



Rosneft Oil Company

Interim Condensed Consolidated Financial Statements
(unaudited)

Three and six months ended June 30, 2018

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Three and six months ended June 30, 2018

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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 June 2018, interim consolidated statements of profit or loss, interim consolidated statements of other comprehensive income for the three and six-month periods, interim consolidated statement of changes in shareholders' equity and interim consolidated statement of cash flows for the six-month period then ended and notes to 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.



Совершенство бизнеса,
улучшаем мир

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, General Director
Ernst & Young LLC

7 August 2018

Details of the entity

Name: Rosneft Oil Company
Record made in the State Register of Legal Entities on August 12, 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	June 30, 2018 (unaudited)	December 31, 2017 (restated)
ASSETS			
Current assets			
Cash and cash equivalents	10	293	322
Restricted cash	10	11	13
Other short-term financial assets	11	430	336
Accounts receivable	12	909	843
Inventories	13	392	324
Prepayments and other current assets	14	496	454
Total current assets		2,531	2,292
Non-current assets			
Property, plant and equipment	15	8,223	7,923
Intangible assets		70	73
Other long-term financial assets	11	636	606
Investments in associates and joint ventures		672	638
Bank loans granted		145	121
Deferred tax assets		27	26
Goodwill	16	218	265
Other non-current non-financial assets	17	219	285
Total non-current assets		10,210	9,937
Total assets		12,741	12,229
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	18	1,082	971
Loans and borrowings and other financial liabilities	19	911	2,229
Income tax liabilities		22	39
Other tax liabilities	20	343	278
Provisions	21	40	29
Prepayment on long-term oil and petroleum products supply agreements	22	351	264
Other current liabilities		28	26
Total current liabilities		2,777	3,836
Non-current liabilities			
Loans and borrowings and other financial liabilities	19	3,102	1,783
Deferred tax liabilities		824	813
Provisions	21	279	245
Prepayment on long-term oil and petroleum products supply agreements	22	1,264	1,322
Other non-current liabilities		27	45
Total non-current liabilities		5,496	4,208
Equity			
Share capital		1	1
Additional paid-in capital		625	627
Other funds and reserves		(289)	(322)
Retained earnings		3,527	3,315
Rosneft shareholders' equity		3,864	3,621
Non-controlling interests		604	564
Total equity		4,468	4,185
Total liabilities and equity		12,741	12,229

Chief Executive Officer _____

I.I. Sechin

August 7, 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)

	Notes	Three months ended June 30, 2018 (unaudited)	Three months ended June 30, 2017 (unaudited, restated)*	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited, restated)*
Revenues and equity share in profits of associates and joint ventures					
Oil, gas, petroleum products and petrochemicals sales	5	2,025	1,368	3,714	2,751
Support services and other revenues		20	18	41	36
Equity share in profits of associates and joint ventures		20	13	32	22
Total revenues and equity share in profits of associates and joint ventures		2,065	1,399	3,787	2,809
Costs and expenses					
Production and operating expenses		130	155	288	297
Cost of purchased oil, gas, petroleum products and refining costs		285	199	517	367
General and administrative expenses		43	38	78	74
Pipeline tariffs and transportation costs		152	145	312	298
Exploration expenses		3	3	5	5
Depreciation, depletion and amortization		157	148	309	296
Taxes other than income tax	6	682	439	1,250	899
Export customs duty	7	240	160	455	326
Total costs and expenses		1,692	1,287	3,214	2,562
Operating income		373	112	573	247
Finance income		29	22	59	56
Finance expenses	8	(76)	(53)	(136)	(112)
Other income	9	32	–	38	1
Other expenses	9	(71)	(10)	(87)	(20)
Foreign exchange differences		72	55	73	10
Cash flow hedges reclassified to profit or loss	25	(37)	(37)	(73)	(73)
Income before income tax		322	89	447	109
Income tax expense	6	(66)	(14)	(96)	(17)
Net income		256	75	351	92
Net income attributable to:					
- Rosneft shareholders		228	64	309	75
- non-controlling interests		28	11	42	17
Net income attributable to Rosneft per common share (in RUB) – basic and diluted		21.51	6.04	29.16	7.08
Weighted average number of shares outstanding (millions)		10,598	10,598	10,598	10,598

* Some amounts for the three and six months ended June 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 ended June 30, 2018 (unaudited)	Three months ended June 30, 2017 (unaudited, restated)*	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited, restated)*
Net income	256	75	351	92
Other comprehensive income – to be reclassified to profit or loss in subsequent periods				
Foreign exchange differences on translation of foreign operations	(36)	(7)	(32)	37
Foreign exchange cash flow hedges	25 37	34	74	71
Income/(loss) from changes in fair value of debt financial assets at fair value through other comprehensive income	2	(1)	2	5
Increase in loss allowance for expected credit losses on debt financial assets at fair value through other comprehensive income	5	–	5	–
Equity share in other comprehensive loss of associates	(2)	–	(2)	–
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent periods	(9)	(7)	(16)	(15)
Total other comprehensive income – to be reclassified to profit or loss in subsequent periods, net of tax	(3)	19	31	98
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	–
Total comprehensive income – not to be reclassified to profit or loss in subsequent periods	–	–	2	–
Total comprehensive income, net of tax	253	94	384	190
Total comprehensive income, net of tax, attributable to:				
- Rosneft shareholders	225	83	342	173
- non-controlling interests	28	11	42	17

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	–	–	–	–	75	75	17	92
Other comprehensive income	–	–	–	98	–	98	–	98
Total comprehensive income	–	–	–	98	75	173	17	190
Dividends declared (Note 23)	–	–	–	–	(63)	(63)	(11)	(74)
Change of interest in subsidiaries	–	–	21	–	–	21	44	65
Disposal of subsidiaries	–	–	–	–	–	–	(1)	(1)
Other movements	–	–	–	–	–	–	3	3
Balance at June 30, 2017 (unaudited, restated)	10,598	1	624	(399)	3,207	3,433	532	3,965
Balance at January 1, 2018 (restated)	10,598	1	627	(322)	3,315	3,621	564	4,185
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)	3,288	3,594	563	4,157
Net income	–	–	–	–	309	309	42	351
Other comprehensive income	–	–	–	33	–	33	–	33
Total comprehensive income	–	–	–	33	309	342	42	384
Dividends declared (Note 23)	–	–	–	–	(70)	(70)	(26)	(96)
Change of interest in subsidiaries	–	–	(1)	–	–	(1)	25	24
Other movements	–	–	(1)	–	–	(1)	–	(1)
Balance at June 30, 2018 (unaudited)	10,598	1	625	(289)	3,527	3,864	604	4,468

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

Rosneft Oil Company

Interim consolidated statement of cash flows

(in billions of Russian rubles)

	Notes	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited, restated)
Operating activities			
Net income		351	92
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation, depletion and amortization		309	296
Loss on disposal of non-current assets	9	5	5
Dry hole costs		1	2
Offset of prepayments received on oil and petroleum products supply agreements	22	(94)	(126)
Offset of prepayments made on oil and petroleum products supply agreements		80	–
Foreign exchange gain on non-operating activities		(37)	(12)
Cash flow hedges reclassified to profit or loss		73	73
Offset of other financial liabilities		(71)	(36)
Equity share in profits of associates and joint ventures		(32)	(22)
Non-cash income from acquisitions, net	9	(31)	–
Loss from disposal of subsidiaries and non-production assets	9	1	1
Changes in provisions for expected credit losses		6	4
Loss from changes in estimates and impairment of assets		59	1
Finance expenses	8	136	112
Finance income		(59)	(56)
Income tax expense	6	96	17
<i>Changes in operating assets and liabilities</i>			
Increase in accounts receivable, gross		(49)	(31)
(Increase)/decrease in inventories		(67)	3
Decrease in restricted cash		6	–
Increase in prepayments and other current assets		(8)	(6)
Increase in long-term prepayments made on oil and petroleum products supply agreements		–	(73)
Decrease in accounts payable and accrued liabilities		(53)	(17)
Increase/(decrease) in other tax liabilities		65	(12)
Decrease in current provisions		–	(3)
Increase/(decrease) in other current liabilities		2	(2)
Decrease in other non-current liabilities		–	(1)
Interest paid on long-term prepayment received on oil and petroleum products supply agreements		(3)	(5)
Net increase in operating assets of subsidiary banks		(51)	(1)
Net increase in operating liabilities of subsidiary banks		54	35
Proceeds from sale of trading securities		–	2
Net cash provided by operating activities before income tax and interest		689	240
Income tax payments		(109)	(54)
Interest received		35	18
Dividends received		4	9
Net cash provided by operating activities		619	213

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

Rosneft Oil Company

Interim consolidated statement of cash flows (continued)

(in billions of Russian rubles)

	Notes	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited, restated)
Investing activities			
Capital expenditures		(452)	(407)
Acquisition of licenses and auction fee payments		(2)	(24)
Acquisition of short-term financial assets		(158)	(45)
Proceeds from sale of short-term financial assets		67	162
Acquisition of long-term financial assets		(3)	(20)
Proceeds from sale of long-term financial assets		3	38
Acquisition of interest in associates and joint ventures		(1)	(12)
Proceeds from sale of investments in joint ventures		7	–
Acquisition of interest in subsidiaries, net of cash acquired, and joint arrangements		(34)	(102)
Proceeds from sale of property, plant and equipment		3	2
Net cash used in investing activities		(570)	(408)
Financing activities			
Proceeds from short-term loans and borrowings		173	724
Repayment of short-term loans and borrowings		(1,146)	(529)
Proceeds from long-term loans and borrowings		1,211	176
Repayment of long-term loans and borrowings		(178)	(599)
Proceeds from other financial liabilities		65	123
Repayment of other financial liabilities		(59)	(4)
Interest paid		(124)	(97)
Repurchase of bonds		(39)	–
Proceeds from sale of non-controlling share in subsidiary		12	69
Other financing		–	3
Dividends paid to non-controlling shareholders		(5)	–
Net cash used in financing activities		(90)	(134)
Net decrease in cash and cash equivalents		(41)	(329)
Cash and cash equivalents at beginning of period	10	322	790
Effect of foreign exchange on cash and cash equivalents		12	(22)
Cash and cash equivalents at end of period	10	293	439

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

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited)

Three and six months ended June 30, 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 six months ended June 30, 2018 were approved and authorized for issue by the Chief Executive Officer of the Company on August 7, 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 interests in joint ventures with ExxonMobil

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

As of June 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 respective acquisitions.

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	
Restricted cash	4
Cash and cash equivalents	1
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 investment 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 investment 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

In 2017 the Company completed several acquisitions, including a 30% share in the concession agreement for the development of the Zohr field, a 99.9% share in JSCB Peresvet, and obtained control over TNK Trading International S.A. As of June 30, 2018, the purchase price allocation of these acquisitions to the fair value of assets acquired and liabilities assumed was preliminary, 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 acquisitions.

As a result of finalization of the purchase price allocation of 57.66% of shares of PJSC Bashneft Oil Company (hereinafter – “Bashneft”) in the third quarter of 2017, some amounts, included in the Interim consolidated Income statement for the three and six months ended June 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 Bashneft on the Interim consolidated statement of profit and loss for the three months ended June 30, 2017:

	Before finalized allocation	Effect of finalization	After finalized allocation
Total revenues and equity share in profits of associates and joint ventures	1,399	–	1,399
Costs and expenses			
Production and operating expenses	155	–	155
Cost of purchased oil, gas, petroleum products and refining costs	199	–	199
General and administrative expenses	38	–	38
Pipeline tariffs and transportation costs	145	–	145
Exploration expenses	3	–	3
Depreciation, depletion and amortization	142	6	148
Taxes other than income tax	439	–	439
Export customs duty	160	–	160
Total costs and expenses	1,281	6	1,287
Operating income	118	(6)	112
Finance income	22	–	22
Finance expenses	(53)	–	(53)
Other income	–	–	–
Other expenses	(10)	–	(10)
Foreign exchange differences	55	–	55
Cash flow hedges reclassified to profit or loss	(37)	–	(37)
Income before income tax	95	(6)	89
Income tax expense	(15)	1	(14)
Net income	80	(5)	75
Net income attributable to:			
- Rosneft shareholders	68	(4)	64
- non-controlling interests	12	(1)	11
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	6.42	(0.38)	6.04
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)

The following table summarizes the effect from the finalized purchase price allocation of Bashneft on the Interim consolidated statement of profit and loss for the six months ended June 30, 2017:

	Before finalized allocation	Effect of finalization	After finalized allocation
Total revenues and equity share in profits of associates and joint ventures	2,809	–	2,809
Costs and expenses			
Production and operating expenses	297	–	297
Cost of purchased oil, gas, petroleum products and refining costs	367	–	367
General and administrative expenses	74	–	74
Pipeline tariffs and transportation costs	298	–	298
Exploration expenses	5	–	5
Depreciation, depletion and amortization	285	11	296
Taxes other than income tax	899	–	899
Export customs duty	326	–	326
Total costs and expenses	2,551	11	2,562
Operating income	258	(11)	247
Finance income	56	–	56
Finance expenses	(112)	–	(112)
Other income	1	–	1
Other expenses	(20)	–	(20)
Foreign exchange differences	10	–	10
Cash flow hedges reclassified to profit or loss	(73)	–	(73)
Income before income tax	120	(11)	109
Income tax expense	(19)	2	(17)
Net income	101	(9)	92
Net income attributable to:			
- Rosneft shareholders	81	(6)	75
- non-controlling interests	20	(3)	17
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	7.64	(0.56)	7.08
Weighted average number of shares outstanding (millions)	10,598	–	10,598

Rosneft Oil Company

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

5. Segment information

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

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

The performance of the operating segments for the three months ended June 30, 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	1,223	2,061	33	(1,252)	2,065
<i>Including: equity share in profits of associates and joint ventures</i>	<i>18</i>	<i>2</i>	<i>–</i>	<i>–</i>	<i>20</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	724	2,019	44	(1,252)	1,535
Depreciation, depletion and amortization	125	30	2	–	157
Total costs and expenses	849	2,049	46	(1,252)	1,692
Operating income	374	12	(13)	–	373
Finance income	–	–	29	–	29
Finance expenses	–	–	(76)	–	(76)
Total finance expenses	–	–	(47)	–	(47)
Other income	–	–	32	–	32
Other expenses	–	–	(71)*	–	(71)*
Foreign exchange differences	–	–	72	–	72
Cash flow hedges reclassified to profit or loss	–	–	(37)	–	(37)
Income before income tax	374	12	(64)	–	322
Income tax expense	(71)	(2)	7	–	(66)
Net income	303	10	(57)	–	256

* The impairment of goodwill, relating to Refining and distribution segment is included in Other expenses (Note 16).

Rosneft Oil Company

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

5. Segment information (continued)

The performance of the operating segments for the three months ended June 30, 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	682	1,421	31	(735)	1,399
<i>Including: equity share in profits of associates and joint ventures</i>	9	2	2	–	13
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	470	1,355	49	(735)	1,139
Depreciation, depletion and amortization	118	29	1	–	148
Total costs and expenses	588	1,384	50	(735)	1,287
Operating income	94	37	(19)	–	112
Finance income	–	–	22	–	22
Finance expenses	–	–	(53)	–	(53)
Total finance expenses	–	–	(31)	–	(31)
Other income	–	–	–	–	–
Other expenses	–	–	(10)	–	(10)
Foreign exchange differences	–	–	55	–	55
Cash flow hedges reclassified to profit or loss	–	–	(37)	–	(37)
Income before income tax	94	37	(42)	–	89
Income tax expense	(17)	(7)	10	–	(14)
Net income	77	30	(32)	–	75

Rosneft Oil Company

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

5. Segment information (continued)

The performance of the operating segments for the six months ended June 30, 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	2,166	3,796	62	(2,237)	3,787
<i>Including: equity share in profits of associates and joint ventures</i>	<i>30</i>	<i>2</i>	<i>–</i>	<i>–</i>	<i>32</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,317	3,739	86	(2,237)	2,905
Depreciation, depletion and amortization	244	61	4	–	309
Total costs and expenses	1,561	3,800	90	(2,237)	3,214
Operating income	605	(4)	(28)	–	573
Finance income	–	–	59	–	59
Finance expenses	–	–	(136)	–	(136)
Total finance expenses	–	–	(77)	–	(77)
Other income	–	–	38	–	38
Other expenses	–	–	(87)*	–	(87)*
Foreign exchange differences	–	–	73	–	73
Cash flow hedges reclassified to profit or loss	–	–	(73)	–	(73)
Income before income tax	605	(4)	(154)	–	447
Income tax expense	(115)	1	18	–	(96)
Net income	490	(3)	(136)	–	351

* The impairment of goodwill, relating to Refining and distribution segment is included in Other expenses (Note 16).

Rosneft Oil Company

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

5. Segment information (continued)

The performance of the operating segments for the six months ended June 30, 2017 (unaudited, restated) is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	1,457	2,855	57	(1,560)	2,809
<i>Including: equity share in profits of associates and joint ventures</i>	<i>17</i>	<i>4</i>	<i>1</i>	<i>–</i>	<i>22</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	970	2,769	87	(1,560)	2,266
Depreciation, depletion and amortization	234	59	3	–	296
Total costs and expenses	1,204	2,828	90	(1,560)	2,562
Operating income	253	27	(33)	–	247
Finance income	–	–	56	–	56
Finance expenses	–	–	(112)	–	(112)
Total finance expenses	–	–	(56)	–	(56)
Other income	–	–	1	–	1
Other expenses	–	–	(20)	–	(20)
Foreign exchange differences	–	–	10	–	10
Cash flow hedges reclassified to profit or loss	–	–	(73)	–	(73)
Income before income tax	253	27	(171)	–	109
Income tax expense	(47)	(5)	35	–	(17)
Net income	206	22	(136)	–	92

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

	Three months ended June 30, 2018 (unaudited)	Three months ended June 30, 2017 (unaudited)	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
International sales of crude oil, petroleum products and petrochemicals	1,485	930	2,686	1,888
International sales of crude oil and petroleum products – CIS, other than Russia	93	61	164	111
Domestic sales of crude oil, petroleum products and petrochemicals	397	330	755	646
Sales of gas	50	47	109	106
Total oil, gas, petroleum products and petrochemicals sales	2,025	1,368	3,714	2,751

Rosneft Oil Company

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

6. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended June 30, 2018 (unaudited)	Three months ended June 30, 2017 (unaudited, restated)	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited, restated)
Current income tax expense	47	21	84	39
Deferred tax (benefit)/loss due to the origination and reversal of temporary differences	19	(7)	12	(22)
Total income tax expense	66	14	96	17

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

	Three months ended June 30, 2018 (unaudited)	Three months ended June 30, 2017 (unaudited)	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Mineral extraction tax	566	332	1,021	690
Excise tax	86	78	170	155
Property tax	11	10	21	18
Social charges	17	16	34	32
Other	2	3	4	4
Total taxes other than income tax	682	439	1,250	899

7. Export customs duty

Export customs duty comprises the following:

	Three months ended June 30, 2018 (unaudited)	Three months ended June 30, 2017 (unaudited)	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Export customs duty on oil sales	176	119	334	236
Export customs duty on petroleum products and petrochemicals sales	64	41	121	90
Total export customs duty	240	160	455	326

Rosneft Oil Company

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

8. Finance expenses

Finance expenses comprise the following:

	Three months ended June 30, 2018 (unaudited)	Three months ended June 30, 2017 (unaudited)	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Interest expenses on				
Loans and borrowings	(33)	(27)	(65)	(56)
Prepayment on long-term oil and petroleum products supply agreements (Note 22)	(23)	(20)	(43)	(41)
Other interest expenses	(3)	(2)	(5)	(3)
Total interest expenses	(59)	(49)	(113)	(100)
Increase in provision due to the unwinding of a discount	(4)	(4)	(9)	(8)
Increase in loss allowance for expected credit losses on debt financial assets:				
- at fair value through other comprehensive income	(3)	–	(3)	–
- at amortised cost	(1)	–	(1)	–
Net loss from operations with derivative financial instruments	(9)	–	(9)	–
Loss from disposal of financial assets	–	–	–	(4)
Other finance expenses	–	–	(1)	–
Total finance expenses	(76)	(53)	(136)	(112)

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended June 30, 2018 (unaudited)	Three months ended June 30, 2017 (unaudited)	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Compensation payment for licenses from joint venture parties	–	–	1	1
Insurance indemnity	–	–	3	–
Gain on re-measurement of fair value of the Company's investment in joint ventures	7	–	7	–
Gain on bargain purchase	23	–	23	–
Other	2	–	4	–
Total other income	32	–	38	1
Sale and disposal of property, plant and equipment and intangible assets	(3)	(3)	(5)	(5)
Impairment of assets	(48)	(1)	(48)	(1)
Disposal of companies and non-production assets	(1)	–	(1)	(1)
Provision for legal claims	(8)	–	(12)	–
Social payments, charity, financial aid	(7)	(3)	(10)	(6)
Other	(4)	(3)	(11)	(7)
Total other expenses	(71)	(10)	(87)	(20)

Rosneft Oil Company

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

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	June 30, 2018 (unaudited)	December 31, 2017
Cash on hand and in bank accounts in RUB	37	44
Cash on hand and in bank accounts in foreign currencies	136	124
Deposits and other cash equivalents	113	142
Other	7	12
Total cash and cash equivalents	293	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 June 30, 2018 and December 31, 2017, respectively.

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

Other short-term financial assets comprise the following:

	June 30, 2018 (unaudited)	December 31, 2017
Financial assets at fair value through other comprehensive income		
Bonds	151	117
Promissory notes	96	85
Stocks and shares	46	44
Financial assets at amortized cost		
Bonds	1	1
Loans granted	13	13
Loans issued to associates	26	32
Loans granted under reverse repurchase agreements	1	–
Deposits and certificates of deposit	94	43
Financial assets at fair value through profit and loss		
Deposits	2	1
Total other short-term financial assets	430	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:

	June 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	27	13
Loans granted	4	4
Loans issued to associates	3	26
Deposits and certificates of deposit	34	49
Other accounts receivable	10	3
Financial assets at fair value through profit and loss		
Deposits	540	493
Total other long-term financial assets	636	606

12. Accounts receivable

Accounts receivable include the following:

	June 30, 2018 (unaudited)	December 31, 2017
Trade receivables	794	658
Bank loans to customers	131	108
Other accounts receivable	41	116
Total	966	882
Allowance for expected credit losses	(57)	(39)
Total accounts receivable, net of allowance	909	843

No accounts receivable were pledged as collateral for loans and borrowings provided to the Company as of June 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:

	June 30, 2018 (unaudited)	December 31, 2017
Crude oil and gas	106	88
Petroleum products and petrochemicals	194	158
Materials and supplies	92	78
Total inventories	392	324

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

	Three months ended June 30, 2018 (unaudited)	Three months ended June 30, 2017 (unaudited)	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Cost of inventories recognized as an expense during the period	349	234	623	433

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:

	June 30, 2018 (unaudited)	December 31, 2017
Value added tax and excise receivable	206	180
Prepayments to suppliers	243	210
Settlements with customs	24	37
Profit and other tax payments	13	19
Other	10	8
Total prepayments and other current assets	496	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	506	51	1	558
<i>Including capitalized expenses on loans and borrowings</i>	63	21	–	84
Disposals and other movements	(42)	21	(1)	(22)
Foreign exchange differences	52	12	2	66
Cost of asset retirement (decommissioning) obligations	20	–	–	20
As of June 30, 2018	9,260	2,256	143	11,659
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(250)	(57)	(4)	(311)
Disposals and other movements	25	(16)	–	9
Foreign exchange differences	(25)	(1)	–	(26)
As of June 30, 2018	(2,878)	(552)	(48)	(3,478)
Net book value as of June 30, 2018	6,382	1,704	95	8,181
Prepayments for property, plant and equipment as of June 30, 2018	7	9	26	42
Total as of June 30, 2018	6,389	1,713	121	8,223

The depreciation charge for the six months ended June 30, 2018 includes RUB 8 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 84 billion (including RUB 70 billion in capitalized interest expense) and RUB 77 billion (including RUB 50 billion in capitalized interest expense) of expenses on loans and borrowings for the three months ended June 30, 2018 and 2017, respectively. The semiannual weighted average rate used to determine the amount of borrowing costs eligible for capitalization are 4.95% and 4.70% for the six months ended June 30, 2018 and 2017, respectively.

16. Goodwill

	June 30, 2018 (unaudited)	December 31, 2017
Goodwill		
Exploration and production	85	85
Refining and distribution	133	180
Total	218	265

Rosneft Oil Company

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

16. Goodwill (continued)

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 with the current macro 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 (Note 5), the Company decided to revise the key assumptions used for determining the estimated value in use of the Refining and distribution segment.

As a result of the relevant calculations, the excess of identified net assets over its value in use amounting to RUB 47 billion was identified in the Refining and distribution segment and the respective impairment of goodwill was recognized. The impairment loss was recognized in Other expenses of the Condensed consolidated statement of profit and loss for the 6 months ended June 30, 2018.

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 10.8% 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 58.4 for 2018, RUB 62.5 for 2019, RUB 63.0 for 2020 and RUB 63.5 from 2021 onwards.
- *Oil and petroleum products prices*
The forecasted Urals oil price was forecasted as follows: RUB 3,811 per barrel for 2018, RUB 3,125 per barrel for 2019, RUB 3,213 per barrel for 2020 and RUB 3,302 per barrel from 2021 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). At the same time, 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 can lead to the impairment of goodwill of the Refining and distribution segment. The weighted average price of petroleum products (excluding petrochemicals) of RUB 32.3 thousand per tonne, RUB 29.3 thousand per tonne, RUB 29.8 thousand per tonne and RUB 30.6 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.

Rosneft Oil Company

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

16. Goodwill (continued)

Sensitivity to changes in assumptions

The impact of changes in key assumptions on the recoverable amount is calculated by recalculating the projected cash flows from changes in one factor and the other factors remaining the same.

Changes in the pre-tax weighted average cost of capital – the long-term increase in the weighted average cost of capital above 11.7% may have a significant effect on the discounted cash flows of the Refining and distribution segment and may lead to the segment's goodwill impairment.

Changes in oil and petroleum products prices – the long-term increase in oil prices above RUB 3,529 per barrel for the period 2019 onwards leads to a significant increase in crude oil prices and in the context of stabilization of prices for petroleum products in the domestic market, may have a significant impact on the operating margin and, consequently, the discounted cash flows for the Refining and distribution segment and may possibly result in the segment's goodwill impairment.

Changes in tax regime – the Russian oil industry tax regime has a significant influence on the rate of return of the Refining and distribution segment's refining operations. In case of new amendments to the tax regime the Company will need to assess the influence of these amendments on the value of estimated discounted cash flows which may possibly result in an additional recognition of the goodwill impairment of the segment.

17. Other non-current non-financial assets

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

	June 30, 2018 (unaudited)	December 31, 2017
Long-term advances issued	216	282
Other	3	3
Total other non-current non-financial assets	219	285

18. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	June 30, 2018 (unaudited)	December 31, 2017
Financial liabilities		
Accounts payable to suppliers and contractors	441	451
Current operating liabilities of subsidiary banks	383	333
Salary and other benefits payable	75	81
Dividends payable	97	5
Other accounts payable	46	46
Total financial liabilities	1,042	916
Non-financial liabilities		
Short-term advances received	40	55
Total accounts payable and accrued liabilities	1,082	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	June 30, 2018 (unaudited)	December 31, 2017
Long-term			
Bank loans	RUB	428	326
Bank loans	US\$, Euro	893	878
Bonds	RUB	461	427
Eurobonds	US\$	160	213
Borrowings	RUB	74	71
Other borrowings	RUB	680	16
Other borrowings	US\$	596	224
<i>Less: current portion of long-term loans and borrowings</i>		(230)	(545)
Total long-term loans and borrowings		3,062	1,610
Finance lease liabilities		30	32
Other long-term financial liabilities		15	146
<i>Less: current portion of long-term finance lease liabilities</i>		(5)	(5)
Total long-term loans and borrowings and other financial liabilities		3,102	1,783
Short-term			
Bank loans	RUB	168	237
Bank loans	US\$, Euro	28	10
Other borrowings	RUB	299	919
Other borrowings	US\$	57	346
<i>Current portion of long-term loans and borrowings</i>		230	545
Total short-term loans and borrowings and current portion of long-term loans and borrowings		782	2,057
<i>Current portion of long-term finance lease liabilities</i>		5	5
Other short-term financial liabilities		99	93
Short-term liabilities related to derivative financial instruments		25	74
Total short-term loans and borrowings and other financial liabilities		911	2,229
Total loans and borrowings and other financial liabilities		4,013	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 43 billion as of June 30, 2018 and RUB 22 billion as of 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).

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.

In the first half of 2018, the Company continued to settle other long-term borrowings under repurchasing agreement operations and entered into new transactions. As of June 30, 2018, the liabilities of the Company under those transactions amounted to the equivalent of RUB 1,276 billion at the CBR official exchange rate as of June 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 June 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

In the first half of 2018, the Company drew down funds under short-term fixed rate loans from Russian and foreign banks.

As of June 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 June 30, 2018, the liabilities of the Company under those transactions amounted to the equivalent of RUB 356 billion (at the CBR official exchange rate as of June 30, 2018). Its own corporate bonds were used as an instrument for those transactions.

In the first half 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		Interest rate type	Fair value of the liabilities	
			June 30, 2018 (unaudited)			June 30, 2018 (unaudited)	December 31, 2017
			US\$ million	RUB billion*			
Swaps	2013	2018	–	–	floating	–	52
Swaps	2014	2019	1,010	63	floating	25	22
Total			1,010	63		25	74

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

20. Other current tax liabilities

Other short-term tax liabilities comprise the following:

	June 30, 2018 (unaudited)	December 31, 2017
Mineral extraction tax	195	160
VAT	110	78
Excise duties	23	26
Property tax	10	10
Personal income tax	3	2
Other	2	2
Total other tax liabilities	343	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:	3	2	6	11
Changes in estimates	–	–	9	9
Change in the discount rate	17	–	–	17
Foreign exchange differences	4	–	–	4
Unwinding of the discount	8	1	–	9
Utilized	(1)	(2)	(2)	(5)
As of June 30, 2018 (unaudited), including	249	42	28	319
<i>Non-current</i>	245	29	5	279
<i>Current</i>	4	13	23	40

Rosneft Oil Company

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 initially approximated 400 million tonnes. The crude oil and petroleum product prices are calculated based on current market prices. The prepayment is settled through physical deliveries of crude oil and petroleum products.

Deliveries of oil and petroleum products that reduce the prepayment amounts commenced in 2015. The Company considers these contracts to be regular-way contracts which were entered into for the purpose of the delivery of a non-financial item in accordance with the Company's expected sale requirements.

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
As of January 1	1,586	1,841
Received	123	–
Reimbursed	(94)	(126)
Total prepayment on long-term oil and petroleum products supply agreements	1,615	1,715
Less current portion	(351)	(225)
Long-term prepayment as of June 30	1,264	1,490

The off-set of prepayments, made during the first half of 2018 and 2017 amounted to RUB 94 billion and RUB 126 billion (US\$ 2.74 billion and US\$ 3.81 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date), respectively.

23. Shareholders' equity

On June 21, 2018 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2017 in the amount of RUB 70,5 billion, or RUB 6.65 per share.

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

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.

Rosneft Oil Company

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 during the six months ended June 30, 2018:

	US\$ million	Equivalent amount at the CBR exchange rate as of June 30, 2018, RUB billion
Nominal amount as of December 31, 2017	873	55
Hedging instruments designated	–	–
Realized cash flow foreign exchange hedges	(55)	(3)
Hedging instruments de-designated	(818)	(52)
Nominal amount as of June 30, 2018	–	–

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

	For the three months ended June 30, 2018 (unaudited)			For the six months ended June 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	(253)	51	(202)	(290)	58
Foreign exchange effects recognized during the period	–	–	–	1	–	1
Foreign exchange effects reclassified to profit or loss	37	(8)	29	73	(15)	58
Total recognized in other comprehensive income/(loss) for the period (unaudited)	37	(8)	29	74	(15)	59
Total recognized in other funds and reserves as of June 30, 2018 (unaudited)	(216)	43	(173)	(216)	43	(173)

Rosneft Oil Company

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 June 30, 2018, is presented below:

Year	2018	2019	2020	2021	Total
Reclassification	(72)	(146)	2	–	(216)
Income tax	14	29	–	–	43
Total, net of tax	(58)	(117)	2	–	(173)

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 June 30, 2018 (unaudited)			Total
	Level 1	Level 2	Level 3	
Assets				
Current assets				
Financial assets at fair value through other comprehensive income	50	243	–	293
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	–	540	–	540
Total assets measured at fair value	50	803	–	853
Liabilities				
Derivative financial instruments	–	(25)	–	(25)
Total liabilities measured at fair value	–	(25)	–	(25)

Rosneft Oil Company

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

26. Fair value of financial instruments (continued)

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.

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)	
	June 30, 2018 (unaudited)	December 31, 2017	June 30, 2018 (unaudited)	December 31, 2017
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(1,778)	(1,549)	(1,713)	(1,467)
Loans and borrowings with a fixed interest rate	(2,066)	(2,118)	(2,038)	(2,038)
Finance lease liabilities	(30)	(32)	(35)	(36)

27. Related party transactions

For the six months ended June 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

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	433	371
Support services and other revenues	4	1
Finance income	9	17
	446	389

Costs and expenses

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Production and operating expenses	5	8
Cost of purchased oil, gas, petroleum products and refining costs	48	32
Pipeline tariffs and transportation costs	246	234
Other expenses	9	7
Finance expenses	9	3
	317	284

Other operations

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Acquisition of subsidiaries and interest in associates	(3)	–
Loans received	159	79
Loans repaid	(107)	(15)
Loans and borrowings issued	(2)	–
Repayment of loans and borrowings issued	18	10
Deposits placed	(2)	5
Deposits repaid	–	2

Settlement balances

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	49	57
Accounts receivable	71	68
Prepayments and other current assets	53	61
Other financial assets	659	636
	832	822
Liabilities		
Accounts payable and accrued liabilities	38	32
Loans and borrowings and other financial liabilities	707	655
	745	687

Rosneft Oil Company

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

27. Related party transactions (continued)

Transactions with joint ventures

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

Revenues and income

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	6	5
Support services and other revenues	8	3
Finance income	3	14
	17	22

Costs and expenses

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Production and operating expenses	2	3
Cost of purchased oil, gas, petroleum products and refining costs	137	137
Pipeline tariffs and transportation costs	5	3
Other expenses	1	2
Finance expenses	1	–
	146	145

Other operations

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Loans and borrowing issued	–	(1)
Repayment of loans and borrowings issued	22	28

Settlement balances

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Accounts receivable	3	6
Other financial assets	19	52
	22	58
Liabilities		
Accounts payable and accrued liabilities	101	85
Loans and borrowings and other financial liabilities	14	15
	115	100

Rosneft Oil Company

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

27. Related party transactions (continued)

Transactions with associates

Revenues and income

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	177	107
Support services and other revenues	1	1
Finance income	1	–
	179	108

Costs and expenses

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Production and operating expenses	6	4
Cost of purchased oil, gas, petroleum products and refining costs	9	4
Pipeline tariffs and transportation costs	1	–
Other expenses	6	6
Finance expenses	2	–
	24	14

Other operations

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Loans and borrowing issued	(1)	4
Repayment of loans and borrowings issued	2	–

Settlement balances

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Accounts receivable	44	33
Prepayments and other current assets	–	1
Other financial assets	52	41
	96	75
Liabilities		
Accounts payable and accrued liabilities	5	8
Loans and borrowings and other financial liabilities	115	124
	120	132

Rosneft Oil Company

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

27. Related party transactions (continued)

Transactions with non-state pension funds

Costs and expenses

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Other expenses	3	2

Other operations

	Six months ended June 30, 2018 (unaudited)	Six months ended June 30, 2017 (unaudited)
Loans received	2	–

Settlement balances

	June 30, 2018 (unaudited)	December 31, 2017
Liabilities		
Accounts payable and accrued liabilities	1	1
Loans and borrowings and other financial liabilities	2	–
	3	1

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 decrease, but still remain high. The combination of the above has resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. Management is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

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.

Rosneft Oil Company

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

28. Contingencies (continued)

Guarantees and indemnities issued

In order to facilitate flexible terms and conditions for supplies and payments within hydrocarbon trading contracts, the Company issued sureties to banks covering the period up to the year 2022 and totaling euro 6.1 billion. As of the period-end the probability of events triggering settlement of sureties was assessed as remote.

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.

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.

Due to the absence of law enforcement precedents based on the rules, as well as certain contradictions in the provisions of the law, transfer pricing rules cannot be considered clear or precise. To eliminate significant risks posed to the consolidated financial statements by related party transactions, the Company has developed methods for pricing major types of controlled transactions between related parties. The Company also researches databases to determine the market price levels (ROIs) for 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 first half 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.

Rosneft Oil Company

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

28. Contingencies (continued)

Taxation (continued)

During the reporting period, the tax authorities continued their inspections of Rosneft and some of its subsidiaries for 2014-2017. Rosneft and these subsidiaries are disputing a number of claims by the Federal Tax Service pre-court and in court.

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.

Overall, management believes that the Company has paid or 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 633 billion and RUB 716 billion as of June 30, 2018 and December 31, 2017, respectively.

Environmental liabilities

The Company periodically evaluates its environmental liabilities pursuant to environmental regulations. Such liabilities are recognized in the consolidated financial statements as and when identified. Potential liabilities, that could arise as a result of changes in existing regulations or the 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.

29. Events after reporting period

On August 4, 2018, the Company's Board of Directors approved the terms and launch of the open market share buyback program, which would also cover the holders of depositary receipts, in the amount of up to US\$ 2 billion. The program will commence from the date of the Board's approval and will run to December 31, 2020.

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