



Rosneft Oil Company

Interim condensed consolidated financial statements
(unaudited)

Three and nine months ended September 30, 2017

Rosneft Oil Company

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Three and nine months ended September 30, 2017

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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 September 30, 2017, interim consolidated statements of profit or loss and interim consolidated statements of other comprehensive income for the three and nine-month periods, interim consolidated statement of changes in shareholders' equity and interim consolidated statement of cash flows for the nine-month period then ended and notes to interim condensed consolidated financial statements, including a summary of significant accounting policies ("interim financial information").

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

Scope of review

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



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Conclusion

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

A handwritten signature in blue ink, appearing to read 'D.E. Lobachev', is written over a light blue horizontal line.

D.E. Lobachev
General Director
Ernst & Young LLC

November 14, 2017

Details of the entity

Name: Rosneft Oil Company
Record made in the State Register of Legal Entities on July 19, 2002, State Registration Number 1027700043502.
Address: Russia, 115035, Moscow, Sofiyskaya embankment, 26/1.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on December 5, 2002, State Registration Number 1027739707203.
Address: Russia, 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of self-regulatory organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Rosneft Oil Company
Interim consolidated balance sheet

(in billions of Russian rubles)

	Notes	September 30, 2017 (unaudited)	December 31, 2016 (restated)
ASSETS			
Current assets			
Cash and cash equivalents	10	227	790
Restricted cash	10	6	2
Other short-term financial assets	11	349	447
Accounts receivable	12	631	485
Inventories	13	304	283
Prepayments and other current assets	14	316	293
Total current assets		1,833	2,300
Non-current assets			
Property, plant and equipment	15	7,654	7,128
Intangible assets		58	59
Other long-term financial assets		791	808
Investments in associates and joint ventures	16	632	411
Bank loans granted		65	26
Deferred tax assets		24	22
Goodwill		265	256
Other non-current non-financial assets	17	192	84
Total non-current assets		9,681	8,794
Total assets		11,514	11,094
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	18	676	583
Loans and borrowings and other financial liabilities	19	2,320	1,671
Income tax liabilities		2	6
Other tax liabilities	20	236	222
Provisions	21	26	29
Prepayment on long-term oil and petroleum products supply agreements	22	238	255
Other current liabilities		7	7
Total current liabilities		3,505	2,773
Non-current liabilities			
Loans and borrowings and other financial liabilities	19	1,534	1,914
Deferred tax liabilities		785	792
Provisions	21	224	203
Prepayment on long-term oil and petroleum products supply agreements	22	1,413	1,586
Other non-current liabilities		44	43
Total non-current liabilities		4,000	4,538
Equity			
Share capital		1	1
Additional paid-in capital		624	603
Other funds and reserves		(360)	(497)
Retained earnings		3,214	3,196
Rosneft shareholders' equity		3,479	3,303
Non-controlling interest	24	530	480
Total equity		4,009	3,783
Total liabilities and equity		11,514	11,094

Chief Executive Officer  I.I. Sechin

November 14, 2017

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

Rosneft Oil Company

Interim consolidated statement of profit or loss

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

		Three months ended September 30, 2017 (unaudited)	Three months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited, restated)
Revenues and equity share in profits of associates and joint ventures					
Oil, gas, petroleum products and petrochemicals sales	5	1,461	1,204	4,212	3,431
Support services and other revenues		20	18	56	56
Equity share in profits of associates and joint ventures		15	1	37	16
Total revenues and equity share in profits of associates and joint ventures		1,496	1,223	4,305	3,503
Costs and expenses					
Production and operating expenses		150	132	447	392
Cost of purchased oil, gas, petroleum products and refining costs		213	139	580	418
General and administrative expenses		41	31	115	91
Pipeline tariffs and transportation costs		146	138	444	420
Exploration expenses		4	3	9	10
Depreciation, depletion and amortization		144	120	440	349
Taxes other than income tax	6	470	336	1,369	896
Export customs duty	7	150	184	476	458
Total costs and expenses		1,318	1,083	3,880	3,034
Operating income		178	140	425	469
Finance income		24	17	80	58
Finance expenses	8	(56)	(45)	(168)	(141)
Other income	9	3	5	4	7
Other expenses	9	(25)	(16)	(45)	(41)
Foreign exchange differences		(1)	(14)	9	(55)
Cash flow hedges reclassified to profit or loss		(36)	(37)	(109)	(111)
Income before income tax		87	50	196	186
Income tax expense	6	(27)	(20)	(44)	(53)
Net income		60	30	152	133
Net income attributable to:					
- Rosneft shareholders		47	26	122	127
- non-controlling interests		13	4	30	6
Net income attributable to Rosneft per common share (in RUB) – basic and diluted		4.43	2.45	11.51	11.98
Weighted average number of shares outstanding (millions)		10,598	10,598	10,598	10,598

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

Rosneft Oil Company

Interim consolidated statement of other comprehensive income

(in billions of Russian rubles)

		Three months ended September 30, 2017 (unaudited)	Three months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited, restated)
Net income		60	30	152	133
Other comprehensive income – to be reclassified to profit or loss in subsequent periods					
Foreign exchange differences on translation of foreign operations		7	16	45	134
Foreign exchange cash flow hedges	25	38	46	109	120
Income from changes in fair value of financial assets available-for-sale		1	–	6	4
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent periods		(8)	(9)	(23)	(25)
Total other comprehensive income – to be reclassified to profit or loss in subsequent periods, net of tax		38	53	137	233
Total comprehensive income, net of tax		98	83	289	366
Total comprehensive income, net of tax, attributable to:					
- Rosneft shareholders		85	79	259	360
- non-controlling interests		13	4	30	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, 2016	10,598	1	507	(768)	3,146	2,886	43	2,929
Net income	–	–	–	–	127	127	6	133
Other comprehensive income	–	–	–	233	–	233	–	233
Total comprehensive income	–	–	–	233	127	360	6	366
Change of interest in subsidiaries	–	–	29	–	–	29	36	65
Disposal of subsidiaries	–	–	–	–	–	–	(2)	(2)
Dividends declared on common stock (Note 23)	–	–	–	–	(125)	(125)	–	(125)
Other movements	–	–	–	–	–	–	2	2
Balance at September 30, 2016 (unaudited, restated)	10,598	1	536	(535)	3,148	3,150	85	3,235
Balance at January 1, 2017 (restated)	10,598	1	603	(497)	3,196	3,303	480	3,783
Net income	–	–	–	–	122	122	30	152
Other comprehensive income	–	–	–	137	–	137	–	137
Total comprehensive income	–	–	–	137	122	259	30	289
Change of interest in subsidiaries	–	–	21	–	–	21	44	65
Disposal of subsidiaries	–	–	–	–	–	–	(1)	(1)
Dividends declared on common stock (Note 23)	–	–	–	–	(104)	(104)	(29)	(133)
Other movements	–	–	–	–	–	–	6	6
Balance at September 30, 2017 (unaudited)	10,598	1	624	(360)	3,214	3,479	530	4,009

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

Rosneft Oil Company
Interim consolidated statement of cash flows
(in billions of Russian rubles)

	Notes	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited, restated)
Operating activities			
Net income		152	133
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation, depletion and amortization		440	349
Loss on disposal of non-current assets	9	6	11
Dry hole costs		2	4
Foreign exchange (gain)/loss on non-operating activities		(16)	21
Cash flow hedges reclassified to profit or loss		109	111
Equity share in profits of associates and joint ventures		(37)	(16)
Loss from disposal of subsidiaries and non-production assets		1	2
Changes in bad debt provision		11	(1)
Finance expenses	8	168	141
Finance income		(80)	(58)
Loss from changes in estimates, impairment and receivables write-off		17	1
Income tax expense	6	44	53
<i>Changes in operating assets and liabilities</i>			
Increase in accounts receivable, gross		(150)	(10)
Increase in inventories		(21)	(7)
(Increase)/decrease in restricted cash		(4)	1
Decrease in prepayments and other current assets		17	46
Increase/(decrease) in accounts payable and accrued liabilities		18	(115)
Increase in other tax liabilities		14	38
Decrease in current provisions		(5)	(6)
(Decrease)/increase in other current liabilities		(1)	1
Increase in other non-current liabilities		1	–
Increase in long-term prepayments made on oil and petroleum products supply agreements		(156)	(32)
Offset of prepayments received on oil and petroleum products supply agreements		(257)	(106)
Interest paid on long-term prepayment on oil and petroleum products supply agreements received		(8)	(12)
Long-term loans granted by subsidiary banks		(39)	(19)
Repayment of long-term loans granted by subsidiary banks		7	6
Proceeds from sale of trading securities		2	4
Net cash provided by operating activities before income tax and interest		235	540
Income tax payments		(85)	(60)
Dividends received		19	10
Interest received		27	40
Net cash provided by operating activities		196	530

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

Rosneft Oil Company
Interim consolidated statement of cash flows (continued)
(in billions of Russian rubles)

	Notes	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited, restated)
Investing activities			
Capital expenditures		(630)	(475)
Acquisition of licenses and auction fee payments		(29)	(3)
Acquisition of short-term financial assets		(57)	(153)
Proceeds from sale of short-term financial assets		174	675
Acquisition of long-term financial assets		(52)	(42)
Proceeds from sale of long-term financial assets		88	7
Acquisition of interest in associates and joint arrangements, including initial payments for acquisition	16, 29	(301)	(40)
Acquisition of interest in subsidiary, net of cash acquired	4	(100)	(3)
Proceeds from sale of subsidiary, net of cash acquired		–	(6)
Proceeds from sale of property, plant and equipment		3	6
Placements under reverse REPO agreements		–	(2)
Receipts under reverse REPO agreements		–	2
Net cash used in investing activities		(904)	(34)
Financing activities			
Proceeds from short-term loans and borrowings and other financial liabilities		1,361	290
Repayment of short-term loans and borrowings		(687)	(370)
Proceeds from long-term loans and borrowings		382	791
Repayment of long-term loans and borrowings		(727)	(697)
Interest paid		(154)	(108)
Repayment of other financial liabilities		(7)	(7)
Proceeds from sale of non-controlling share in subsidiary		69	72
Payment of dividends on common stock		(63)	(125)
Dividends paid to minority		(11)	(1)
Other financing		5	–
Net cash used in financing activities		168	(155)
Net increase in cash and cash equivalents		(540)	341
Cash and cash equivalents at beginning of period	10	790	559
Effect of foreign exchange on cash and cash equivalents		(23)	(113)
Cash and cash equivalents at end of period	10	227	787

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

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited)

Three and nine months ended September 30, 2017

(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 2016 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 2016 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 2016 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 2016 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present fairly the Company’s financial position, results of operations, statements of changes in shareholders’ equity and cash flows for the interim reporting periods.

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

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

The interim condensed consolidated financial statements for the three and nine months ended September 30, 2017 were approved and authorized for issue by the Chief Executive Officer of the Company on November 14, 2017.

3. Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied and disclosed in the Company’s annual consolidated financial statements for 2016 prepared in accordance with IFRS, except for the adoption of amendments to standards effective as of January 1, 2017.

Rosneft Oil Company

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

3. Changes in accounting policies (continued)

The following amendments were applied for the first time in 2017:

- *Disclosure Initiative* – amendments to IAS 7 *Statement of Cash Flows*. The amendments require companies to provide a reconciliation of financing cash flows in the statement of cash flows to the opening and closing balances of liabilities arising from financing activities (except for equity balances) in the statement of financial position. This reconciliation will be presented for the first time in the annual consolidated financial statements of the Company for the year ending December 31, 2017.
- *Recognition of Deferred Tax Assets for Unrealized Losses* – amendments to IAS 12 *Income Taxes*. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The application of these amendments will have no significant impact on the Company's financial position or results of operations.

4. Acquisitions of subsidiaries and shares in joint operations

Acquisitions of 2017

Acquisition of JSCB Peresvet

In June 2017, the Company acquired a 99.9% share in JSCB Peresvet, a bank whose main business is banking services. Through August 2017, JSCB Peresvet underwent financial restructuring managed by the Deposit Insurance Agency ("DIA"), a state corporation. In August 2017, control over JSCB Peresvet was transferred to the Company.

As of September 30, 2017, the Company had not yet completed the fair value estimation of JSCB Peresvet's 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 acquisition date.

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

ASSETS	
Cash and cash equivalents	1
Obligatory reserves with the Bank of Russia	1
Loans to customers	25
Investment securities available for sale	21
Investment securities held to maturity	13
Expected future benefits from DIA's financial aid in the form of a reduced rate loan	16
Investment property	2
Current profit tax assets	1
Total assets	80
LIABILITIES	
Amounts due to credit institutions	18
Amounts due to customers	15
Debt securities issued	7
Other borrowings	32
Other financial liabilities	17
Other provisions	2
Total liabilities	91

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)

Total identifiable net assets at fair value	(11)
JSCB Peresvet's liabilities to the Company existing prior to the acquisition	16
Identifiable net assets excluding intercompany liabilities and claims existing prior to the acquisition	5
Fair value of cash consideration transferred	0
Intercompany liabilities and claims existing prior to the acquisition	16
Consideration transferred to be included for the purpose of goodwill	16
Excluding identifiable net assets of JSCB Peresvet	(5)
Goodwill	11

As of September 30, 2017, the Company recognized an impairment of goodwill arising on the JSCB Peresvet acquisition due to the existence of significant impairment indicators. A goodwill impairment loss of RUB 11 billion is recognized in Other expenses of the Company's Interim consolidated statement of profit or loss for the three and nine months ended September 30, 2017 (Note 9).

The estimated equity component of convertible bonds representing a non-controlling interest is zero.

The fair value of the cash consideration transferred at the acquisition date was RUB 10 million.

Cash flows arising on the JSCB Peresvet acquisition:

Cash acquired as a result of the JSCB Peresvet acquisition	1
Cash paid	(0)
Net cash inflow	1

The book value of the loans to customers approximates their fair value as of the date of the acquisition. There are no loans to customers that are not expected to be collected.

Had the JSCB Peresvet acquisition taken place at the beginning of the reporting period (January 1, 2017), revenues and net income of the combined entity would have been RUB 4,305 billion and RUB 144 billion, respectively, for the nine month period ended September 30, 2017.

Acquisition of LLC Independent Petroleum Company – Projects

On April 17, 2017 the Company completed the acquisition of 100% of shares in LLC Independent Petroleum Company – Projects, an entity engaged in development of the Kondinsky, Zapadno-Erginsky, Chaprovsky and Novo-Endyrsky license areas in the Khanty-Mansiysk Autonomous District. The consideration amounted to RUB 40 billion net of cash acquired.

As of September 30, 2017 the purchase price allocation of LLC Independent Petroleum Company – Projects to the fair value of assets acquired and liabilities assumed was preliminary and will be finalized within 12 months of the acquisition date.

Rosneft Oil Company

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

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

Acquisitions of 2017 (continued)

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

ASSETS	
Current assets	
Cash and cash equivalents	5
Other current assets	4
Total current assets	9
Non-current assets	
Property, plant and equipment	100
Deferred tax assets	1
Total non-current assets	101
Total assets	110
LIABILITIES	
Current liabilities	
Other current liabilities	6
Total current liabilities	6
Non-current liabilities	
Deferred tax liabilities	14
Loans and borrowings	44
Other non-current liabilities	1
Total non-current liabilities	59
Total liabilities	65
Total identifiable net assets at fair value	45
Total consideration transferred	45

Acquisition of LLC Drilling Service Technology

On April 27, 2017 the Company completed the acquisition of 100% of shares in LLC Drilling Service Technology, a company involved in the provision of drilling services in the Khanty-Mansiysk region, for a consideration of RUB 9 billion. The Company made a preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed and recognized goodwill on the acquisition amounting to RUB 9 billion.

Acquisitions of 2016

On March 31, 2016 the Company acquired 100% of shares in a real estate leasing entity. The cost of the acquisition amounted to RUB 3 billion. As of March 31, 2017 the Company had finalized the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed. The finalization of the purchase price allocation did not have a material effect on the Company's financial statements as of December 31, 2016.

In 2016 the Company completed several acquisitions, including shares in refineries in Germany as part of the Ruhr Oel GmbH restructuring, as well as, a 100% interest in JSC Targin. As of September 30, 2017 the purchase price allocation of these acquisitions to the fair value of assets acquired and liabilities assumed was preliminary and 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 2016 (continued)

Finalization of the allocation of the purchase price of PJSOC Bashneft

As of December 31, 2016 the Company made a preliminary allocation of the purchase price of PJSOC Bashneft. The allocation of the purchase price was finalized in the third quarter of 2017.

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

ASSETS

Current assets

Cash and cash equivalents	41
Accounts receivable	14
Inventories	39
Prepayments and other current assets	24
Other financial assets	5
Total current assets	123

Non-current assets

Property, plant and equipment	861
Intangible assets	3
Other non-current assets	5
Total non-current assets	869
Total assets	992

LIABILITIES

Current liabilities

Accounts payable and accrued liabilities	56
Loans and borrowings	19
Profit tax payable	2
Other tax liabilities	23
Prepayment on long-term oil and petroleum products supply agreements	58
Provisions	1
Total current liabilities	159

Non-current liabilities

Loans and borrowings	93
Provisions	31
Deferred tax liabilities	119
Other liabilities	2
Total non-current liabilities	245
Total liabilities	404

Total identifiable net assets at fair value

	588
Non-controlling interests	(234)
Liability for the mandatory offer	(50)
Goodwill	26
Total consideration transferred	330

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 2016 (continued)

The following table summarizes the effect from the finalized estimations on the consolidated balance sheet as of December 31, 2016:

	Before finalized estimation	Effect from finalized estimation		After finalized estimation
		Bashneft	Other	
ASSETS				
Current assets	2,300	–	–	2,300
Non-current assets				
Property, plant and equipment	7,090	41	(3)	7,128
Intangible assets	59	–	–	59
Other long-term financial assets	808	–	–	808
Investments in associates and joint ventures	411	–	–	411
Bank loans granted	26	–	–	26
Deferred tax assets	22	–	–	22
Goodwill	230	26	–	256
Other non-current non-financial assets	84	–	–	84
Total non-current assets	8,730	67	(3)	8,794
Total assets	11,030	67	(3)	11,094
Liabilities and equity				
Current liabilities	2,773	–	–	2,773
Non-current liabilities				
Loans and borrowings and other financial liabilities	1,914	–	–	1,914
Deferred tax liabilities	785	8	(1)	792
Provisions	203	–	–	203
Prepayment on oil supply agreements	1,586	–	–	1,586
Other non-current liabilities	43	–	–	43
Total non-current liabilities	4,531	8	(1)	4,538
EQUITY				
Share capital	1	–	–	1
Additional paid-in capital	603	–	–	603
Other funds and reserves	(497)	–	–	(497)
Retained earnings	3,202	(4)	(2)	3,196
Rosneft shareholders' equity	3,309	(4)	(2)	3,303
Non-controlling interest	417	63	–	480
Total equity	3,726	59	(2)	3,783
Total liabilities and equity	11,030	67	(3)	11,094

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 September 30, 2017 (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	785	1,522	31	(842)	1,496
<i>Including: equity share in profits of associates and joint ventures</i>	<i>10</i>	<i>5</i>	<i>–</i>	<i>–</i>	<i>15</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	504	1,465	47	(842)	1,174
Depreciation, depletion and amortization	114	27	3	–	144
Total costs and expenses	618	1,492	50	(842)	1,318
Operating income	167	30	(19)	–	178
Finance income	–	–	24	–	24
Finance expenses	–	–	(56)	–	(56)
Total finance expenses	–	–	(32)	–	(32)
Other income	–	–	3	–	3
Other expenses	–	–	(25)	–	(25)
Foreign exchange differences	–	–	(1)	–	(1)
Cash flow hedges reclassified to profit or loss	–	–	(36)	–	(36)
Income before income tax	167	30	(110)	–	87
Income tax expense	(32)	(4)	9	–	(27)
Net income	135	26	(101)	–	60

Rosneft Oil Company

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

5. Segment information (continued)

The performance of the operating segments for the three months ended September 30, 2016 (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	602	1,237	18	(634)	1,223
<i>Including: equity share in profits of associates and joint ventures</i>	–	1	–	–	1
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	373	1,194	30	(634)	963
Depreciation, depletion and amortization	98	20	2	–	120
Total costs and expenses	471	1,214	32	(634)	1,083
Operating income	131	23	(14)	–	140
Finance income	–	–	17	–	17
Finance expenses	–	–	(45)	–	(45)
Total finance expenses	–	–	(28)	–	(28)
Other income	–	–	5	–	5
Other expenses	–	–	(16)	–	(16)
Foreign exchange differences	–	–	(14)	–	(14)
Cash flow hedges reclassified to profit or loss	–	–	(37)	–	(37)
Income before income tax	131	23	(104)	–	50
Income tax expense	(27)	(5)	12	–	(20)
Net income	104	18	(92)	–	30

Rosneft Oil Company

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

5. Segment information (continued)

The performance of the operating segments for the nine months ended September 30, 2017 (unaudited) is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	2,242	4,377	88	(2,402)	4,305
<i>Including: equity share in profits of associates and joint ventures</i>	<i>27</i>	<i>9</i>	<i>1</i>	<i>–</i>	<i>37</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,474	4,236	132	(2,402)	3,440
Depreciation, depletion and amortization	348	86	6	–	440
Total costs and expenses	1,822	4,322	138	(2,402)	3,880
Operating income	420	55	(50)	–	425
Finance income	–	–	80	–	80
Finance expenses	–	–	(168)	–	(168)
Total finance expenses	–	–	(88)	–	(88)
Other income	–	–	4	–	4
Other expenses	–	–	(45)	–	(45)
Foreign exchange differences	–	–	9	–	9
Cash flow hedges reclassified to profit or loss	–	–	(109)	–	(109)
Income before income tax	420	55	(279)	–	196
Income tax expense	(79)	(9)	44	–	(44)
Net income	341	46	(235)	–	152

Rosneft Oil Company

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

5. Segment information (continued)

The performance of the operating segments for the nine months ended September 30, 2016 (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	1,795	3,520	60	(1,872)	3,503
<i>Including: equity share in profits of associates and joint ventures</i>	10	5	1	–	16
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,042	3,421	94	(1,872)	2,685
Depreciation, depletion and amortization	284	60	5	–	349
Total costs and expenses	1,326	3,481	99	(1,872)	3,034
Operating income	469	39	(39)	–	469
Finance income	–	–	58	–	58
Finance expenses	–	–	(141)	–	(141)
Total finance expenses	–	–	(83)	–	(83)
Other income	–	–	7	–	7
Other expenses	–	–	(41)	–	(41)
Foreign exchange differences	–	–	(55)	–	(55)
Cash flow hedges reclassified to profit or loss	–	–	(111)	–	(111)
Income before income tax	469	39	(322)	–	186
Income tax expense	(94)	(8)	49	–	(53)
Net income	375	31	(273)	–	133

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

	Three months ended September 30, 2017 (unaudited)	Three months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
International sales of crude oil, petroleum products and petrochemicals	964	835	2,852	2,395
International sales of crude oil and petroleum products – CIS, other than Russia	70	42	181	133
Domestic sales of crude oil, petroleum products and petrochemicals	379	281	1,025	749
Sales of gas	48	46	154	154
Total oil, gas, petroleum products and petrochemicals sales	1,461	1,204	4,212	3,431

Rosneft Oil Company

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

6. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended September 30, 2017 (unaudited)	Three months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited, restated)
Current income tax expense	30	1	69	–
Deferred tax (benefit)/expense due to the origination and reversal of temporary differences	(3)	19	(25)	53
Total income tax expense	27	20	44	53

In 2014 certain amendments were introduced in Russian tax legislation in respect of the profit of controlled foreign companies and income of foreign entities. According to these changes, undistributed profit of foreign subsidiaries recognized as controlled foreign companies may form an additional tax base for Rosneft and for certain Russian subsidiaries holding investments in foreign entities. In particular, undistributed 2017 profits of controlled foreign companies will be included in the Company's 2018 tax base. The consequences of taxing subsidiaries' income, including the taxation of controlled foreign companies, are accounted for within current and deferred tax liabilities.

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

	Three months ended September 30, 2017 (unaudited)	Three months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Mineral extraction tax	357	262	1,047	694
Excise tax	88	52	243	136
Property tax	10	8	28	25
Social charges	14	12	46	37
Other	1	2	5	4
Total taxes other than income tax	470	336	1,369	896

7. Export customs duty

Export customs duty comprises the following:

	Three months ended September 30, 2017 (unaudited)	Three months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Export customs duty on oil sales	111	140	347	349
Export customs duty on petroleum products and petrochemicals sales	39	44	129	109
Total export customs duty	150	184	476	458

Rosneft Oil Company

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

8. Finance expenses

Finance expenses comprise the following:

	Three months ended September 30, 2017 (unaudited)	Three months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Interest expenses on				
Loans and borrowings	(28)	(19)	(84)	(60)
Prepayment on long-term oil and petroleum products supply agreements (Note 22)	(20)	(22)	(61)	(67)
Other interest expenses	(2)	(1)	(5)	(3)
Total interest expenses	(50)	(42)	(150)	(130)
Increase in provision due to the unwinding of discount	(5)	(3)	(13)	(11)
Loss from disposal of financial assets	–	–	(4)	–
Other finance expenses	(1)	–	(1)	–
Total finance expenses	(56)	(45)	(168)	(141)

The weighted average rates used to determine the amount of borrowing costs eligible for capitalization are 6.34% and 3.45% for the nine months ended September 30, 2017 and 2016, respectively.

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended September 30, 2017 (unaudited)	Three months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited, restated)
Liability write-off	–	2	–	2
Compensation payment for licenses from joint venture parties	–	–	1	–
Other	3	3	3	5
Total other income	3	5	4	7
Sale and disposal of property, plant and equipment and intangible assets	(1)	(4)	(6)	(11)
Disposal of companies and non-production assets	–	(2)	(1)	(3)
Impairment of assets	(16)	–	(17)	–
Social payments, charity, financial aid	(6)	(6)	(12)	(13)
Other	(2)	(4)	(9)	(14)
Total other expenses	(25)	(16)	(45)	(41)

Rosneft Oil Company

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

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	September 30, 2017 (unaudited)	December 31, 2016
Cash on hand and in bank accounts in RUB	27	25
Cash on hand and in bank accounts in foreign currencies	74	153
Deposits and other cash equivalents in RUB	119	609
Other	7	3
Total cash and cash equivalents	227	790

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

Deposits 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 6 billion and RUB 2 billion as of September 30, 2017 and December 31, 2016, respectively.

11. Other short-term financial assets

Other short-term financial assets comprise the following:

	September 30, 2017 (unaudited)	December 31, 2016
Financial assets available-for-sale		
Bonds and promissory notes	149	116
Stocks and shares	50	187
Financial assets held-to-maturity		
Bonds	1	2
Loans and receivables		
Loans granted	13	4
Loans issued to associates	27	22
Notes receivable	66	55
Loans granted under reverse repurchase agreements	–	2
Deposits and certificates of deposit	41	55
Held-for-trading financial assets at fair value through profit or loss		
Corporate bonds	1	2
State bonds	1	2
Total other short-term financial assets	349	447

Rosneft Oil Company

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

12. Accounts receivable

Accounts receivable include the following:

	September 30, 2017 (unaudited)	December 31, 2016
Trade receivables	599	437
Bank loans to customers	45	49
Other accounts receivable	34	29
Total	678	515
Allowance for doubtful accounts	(47)	(30)
Total accounts receivable, net of allowance	631	485

No accounts receivable were pledged as collateral for loans and borrowings provided to the Company as of September 30, 2017 and December 31, 2016.

13. Inventories

Inventories comprise the following:

	September 30, 2017 (unaudited)	December 31, 2016
Crude oil and gas	82	67
Petroleum products and petrochemicals	137	137
Materials and supplies	85	79
Total inventories	304	283

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

	Three months ended September 30, 2017 (unaudited)	Three months ended September 30, 2016 (unaudited)	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Cost of inventories recognized as an expense during the period	253	171	687	512

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

14. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	September 30, 2017 (unaudited)	December 31, 2016
Value added tax and excise receivable	165	166
Prepayments to suppliers	109	64
Settlements with customs	19	29
Profit and other tax payments	13	23
Other	10	11
Total prepayments and other current assets	316	293

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, 2017 (restated)	7,514	2,028	119	9,661
Depreciation, depletion and impairment losses as of January 1, 2017 (restated)	(2,174)	(371)	(30)	(2,575)
Net book value as of January 1, 2017 (restated)	5,340	1,657	89	7,086
Prepayments for property, plant and equipment as of January 1, 2017	21	16	5	42
Total as of January 1, 2017 (restated)	5,361	1,673	94	7,128
Cost				
Acquisition of subsidiaries (Note 4)	100	–	4	104
Additions	707	71	15	793
Disposals and other movements	(15)	(3)	(4)	(22)
Foreign exchange differences	(17)	10	(2)	(9)
Cost of asset retirement (decommissioning) obligations	9	–	–	9
As of September 30, 2017	8,298	2,106	132	10,536
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(355)	(85)	(6)	(446)
Disposals and other movements	4	3	1	8
Impairment of assets	–	(1)	(4)	(5)
Foreign exchange differences	12	–	1	13
As of September 30, 2017	(2,513)	(454)	(38)	(3,005)
Net book value as of September 30, 2017	5,785	1,652	94	7,531
Prepayments for property, plant and equipment as of September 30, 2017	93	8	22	123
Total as of September 30, 2017	5,878	1,660	116	7,654

The depreciation charge for the nine months ended September 30, 2017 includes RUB 10 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 105 billion (including RUB 78 billion of capitalized interest expense) and RUB 44 billion (including RUB 44 billion of capitalized interest expense) of expenses on loans and borrowings for the nine months ended September 30, 2017 and 2016, respectively.

As of December 31, 2016, certain items of property, plant and equipment previously allocated to the Corporate and other unallocated activities segment were reallocated to the Exploration and production and Refining and distribution segments due to amendments to the management structure.

Rosneft Oil Company

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

16. Investments in associates and joint stock ventures

In August 2017 the Company completed the acquisition of a 49% stake in Essar Oil Limited, a modern oil refinery in the Asia-Pacific region in Vadinar, India, with integrated infrastructure. Essar Oil Limited owns a large petrol station chain in India operating under the Essar brand. The acquisition price totaled US\$ 3.9 billion (RUB 230 billion at the CBR official exchange rates at the payment dates). Payments totaling US\$ 3.6 billion (RUB 211 billion at the CBR official exchange rates at the payment dates) were made during the nine months ended September 30, 2017.

17. Other non-current non-financial assets

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

	September 30, 2017 (unaudited)	December 31, 2016
Long-term advances issued	190	83
Other	2	1
Total other non-current non-financial assets	192	84

In April 2017 the Company made an advance payment of US\$ 1.0 billion (RUB 57 billion at the CBR official exchange rate at the transaction date) under a Petróleos de Venezuela, S.A. crude oil purchase contract. In the third quarter of 2017 the Company made advance payments totaling US\$ 1.3 billion (RUB 75 billion at the CBR official exchange rates at the transaction dates) under a Kurdistan Government crude oil purchase contract.

18. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2017 (unaudited)	December 31, 2016
Financial liabilities		
Accounts payable to suppliers and contractors	394	337
Mandatory offer to acquire PJSOC Bashneft shares	–	50
Salary and other benefits payable	75	80
Bank customer accounts	81	41
Dividends payable	59	–
Other accounts payable	36	22
Total financial liabilities	645	530
Non-financial liabilities		
Short-term advances received	31	53
Total accounts payable and accrued liabilities	676	583

Trade and other payables are non-interest bearing. Interest rates on banking customer accounts amount to 0.0%-2.0% p.a.

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:

		September 30, 2017	
	Currency	(unaudited)	December 31, 2016
Long-term			
Bank loans	RUB	326	173
Bank loans	US\$, euro	874	1,107
Bonds	RUB	392	321
Eurobonds	US\$	212	337
Customer deposits	RUB	53	5
Customer deposits	US\$, euro	9	5
Borrowings	RUB	28	31
Borrowings	euro	–	1
Other borrowings	US\$	300	613
Other borrowings	RUB	16	16
<i>Less: current portion of long-term loans and borrowings</i>		(707)	(720)
Total long-term loans and borrowings		1,503	1,889
Finance lease liabilities		32	22
Other long-term financial liabilities		4	4
<i>Less: current portion of long-term finance lease liabilities</i>		(5)	(1)
Total long-term loans and borrowings and other financial liabilities		1,534	1,914
Short-term			
Bank loans	RUB	178	103
Bank loans	US\$, euro	21	21
Customer deposits	RUB	84	61
Customer deposits	US\$, euro	11	5
Borrowings	US\$	19	33
Other borrowings	RUB	804	516
Other borrowings	US\$	317	94
REPO	RUB	–	15
<i>Current portion of long-term loans and borrowings</i>		707	720
Total short-term loans and borrowings and current portion of long-term loans and borrowings		2,141	1,568
<i>Current portion of long-term finance lease liabilities</i>		5	1
Other short-term financial liabilities		84	4
Short-term liabilities related to derivative financial instruments		90	98
Total short-term loans and borrowings and other financial liabilities		2,320	1,671
Total loans and borrowings and other financial liabilities		3,854	3,585

Long-term loans and borrowings

Long-term bank loans from foreign banks to finance special-purpose business activities denominated in US\$ are partially secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts normally provide the lender with the express right of claim to contractual revenue in the amount of the 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 17 billion and RUB 24 billion as of September 30, 2017 and December 31, 2016, respectively, and is included in Trade receivables of purchasers and customers.

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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. Two out of four were fully repaid in previous years. As of September 30, 2017 the total debt and accrued interest on two outstanding loans with floating rates and maturities in December 2017 and February 2018, respectively, amounted to US\$ 0.7 billion (RUB 42.6 billion at the CBR official exchange rate as of September 30, 2017).

For the nine months of 2017 the Company drew down funds under a long-term floating rate loans from a Russian banks for a total amount of RUB 30 billion repayable in 2020-2021.

For the nine months of 2017 the Company drew down funds under long-term fixed rate loans from Russian banks for an amount of RUB 130 billion repayable in the third quarter of 2020 and 2022.

In March 2017, the Company fully repaid Eurobonds (Series 4) of US\$ 0.8 billion (RUB 46.4 billion at the CBR official exchange rate at the transaction date) assumed through the TNK-BP acquisition.

In March 2017, the Company fully repaid Eurobonds (Series 1) of US\$ 1.0 billion (RUB 58.4 billion at the CBR official exchange rate at the transaction date).

In the first half of 2017 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 60 billion and maturity periods of 7, 8 and 10 years. Coupon payments will be made on a semi-annual basis for bonds with maturity periods of 7 and 10 years, and on a quarterly basis for bonds with maturity periods of 8 years. 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.

In the third quarter of 2017 the Company continued to settle other long-term borrowings under repurchasing agreement operations. As of September 30, 2017, the liabilities of the Company under those transactions amounted to the equivalent of RUB 316 billion at the CBR official exchange rate as of September 30, 2017. The Company's own corporate bonds were used as an instrument for those transactions.

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

As of September 30, 2017 and December 31, 2016 the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

Short-term loans and borrowings

In the third quarter of 2017 the Company drew down funds under short-term fixed rate loans from Russian banks for a total amount of RUB 78 billion.

In the third quarter of 2017, the Company was in compliance with its other short-term obligations under repurchasing agreement operations and entered into new short-term borrowings. As of September 30, 2017, the Company's related short-term liabilities totaled the equivalent of RUB 1,121 billion at the CBR official exchange rate as of September 30, 2017. The Company's own corporate bonds were principally used as an instrument for those transactions.

In the third quarter of 2017 the Company was current on all payments under loan agreements and interest payments.

Rosneft Oil Company

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

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

Liabilities related to derivative financial instruments

Derivative financial instruments comprise the following:

	Issue date	Expiry date	Nominal amount as of September 30, 2017 (unaudited)		Interest rate type	Fair value of the liabilities	
			US\$ million	RUB billion*		September 30, 2017 (unaudited)	December 31, 2016
Swaps	2012	2017	641	37	floating	17	18
Swaps	2013	2018	2,138	124	floating	51	56
Swaps	2014	2019	1,010	59	floating	22	24
Total			3,789	220		90	98

* the equivalent nominal amount at the CBR official exchange rate as of September 30, 2017.

20. Other current tax liabilities

Other short-term tax liabilities comprise the following:

	September 30, 2017 (unaudited)	December 31, 2016
Mineral extraction tax	126	115
VAT	70	69
Excise duties	27	25
Personal income tax	2	2
Property tax	9	9
Other	2	2
Total other tax liabilities	236	222

21. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2017, including	178	41	13	232
<i>Non-current</i>	174	28	1	203
<i>Current</i>	4	13	12	29
Provisions charged during the year (Decrease)/increase in the liability resulting from:	3	3	3	9
Changes in estimates	(5)	–	–	(5)
Change in the discount rate	11	–	–	11
Foreign exchange differences	(2)	–	–	(2)
Acquisition of subsidiaries (Note 4)	–	–	2	2
Unwinding of the discount	11	2	–	13
Utilized	(1)	(4)	(5)	(10)
As of September 30, 2017 (unaudited), including	195	42	13	250
<i>Non-current</i>	192	31	1	224
<i>Current</i>	3	11	12	26

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

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

	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
As of January 1	1,841	1,905
Reimbursed	(190)	(80)
Total prepayment on long-term oil and petroleum products supply agreements	1,651	1,825
Less current portion	(238)	(220)
Long-term prepayment as of September 30	1,413	1,605

The off-set of prepayment made during the nine months ended September 30, 2017 and 2016 amounted to RUB 190 billion and RUB 80 billion (US\$ 5.7 billion and US\$ 2.6 billion at the CBR official exchange rates at the prepayment dates, the prepayments are not revalued at each balance sheet date), respectively.

23. Shareholders' equity

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

On June 15, 2016 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2015 in the amount of RUB 125 billion, or RUB 11.75 per share.

24. Non-controlling interest

On June 29, 2017 the Company completed the sale of a 20% share in PJSC Verkhnechonskneftegaz, a subsidiary, to Beijing Gas Singapore Private Limited, a subsidiary of Beijing Gas Group Co., Ltd. The Company received a preliminary payment of US\$ 1.0 billion (RUB 61 billion at the CBR official exchange rate at the transaction closing date) and final settlement is expected by the end of 2017.

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

25. Financial risk management

Cash flow hedging of the Company's future exports

On October 1, 2014, 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 IAS 39 *Financial Instruments: Recognition and Measurement*.

A portion of future monthly export revenues expected to be received in U.S. dollars over the period from January 2015 through December 2021 was designated as a hedged item. The nominal amounts of the hedged item and the hedging instruments were equal. To the extent that a change in the foreign currency rate impacts the fair value of the hedging instrument, the effects are recognized in other comprehensive income or loss and then reclassified to profit or loss in the same period in which the hedged item affects the profit or loss.

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

Changes in the nominal hedging amount:

	US\$ million	Equivalent amount at the CBR exchange rate as of September 30, 2017, RUB billion
Nominal amount as of December 31, 2016	1,763	102
Hedging instruments designated	1,000	58
Realized cash flow foreign exchange hedges	(110)	(6)
Hedging instruments de-designated	(1,726)	(100)
Nominal amount as of September 30, 2017	927	54

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

	For the three months ended September 30, 2017 (unaudited)			For the nine months ended September 30, 2017 (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	(364)	73	(291)	(435)	87	(348)
Foreign exchange effects recognized during the period	2	–	2	–	–	–
Foreign exchange effects reclassified to profit or loss	36	(8)	28	109	(22)	87
Total recognized in other comprehensive income/(loss) for the period (unaudited)	38	(8)	30	109	(22)	87
Total recognized in other funds and reserves as of September 30, 2017 (unaudited)	(326)	65	(261)	(326)	65	(261)

Rosneft Oil Company

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

25. Financial risk management (continued)

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

The expected schedule for the reclassification of accumulated foreign exchange loss from other comprehensive income to profit or loss, as of September 30, 2017, is presented below:

Year	2017	2018	2019	2020	2021	Total
Reclassification	(36)	(146)	(146)	2	–	(326)
Income tax	7	29	29	–	–	65
Total, net of tax	(29)	(117)	(117)	2	–	(261)

The expected reclassification is calculated using the CBR exchange rate as of September 30, 2017 and may be different using actual exchange rates in the future.

Liquidity risk

As of September 30, 2017, the Company's current liabilities exceeded its current assets. Management believes that the Company's current cash, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Company's working capital requirements and repay its short-term debts and obligations when they become due.

26. Fair value of financial instruments

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

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

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

	Fair value measurement as of September 30, 2017 (unaudited)			
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Held-for-trading	1	1	–	2
Available-for-sale	89	110	–	199
Non-current assets				
Available-for-sale	–	10	–	10
Total assets measured at fair value	90	121	–	211
Liabilities				
Derivative financial instruments	–	(90)	–	(90)
Total liabilities measured at fair value	–	(90)	–	(90)

Rosneft Oil Company

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

26. Fair value of financial instruments (continued)

	Fair value measurement as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Held-for-trading	2	2	–	4
Available-for-sale	77	226	–	303
Non-current assets				
Available-for-sale	–	11	–	11
Derivative financial instruments	–	–	–	–
Total assets measured at fair value	79	239	–	318
Liabilities				
Derivative financial instruments	–	(98)	–	(98)
Total liabilities measured at fair value	–	(98)	–	(98)

The fair value of financial assets available for sale, held-for-trading financial assets at fair value through profit or loss and derivative financial instruments included in Level 2 is measured at the present value of future estimated cash flows, using inputs such as market interest rates and market quotes of forward exchange rates.

The carrying value of cash and cash equivalents and derivative financial instruments recognized in these interim condensed consolidated financial statements equals their fair value. The carrying value of accounts receivable 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)	
	September 30, 2017 (unaudited)	December 31, 2016	September 30, 2017 (unaudited)	December 31, 2016
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(1,451)*	(2,004)	(1,362)*	(1,792)
Loans and borrowings with a fixed interest rate	(2,193)	(1,453)	(2,165)	(1,469)

* including financial instruments designated as hedging instruments with a carrying value of RUB 54 billion and a fair value of RUB 51 billion.

27. Related party transactions

For the purpose of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. For the nine months ended September 30, 2017 and 2016 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.

Rosneft Oil Company

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

27. Related party transactions (continued)

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

	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	532	456
Support services and other revenues	2	3
Finance income	22	11
	556	470

Costs and expenses

	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Production and operating expenses	12	5
Cost of purchased oil, gas, petroleum products and refining costs	48	124
Pipeline tariffs and transportation costs	349	326
Other expenses	11	10
Finance expenses	6	2
	426	467

Other operations

	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Loans received	226	9
Loans repaid	(27)	(2)
Loans and borrowings issued	–	7
Repayment of loans and borrowings issued	6	–
Deposits placed	(7)	(13)
Deposits repaid	2	450

Rosneft Oil Company

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

27. Related party transactions (continued)

Transactions with shareholders and companies controlled by shareholders (continued)

Settlement balances

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Cash and cash equivalents	42	549
Accounts receivable	91	80
Prepayments and other current assets	46	36
Other financial assets	642	588
	821	1,253
Liabilities		
Accounts payable and accrued liabilities	46	47
Loans and borrowings and other financial liabilities	527	352
	573	399

Transactions with joint ventures

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

Revenues and income

	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	9	15
Support services and other revenues	3	4
Finance income	23	18
	35	37

Costs and expenses

	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Production and operating expenses	4	3
Cost of purchased oil, gas, petroleum products and refining costs	206	152
Pipeline tariffs and transportation costs	5	8
Other expenses	3	4
Finance expenses	1	–
	219	167

Rosneft Oil Company

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

27. Related party transactions (continued)

Transactions with joint ventures (continued)

Other operations

	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Acquisition of interest in associates and joint arrangement	(8)	
Loans received	–	3
Loans repaid	–	(8)
Loans and borrowing issued	(1)	(23)
Repayment of loans and borrowings issued	70	7

Settlement balances

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Accounts receivable	5	9
Prepayments and other current assets	–	1
Other financial assets	237	306
	242	316
Liabilities		
Accounts payable and accrued liabilities	75	29
Loans and borrowings and other financial liabilities	35	8
	110	37

Transactions with associates

Revenues and income

	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	159	45
Support services and other revenues	1	2
Finance income	–	1
	160	48

Costs and expenses

	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Production and operating expenses	7	3
Cost of purchased oil, gas, petroleum products and refining costs	6	7
Other expenses	9	5
	22	15

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

27. Related party transactions (continued)

Transactions with associates (continued)

Other operations

	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Loans and borrowing issued	(4)	–

Settlement balances

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Accounts receivable	20	8
Other financial assets	12	4
	32	12
Liabilities		
Accounts payable and accrued liabilities	4	6
Loans and borrowings and other financial liabilities	69	–
	73	6

Transactions with non-state pension funds

Costs and expenses

	Nine months ended September 30, 2017 (unaudited)	Nine months ended September 30, 2016 (unaudited)
Other expenses	4	3

Settlement balances

	September 30, 2017 (unaudited)	December 31, 2016
Liabilities		
Accounts payable and accrued liabilities	1	1
	1	1

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

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 a decline in oil prices and sanctions imposed on Russia by a number of countries. Ruble interest rates 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.

Legal claims

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 OJSC Tyumenneftegaz ("TNG"), a subsidiary of the Company, seeking compensation of losses, interest and arbitration costs of over US\$ 260 million (over RUB 15 billion at the CBR official exchange rate on September 30, 2017) for alleged breach of the agreement between FNPC and TNG to incorporate a joint venture, Tumtex, on the territory of the Russian Federation. The decision is expected by the end of February 2018.

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 March 2017 the plaintiffs filed for a cassation with the Supreme Court of the Russian Federation. 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.

In May 2017, Rosneft and PJSOC Bashneft as plaintiffs filed a lawsuit against PJSFC Sistema and JSC Sistema-Invest as defendants, claiming joint recovery of losses caused by the reorganization of Bashneft in 2014. On May 15, 2017, the claim was accepted by the Arbitration Court of the Republic of Bashkortostan. According to the ruling of the Arbitration Court of the Republic of Bashkortostan dated August 30, 2017 the claims were partially satisfied in the amount of RUB 136 billion, while the remaining claims were denied. The plaintiffs and the defendants disagreed with the court's decision and filed appeals to the 18th Arbitration Appeals Court. The hearing of the appeals is scheduled on November 13, 2017. On June 23, 2017, following the petition by the defendants, the Arbitration Court of the Republic of Bashkortostan imposed provisional measures resulting in the freezing of assets owned by the defendants. This court ruling has remained unchanged by rulings of the appeal and cassation courts.

Rosneft Oil Company

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

28. 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 a 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 2012-2017 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 2012-2013 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 risks concerning related party transactions in the first nine months of 2017 and earlier will not have a material effect on its financial position or results of operations.

In accordance with the consolidated income tax taxpayer institute enacted in 2012 the Company has created a consolidated group of taxpayers which includes Rosneft and its 21 subsidiaries. Rosneft became the responsible taxpayer of the group from January 1, 2012. Since January 1, 2017, 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 deoffshorization, 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.

During the reporting period, the tax authorities continued their inspections of Rosneft and some of its subsidiaries for 2013-2016. Rosneft and these subsidiaries are disputing a number of claims by the Federal Tax Service pre-court and in court.

Rosneft Oil Company

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

28. Contingencies (continued)

Taxation (continued)

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

Capital commitments

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

The total amount of contracted but not yet performed deliveries related to the construction and acquisition of property, plant and equipment amounted to RUB 756 billion and RUB 641 billion as of September 30, 2017 and December 31, 2016, 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 condensed consolidated financial statements.

29. Events after the reporting period

In October 2017 the Company finalized the acquisition of a 30% stake in the concession agreement for the development of the Zohr field from Eni S.p.A. Participation in the exploration of a unique deep-water gas field in offshore Egypt together with Eni (60%) and BP plc (10%), the Company's strategic partners, will allow the Company to substantially increase its gas production abroad within a short period and strengthen its positions in this promising and strategically significant region. The acquisition price will amount to US\$ 1.1 billion, while the compensation of the 30% share of past project costs to Eni S.p.A., which is subject to reimbursement according to the terms of the concession agreement, is estimated at US\$ 1.1 billion.

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