
Export customs duty on petroleum products and petrochemicals sales	80	39	201	129
Total export customs duty	289	150	744	476

Rosneft Oil Company

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

8. Finance expenses

Finance expenses comprise the following:

	Three months ended September 30, 2018 (unaudited)	Three months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Interest expenses on				
Loans and borrowings	(34)	(28)	(99)	(84)
Prepayment on long-term oil and petroleum products supply agreements (Note 22)	(24)	(20)	(67)	(61)
Other interest expenses	(2)	(2)	(7)	(5)
Total interest expenses	(60)	(50)	(173)	(150)
Increase in provision due to the unwinding of a discount	(5)	(5)	(14)	(13)
Increase in loss allowance for expected credit losses on debt financial assets:				
- at fair value through other comprehensive income	(1)	-	(4)	-
- at amortised cost	(1)	-	(2)	-
Change in fair value of financial assets measured at fair value through profit or loss	(9)	-	(9)	-
Net loss from operations with derivative financial instruments	(5)	-	(14)	-
Loss from disposal of financial assets	-	-	-	(4)
Other finance expenses	-	(1)	(1)	(1)
Total finance expenses	(81)	(56)	(217)	(168)

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended September 30, 2018 (unaudited)	Three months ended September 30, 2017 (unaudited, restated)	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited, restated)
Compensation payment for licenses from joint venture parties	-	-	1	1
Insurance indemnity	-	-	3	-
Gain on re-measurement of fair value of the Company's investments in joint ventures	1	-	8	-
Gain on bargain purchase	6	-	29	-
Other	14	3	18	3
Total other income	21	3	59	4
Sale and disposal of property, plant and equipment and intangible assets	(2)	(1)	(7)	(6)
Impairment of assets	(136)	(7)	(184)	(8)
Disposal of companies and non-production assets	-	-	(1)	(1)
Provision for legal claims	(1)	-	(13)	-
Social payments, charity, financial aid	(6)	(6)	(16)	(12)
Other	(5)	(2)	(16)	(9)
Total other expenses	(150)	(16)	(237)	(36)

Rosneft Oil Company

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

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	September 30, 2018 (unaudited)	December 31, 2017
Cash on hand and in bank accounts in RUB	32	44
Cash on hand and in bank accounts in foreign currencies	293	124
Deposits and other cash equivalents	97	142
Other	12	12
Total cash and cash equivalents	434	322

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

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

Restricted cash comprises the obligatory reserve of subsidiary banks with the CBR in the amount of RUB 5 billion and RUB 4 billion as of September 30, 2018 and December 31, 2017, respectively.

11. Other short-term and long-term financial assets

Other short-term financial assets comprise the following:

	September 30, 2018 (unaudited)	December 31, 2017
Financial assets at fair value through other comprehensive income		
Bonds	163	117
Promissory notes	98	85
Stocks and shares	39	44
Financial assets at amortized cost		
Bonds	1	1
Loans granted	–	13
Loans issued to associates	25	32
Loans granted under reverse repurchase agreements	10	–
Deposits and certificates of deposit	96	43
Financial assets at fair value through profit and loss		
Deposits	2	1
Total other short-term financial assets	434	336

Rosneft Oil Company

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

11. Other short-term and long-term financial assets (continued)

Other long-term financial assets comprise the following:

	September 30, 2018 (unaudited)	December 31, 2017
Financial assets at fair value through other comprehensive income		
Stocks and shares	18	18
Financial assets at amortized cost		
Bonds	29	13
Loans granted	18	4
Loans issued to associates	3	26
Deposits and certificates of deposit	422	49
Other accounts receivable	9	3
Financial assets at fair value through profit and loss		
Deposits	106	493
Total other long-term financial assets	605	606

12. Accounts receivable

Accounts receivable include the following:

	September 30, 2018 (unaudited)	December 31, 2017
Trade receivables	680	658
Bank loans to customers	113	108
Other accounts receivable	51	116
Total	844	882
Allowance for expected credit losses	(52)	(39)
Total accounts receivable, net of allowance	792	843

No accounts receivable were pledged as collateral for loans and borrowings provided to the Company as of September 30, 2018 and December 31, 2017.

Rosneft Oil Company

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

13. Inventories

Inventories comprise the following:

	September 30, 2018 (unaudited)	December 31, 2017
Crude oil and gas	116	88
Petroleum products and petrochemicals	189	158
Materials and supplies	100	78
Total inventories	405	324

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

	Three months ended September 30, 2018 (unaudited)	Three months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Cost of inventories recognized as an expense during the period	348	253	972	687

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, 2018 (unaudited)	December 31, 2017
Value added tax and excise receivable	212	180
Prepayments to suppliers	255	210
Settlements with customs	31	37
Profit and other tax payments	20	19
Other	9	8
Total prepayments and other current assets	527	454

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, 2018	8,719	2,172	139	11,030
Depreciation, depletion and impairment losses as of January 1, 2018	(2,628)	(478)	(44)	(3,150)
Net book value as of January 1, 2018	6,091	1,694	95	7,880
Prepayments for property, plant and equipment as of January 1, 2018	9	7	27	43
Total as of January 1, 2018	6,100	1,701	122	7,923
Cost				
Acquisitions of subsidiaries and shares in joint operations (Note 4)	5	–	2	7
Additions	742	87	5	834
<i>Including capitalized expenses on loans and borrowings</i>	<i>100</i>	<i>37</i>	<i>–</i>	<i>137</i>
Disposals and other movements	(50)	19	(1)	(32)
Foreign exchange differences	83	22	2	107
Cost of asset retirement (decommissioning) obligations	23	–	–	23
As of September 30, 2018	9,522	2,300	147	11,969
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(384)	(85)	(7)	(476)
Disposals and other movements	31	(15)	–	16
Foreign exchange differences	(39)	(2)	–	(41)
As of September 30, 2018	(3,020)	(580)	(51)	(3,651)
Net book value as of September 30, 2018				
Prepayments for property, plant and equipment as of September 30, 2018	4	8	29	41
Total as of September 30, 2018	6,506	1,728	125	8,359

The depreciation charge for the nine months ended September 30, 2018 includes RUB 13 billion of depreciation which was capitalized as part of the construction cost of property, plant and equipment and cost of inventory.

The Company capitalized RUB 137 billion (including RUB 108 billion of capitalized interest expense) and RUB 105 billion (including RUB 78 billion of capitalized interest expense) of expenses on loans and borrowings for the nine months ended September 30, 2018 and 2017, respectively.

The nine month weighted average rates used to determine the amount of borrowing costs eligible for capitalization are 8.32% and 6.34% for the nine months ended September 30, 2018 and 2017, respectively.

Rosneft Oil Company

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

16. Goodwill

	September 30, 2018 (unaudited)	December 31, 2017
Goodwill		
Exploration and production	85	85
Refining and distribution	–	180
Total	85	265

The Company performs its annual goodwill impairment test as of October 1 of each year. The impairment test was performed at the beginning of the fourth quarter of each year using the most actual information available at the date of the impairment test. As a result of the annual test, no impairment of goodwill was identified in 2017.

In the beginning of August 2018, the laws on the completion of the tax maneuver in the oil industry have been adopted, involving a significant change in the parameters of the fiscal regime. These laws, in a number of scenarios, combined with the current macroeconomic environment and taking into account the measures on stabilizing the prices for petroleum products in the domestic market could create conditions in which the value in use of the oil refining, marketing and logistics business of the Company would be exposed to additional risks. Considering that for the 6 months of 2018 Refining and distribution segment demonstrated an operating loss, the Company decided to revise the key assumptions used for determining the estimated recoverable amount of the Refining and distribution segment. As the result the carrying amount exceeded its recoverable amount and RUB 47 billion of partial impairment loss was recognized in the Interim condensed consolidated financial statements (unaudited) for three and six months ended June 30, 2018.

In the third quarter of 2018 the impairment test was updated following further ruble depreciation and oil prices growth along with the corresponding change of the long-term macroeconomic forecast, as well as an uncertainty about the changes to the calculation and administration procedures in respect of the reverse excise for refineries and its price-shocks reducing component.

As a result of the update, the excess of carrying amount over its recoverable amount was identified in the Refining and distribution segment and the impairment of the full amount of goodwill was recognized. The lag in the growth rate of market prices for petroleum products compared to the growth rate of crude oil prices is the main factor that led to the impairment of goodwill of the Refining and distribution segment. The impairment loss of RUB 133 billion was recognized in Other expenses of the Interim consolidated statement of profit and loss for three months ended September 30, 2018. The total amount of impairment loss recognized in Other expenses of the Interim consolidated statement of profit and loss for nine months ended September 30, 2018 is RUB 180 billion.

Key assumptions applied to the calculation of value in use

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

- *The discount rate*
The discount rate calculation is based on the Company's weighted average cost of capital adjusted to reflect the pre-tax discount rate and amounts to 10.7% p.a. in 2018 (12.4% p.a. in 2017).
- *The estimated average annual RUB / U.S. dollar exchange rate*
The average annual RUB / U.S. dollar exchange rate was forecasted as follows: RUB 62.5 for 2018, RUB 63.9 for 2019, RUB 63.8 for 2020, RUB 64.0 for 2021, RUB 64.7 for 2022, RUB 66.3 for 2023 and RUB 68.0 from 2024 onwards.

Rosneft Oil Company

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

16. Goodwill (continued)

- *Oil and petroleum products prices*

The Urals oil price was forecasted as follows: RUB 4,542 per barrel for 2018, RUB 4,051 per barrel for 2019, RUB 3,811 per barrel for 2020, RUB 3,703 per barrel for 2021 and RUB 3,647 per barrel from 2022 onwards. These prices, in turn, form the basis of the forecasted purchase prices for oil consumed in refining and export sales prices for Company's petroleum products. Oil purchases of the Refining and distribution segment are based on "netback" (export market prices for oil and gas condensate, minus transportation costs, export duties, storage costs, selling expenses and other sales-related expenses). The weighted average price of petroleum products (excluding petrochemicals) was forecasted as follows: RUB 36.5 thousand per tonne, RUB 34.5 thousand per tonne, RUB 33.3 thousand per tonne and RUB 33.0-34.0 thousand per tonne for 2018, 2019, 2020 and from 2021 onwards, respectively.

- *Post-forecast period*

The residual value of the Refining and distribution segment at the end of the twelve-year forecast period is determined under the assumption of no change in production volumes in the post-forecast period.

17. Other non-current non-financial assets

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

	September 30, 2018 (unaudited)	December 31, 2017
Long-term advances issued	234	282
Other	3	3
Total other non-current non-financial assets	237	285

18. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2018 (unaudited)	December 31, 2017
Financial liabilities		
Accounts payable to suppliers and contractors	461	451
Current operating liabilities of subsidiary banks	400	333
Salary and other benefits payable	79	81
Dividends payable	181	5
Other accounts payable	49	46
Total financial liabilities	1,170	916
Non-financial liabilities		
Short-term advances received	36	55
Total accounts payable and accrued liabilities	1,206	971

Trade and other payables are non-interest bearing.

Rosneft Oil Company

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

19. Loans and borrowings and other financial liabilities

Loans and borrowings and other financial liabilities comprise the following:

	Currency	September 30, 2018 (unaudited)	December 31, 2017
Long-term			
Bank loans	RUB	439	326
Bank loans	US\$, euro	895	878
Bonds	RUB	464	427
Eurobonds	US\$	165	213
Borrowings	RUB	76	71
Other borrowings	RUB	699	16
Other borrowings	US\$	631	224
<i>Less: current portion of long-term loans and borrowings</i>		(273)	(545)
Total long-term loans and borrowings		3,096	1,610
Finance lease liabilities		29	32
Other long-term financial liabilities		56	146
<i>Less: current portion of long-term finance lease liabilities</i>		(5)	(5)
Total long-term loans and borrowings and other financial liabilities		3,176	1,783
Short-term			
Bank loans	RUB	97	237
Bank loans	US\$, euro	32	10
Other borrowings	RUB	225	919
Other borrowings	US\$	54	346
<i>Current portion of long-term loans and borrowings</i>		273	545
Total short-term loans and borrowings and current portion of long-term loans and borrowings		681	2,057
<i>Current portion of long-term finance lease liabilities</i>		5	5
Other short-term financial liabilities		126	93
Short-term liabilities related to derivative financial instruments		31	74
Total short-term loans and borrowings and other financial liabilities		843	2,229
Total loans and borrowings and other financial liabilities		4,019	4,012

Long-term loans and borrowings

Long-term bank loans from a foreign bank to finance special-purpose business activities denominated in U.S. dollars are partially secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts normally provide the lender with the express right of claim to contractual revenue in the amount of the late loan repayments, which the purchaser generally remits directly through transit currency accounts with the lender banks. The outstanding balance of Accounts receivable arising from such contracts amounts to RUB 42 billion and RUB 22 billion as of September 30, 2018 and December 31, 2017, respectively, and is included in Trade receivables of purchasers and customers.

Rosneft Oil Company

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

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

Long-term loans and borrowings (continued)

In March 2013, the Company drew down four long-term unsecured loans from a group of international banks for a total of US\$ 31 billion to finance the acquisition of TNK-BP. Three out of four were fully repaid in previous years. In February 2018 the Company repaid the fourth one for a total amount of US\$ 0.2 billion (RUB 11.4 billion at the CBR official exchange rate on the date of transaction).

During the nine months of 2018, the Company drew down long-term funds from Russian banks under fixed and float rates.

In the first quarter of 2018 the Company raised funds through the placement of three series of documentary non-convertible fixed interest-bearing long-term bonds with a nominal amount of RUB 75 billion and maturity periods of 3 and 10 years: the first one with nominal amount of RUB 5 billion, coupon 7.8% and maturity period of 3 years; the second one with nominal amount of RUB 50 billion, coupon 7.5% and maturity period of 10 years; the third one with nominal amount of RUB 20 billion, coupon 7.3% and maturity period of 10 years. Coupon payments will be made on a semi-annual basis. Bonds with maturity periods of 10 years allow early repurchase at the request of the bond holder, as set out in the respective offering documents. Such purchase/repayment of the bonds does not constitute early redemption. The funds received are used for general corporate purposes.

In March 2018, the Company fully repaid Eurobonds (Series 6) of US\$ 1.1 billion (RUB 62.3 billion at the CBR official exchange rate at the transaction date) assumed through the TNK-BP acquisition.

During the nine months of 2018, the Company continued to settle other long-term borrowings under repurchasing agreement operations and entered into new transactions. As of September 30, 2018, the liabilities of the Company under those transactions amounted to the equivalent of RUB 1,330 billion at the CBR official exchange rate as of September 30, 2018. The Company's own corporate bonds were used as an instrument for those transactions.

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

As of September 30, 2018 and December 31, 2017 the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

Short-term loans and borrowings

During the nine months of 2018, the Company drew down funds under short-term fixed and float rates loans from Russian and foreign banks.

As of September 30, 2018, the Company met its obligations in relation to other short-term floating and fixed rate borrowings under repurchasing agreement operations and had entered into new long-term and short-term transactions. As of September 30, 2018, the liabilities of the Company under those transactions amounted to the equivalent of RUB 279 billion (at the CBR official exchange rate as of September 30, 2018). Its own corporate bonds were used as an instrument for those transactions.

During the nine months of 2018, the Company was current on all payments under loan agreements and interest payments.

Rosneft Oil Company

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

19. 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 September 30, 2018 (unaudited)		Interest rate type	Fair value of the liabilities September 30, 2018 (unaudited)		December 31, 2017
			US\$ million	RUB billion*				
Swaps	2013	2018	–	–	floating	–	52	
Swaps	2014	2019	1,010	66	floating	31	22	
Total			1,010	66		31	74	

* The equivalent nominal amount at the CBR official exchange rate as of September 30, 2018.

20. Other current tax liabilities

Other short-term tax liabilities comprise the following:

	September 30, 2018 (unaudited)	December 31, 2017
Mineral extraction tax	234	160
VAT	118	78
Excise duties	25	26
Property tax	10	2
Personal income tax	3	10
Other	3	2
Total other tax liabilities	393	278

21. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2018, including	218	41	15	274
<i>Non-current</i>	213	27	5	245
<i>Current</i>	5	14	10	29
Provisions charged during the year (Decrease)/increase in the liability resulting from:	6	3	10	19
Changes in estimates	–	–	5	5
Change in the discount rate	17	–	–	17
Foreign exchange differences	5	–	1	6
Unwinding of the discount	12	2	–	14
Utilized	(2)	(4)	(4)	(10)
As of September 30, 2018 (unaudited), including	256	42	27	325
<i>Non-current</i>	253	30	5	288
<i>Current</i>	3	12	22	37

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

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

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

Deliveries of oil and petroleum products that reduce the prepayment amounts commenced in 2015. The Company considers these contracts to be regular-way contracts.

	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
As of January 1	1,586	1,841
Received	123	–
Reimbursed	(195)	(190)
Total prepayment on long-term oil and petroleum products supply agreements	1,514	1,651
Less current portion	(350)	(238)
Long-term prepayment as of September 30	1,164	1,413

The off-set of prepayment made during the nine months ended September 30, 2018 and 2017 amounted to RUB 195 billion and RUB 190 billion (US\$ 5.2 billion and US\$ 5.7 billion at the CBR official exchange rates at the prepayment dates, the prepayments are not revalued at each balance sheet date), respectively.

23. Shareholders' equity

On June 22, 2017 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2016 in the amount of RUB 5.98 per share, which comprised RUB 63.4 billion.

On September 29, 2017 the Extraordinary Shareholders' Meeting approved interim dividends on the Company's common shares for the first half of 2017 in the amount of RUB 3.83 per share, which comprised RUB 40.6 billion.

On June 21, 2018 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2017 in the amount of RUB 6.65 per share, which comprised RUB 70.5 billion.

On September 28, 2018 the Extraordinary Shareholders' Meeting approved interim dividends on the Company's common shares for the first half of 2018 in the amount of 14.58 per share, which comprised RUB 154.5 billion.

24. Non-controlling interests

In December 2017 the Company and BP have entered into an agreement to develop certain subsoil resources. In accordance with the agreement the parties have commenced project activities in the second quarter of 2018 and as a result BP acquired a 49% share in LLC Kharampurneftegas, subsidiary of the Company. As at the date of these interim condensed consolidated financial statements the parties have not yet fulfilled their respective obligations under the agreement, including those related to the transfer of assets and licenses to LLC Kharampurneftegas.

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

25. Cash flow hedging of the Company's future exports

The Company designated certain U.S. dollar-denominated borrowings as a hedge of the expected highly probable U.S. dollar denominated export revenue stream in accordance with IFRS 9 *Financial Instruments*.

A portion of future monthly export revenues expected to be received in U.S. dollars 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:

	US\$ million	Equivalent amount at the CBR exchange rate as of September 30, 2018, RUB billion
Nominal amount as of December 31, 2017	873	57
Hedging instruments designated	–	–
Realized cash flow foreign exchange hedges	(55)	(4)
Hedging instruments de-designated	(818)	(53)
Nominal amount as of September 30, 2018	–	–

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

	For the three months ended September 30, 2018 (unaudited)			For the nine months ended September 30, 2018 (unaudited)		
	Before income tax	Income tax	Net of tax	Before income tax	Income tax	Net of tax
Total recognized in other funds and reserves as of the beginning of the period	(216)	43	(173)	(290)	58	(232)
Foreign exchange effects recognized during the period	–	–	–	1	–	1
Foreign exchange effects reclassified to profit or loss	36	(7)	29	109	(22)	87
Total recognized in other comprehensive income/(loss) for the period (unaudited)	36	(7)	29	110	(22)	88
Total recognized in other funds and reserves as of September 30, 2018 (unaudited)	(180)	36	(144)	(180)	36	(144)

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

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

The expected schedule for the reclassification of accumulated foreign exchange loss from other comprehensive income to profit or loss, as of September 30, 2018, is presented below:

Year	2018	2019	2020	2021	Total
Reclassification	(36)	(146)	2	–	(180)
Income tax	7	29	–	–	36
Total, net of tax	(29)	(117)	2	–	(144)

26. 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, 2018 (unaudited)			
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Financial assets at fair value through other comprehensive income	38	262	–	300
Financial assets at fair value recognized in profit and loss	–	2	–	2
Non-current assets				
Financial assets at fair value through other comprehensive income	–	18	–	18
Financial assets at fair value recognized in profit and loss	–	106	–	106
Total assets measured at fair value	38	388	–	426
Liabilities				
Derivative financial instruments	–	(31)	–	(31)
Total liabilities measured at fair value	–	(31)	–	(31)

The fair value of financial assets at fair value through other comprehensive income, 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.

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

26. Fair value of financial instruments (continued)

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

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

	Carrying value		Fair value (Level 2)	
	September 30, 2018 (unaudited)	December 31, 2017	September 30, 2018 (unaudited)	December 31, 2017
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(1,818)	(1,549)	(1,726)	(1,467)
Loans and borrowings with a fixed interest rate	(1,959)	(2,118)	(1,898)	(2,038)
Finance lease liabilities	(29)	(32)	(33)	(36)

27. Related party transactions

For the nine months ended September 30, 2018 and 2017 the Company entered into transactions with shareholders and companies controlled by shareholders (including enterprises directly or indirectly controlled by the Russian Government and the BP Group), associates and joint ventures, key management and pension funds.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms as transactions between unrelated parties.

The disclosure of related party transactions is presented on an aggregate basis for shareholders and companies controlled by shareholders, joint ventures and associates, and non-state pension funds. In addition, there may be additional disclosures of certain significant transactions (balances and turnovers) with certain related parties.

In the course of its ordinary business, the Company enters into transactions with other companies controlled by the Russian Government. In the Russian Federation, electricity and transport tariffs are regulated by the Federal Antimonopoly Service, an authorized governmental agency of the Russian Federation. Bank loans are recorded based on market interest rates. Taxes are accrued and paid in accordance with applicable tax law. The Company sells crude oil and petroleum products to related parties in the ordinary course of business at prices close to average market prices.

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

27. Related party transactions (continued)

Transactions with shareholders and companies controlled by shareholders

Revenues and income

	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	685	532
Support services and other revenues	5	2
Finance income	13	22
	703	556

Costs and expenses

	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Production and operating expenses	6	12
Cost of purchased oil, gas, petroleum products and refining costs	72	48
Pipeline tariffs and transportation costs	373	349
Other expenses	14	11
Finance expenses	18	6
	483	426

Other operations

	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Acquisition of subsidiaries and interest in associates	(3)	–
Loans received	161	226
Loans repaid	(109)	(27)
Loans and borrowings issued	(3)	–
Repayment of loans and borrowings issued	–	6
Deposits placed	(2)	(7)
Deposits repaid	64	2

Rosneft Oil Company

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

27. Related party transactions (continued)

Transactions with shareholders and companies controlled by shareholders (continued)

Settlement balances

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	59	57
Accounts receivable	77	68
Prepayments and other current assets	52	61
Other financial assets	637	636
	825	822
Liabilities		
Accounts payable and accrued liabilities	59	32
Loans and borrowings and other financial liabilities	743	655
	802	687

Transactions with joint ventures

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

Revenues and income

	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	10	9
Support services and other revenues	2	3
Finance income	4	23
	16	35

Costs and expenses

	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Production and operating expenses	2	4
Cost of purchased oil, gas, petroleum products and refining costs	221	206
Pipeline tariffs and transportation costs	9	5
Other expenses	2	3
Finance expenses	1	1
	235	219

Rosneft Oil Company

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

27. Related party transactions (continued)

Transactions with joint ventures (continued)

Other operations

	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Acquisition of interest in associates and joint arrangement	–	(8)
Loans and borrowing issued	(1)	(1)
Repayment of loans and borrowings issued	25	70

Settlement balances

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Accounts receivable	1	6
Other financial assets	17	52
	18	58
Liabilities		
Accounts payable and accrued liabilities	135	85
Loans and borrowings and other financial liabilities	16	15
	151	100

Transactions with associates

Revenues and income

	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	278	159
Support services and other revenues	1	1
Finance income	3	–
	282	160

Costs and expenses

	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Production and operating expenses	9	7
Cost of purchased oil, gas, petroleum products and refining costs	29	6
Pipeline tariffs and transportation costs	1	–
Other expenses	10	9
Finance expenses	1	–
	50	22

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

27. Related party transactions (continued)

Transactions with associates (continued)

Other operations

	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Loans and borrowing issued	(9)	(4)
Repayment of loans and borrowings issued	16	–

Settlement balances

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Accounts receivable	30	33
Prepayments and other current assets	–	1
Other financial assets	37	41
	67	75
Liabilities		
Accounts payable and accrued liabilities	8	8
Loans and borrowings and other financial liabilities	153	124
	161	132

Transactions with non-state pension funds

Costs and expenses

	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Other expenses	4	4
	Nine months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2017 (unaudited)
Loans received	3	–
Loans repaid	(1)	–

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

27. Related party transactions (continued)

Transactions with non-state pension funds (continued)

Settlement balances

	September 30, 2018 (unaudited)	December 31, 2017
Liabilities		
Accounts payable and accrued liabilities	1	1
Loans and borrowings and other financial liabilities	2	–
	<u>3</u>	<u>1</u>

28. Contingencies

Russian business environment

Russia continues economic reforms and the development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by sanctions imposed on Russia by a number of countries. Ruble interest rates remained high. The combination of the above has resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. Management is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

The Company also has investments in associates and joint ventures and advances issued to contractors operating in international jurisdictions. Besides commercial risks being a part of any investment operation, assets in a number of regions of the Company's activities also bear political, economic and tax risks which are analyzed by the Company on a regular basis.

Legal claims

Rosneft and its subsidiaries are involved in litigations which arise from time to time in the course of their business activities. Management believes that the ultimate results of these litigations 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 taxpayers, and local, regional, and national tax authorities, and the Ministry of Finance of the Russian Federation. Instances of inconsistent opinions are not unusual.

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

Rosneft Oil Company

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

28. Contingencies (continued)

Taxation (continued)

In accordance with Russian tax legislation, if an understatement of a tax liability is detected as a result of an inspection, penalties and fines to be paid might be material in respect of the tax liability misstatement.

During the reporting period, the tax authorities continued their inspections of Rosneft and some of its subsidiaries for 2014-2017.

The Company's management does not expect the outcome of the inspections to have a material impact on the Company's consolidated balance sheet or results of operations.

To eliminate significant risks posed to the consolidated financial statements by related party transactions, the Company has developed methods for pricing major types of controlled transactions between related parties. The Company also researches databases to determine the market price levels (ROIs) for controlled transactions annually.

As part of the new regime for fiscal control over the pricing of related party transactions, the Company and the Federal Tax Service signed a number of pricing agreements in 2012-2018 with respect to the taxation of oil sales transactions in Russia.

To date, the Russian Federal Tax Service has not exercised its right to conduct tax audits under the rules of transfer pricing for 2012-2014 and these periods are closed to tax control measures. For subsequent periods the Company has provided explanations to the Russian Federal Tax Service and the regional tax authorities to the extent necessary for the completed transactions. The Company believes that transfer pricing risks in relation to intragroup transactions during the nine months of 2018 and earlier will not have a material effect on its financial position or results of operations.

In 2012 the Company has created a consolidated group of taxpayers (hereinafter "CGT") which includes Rosneft and its 21 subsidiaries. Rosneft became the responsible taxpayer of the CGT. At present, under the terms of the agreement the number of members of the consolidated group of taxpayers has been 64.

The Company follows the rules of tax legislation on de-offshorization, including income tax rules for controlled foreign companies to calculate its current and deferred income tax estimates.

Overall, management believes that the Company has paid and accrued all taxes that are applicable. For taxes 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.

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 delivered goods and services related to the construction and acquisition of property, plant and equipment amounted to RUB 615 billion and RUB 716 billion as of September 30, 2018 and December 31, 2017, respectively.

Rosneft Oil Company

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

28. Contingencies (continued)

Environmental liabilities

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

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