



Rosneft Oil Company

Interim Condensed Consolidated Financial Statements
(unaudited)

Three months ended March 31, 2018

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Three months ended March 31, 2018

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Report on Review of Interim Condensed Consolidated Financial Statements

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 March 31, 2018, interim consolidated statements of profit or loss, interim consolidated statements of other comprehensive income, interim consolidated statement of changes in shareholders’ equity and interim consolidated statement of cash flows for the three-month period then ended and notes to the 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.

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

May 14, 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 December 5, 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

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

	Notes	March 31, 2018 (unaudited)	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents	10	304	322
Restricted cash	10	11	13
Other short-term financial assets	11	308	336
Accounts receivable	12	785	843
Inventories	13	332	324
Prepayments and other current assets	14	450	454
Total current assets		2,190	2,292
Non-current assets			
Property, plant and equipment	15	8,045	7,923
Intangible assets		68	71
Other long-term financial assets		616	606
Investments in associates and joint ventures		649	638
Bank loans granted		139	121
Deferred tax assets		26	26
Goodwill		265	265
Other non-current non-financial assets	16	240	285
Total non-current assets		10,048	9,935
Total assets		12,238	12,227
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	17	977	971
Loans and borrowings and other financial liabilities	18	1,142	2,229
Income tax liabilities		13	39
Other tax liabilities	19	291	278
Provisions	20	32	29
Prepayment on long-term oil and petroleum products supply agreements	21	304	264
Other current liabilities		27	26
Total current liabilities		2,786	3,836
Non-current liabilities			
Loans and borrowings and other financial liabilities	18	2,827	1,783
Deferred tax liabilities		803	813
Provisions	20	264	245
Prepayment on long-term oil and petroleum products supply agreements	21	1,230	1,322
Other non-current liabilities		42	45
Total non-current liabilities		5,166	4,208
Equity			
Share capital		1	1
Additional paid-in capital		627	627
Other funds and reserves		(286)	(322)
Retained earnings		3,367	3,313
Rosneft shareholders' equity		3,709	3,619
Non-controlling interests		577	564
Total equity		4,286	4,183
Total liabilities and equity		12,238	12,227

Chief Executive Officer _____



I.I. Sechin

May 14, 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)

	Notes	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited, restated)*
Revenues and equity share in profits of associates and joint ventures			
Oil, gas, petroleum products and petrochemicals sales	5	1,689	1,383
Support services and other revenues		21	18
Equity share in profits of associates and joint ventures		12	9
Total revenues and equity share in profits of associates and joint ventures		1,722	1,410
Costs and expenses			
Production and operating expenses		158	142
Cost of purchased oil, gas, petroleum products and refining costs		232	168
General and administrative expenses		35	36
Pipeline tariffs and transportation costs		160	153
Exploration expenses		2	2
Depreciation, depletion and amortization		152	148
Taxes other than income tax	6	568	460
Export customs duty	7	215	166
Total costs and expenses		1,522	1,275
Operating income		200	135
Finance income		30	34
Finance expenses	8	(60)	(59)
Other income	9	6	1
Other expenses	9	(16)	(10)
Foreign exchange differences		1	(45)
Cash flow hedges reclassified to profit or loss	22	(36)	(36)
Income before income tax		125	20
Income tax expense	6	(30)	(3)
Net income		95	17
Net income attributable to:			
- Rosneft shareholders		81	11
- non-controlling interests		14	6
Net income attributable to Rosneft per common share			
(in RUB) – basic and diluted		7.64	1.04
Weighted average number of shares outstanding (millions)		10,598	10,598

* Some amounts for the three months ended March 31, 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 March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited, restated)
Net income		95	17
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Foreign exchange differences on translation of foreign operations		4	44
Foreign exchange cash flow hedges	22	37	37
Income from changes in fair value of financial assets at fair value through other comprehensive income		2	6
Income tax related to other comprehensive income to be reclassified to profit or loss in subsequent periods		(7)	(8)
Total other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		36	79
Total comprehensive income, net of tax		131	96
Total comprehensive income, net of tax, attributable to:			
- Rosneft shareholders		117	90
- non-controlling interests		14	6

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 shareholders' 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	–	–	–	–	11	11	6	17
Other comprehensive income	–	–	–	79	–	79	–	79
Total comprehensive income	–	–	–	79	11	90	6	96
Other movements	–	–	7	–	–	7	–	7
Balance at March 31, 2017 (unaudited, restated)	10,598	1	610	(418)	3,206	3,399	486	3,885
Balance at January 1, 2018	10,598	1	627	(322)	3,313	3,619	564	4,183
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)	3,286	3,592	563	4,155
Net income	–	–	–	–	81	81	14	95
Other comprehensive income	–	–	–	36	–	36	–	36
Total comprehensive income	–	–	–	36	81	117	14	131
Balance at March 31, 2018 (unaudited)	10,598	1	627	(286)	3,367	3,709	577	4,286

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	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited, restated)
Operating activities			
Net income		95	17
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation, depletion and amortization		152	148
Loss on disposal of non-current assets	9	2	2
Dry hole costs		–	1
Offset of prepayments received on oil and petroleum products supply agreements	21	(52)	(64)
Offset of prepayments made on oil and petroleum products supply agreements		45	–
Foreign exchange (gain)/loss on non-operating activities		(6)	29
Cash flow hedges reclassified to profit or loss		36	36
Offset of other financial liabilities		(34)	(4)
Equity share in profits of associates and joint ventures		(12)	(9)
Loss from disposal of subsidiaries and non-production assets	9	–	1
Changes in provisions for future credit losses		1	(1)
Loss from changes in estimates and non-financial assets impairment		2	1
Finance expenses	8	60	59
Finance income		(30)	(34)
Income tax expense	6	30	3
<i>Changes in operating assets and liabilities</i>			
Decrease in accounts receivable, gross		43	13
Increase in inventories		(8)	(2)
Decrease/(increase) in restricted cash		2	(1)
Increase in prepayments and other current assets		(3)	(37)
Decrease in accounts payable and accrued liabilities		(42)	(27)
Increase in other tax liabilities		13	15
Decrease in current provisions		–	(1)
Increase in other current liabilities		1	–
Decrease in other non-current liabilities		(2)	(2)
Interest paid on long-term prepayment received on oil and petroleum products supply agreements		(2)	(3)
Net (increase)/decrease in operating assets of subsidiary banks		(10)	19
Net increase in operating liabilities of subsidiary banks		33	11
Proceeds from sale of trading securities		–	1
Net cash provided by operating activities before income tax and interest		314	171
Income tax payments		(61)	(29)
Interest received		18	10
Dividends received		–	2
Net cash provided by operating activities		271	154

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	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited, restated)
Investing activities			
Capital expenditures		(223)	(192)
Acquisition of licenses and auction fee payments		(1)	(15)
Acquisition of short-term financial assets		(14)	(27)
Proceeds from sale of short-term financial assets		16	87
Acquisition of long-term financial assets		(2)	(16)
Proceeds from sale of long-term financial assets		2	26
Acquisition of interest in associates and joint ventures		–	(12)
Acquisition of interest in subsidiary, net of cash acquired		–	(55)
Proceeds from sale of property, plant and equipment		1	1
Net cash used in investing activities		(221)	(203)
Financing activities			
Proceeds from short-term loans and borrowings		119	538
Repayment of short-term loans and borrowings		(845)	(300)
Proceeds from long-term loans and borrowings		842	83
Repayment of long-term loans and borrowings		(99)	(414)
Proceeds from other financial liabilities		4	35
Repayment of other financial liabilities		(22)	(1)
Interest paid		(61)	(44)
Proceeds from sale of non-controlling share in subsidiary		–	8
Dividends paid to non-controlling shareholders		(5)	–
Net cash used in financing activities		(67)	(95)
Net decrease in cash and cash equivalents		(17)	(144)
Cash and cash equivalents at beginning of period	10	322	790
Effect of foreign exchange on cash and cash equivalents		(1)	(39)
Cash and cash equivalents at end of period	10	304	607

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)

March 31, 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 months ended March 31, 2018 were approved and authorized for issue by the Chief Executive Officer of the Company on May 14, 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 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 March 31, 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 months ended March 31, 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 March 31, 2017:

	Before finalized allocation	Effect of finalization	After finalized allocation
Total revenues and equity share in profits of associates and joint ventures	1,410	–	1,410
Costs and expenses			
Production and operating expenses	142	–	142
Cost of purchased oil, gas, petroleum products and refining costs	168	–	168
General and administrative expenses	36	–	36
Pipeline tariffs and transportation costs	153	–	153
Exploration expenses	2	–	2
Depreciation, depletion and amortization	143	5	148
Taxes other than income tax	460	–	460
Export customs duty	166	–	166
Total costs and expenses	1,270	5	1,275
Operating income	140	(5)	135
Finance income	34	–	34
Finance expenses	(59)	–	(59)
Other income	1	–	1
Other expenses	(10)	–	(10)
Foreign exchange differences	(45)	–	(45)
Cash flow hedges reclassified to profit or loss	(36)	–	(36)
Income before income tax	25	(5)	20
Income tax expense	(4)	1	(3)
Net income	21	(4)	17
Net income attributable to:			
- Rosneft shareholders	13	(2)	11
- non-controlling interests	8	(2)	6
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	1.23	(0.19)	1.04
Weighted average number of shares outstanding (millions)	10,598	–	10,598

Rosneft Oil Company

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

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 March 31, 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	943	1,735	29	(985)	1,722
<i>Including: equity share in profits of associates and joint ventures</i>	<i>12</i>	<i>–</i>	<i>–</i>	<i>–</i>	<i>12</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	593	1,720	42	(985)	1,370
Depreciation, depletion and amortization	119	31	2	–	152
Total costs and expenses	712	1,751	44	(985)	1,522
Operating income	231	(16)	(15)	–	200
Finance income	–	–	30	–	30
Finance expenses	–	–	(60)	–	(60)
Total finance expenses	–	–	(30)	–	(30)
Other income	–	–	6	–	6
Other expenses	–	–	(16)	–	(16)
Foreign exchange differences	–	–	1	–	1
Cash flow hedges reclassified to profit or loss	–	–	(36)	–	(36)
Income before income tax	231	(16)	(90)	–	125
Income tax expense	(44)	3	11	–	(30)
Net income	187	(13)	(79)	–	95

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 March 31, 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	775	1,434	26	(825)	1,410
<i>Including: equity share in profits of associates and joint ventures</i>	8	2	(1)	–	9
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	500	1,414	38	(825)	1,127
Depreciation, depletion and amortization	116	30	2	–	148
Total costs and expenses	616	1,444	40	(825)	1,275
Operating income	159	(10)	(14)	–	135
Finance income	–	–	34	–	34
Finance expenses	–	–	(59)	–	(59)
Total finance expenses	–	–	(25)	–	(25)
Other income	–	–	1	–	1
Other expenses	–	–	(10)	–	(10)
Foreign exchange differences	–	–	(45)	–	(45)
Cash flow hedges reclassified to profit or loss	–	–	(36)	–	(36)
Income before income tax	159	(10)	(129)	–	20
Income tax expense	(30)	2	25	–	(3)
Net income	129	(8)	(104)	–	17

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

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
International sales of crude oil, petroleum products and petrochemicals	1,201	958
International sales of crude oil and petroleum products – CIS, other than Russia	71	50
Domestic sales of crude oil, petroleum products and petrochemicals	358	316
Sales of gas	59	59
Total oil, gas, petroleum products and petrochemicals sales	1,689	1,383

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 March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited, restated)
Current income tax expense	37	18
Deferred tax benefit due to the origination and reversal of temporary differences	(7)	(15)
Total income tax expense	30	3

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

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Mineral extraction tax	455	358
Excise tax	84	77
Property tax	11	8
Social charges	17	16
Other	1	1
Total taxes other than income tax	568	460

7. Export customs duty

Export customs duty comprises the following:

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Export customs duty on oil sales	158	117
Export customs duty on petroleum products and petrochemicals sales	57	49
Total export customs duty	215	166

Rosneft Oil Company

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

8. Finance expenses

Finance expenses comprise the following:

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Interest expenses on		
Loans and borrowings	(32)	(29)
Prepayment on long-term oil and petroleum products supply agreements (Note 21)	(20)	(21)
Other interest expenses	(2)	(1)
Total interest expenses	(54)	(51)
Increase in provision due to the unwinding of a discount	(5)	(4)
Loss from disposal of financial assets	–	(4)
Other finance expenses	(1)	–
Total finance expenses	(60)	(59)

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Compensation payment for licenses from joint venture parties	1	1
Insurance indemnity	3	–
Other	2	–
Total other income	6	1
Sale and disposal of property, plant and equipment and intangible assets	(2)	(2)
Disposal of companies and non-production assets	–	(1)
Provision for legal claims (Note 25)	(4)	–
Social payments, charity, financial aid	(3)	(3)
Other	(7)	(4)
Total other expenses	(16)	(10)

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	March 31, 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	99	124
Deposits and other cash equivalents in RUB	162	142
Other	6	12
Total cash and cash equivalents	304	322

Rosneft Oil Company

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

10. Cash and cash equivalents (continued)

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 4 billion as of March 31, 2018 and December 31, 2017.

11. Other short-term financial assets

Other short-term financial assets comprise the following:

	March 31, 2018 (unaudited)	December 31, 2017
Financial assets at fair value through other comprehensive income		
Bonds	108	117
Promissory notes	83	85
Stocks and shares	45	44
Financial assets at amortized cost		
Bonds	1	1
Loans granted	13	13
Loans issued to associates	21	32
Deposits and certificates of deposit	35	43
Financial assets at fair value recognized in profit and loss		
Deposits	2	1
Total other short-term financial assets	308	336

12. Accounts receivable

Accounts receivable include the following:

	March 31, 2018 (unaudited)	December 31, 2017
Trade receivables	707	658
Bank loans to customers	97	108
Other accounts receivable	31	116
Total	835	882
Allowance for doubtful accounts	(50)	(39)
Total accounts receivable, net of allowance	785	843

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

Rosneft Oil Company

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

13. Inventories

Inventories comprise the following:

	March 31, 2018 (unaudited)	December 31, 2017
Crude oil and gas	86	88
Petroleum products and petrochemicals	161	158
Materials and supplies	85	78
Total inventories	332	324

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

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Cost of inventories recognized as an expense during the period	274	199

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:

	March 31, 2018 (unaudited)	December 31, 2017
Value added tax and excise receivable	206	180
Prepayments to suppliers	206	210
Settlements with customs	16	37
Profit and other tax payments	11	19
Other	11	8
Total prepayments and other current assets	450	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				
Additions	243	17	1	261
<i>Including capitalized expenses on loans and borrowings</i>	26	7	–	33
Disposals and other movements	(32)	22	–	(10)
Foreign exchange differences	(4)	4	–	–
Cost of asset retirement (decommissioning) obligations	14	–	–	14
As of March 31, 2018	8,940	2,215	140	11,295
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(122)	(29)	(2)	(153)
Disposals and other movements	21	(16)	–	5
Foreign exchange differences	2	–	–	2
As of March 31, 2018	(2,727)	(523)	(46)	(3,296)
Net book value as of March 31, 2018	6,213	1,692	94	7,999
Prepayments for property, plant and equipment as of March 31, 2018	8	10	28	46
Total as of March 31, 2018	6,221	1,702	122	8,045

The depreciation charge for the three months ended March 31, 2018 includes RUB 4 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 33 billion and RUB 23 billion of expenses on loans and borrowings for the three months ended March 31, 2018 and 2017, respectively. The weighted average quarterly rates used to determine the amount of borrowing costs eligible for capitalization were 1.74% and 1.55% for the three months ended March 31, 2018 and 2017, respectively.

Rosneft Oil Company

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

16. Other non-current non-financial assets

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

	March 31, 2018 (unaudited)	December 31, 2017
Long-term advances issued	237	282
Other	3	3
Total other non-current non-financial assets	240	285

17. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	March 31, 2018 (unaudited)	December 31, 2017
Financial liabilities		
Accounts payable to suppliers and contractors	434	451
Current operating liabilities of subsidiary banks	368	333
Salary and other benefits payable	94	81
Dividends payable	1	5
Other accounts payable	45	46
Total financial liabilities	942	916
Non-financial liabilities		
Short-term advances received	35	55
Total accounts payable and accrued liabilities	977	971

Trade and other payables are non-interest bearing.

Rosneft Oil Company

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

18. Loans and borrowings and other financial liabilities

Loans and borrowings and other financial liabilities comprise the following:

	Currency	March 31, 2018 (unaudited)	December 31, 2017
Long-term			
Bank loans	RUB	327	326
Bank loans	US\$, Euro	838	878
Bonds	RUB	507	427
Eurobonds	US\$	145	213
Borrowings	RUB	72	71
Other borrowings	US\$	488	224
Other borrowings	RUB	521	16
<i>Less: current portion of long-term loans and borrowings</i>		(238)	(545)
Total long-term loans and borrowings		2,660	1,610
Finance lease liabilities		31	32
Other long-term financial liabilities		141	146
<i>Less: current portion of long-term finance lease liabilities</i>		(5)	(5)
Total long-term loans and borrowings and other financial liabilities		2,827	1,783
Short-term			
Bank loans	RUB	205	237
Bank loans	US\$, Euro	16	10
Other borrowings	RUB	457	919
Other borrowings	US\$	105	346
<i>Current portion of long-term loans and borrowings</i>		238	545
Total short-term loans and borrowings and current portion of long-term loans and borrowings		1,021	2,057
<i>Current portion of long-term finance lease liabilities</i>		5	5
Other short-term financial liabilities		66	93
Short-term liabilities related to derivative financial instruments		50	74
Total short-term loans and borrowings and other financial liabilities		1,142	2,229
Total loans and borrowings and other financial liabilities		3,969	4,012

Long-term loans and borrowings

Long-term bank loans from foreign banks 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 36 billion as of March 31, 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)

18. 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 for all three series of bonds. 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 quarter of 2018, the Company continued to settle other long-term borrowings under repurchasing agreement operations and entered into new transactions. As of March 31, 2018, the liabilities of the Company under those transactions amounted to the equivalent of RUB 1,009 billion at the CBR official exchange rate as of March 31, 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 March 31, 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 quarter of 2018, the Company drew down funds under short-term fixed rate loans from Russian and foreign banks.

As of March 31, 2018, the Company met its obligations in relation to other short-term floating and fixed rate borrowings under repurchase agreement operations and had entered into new long-term and short-term transactions. As of March 31, 2018, the liabilities of the Company under those transactions amounted to the equivalent of RUB 562 billion (at the CBR official exchange rate as of March 31, 2018). Its own corporate bonds were used as an instrument for those transactions.

In the first quarter 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)

18. 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 March 31, 2018 (unaudited)		Interest rate type	Fair value of the liabilities	
			US\$ million	RUB billion*		March 31, 2018 (unaudited)	December 31, 2017
Swaps	2013	2018	1,221	70	floating	29	52
Swaps	2014	2019	1,010	58	floating	21	22
Total			2,231	128		50	74

* The equivalent nominal amount at the CBR official exchange rate as of March 31, 2018.

19. Other current tax liabilities

Other current tax liabilities comprise the following:

	March 31, 2018 (unaudited)	December 31, 2017
Mineral extraction tax	152	160
VAT	92	78
Excise duties	31	26
Property tax	11	10
Personal income tax	3	2
Other	2	2
Total other tax liabilities	291	278

20. 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	2	1	6	9
Increase/(decrease) in the liability resulting from:				
Changes in estimates	–	–	(1)	(1)
Change in the discount rate	12	–	–	12
Foreign exchange differences	–	–	–	–
Unwinding of the discount	4	1	–	5
Utilized	(1)	(1)	(1)	(3)
As of March 31, 2018 (unaudited), including	235	42	19	296
<i>Non-current</i>	231	28	5	264
<i>Current</i>	4	14	14	32

Rosneft Oil Company

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

21. 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 which were entered into for the purpose of the delivery of a non-financial item in accordance with the Company's expected sale requirements.

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
As of January 1	1,586	1,841
Received	–	–
Reimbursed	(52)	(64)
Total prepayment on long-term oil and petroleum products supply agreements	1,534	1,777
Less current portion	(304)	(243)
As of March 31	1,230	1,534

The off-set of prepayments, made during the first quarter of 2018 and 2017, amounted to RUB 52 billion and RUB 64 billion (US\$ 1.49 billion and US\$ 1.91 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date), respectively.

22. 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.

Rosneft Oil Company

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

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

Changes in the nominal hedging amount during the period:

	US\$ million	Equivalent amount at the CBR exchange rate as of March 31, 2018, RUB billion
Nominal amount as of December 31, 2017	873	50
Hedging instruments designated	–	–
Realized cash flow foreign exchange hedges	(55)	(3)
Hedging instruments de-designated	–	–
Nominal amount as of March 31, 2018	818	47

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

	Before income tax	Income tax	Net of tax
Total recognized in other comprehensive (loss)/income as of December 31, 2017	(290)	58	(232)
Foreign exchange effects recognized during the period	1	–	1
Foreign exchange effects reclassified to profit or loss	36	(7)	29
Total recognized in other comprehensive income/(loss) for the three months ended March 31, 2018 (unaudited)	37	(7)	30
Total recognized in other comprehensive (loss)/income as of March 31, 2018 (unaudited)	(253)	51	(202)

The schedule of expected reclassification of accumulated foreign exchange loss from other comprehensive income to profit or loss, as of March 31, 2018, is presented below:

Year	2018	2019	2020	2021	Total
Reclassification	(109)	(146)	2	–	(253)
Income tax	22	29	–	–	51
Total, net of tax	(87)	(117)	2	–	(202)

The expected reclassification is calculated using the Central Bank of Russia (“CBR”) exchange rate as of March 31, 2018 and may be different using actual exchange rates in the future.

23. Fair value of financial instruments

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

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

Rosneft Oil Company

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

23. Fair value of financial instruments (continued)

Assets and liabilities of the Company that are measured at fair value on a recurring basis in accordance with the fair value hierarchy are presented in the table below.

	Fair value measurement as of March 31, 2018			
	(unaudited)			
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Financial assets at fair value through other comprehensive income	40	196	–	236
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	–	524	–	524
Total assets measured at fair value	40	740	–	780
Liabilities				
Derivative financial instruments	–	(50)	–	(50)
Total liabilities measured at fair value	–	(50)	–	(50)

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 and other financial assets, financial leases 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)	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
	(unaudited)		(unaudited)	
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(1,670)*	(1,549)	(1,599)*	(1,467)
Loans and borrowings with a fixed interest rate	(2,011)	(2,118)	(1,960)	(2,038)
Finance lease liabilities	(31)	(32)	(36)	(36)

* Including financial instruments designated as hedging instruments with a carrying value of RUB 47 billion and a fair value of RUB 45 billion.

Rosneft Oil Company

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

24. Related party transactions

For the three months ended March 31, 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.

Transactions with shareholders and companies controlled by shareholders

Revenues and income

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	199	186
Support services and other revenues	4	1
Finance income	7	15
	210	202

Costs and expenses

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Production and operating expenses	2	6
Cost of purchased oil, gas, petroleum products and refining costs	16	19
Pipeline tariffs and transportation costs	125	114
Other expenses	5	4
Finance expenses	2	2
	150	145

Rosneft Oil Company

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

24. Related party transactions (continued)

Transactions with shareholders and companies controlled by shareholders (continued)

Other operations

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Loans received	17	23
Loans repaid	(11)	(14)
Repayment of loans and borrowings issued	2	21
Deposits placed	(2)	(3)
Deposits repaid	–	2

Settlement balances

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	29	57
Accounts receivable	73	68
Prepayments and other current assets	52	61
Other financial assets	651	636
	805	822
Liabilities		
Accounts payable and accrued liabilities	25	32
Loans and borrowings and other financial liabilities	642	655
	667	687

Transactions with joint ventures

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

Revenues and income

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	2	2
Support services and other revenues	1	1
Finance income	1	4
	4	7

Rosneft Oil Company

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

24. Related party transactions (continued)

Transactions with joint ventures (continued)

Costs and expenses

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Production and operating expenses	1	1
Cost of purchased oil, gas, petroleum products and refining costs	54	69
Pipeline tariffs and transportation costs	2	1
Other expenses	1	1
	58	72

Other operations

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Repayment of loans and borrowings issued	11	16

Settlement balances

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Accounts receivable	4	6
Other financial assets	40	52
	44	58
Liabilities		
Accounts payable and accrued liabilities	92	85
Loans and borrowings and other financial liabilities	19	15
	111	100

Rosneft Oil Company

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

24. Related party transactions (continued)

Transactions with associates

Revenues and income

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	65	52
	65	52

Costs and expenses

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Production and operating expenses	2	2
Cost of purchased oil, gas, petroleum products and refining costs	4	2
Other expenses	3	2
	9	6

Other operations

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Loans and borrowings issued	(10)	(1)
Repayment of loans and borrowings issued	26	–

Settlement balances

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Accounts receivable	27	33
Prepayments and other current assets	1	1
Other financial assets	26	41
	54	75
Liabilities		
Accounts payable and accrued liabilities	7	8
Loans and borrowings and other financial liabilities	89	124
	96	132

Rosneft Oil Company

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

24. Related party transactions (continued)

Transactions with non-state pension funds

Costs and expenses

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Other expenses	1	1

Other operations

	Three months ended March 31, 2018 (unaudited)	Three months ended March 31, 2017 (unaudited)
Loans received	1	–

Settlement balances

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

25. 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)

25. 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 Bashneft are involved in a number of legal disputes with PJSFC Sistema and JSC Sistema-Invest related to the illegal ownership of Bashneft shares by PJSFC Sistema and Sistema-Invest. In particular, they are the co-plaintiffs against PJSFC Sistema and JSC Sistema-Invest in the case of a recovery of losses in favor of Bashneft in the amount of RUB 170.6 billion caused by the reorganization of Bashneft (Case 1) as well as in the case of a recovery of losses in the amount of RUB 131.6 billion in connection with the payment of dividends to defendants during the period of their illegal possession of the Bashneft shares (Case 2). They are also the co-defendants in the case of PJSFC Sistema's claim for recovery of losses in the amount of RUB 330.4 billion arising following the actions of Rosneft and Bashneft to protect the legitimate interests of Bashneft (Case 3).

The abovementioned disputes were settled by the parties by concluding a settlement agreement approved by the Decision of the Arbitration Court of the Republic of Bashkortostan dated December 26, 2017 on Case 1. According to the settlement agreement, PJSFC Sistema and JSC Sistema-Invest guarantee to compensate the Company previously caused losses amounting to RUB 100 billion by March 31, 2018, after which the parties will file a waiver of mutual claims on cases 2 and 3. As of March 31, 2018, all of the claims were completely settled.

On December 31, 2015, First National Petroleum Corporation ("FNPC") initiated arbitration proceedings under the Rules of the Arbitration Institute of the Stockholm Chamber of Commerce against JSC Tyumenneftegaz ("TNG"), a subsidiary of the Company, seeking compensation of losses, interest and arbitration costs of over US\$ 260 million (over RUB 14 billion at the CBR official exchange rate on March 31, 2018) for alleged breach of the agreement between FNPC and TNG to incorporate a joint venture, Tumtex, on the territory of the Russian Federation. On March 30, 2018 the tribunal ruled to collect US\$ 70 million (over RUB 4 billion at the CBR official exchange rate on March 31, 2018) in principal and interest from TNG. In order to reflect the latest court decision, an appropriate provision has been recorded in the Company's financial statements as of March 31, 2018. TNG is working on the appeal to be filed to Swedish Appeal Court.

In October-November 2014 former shareholders of JSC RN Holding filed a lawsuit against the Company claiming recovery of damages caused by the improper (in the plaintiffs' view) assessment of the shares' value in the course of their repurchase in accordance with the Federal Law On Open Joint Stock Companies. The claims were dismissed by the court of first instance, whose ruling was subsequently upheld in a ruling of the appeal court. In January 2017 the cassation court left the rulings of the lower courts unchanged. In May 2017 the Supreme Court of the Russian Federation dismissed the cassation. The decision of the Supreme Court of the Russian Federation was appealed by the plaintiffs. The appeal was dismissed.

The amount and timing of any outflow related to the above claims cannot be estimated reliably. Rosneft and its subsidiaries are involved in other litigation which arises from time to time in the course of their business activities. Management believes that the ultimate result of that litigation will not materially affect the performance or financial position of the Company.

Rosneft Oil Company

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

25. Contingencies (continued)

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.

Effective January 1, 2012, the rules for defining market prices for fiscal control purposes were changed and the list of entities that could be recognized as interdependent entities and the list of controlled transactions were expanded. Due to the absence of law enforcement precedents based on the rules, as well as certain contradictions in the provisions of the law, these 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 2014-2017 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 quarter 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.

In 2014, amendments to tax legislation were adopted aimed at fiscal stimulation of the Russian economy via de-offshorization, and they took effect on January 1, 2015. In particular, these amendments embedded in Russian tax legislation the concepts of actual right to income, fiscal residence of legal entities, and income tax rules for controlled foreign companies. The Company's management has accounted for these amendments in its current and deferred income tax estimates.

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

25. 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 586 billion and RUB 716 billion as of March 31, 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.

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