ROSNEFT
OIL COMPANY

# Consolidated financial statements
## *Rosneft Oil Company*
## for the year ended December 31, 2017

*with independent auditor's report*

## Contents

| Contents | | Page |
|---|---|---|
| Independent auditor’s report | | 3 |
| Consolidated balance sheet | | 8 |
| Consolidated statement of profit or loss | | 9 |
| Consolidated statement of other comprehensive income | | 10 |
| Consolidated statement of changes in shareholders’ equity | | 11 |
| Consolidated statement of cash flows | | 12 |
| Notes to the consolidated financial statements | | |
| 1. | General | 14 |
| 2. | Basis of preparation | 15 |
| 3. | Significant accounting policies | 15 |
| 4. | Significant accounting judgments, estimates and assumptions | 29 |
| 5. | New and amended standards and interpretations issued but not yet effective | 30 |
| 6. | Capital and financial risk management | 32 |
| 7. | Acquisitions of subsidiaries and shares in joint operations | 37 |
| 8. | Segment information | 46 |
| 9. | Taxes other than income tax | 48 |
| 10. | Export customs duty | 48 |
| 11. | Finance income | 48 |
| 12. | Finance expenses | 49 |
| 13. | Other income and expenses | 49 |
| 14. | Personnel expenses | 50 |
| 15. | Operating leases | 50 |
| 16. | Income tax | 51 |
| 17. | Non-controlling interests | 53 |
| 18. | Earnings per share | 55 |
| 19. | Cash and cash equivalents | 55 |
| 20. | Other short-term financial assets | 55 |
| 21. | Accounts receivable | 57 |
| 22. | Inventories | 57 |
| 23. | Prepayments and other current assets | 58 |
| 24. | Property, plant and equipment and construction in progress | 59 |
| 25. | Intangible assets and goodwill | 61 |
| 26. | Other long-term financial assets | 63 |
| 27. | Investments in associates and joint ventures | 64 |
| 28. | Other non-current non-financial assets | 67 |
| 29. | Accounts payable and accrued liabilities | 67 |
| 30. | Loans and borrowings and other financial liabilities | 68 |
| 31. | Other short-term tax liabilities | 74 |
| 32. | Provisions | 74 |
| 33. | Prepayment on long-term oil and petroleum products supply agreements | 75 |
| 34. | Other non-current liabilities | 75 |
| 35. | Pension benefit obligations | 75 |
| 36. | Shareholders’ equity | 76 |
| 37. | Fair value of financial instruments | 77 |
| 38. | Related party transactions | 78 |
| 39. | Key subsidiaries | 83 |
| 40. | Contingencies | 83 |
| 41. | Supplementary oil and gas disclosure (unaudited) | 87 |

Совершенствуя бизнес, улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

# Independent auditor's report

To the Shareholders and Board of Directors
of Rosneft Oil Company

### *Opinion*

We have audited the consolidated financial statements of Public Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment of non-current assets*** | |
| We considered this matter to be one of most significance in our audit due to the materiality of the balances of non-current assets to the financial statements, the high level of subjectivity in assumptions underlying the impairment analysis and the significant judgements and estimates made by management. In addition, the combination of the volatility in oil prices and the Russian ruble exchange rate, as well as change in inflation and cost of debt in recent years, points to the instability of the economic conditions that could thus result in an impairment of the Company's assets.<br><br>Significant assumptions included discount rates, forecast prices of oil and petroleum products and production forecasts. Significant judgements and estimates included future capital expenditure and oil and gas reserves available for development and production.<br><br>Information on non-current assets and the impairment test performed is disclosed in Note 25 to the consolidated financial statement. | We involved our business valuation specialists in the analysis of management's testing of impairment and calculation of recoverable amounts. We compared oil and petroleum products prices used in the calculation of recoverable amounts to available market forecasts. We compared the discount rate and long-term growth rate to general market indicators and other available evidence.<br><br>We tested the mathematical accuracy of the impairment models, sensitivity analysis and consistency of use of models (formulas and calculations) with prior periods. |
| ***Estimation of oil and gas reserves and resources*** | |
| We considered this matter to be one of most significance in our audit due to the fact that the estimate of hydrocarbon reserves and resources has a significant impact on the impairment test, depreciation, depletion and amortization and decommissioning provisions.<br><br>Information on the estimation of oil and gas reserves and resources is disclosed in Note 4 to the consolidated financial statements as part of significant accounting estimates. | We performed procedures to assess competence, capabilities and objectivity of the external expert engaged by the Company to estimate volumes of oil and gas reserves and resources. We assessed the assumptions used by the external expert and compared the assumptions to the macroeconomic indicators, hydrocarbon production, operating costs, capital expenditures forecasts and other performance indicators, approved by the Company's management. We compared the estimates of reserves and resources to the estimates included in the consideration of impairment, depreciation, depletion and amortization and decommissioning provisions. |

### *Other matter*

The information accompanying the consolidated financial statements which has been disclosed as Supplementary oil and gas disclosure on page 87 is presented for purposes of additional analysis and is not within the scope of IFRS. Such information has not been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, accordingly, we do not express an opinion on it.

### *Other information included in the Management's discussion and analysis of financial condition and results of operations and Annual report*

Other information comprises the Management's discussion and analysis of financial condition and results of operations for 2017 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the 2017 Annual report, which is expected to be made available to us after that date. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of management and the Audit Committee of the Board of Directors for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors are responsible for overseeing the Company's financial reporting process.

***Auditor's responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Совершенствуя бизнес,
улучшаем мир

We communicate with the Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Konstantin I. Petrov.

D.E. Lobachev
Partner, General director
Ernst & Young LLC

March 19, 2018

***Details of the audited 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

## Consolidated Balance Sheet

*(in billions of Russian rubles)*

| | Notes | As of December 31, 2017 | 2016 (restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 19 | **322** | 790 |
| Restricted cash | 19 | **13** | 2 |
| Other short-term financial assets | 20 | **336** | 446 |
| Accounts receivable | 21 | **843** | 486 |
| Inventories | 22 | **324** | 283 |
| Prepayments and other current assets | 23 | **454** | 293 |
| **Total current assets** | | **2,292** | 2,300 |
| **Non-current assets** | | | |
| Property, plant and equipment | 24 | **7,923** | 7,151 |
| Intangible assets | 25 | **71** | 59 |
| Other long-term financial assets | 26 | **606** | 808 |
| Investments in associates and joint ventures | 27 | **638** | 411 |
| Bank loans granted | | **121** | 26 |
| Deferred tax assets | 16 | **26** | 22 |
| Goodwill | 25 | **265** | 256 |
| Other non-current non-financial assets | 28 | **285** | 84 |
| **Total non-current assets** | | **9,935** | 8,817 |
| **Total assets** | | **12,227** | 11,117 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 29 | **971** | 676 |
| Loans and borrowings and other financial liabilities | 30 | **2,229** | 1,578 |
| Income tax liabilities | | **39** | 6 |
| Other tax liabilities | 31 | **278** | 222 |
| Provisions | 32 | **29** | 29 |
| Prepayment on long-term oil and petroleum products supply agreements | 33 | **264** | 255 |
| Other current liabilities | | **26** | 7 |
| **Total current liabilities** | | **3,836** | 2,773 |
| **Non-current liabilities** | | | |
| Loans and borrowings and other financial liabilities | 30 | **1,783** | 1,914 |
| Deferred tax liabilities | 16 | **813** | 813 |
| Provisions | 32 | **245** | 203 |
| Prepayment on long-term oil and petroleum products supply agreements | 33 | **1,322** | 1,586 |
| Other non-current liabilities | 34 | **45** | 46 |
| **Total non-current liabilities** | | **4,208** | 4,562 |
| **Equity** | | | |
| Share capital | 36 | **1** | 1 |
| Additional paid-in capital | 36 | **627** | 603 |
| Other funds and reserves | | **(322)** | (497) |
| Retained earnings | | **3,313** | 3,195 |
| **Rosneft shareholders' equity** | | **3,619** | 3,302 |
| Non-controlling interests | 17 | **564** | 480 |
| **Total equity** | | **4,183** | 3,782 |
| **Total liabilities and equity** | | **12,227** | 11,117 |

Chief Executive Officer ________________ I.I. Sechin March 19, 2018

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

# Rosneft Oil Company

## Consolidated Statement of Profit or Loss

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

| | Notes | 2017 | 2016 (restated) |
|---|---|---|---|
| | | **For the years ended December 31,** | |
| **Revenues and equity share in profits of associates and joint ventures** | | | |
| Oil, gas, petroleum products and petrochemicals sales | 8 | **5,877** | 4,887 |
| Support services and other revenues | | **77** | 75 |
| Equity share in profits of associates and joint ventures | 27 | **60** | 26 |
| **Total revenues and equity share in profits of associates and joint ventures** | | **6,014** | 4,988 |
| **Costs and expenses** | | | |
| Production and operating expenses | | **607** | 559 |
| Cost of purchased oil, gas, petroleum products and refining costs | | **837** | 614 |
| General and administrative expenses | | **172** | 129 |
| Pipeline tariffs and transportation costs | | **596** | 575 |
| Exploration expenses | | **15** | 14 |
| Depreciation, depletion and amortization | 24, 25 | **586** | 489 |
| Taxes other than income tax | 9 | **1,919** | 1,296 |
| Export customs duty | 10 | **658** | 657 |
| **Total costs and expenses** | | **5,390** | 4,333 |
| **Operating income** | | **624** | 655 |
| Finance income | 11 | **107** | 91 |
| Finance expenses | 12 | **(225)** | (193) |
| Other income | 13 | **109** | 49 |
| Other expenses | 13 | **(77)** | (79) |
| Foreign exchange differences | | **3** | (70) |
| Cash flow hedges reclassified to profit or loss | 6 | **(146)** | (147) |
| **Income before income tax** | | **395** | 306 |
| Income tax expense | 16 | **(98)** | (114) |
| **Net income** | | **297** | 192 |
| **Net income attributable to:** | | | |
| - Rosneft shareholders | | **222** | 174 |
| - non-controlling interests | 17 | **75** | 18 |
| **Net income attributable to Rosneft per common share (in RUB) – basic and diluted** | 18 | **20.95** | 16.42 |
| **Weighted average number of shares outstanding (millions)** | | **10,598** | 10,598 |

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

Rosneft Oil Company

# Consolidated Statement of Other Comprehensive Income

*(in billions of Russian rubles)*

| | Notes | For the years ended December 31, 2017 | 2016 (restated) |
|---|---|---|---|
| **Net income** | | **297** | 192 |
| **Other comprehensive income – to be reclassified to profit or loss in subsequent periods** | | | |
| Foreign exchange differences on translation of foreign operations | | **51** | 143 |
| Foreign exchange cash flow hedges | 6 | **145** | 155 |
| Income from changes in fair value of financial assets available-for-sale | | **10** | 5 |
| Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent periods | 6, 17 | **(31)** | (32) |
| **Total other comprehensive income – to be reclassified to profit or loss in subsequent periods, net of tax** | | **175** | 271 |
| **Total comprehensive income, net of tax** | | **472** | 463 |
| **Total comprehensive income, net of tax, attributable to:** | | | |
| - Rosneft shareholders | | **397** | 445 |
| - non-controlling interests | | **75** | 18 |

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

# Rosneft Oil Company

## 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 | Total share-holders' 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 | – | – | – | – | 174 | 174 | 18 | 192 |
| Other comprehensive loss | – | – | – | 271 | – | 271 | – | 271 |
| **Total comprehensive (loss)/income** | – | – | – | 271 | 174 | 445 | 18 | 463 |
| Change of non-controlling interest in subsidiaries (Note 17) | – | – | 96 | – | – | 96 | 180 | 276 |
| Acquisition of subsidiaries (Note 7) | – | – | – | – | – | – | 234 | 234 |
| Disposal of subsidiaries | – | – | – | – | – | – | (2) | (2) |
| Dividends declared on common stock (Note 36) | – | – | – | – | (125) | (125) | – | (125) |
| Other movements | – | – | – | – | – | – | 7 | 7 |
| **Balance at December 31, 2016 (restated)** | 10,598 | 1 | 603 | (497) | 3,195 | 3,302 | 480 | 3,782 |
| Net income | **–** | **–** | **–** | **–** | **222** | **222** | **75** | **297** |
| Other comprehensive income | **–** | **–** | **–** | **175** | **–** | **175** | **–** | **175** |
| **Total comprehensive income** | **–** | **–** | **–** | **175** | **222** | **397** | **75** | **472** |
| Change of non-controlling interest in subsidiaries (Note 17) | **–** | **–** | **24** | **–** | **–** | **24** | **44** | **68** |
| Disposal of subsidiaries | **–** | **–** | **–** | **–** | **–** | **–** | **(1)** | **(1)** |
| Dividends declared on common stock (Note 36) | **–** | **–** | **–** | **–** | **(104)** | **(104)** | **(43)** | **(147)** |
| Other movements | **–** | **–** | **–** | **–** | **–** | **–** | **9** | **9** |
| **Balance at December 31, 2017** | **10,598** | **1** | **627** | **(322)** | **3,313** | **3,619** | **564** | **4,183** |

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

# Rosneft Oil Company

## Consolidated Statement of Cash Flows

*(in billions of Russian rubles)*

| | Notes | For the years ended December 31, 2017 | 2016 (restated) |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | | **297** | 192 |
| *Adjustments to reconcile net income to net cash provided by operating activities* | | | |
| Depreciation, depletion and amortization | 24, 25 | **586** | 489 |
| Loss on disposal of non-current assets | 13 | **13** | 16 |
| Dry hole costs | | **3** | 5 |
| Foreign exchange gain on non-operating activities | | **(24)** | (16) |
| Cash flow hedges reclassified to profit or loss | 6 | **146** | 147 |
| Offset of prepayments received on oil and petroleum products supply agreements | 33 | **(255)** | (122) |
| Offset of other financial liabilities | | **(105)** | (41) |
| Equity share in profits of associates and joint ventures | 27 | **(60)** | (26) |
| Non-cash income from disposal of subsidiaries and shares in joint operations | 13 | **–** | (29) |
| Gain on out-of-court settlement | 13 | **(100)** | – |
| Loss from disposal of subsidiaries and non-production assets | 13 | **3** | 2 |
| Changes in bad debt provision | | **16** | – |
| Loss from changes in estimates, impairment and receivables write-off | | **25** | 25 |
| Finance expenses | 12 | **225** | 193 |
| Finance income | 11 | **(107)** | (91) |
| Income tax expense | 16 | **98** | 114 |
| *Changes in operating assets and liabilities* | | | |
| Increase in accounts receivable, gross | | **(184)** | (27) |
| Increase in inventories | | **(41)** | (29) |
| Increase in restricted cash | | **(10)** | – |
| (Increase)/decrease in prepayments and other current assets | | **(27)** | 10 |
| Increase in long-term prepayments made on oil and petroleum products supply agreements | 28 | **(207)** | (95) |
| Increase/(decrease) in accounts payable and accrued liabilities | | **24** | (58) |
| Increase in other tax liabilities | | **56** | 57 |
| Decrease in current provisions | | **–** | (1) |
| Decrease in other current liabilities | | **–** | (3) |
| Increase in other non-current liabilities | | **–** | 1 |
| Interest paid on long-term prepayment received on oil and petroleum products supply agreements | | **(10)** | (15) |
| Net increase in operating assets of subsidiary banks | | **(144)** | (39) |
| Net increase in operating liabilities of subsidiary banks | | **170** | 32 |
| Proceeds from sale of trading securities | 20 | **3** | 4 |
| **Net cash provided by operating activities before income tax and interest** | | **391** | 695 |
| Income tax payments | | **(112)** | (85) |
| Interest received | | **37** | 58 |
| Dividends received | | **21** | 11 |
| **Net cash provided by operating activities** | | **337** | 679 |

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

# Consolidated Statement of Cash Flows (continued)

*(in billions of Russian rubles)*

| | | For the years ended December 31, | |
|---|---|---|---|
| | **Notes** | **2017** | **2016 (restated)** |
| **Investing activities** | | | |
| Capital expenditures | | **(922)** | (709) |
| Acquisition of licenses and auction fee payments | | **(34)** | (11) |
| Acquisition of short-term financial assets | | **(103)** | (178) |
| Proceeds from sale of short-term financial assets | | **258** | 689 |
| Acquisition of long-term financial assets | 26 | **(58)** | (403) |
| Proceeds from sale of long-term financial assets | | **127** | 19 |
| Financing of joint ventures | | **(2)** | (24) |
| Acquisition of interest in associates and joint ventures | 27 | **(219)** | (65) |
| Acquisition of interest in subsidiary, net of cash acquired, and joint arrangements | 7 | **(215)** | (292) |
| Proceeds from sale of subsidiary, net of cash acquired | | **–** | (5) |
| Proceeds from sale of property, plant and equipment | | **5** | 8 |
| Placements under reverse REPO agreements | | **(1)** | (4) |
| Receipts under reverse REPO agreements | | **2** | 2 |
| **Net cash used in investing activities** | | **(1,162)** | (973) |
| | | | |
| **Financing activities** | | | |
| Proceeds from short-term loans and borrowings | 30 | **1,431** | 1,155 |
| Repayment of short-term loans and borrowings | | **(787)** | (661) |
| Proceeds from long-term loans and borrowings | 30 | **508** | 1,125 |
| Repayment of long-term loans and borrowings | | **(806)** | (1,048) |
| Proceeds from other financial liabilities | | **336** | 49 |
| Repayment of other financial liabilities | | **(22)** | (14) |
| Interest paid | | **(219)** | (143) |
| Proceeds from sale of non-controlling share in subsidiary | 17 | **73** | 300 |
| Other financing | | **9** | 8 |
| Payment of dividends on common stock | 36 | **(104)** | (125) |
| Dividends paid to minority | | **(38)** | (1) |
| **Net cash provided by financing activities** | | **381** | 645 |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | **(444)** | 351 |
| | | | |
| Cash and cash equivalents at the beginning of the year | 19 | **790** | 559 |
| Effect of foreign exchange on cash and cash equivalents | | **(24)** | (120) |
| | | | |
| **Cash and cash equivalents at the end of the year** | 19 | **322** | 790 |

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

## 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.

Rosneft State Enterprise was incorporated as an open joint stock company on December 7, 1995. All assets and liabilities previously managed by Rosneft State Enterprise were transferred to the Company at their book value effective on that date together with ownership rights to other privatized oil and gas companies belonging to the Government of the Russian Federation (the "State"). The transfer of assets and liabilities was made in accordance with Russian Government Resolution No. 971 dated September 29, 1995, *On the Transformation of Rosneft State Enterprise into Open Joint Stock Company "Oil Company Rosneft"*. These transfers involved the reorganization of assets under the common control of the State and, accordingly, were accounted for at their book value. In 2005, the State contributed the shares of Rosneft to the share capital of JSC ROSNEFTEGAS. As of December 31, 2005, 100% of the shares of Rosneft less one share were owned by JSC ROSNEFTEGAS and one share was owned by the Russian Federation Federal Agency for the Management of Federal Property. Subsequently, JSC ROSNEFTEGAS's ownership interest decreased through the additional issue of shares during Rosneft's Initial Public Offering ("IPO") in Russia, an issue of Global Depository Receipts ("GDR") for shares on the London Stock Exchange and the share swap completed during the merger of Rosneft and certain subsidiaries in 2006. In March 2013 in the course of the acquisition of TNK-BP Limited and TNK Industrial Holdings Limited, its subsidiary (collectively with their subsidiaries, "TNK-BP"), JSC ROSNEFTEGAS sold 5.66% of Rosneft shares to BP plc. ("BP"). In December 2016 JSC ROSNEFTEGAS signed an agreement to sell 19.5% of Rosneft shares to a consortium of foreign investors. As of December 31, 2017 JSC ROSNEFTEGAS's ownership interest in Rosneft amounted to 50% plus one share.

Under Russian legislation, natural resources, including oil, gas, precious metals and minerals and other commercial minerals situated in the territory of the Russian Federation, are the property of the State until they are extracted. Law of the Russian Federation No. 2395-1, *On Subsurface Resources*, regulates relations arising in connection with the geological study, use and protection of subsurface resources in the territory of the Russian Federation. Pursuant to the law, subsurface resources may be developed only on the basis of a license. A license is issued by the regional governmental body and contains information on the site to be developed and the period of activity, as well as financial and other conditions. The Company holds licenses issued by competent authorities for the geological study, exploration and development of oil and gas blocks, fields, and shelf in areas where its subsidiaries are located.

The Company is subject to export quotas set by the Russian Federation State Pipeline Commission to allow equal access to the limited capacity of the oil pipeline system owned and operated by PJSC AK Transneft. The Company exports certain quantities of crude oil through bypassing the PJSC AK Transneft system thus achieving higher export capacity. The remaining production is processed at the Company's and third parties' refineries for further sale on domestic and international markets.

## 2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including all International Financial Reporting Standards ("IFRS") and Interpretations issued by the International Accounting Standards Board ("IASB") and effective in the reporting period, and are fully compliant therewith.

These consolidated financial statements have been prepared on a historical cost basis, except certain financial assets and liabilities measured at fair value (Note 37).

Rosneft and its subsidiaries maintain their books and records in accordance with statutory accounting and taxation principles and practices applicable in respective jurisdictions. These consolidated financial statements were derived from the Company's statutory books and records.

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

The consolidated financial statements were approved and authorized for issue by the Chief Executive Officer of the Company on March 19, 2018.

Subsequent events have been evaluated through March 19, 2018, the date these consolidated financial statements were issued.

## 3. Significant accounting policies

The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the Company's statutory books, which are appropriate for presenting the financial position, results of operations and cash flows in accordance with IFRS. The principal adjustments relate to: (1) recognition of certain expenses; (2) valuation and depreciation of property, plant and equipment; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) accounting for the time value of money; (6) accounting for investments in oil and gas property and conveyances; (7) consolidation principles; (8) recognition and disclosure of guarantees, contingencies, commitments and certain assets and liabilities; (9) business combinations and goodwill; (10) accounting for derivative instruments; (11) purchase price allocation to the identifiable assets acquired and the liabilities assumed.

The consolidated financial statements include the accounts of majority-owned, controlled subsidiaries and special-purpose entities where the Company holds a beneficial interest. All significant intercompany transactions and balances have been eliminated. The equity method is used to account for investments in associates in which the Company has the ability to exert significant influence over the associates' operating and financial policies. Investments in entities where the Company holds the majority of shares, but does not exercise control, are also accounted for using the equity method. Investments in other companies are accounted for at fair value or cost adjusted for impairment, if any.

### Business combinations, goodwill and other intangible assets

Acquisitions by the Company of controlling interests in third parties (or interest in their charter capital) are accounted for using the acquisition method.

The date of acquisition is the date when effective control over the acquiree passes to the Company.

## 3. Significant accounting policies (continued)

### Business combinations, goodwill and other intangible assets (continued)

The cost of an acquisition is measured as an aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or a liability should be recognized within profit or loss for the period if they do not represent measurement-period adjustments. If the contingent consideration is classified as equity, it should not be re-measured.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the fair value of net identifiable assets acquired and liabilities assumed. If the aggregate of the consideration transferred and the amount of non-controlling interest is lower than the fair value of the net assets of the subsidiary acquired and liabilities assumed, the difference is recognized in profit or loss for the period.

### Associates

Investments in associates are accounted for using the equity method unless they are classified as non-current assets held for sale. Under this method, the carrying value of investments in associates is initially recognized at the acquisition cost.

The carrying value of investments in associates is increased or decreased by the Company's reported share in the profit or loss and other comprehensive income of the investee after the acquisition date. The Company's share in the profit or loss and other comprehensive income of an associate is recognized in the Company's consolidated statement of profit or loss or in the consolidated statement of other comprehensive income, respectively. Dividends paid by the associate are accounted for as a reduction of the carrying value of investments.

The Company's net investments in associates include the carrying value of the investments in these associates as well as other long-term investments that are, in substance, investments in associates, such as loans. If the share in losses exceeds the carrying value of the investments in associates and the value of other long-term investments related to investments in these associates, the Company ceases to recognize its share in losses when the carrying value reaches zero. Any additional losses are provided for and liabilities are recognized only to the extent that the Company has legal or constructive obligations or has made payments on behalf of the associate.

If the associate subsequently makes profits, the Company resumes recognizing its share in these profits only after its share of the profits equals the share of losses not recognized.

The carrying value of investments in associates is tested for impairment by reconciling its recoverable amount (the higher of its value in use and fair value less costs to sell) to its carrying value, whenever impairment indicators are identified.

## 3. Significant accounting policies (continued)

### Joint arrangements

The Company participates in joint arrangements either in the form of joint ventures or joint operations.

A joint venture implies that the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture involves establishing a legal entity where the Company and other participants have respective equity interests. Equity interests in joint ventures are accounted for under the equity method.

The Company's share in net profit or loss and in other comprehensive income of joint ventures is recognized in the consolidated statement of profit or loss and in the consolidated statement of other comprehensive income, respectively, from the date when joint control commences until the date when joint control ceases. A joint operation implies that the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. In relation to its interest in a joint operation the Company recognizes its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly, its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation, and expenses, including its share of any expenses incurred jointly.

### Cash and cash equivalents

Cash represents cash on hand, in the Company's bank accounts, in transit and interest bearing deposits which can be effectively withdrawn at any time without prior notice or any penalties reducing the principal amount of the deposit. Cash equivalents are highly liquid, short-term investments that are readily convertible to known amounts of cash and have original maturities of three months or less from their date of purchase. They are carried at cost plus accrued interest, which approximates fair value. Restricted cash is presented separately in the consolidated balance sheet if its amount is significant.

### Financial assets

The Company recognizes financial assets in its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial assets are recognized initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

When financial assets are recognized initially, they are classified as one of the following, as appropriate: (1) financial assets at fair value through profit or loss, (2) loans issued and accounts receivable, (3) financial assets held to maturity, or (4) financial assets available for sale.

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as financial assets at fair value through profit or loss at initial recognition. Financial assets held for trading are those which are acquired principally for the purpose of sale or repurchase in the near future or are part of a portfolio of identifiable financial instruments that have been commonly managed and for which there is evidence of a recent pattern of actual short-term profit taking, or which are derivative instruments (unless the derivative instrument is defined as an effective hedging instrument). Financial assets at fair value through profit or loss are classified in the consolidated balance sheet as current assets and changes in the fair value are recognized in the consolidated statement of profit or loss as Finance income or Finance expenses.

## 3. Significant accounting policies (continued)

### Financial assets (continued)

All derivative instruments are recorded in the consolidated balance sheet at fair value in either current financial assets, non-current financial assets, current liabilities related to derivative instruments, or non-current liabilities related to derivative instruments. The recognition and classification of a gain or loss that results from recognition of an adjustment of a derivative instrument at fair value depends on the purpose for issuing or holding the derivative instrument. Gains and losses from derivatives that are not accounted for as hedges under International Accounting Standard ("IAS") 39 *Financial Instruments: Recognition and Measurement* are recognized immediately in the profit or loss for the period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Subsequent to initial recognition, the fair value of financial assets at fair value that are quoted in an active market is defined as bid prices for assets and ask prices for issued liabilities as of the measurement date.

If no active market exists for financial assets, the Company measures the fair value using the following methods:

- analysis of recent transactions with peer instruments between independent parties;
- current fair value of similar financial instruments;
- discounting future cash flows.

The discount rate reflects the minimum return on investment an investor is willing to accept before starting an alternative project, given its risk and the opportunity cost of forgoing other projects.

Loans issued and accounts receivable include non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, not classified as financial assets held for trading and have not been designated as at fair value through profit or loss or available for sale. If the Company cannot recover all of its initial investment in the financial asset due to reasons other than deterioration of its quality, the financial asset is not included in this category. After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the consolidated statement of profit or loss. The losses arising from impairment or gains from impairment reversals are recognized in the consolidated statement of profit or loss.

The Company does not classify financial assets as held to maturity if, during either the current financial year or the two preceding financial years, the Company has sold, transferred or exercised a put option on more than an insignificant (in relation to the total) amount of such investments before maturity, unless: (1) the financial asset was close enough to maturity or the call date so that changes in the market rate of interest did not have a significant effect on the financial asset's fair value; (2) after substantially all of the financial asset's original principal had been collected through scheduled payments or prepayments; or (3) due to an isolated non-recurring event that was beyond the Company's control and could not have been reasonably anticipated by the Company.

Dividends and interest income are recognized in the consolidated statement of profit or loss on an accrual basis. The amount of accrued interest income is calculated using the effective interest rate.

All other financial assets not included in the other categories are designated as financial assets available for sale. Specifically, the shares of other companies not included in the first category are designated as available for sale. In addition, the Company may include any financial asset in this category at the initial recognition.

## 3. Significant accounting policies (continued)

### Financial liabilities

The Company recognizes financial liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial liabilities are recognized initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

When financial liabilities are recognized initially, they are classified as one of the following:

- financial liabilities at fair value through profit or loss;
- other financial liabilities.

Financial liabilities at fair value through profit or loss are financial liabilities held for trading unless such liabilities are linked to the delivery of unquoted equity instruments.

At the initial recognition, the Company may include in this category any financial liability, except for equity instruments that are not quoted in an active market and whose fair value cannot be reliably measured. After initial recognition, however, the liability cannot be reclassified.

Financial liabilities not classified as financial liabilities at fair value through profit or loss are designated as other financial liabilities. Other financial liabilities include, inter alia, trade and other accounts payable, and loans and borrowings payable.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the consolidated statement of profit or loss. Other financial liabilities are carried at amortized cost.

The Company writes off a financial liability (or part of a financial liability) from its balance sheet when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying value of a financial liability (or a part of a financial liability) extinguished or transferred to another party and the redemption value, including any transferred non-monetary assets and assumed liabilities, is recognized in profit or loss. Any previously recognized components of other comprehensive income pertaining to this financial liability are also included in the financial result and are recognized as gains and losses for the period.

Certain prior period indicators have been reclassified to conform to the current year presentation. In particular, due to significant increase in the operating activities of subsidiary banks of the Company and the need for reliable and consistent reporting in the consolidated financial statements, the presentation of cash flows from the operating activities of subsidiary banks was revised. Such activities are now included within operating activities of the Consolidated Statement of Cash Flows. Further, the operating assets of the subsidiary banks, including short-term interbank deposits placed, were reclassified to Accounts Receivable, operating liabilities, including interbank loans, customer deposits, promissory notes and REPO obligations reclassified from Loans and borrowings and other financial liabilities to Accounts payable and accrued liabilities.

### Earnings per share

Basic earnings per share is calculated by dividing net earnings attributable to common shares by the weighted average number of common shares outstanding during the corresponding period. In the absence of any securities-to-shares conversion transactions, the amount of basic earnings per share stated in these consolidated financial statements is equal to the amount of diluted earnings per share.

## 3. Significant accounting policies (continued)

### Inventories

Inventories consisting primarily of crude oil, petroleum products, petrochemicals and materials and supplies are accounted for at the weighted average cost unless net realizable value is less than cost. Materials that are used in production are not written down below cost if the finished products into which they will be incorporated are expected to be sold above cost.

### Repurchase and resale agreements

Securities sold under repurchase agreements ("REPO") and securities purchased under agreements to resell ("reverse REPO") generally do not constitute a sale of the underlying securities for accounting purposes, and so are treated as collateralized financing transactions. Interest paid or received on all REPO and reverse REPO transactions is recorded in Finance expense or Finance income, respectively, at the contractually specified rate using the effective interest method.

### Exploration and production assets

Exploration and production assets include exploration and evaluation assets, mineral rights and oil and gas properties (development assets and production assets).

### Exploration and evaluation costs

The Company recognizes exploration and evaluation costs using the successful efforts method as permitted by IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Under this method, costs related to exploration and evaluation (license acquisition costs, exploration and appraisal drilling) are temporarily capitalized in cost centers by field (well) until the drilling program results in the discovery of economically feasible oil and gas reserves.

The length of time necessary for this determination depends on the specific technical or economic difficulties in assessing the recoverability of the reserves. If a determination is made that the well did not encounter oil and gas in economically viable quantities, the well costs are expensed to Exploration expenses in the consolidated statement of profit or loss.

Exploration and evaluation costs, except for costs associated with seismic, topographical, geological, and geophysical surveys, are initially capitalized as exploration and evaluation assets. Exploration and evaluation assets are recognized at cost less impairment, if any, as property, plant and equipment until the existence (or absence) of commercial reserves has been established. The initial cost of exploration and evaluation assets acquired through a business combination is formed as a result of purchase price allocation. The cost allocation to mineral rights to proved properties and mineral rights to unproved properties is performed based on the respective oil and gas reserves information. Exploration and evaluation assets are subject to technical, commercial and management review as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, an impairment test is performed.

If, subsequently, commercial reserves are discovered, the carrying value, less losses from impairment of the respective exploration and evaluation assets, is classified as oil and gas properties (development assets). However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

## 3. Significant accounting policies (continued)

### Development and production

Oil and gas properties (development assets) are accounted for on a field-by-field basis and represent (1) capitalized costs to develop discovered commercial reserves and to put fields into production, and (2) exploration and evaluation costs incurred to discover commercial reserves reclassified from exploration and evaluation assets to oil and gas properties (development assets) following the discovery of commercial reserves.

The cost of oil and gas properties (development assets) also includes the expenditures to acquire such assets, directly identifiable overhead expenses, capitalized financing costs and related asset retirement (decommissioning) obligation costs. Oil and gas properties (development assets) are generally recognized as construction in progress.

Following the commencement of commercial production, oil and gas properties (development assets) are reclassified as oil and gas properties (production assets).

### Other property, plant and equipment

Other property, plant and equipment is stated at historical cost as of the acquisition date, except for property, plant and equipment acquired prior to January 1, 2009, which is stated at deemed cost, net of accumulated depreciation and impairment. The cost of maintenance, repairs, and the replacement of minor items of property is charged to operating expenses. Renewals and betterments of assets are capitalized.

Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

### Depreciation, depletion and amortization

Oil and gas properties are depleted using the unit-of-production method on a field-by-field basis starting from the commencement of commercial production.

In applying the unit-of-production method to mineral licenses, the depletion rate is based on total proved reserves. In applying the unit-of-production method to producing wells and the related oil and gas infrastructure, the depletion rate is based on proved developed reserves.

Other property, plant and equipment are depreciated using the straight-line method over their estimated useful lives from the time they are ready for use, except for catalysts which are amortized using the unit-of-production method.

Components of other property, plant and equipment and their respective estimated useful lives are as follows:

| Property, plant and equipment | Useful life, not more than |
|---|---|
| Buildings and structures | 30-45 years |
| Plant and machinery | 5-25 years |
| Vehicles and other property, plant and equipment | 6-10 years |
| Service vessels | 20 years |
| Offshore drilling assets | 20 years |

Land generally has an indefinite useful life and is therefore not depreciated.

Land leasehold rights are amortized on a straight-line basis over their expected useful life, which averages 20 years.

## 3. Significant accounting policies (continued)

### Construction grants

The Company recognizes construction grants from local governments when there is a reasonable assurance that the Company will comply with the conditions attached and that the grant will be received. The construction grants are accounted for as a reduction of the cost of the asset for which the grant is received.

### Impairment of non-current assets

The Company assesses at each balance sheet date whether there is any indication that an asset or cash-generating unit may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset or cash-generating unit.

In assessing whether there is any indication that an asset may be impaired, the Company considers internal and external sources of information. It considers at least the following:

External sources of information:

- during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- significant changes with an adverse effect on the Company have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Company operates or in the market to which an asset is dedicated;
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- the carrying amount of the net assets of the Company is more than its market capitalization.

Internal sources of information:

- evidence is available of obsolescence or physical damage of an asset;
- significant changes with an adverse effect on the Company have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used (e.g., the asset becoming idle, or the useful life of an asset is reassessed as finite rather than indefinite);
- information on dividends from a subsidiary, joint venture or associate;
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. Such evidence includes the existence of:
  - cash flows on acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;
  - actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted;
  - a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted losses, flowing from the asset;
  - operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

## 3. Significant accounting policies (continued)

### Impairment of non-current assets (continued)

The following factors indicate that exploration and evaluation assets may be impaired:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The recoverable amount of an asset or a cash-generating unit is the higher of:

- the value in use of an asset (cash-generating unit); and
- the fair value of an asset (cash-generating unit) less costs to sell.

If the asset does not generate cash inflows that are largely independent of those from other assets, its recoverable amount is determined for the asset's cash-generating unit.

The Company initially measures the value in use of a cash-generating unit. When the carrying amount of a cash-generating unit is greater than its value in use, the Company measures the unit's fair value for the purpose of measuring the recoverable amount. When the fair value is less than the carrying value an impairment loss is recognized.

Value in use is determined by discounting the estimated value of the future cash inflows expected to be derived from the asset or cash-generating unit, including cash inflows from its sale. The value of the future cash inflows from a cash-generating unit is determined based on the forecast approved by management of the business unit to which the unit in question pertains.

### Impairment of financial assets

At each balance sheet date the Company analyzes whether there is objective evidence of impairment for all categories of financial assets, except those recorded at fair value through profit or loss. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include (but is not limited to) indications that debtors or a group of debtors are experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 3. Significant accounting policies (continued)

### Capitalized interest

Interest expense on borrowed funds used for capital construction projects and the acquisition of property, plant and equipment is capitalized provided that the interest expense could have been avoided if the Company had not made capital investments. Interest is capitalized only during the period when construction activities are actually in progress and until the resulting properties are put into operation.

Capitalized borrowing costs include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

### Leasing agreements

Leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the asset, are classified as financial leases and are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance expenses and reduction of the lease liability in order to achieve a constant rate of interest on the remaining balance of the liabilities. Finance expenses are charged directly to the consolidated statement of profit or loss.

Leased property, plant and equipment are accounted for using the same policies applied to the Company's own assets. In determining the useful life of a leased item of property, plant and equipment, consideration is given to the probability of the title being transferred to the lessee at the end of the lease term.

If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. Where such certainty exists, the asset is depreciated over its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

### Asset retirement (decommissioning) obligations

The Company has asset retirement (decommissioning) obligations associated with its core business activities. The nature of the assets and potential obligations are as follows:

The Company's exploration, development and production activities involve the use of wells, related equipment and operating sites, oil gathering and treatment facilities, tank farms and in-field pipelines. Generally, licenses and other regulatory acts require that such assets be decommissioned upon the completion of production. According to these requirements, the Company is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Company's estimates of these obligations are based on current regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Company using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability.

## 3. Significant accounting policies (continued)

### Asset retirement (decommissioning) obligations (continued)

In accordance with IFRS Interpretations Committee ("IFRIC") Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, the provision is reviewed at each balance sheet date as follows:

- upon changes in the estimates of future cash flows (e.g., the costs of and timeframe for abandoning one well) or the discount rate, changes in the amount of the liability are included in the cost of the item of property, plant, and equipment, whereby such cost may not be negative and may not exceed the recoverable value of the item of property, plant, and equipment;
- any changes in the liability due to its nearing maturity (change in the discount) are recognized in Finance expenses.

The Company's refining and distribution activities involve refining operations, marine and other distribution terminals, and retail sales. The Company's refining operations consist of major petrochemical operations and industrial complexes. Legal or contractual asset retirement (decommissioning) obligations related to petrochemical, oil refining and distribution activities are not recognized due to the limited history of such activities in these segments, the lack of clear legal requirements as to the recognition of obligations, as well as the fact that decommissioning periods for such assets are not determinable.

Because of the reasons described above, the fair value of an asset retirement (decommissioning) obligation in the refining and distribution segment cannot be reasonably estimated.

Due to continuous changes in the Russian regulatory and legal environment, there could be future changes to the requirements and contingencies associated with the retirement of long-lived assets.

### Income tax

Since 2012 Russian tax legislation has allowed income taxes to be calculated on a consolidated basis. The main subsidiaries of the Company were therefore combined into a consolidated group of taxpayers (Note 40). For subsidiaries which are not included in the consolidated group of taxpayers, income tax is calculated on an individual subsidiary basis. Deferred income tax assets and liabilities are recognized in the accompanying consolidated financial statements in the amount determined by the Company in accordance with IAS 12 *Income Taxes*.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax liability is recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - affects neither accounting profit, nor taxable profit;
- investments in subsidiaries when the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 3. Significant accounting policies (continued)

### Income tax (continued)

A prior period tax loss planned to be used to reduce the current or future amount of income tax is recognized as a deferred tax asset.

A deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

The Company recognizes deferred tax assets for all deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures, to the extent that the following two conditions are met:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the taxation authority of the same jurisdiction and the Company intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date.

The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are classified as Non-current Deferred tax assets and Non-current Deferred tax liabilities, respectively.

Deferred tax assets and liabilities are not discounted.

### Recognition of revenues

Revenues are recognized when risks and rewards pass to the customer, which usually occurs when the title passes to the customer, provided that the contract price is fixed or determinable and collectability of the receivable is reasonably assured. Specifically, domestic sales of crude oil and gas, as well as petroleum products and materials are usually recognized when title passes. For export sales, title generally passes at the border of the Russian Federation and the Company covers transportation expenses (except freight), duties and taxes on those sales (Note 10). Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, volume rebates and reimbursable taxes.

Sales of support services are recognized as services are performed provided that the service price can be determined and no significant uncertainties regarding the receipt of revenues exist.

## 3. Significant accounting policies (continued)

### Transportation expenses

Transportation expenses recognized in the consolidated statement of profit or loss represent all expenses incurred by the Company to transport crude oil for refining and to end customers, and to deliver petroleum products from refineries to end customers (these may include pipeline tariffs and any additional railroad transportation costs, handling costs, port fees, sea freight and other costs).

### Refinery maintenance costs

The Company recognizes the costs of overhauls and preventive maintenance performed with respect to oil refining assets as expenses when incurred.

### Environmental liabilities

Expenditures that relate to an existing condition caused by past operations, and do not have a future economic benefit, are expensed. Liabilities for these expenditures are recorded when environmental assessments or clean-ups are probable and the costs can be reasonably estimated.

### Accounting for contingencies

Certain conditions may exist as of the date of these consolidated financial statements which may further result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management makes an assessment of such contingent liabilities which is based on assumptions and is a matter of opinion. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal or tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve financial guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

### Taxes collected from customers and remitted to governmental authorities

Refundable taxes (excise and value-added tax ("VAT")) are deducted from revenues. Other taxes and duties are not deducted from revenues and are recognized as expenses in Taxes other than income tax in the consolidated statement of profit or loss.

VAT and excise receivable and payable are recognized as Prepayments and other current assets and Other tax liabilities in the consolidated balance sheet, respectively.

## 3. Significant accounting policies (continued)

### Functional and presentation currency

The consolidated financial statements are presented in Russian rubles, which is the functional currency of Rosneft Oil Company and all of its subsidiaries operating in the Russian Federation. The functional currency of the foreign subsidiaries is generally the U.S. dollar.

***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of these transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the profit or loss for the period.

Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities designated as foreign currency cash flow hedging instruments are recognized within other comprehensive income and reclassified to profit or loss in the period when the hedged item affects profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

***The Company's subsidiaries***

The results and financial position of all of the Company's subsidiaries, joint ventures and associates that have a functional currency which is different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at that reporting date;
- income and expenses for each statement of profit or loss and each statement of other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of other comprehensive income.

### Prepayment on oil and petroleum products supply agreements

In the course of business the Company enters into long-term oil supply contracts. The contract terms may require the buyer to make a prepayment.

The Company considers long-term oil supply contracts to be regular-way sale contracts entered into and continued to be held for the purpose of the receipt or delivery of non-financial items in accordance with the Company's expected purchase, sale or usage requirements. Regular-way sale contracts are exempted from the scope of IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*.

## 3. Significant accounting policies (continued)

### Prepayment on oil and petroleum products supply agreements (continued)

Conditions for meeting the definition of a regular-way sale are not met if either of the following applies:

- the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the Company has a practice of settling similar contracts net in cash or via another financial instrument or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);
- for similar contracts, the Company has a practice of taking delivery of the underlying goods and selling them within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or from a dealer's margin.

Prepayments for the delivery of goods or respective deferred revenue are accounted for as non-financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.

### Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards and interpretations effective as of January 1, 2017.

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. The above mentioned reconciliation is presented in Note 31 "Loans and borrowings and other financial liabilities".
- *Deferred Tax Assets for Unrealised Losses* – amendments to IAS 12 *Income Taxes*. These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Application of these amendments had no significant impact on the Company's financial position or results of operations.

Certain prior period balances have been reclassified to conform to the current year presentation.

## 4. Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements requires management to make a number of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. The actual results, however, could differ from those estimates.

## 4. Significant accounting judgments, estimates and assumptions (continued)

The most significant accounting estimates and assumptions used by the Company's management in preparing the consolidated financial statements include:

- estimation of oil and gas reserves;
- estimation of rights to, recoverability and useful lives of non-current assets;
- impairment of goodwill (Note 25 "Intangible assets and goodwill");
- allowances for doubtful accounts receivable and obsolete and slow-moving inventories (Note 21 "Accounts receivable" and Note 22 "Inventories");
- assessment of asset retirement (decommissioning) obligations (Note 3 "Significant accounting policies", section: "Asset retirement (decommissioning) obligations", and Note 32 "Provisions");
- assessment of legal and tax contingencies, recognition and disclosure of contingent liabilities (Note 40 "Contingencies");
- assessment of deferred income tax assets and liabilities (Note 3 "Significant accounting policies", section: "Income tax", and Note 16 "Income tax");
- assessment of environmental remediation obligations (Note 32 "Provisions" and Note 40 "Contingencies");
- fair value measurements (Note 37 "Fair value of financial instruments");
- assessment of the Company's ability to renew operating leases and to enter into new lease agreements;
- purchase price allocation to the identifiable assets acquired and the liabilities assumed (Note 7 "Acquisition of subsidiaries and shares in joint operations").

Significant estimates and assumptions affecting the reported amounts are those used in determining the economic recoverability of reserves.

Such estimates and assumptions may change over time when new information becomes available, e.g.:

- more detailed information on reserves was obtained (either as a result of more detailed engineering calculations or additional exploration drilling activities);
- supplemental activities to enhance oil recovery were conducted;
- changes were made in economic estimates and assumptions (e.g. a change in pricing factors).

## 5. New and amended standards and interpretations issued but not yet effective

In May 2014, the IASB issued 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. The standard is effective for annual periods beginning on or after January 1, 2018. In April 2016, the IASB issued amendments to IFRS 15, which have the same effective date as the new standard: January 1, 2018. As a result of the analysis performed by the Company, the conclusion was made that there will be no significant impact of the standard on the consolidated financial statements.

**5. New and amended standards and interpretations issued but not yet effective (continued)**

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. The final version of IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and 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. The standard is effective for annual periods beginning on or after January 1, 2018. In October 2017, the IASB issued amendments to IFRS 9 effective on January 1, 2019.

The Company is currently assessing the impact of the standard on the opening balance of retained earnings as of January 1, 2018 as a result of the shift from the "incurred loss" impairment model to "expected credit loss" model, as well as the change in classification for certain significant financial assets of the Company – from the "amortized cost" category to the "fair value through profit or loss" category.

In September 2014, the IASB issued amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* entitled *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. These narrow scope amendments clarify that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not), and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The IASB has postponed the date by when the entities must change these aspects of accounting for transactions between investors and equity accounted investees. Application of the amendments, initially planned for annual periods beginning on or after January 1, 2016, has been deferred. The Company does not expect the amendments to have a material impact on the consolidated financial statements, as their requirements are already incorporated in the accounting policy of the Company.

In January 2016, the IASB issued IFRS 16 *Leases*. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and establishes a single lessee accounting model. The most significant effect of the new requirements for the lessee will be an increase in lease assets and financial liabilities. The new standard replaces the previous leases standard, IAS 17 *Leases*, and the related interpretations. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15 *Revenue from Contracts with Customers*. The Company is currently assessing the impact of the standard on the consolidated financial statements.

In June 2016, the IASB issued amendments to IFRS 2 *Share-based Payment* entitled *Classification and Measurement of Share-based Payment Transactions*. The amendments provide requirements for the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In September 2016, the IASB issued amendments to IFRS 4 *Insurance Contracts* entitled *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the Board is developing for IFRS 4. The amendments introduce two approaches, which should reconcile the timing of the application of the two new standards. Under the first approach, the amendments become effective on the date of first-time adoption of IFRS 9; under the second, the amendments become effective for annual periods beginning on or after January 1, 2018. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

## 5. New and amended standards and interpretations issued but not yet effective (continued)

In December 2016, the IASB issued IFRIC 22 Interpretation entitled *Foreign Currency Transactions and Advance Consideration*. The IFRIC addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements as their requirements are already incorporated in the accounting policy of the Company.

In December 2016, the IASB issued amendments to IAS 40 *Investment Property* entitled *Transfers of Investment Property*. The amendments clarify the requirements for transfers to, or from, investment property. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*. IFRS 17 establishes a single framework for the accounting for insurance contracts and contains requirements for related disclosures. The new standard replaces IFRS 4 *Insurance Contracts*. The standard is effective for annual periods beginning on or after January 1, 2021. The Company does not expect the standard to have a material impact on the consolidated financial statements.

In June 2017, the IASB issued IFRIC 23 Interpretation entitled *Uncertainty over Income Tax Treatments*. The IFRIC clarifies that for the purposes of calculating current and deferred tax, companies should use a tax treatment of uncertainties, which will probably to be accepted by the tax authorities. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In October 2017, the IASB issued amendments to IAS 28 *Investments in Associates and Joint Ventures*. These amendments clarify that the companies should apply IFRS 9 *Financial Instruments,* including impairment requirements, for the long-term investments in associates and joint ventures, which are accounted for otherwise than using the equity method, including long-term loans given to associates and joint ventures. The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The impact of the amendments was assessed within the assessment of the impact of IFRS 9 *Financial Instruments* (see above).

## 6. Capital and financial risk management

### Capital management

The Company's capital management objectives are to ensure its ability to continue as a going concern and to optimize the cost of capital in order to enhance value to shareholders. Total capital employed and financial liabilities less liquid financial assets are non-IFRS measure.

The Company's management performs a regular assessment of the financial liabilities less liquid financial assets to capital employed ratio to ensure it meets the Company's requirements to fulfil the Company's commitments and to retain strong financial stability.

## 6. Capital and financial risk management (continued)

### Capital management (continued)

The Company's employed capital is calculated as the sum of equity attributable to equity holders of Rosneft: share capital, reserves, retained earnings and non-controlling interests; financial liabilities, which include long and short-term loans and borrowings, other financial liabilities, as reported in the consolidated balance sheet, less liquid financial assets, including cash and cash equivalents, other short-term financial assets and certain long-term deposits. The Company's financial liabilities less liquid financial assets to capital employed ratio was as follows:

| | As of December 31, | |
|---|---|---|
| | **2017** | **2016 (restated)** |
| Financial liabilities less liquid financial assets to capital employed ratio, % | **40.8%** | 32.2% |

### Financial risk management

In the normal course of business the Company is exposed to the following financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Company has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

The Company has developed, documented and approved the relevant policies pertaining to market, credit and liquidity risks and the use of derivative financial instruments.

### Foreign currency risk

The Company undertakes transactions denominated in foreign currencies and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying values of monetary assets and liabilities denominated in foreign currencies are presented in the table below:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | As of December 31, | | As of December 31, | |
| | **2017** | **2016** | **2017** | **2016** |
| US$ | **903** | 1,358 | **(1,885)** | (2,226) |
| EUR | **425** | 153 | **(67)** | (87) |
| **Total** | **1,328** | 1,511 | **(1,952)** | (2,313) |

The Company seeks to identify and manage foreign exchange rate risk in a comprehensive manner, including an integrated analysis of natural economic hedges, in order to benefit from the correlation between income and expenses. The Company chooses the currency in which to hold cash, such as the Russian ruble, U.S. dollar or other currency for short-term risk management purposes.

The long-term risk management strategy of the Company may involve the use of derivative or non-derivative financial instruments in order to minimize foreign exchange rate risk exposure.

## 6. Capital and financial risk management (continued)

### 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 IAS 39 *Financial Instruments: Recognition and Measurement*.

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

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

Changes in the nominal hedging amount during 2017 are presented in the table below:

| | US$ million | The equivalent amount at the CBR exchange rate as of December 31, 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 | (164) | (10) |
| Hedging instruments de-designated | (1,726) | (100) |
| **Nominal amount as of December 31, 2017** | **873** | **50** |

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

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Before income tax | Income tax | Net of tax | Before income tax | Income tax | Net of tax |
| **Total recognized in other comprehensive (loss)/income as of the beginning of the year** | **(435)** | **87** | **(348)** | (590) | 118 | (472) |
| Foreign exchange effects recognized during the year | **(1)** | **–** | **(1)** | 8 | (2) | 6 |
| Foreign exchange effects reclassified to profit or loss | **146** | **(29)** | **117** | 147 | (29) | 118 |
| **Total recognized in other comprehensive (loss)/income for the year** | **145** | **(29)** | **116** | 155 | (31) | 124 |
| **Total recognized in other comprehensive (loss)/income as of the end of the year** | **(290)** | **58** | **(232)** | (435) | 87 | (348) |

## 6. Capital and financial risk management (continued)

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

The schedule of the expected reclassification of the accumulated foreign exchange loss from other comprehensive income to profit or loss, as of December 31, 2017, is presented below:

| Year | 2018 | 2019 | 2020 | 2021 | Total |
|---|---|---|---|---|---|
| Reclassification | (146) | (146) | 2 | – | **(290)** |
| Income tax | 29 | 29 | – | – | **58** |
| **Total, net of tax** | **(117)** | **(117)** | **2** | **–** | **(232)** |

The expected reclassification is calculated using the Central Bank of Russia ("CBR") exchange rate as of December 31, 2017 and may be different using actual exchange rates in the future.

### Analysis of sensitivity of financial instruments to foreign exchange risk

The level of currency risk is assessed on a monthly basis using sensitivity analysis and is maintained within the limits adopted in line with the Company's policy. The table below summarizes the impact on the Company's income before income tax and equity of the depreciation/(appreciation) of the Russian ruble against the U.S. dollar and euro.

| | U.S. dollar effect | | Euro effect | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Currency rate change in % | **10.09%** | 20.16% | **11.34%** | 20.83% |
| Gain/(loss) | **72/(72)** | 147/(147) | **19/(19)** | 11/(11) |
| Equity | **(91)/91** | (234)/234 | **2/(2)** | 2/(2) |

### Interest rate risk

Loans and borrowings raised at variable interest rates expose the Company to interest rate risk arising from the possible movement of variable elements of the overall interest rate.

As of December 31, 2017, the Company's variable rate liabilities totaled RUB 1,543 billion (net of interest payable). The Company analyzes its interest rate exposure, including by performing scenario analysis to measure the impact of an interest rate shift on annual income before income tax.

The table below summarizes the impact of a potential increase or decrease in interest rates on the Company's profit before tax, as applied to the variable element of interest rates on loans and borrowings. The increase/decrease is based on management estimates of potential interest rate movements.

| | Increase/decrease in interest rate | Effect on income before income tax |
|---|---|---|
| | **basis points** | **RUB billion** |
| **2017** | **+6** | **(1)** |
| | **-6** | **1** |
| 2016 | +5 | (1) |
| | -5 | 1 |

The sensitivity analysis is limited to variable rate loans and borrowings and is conducted with all other variables held constant. The analysis is prepared with the assumption that the amount of variable rate liability outstanding at the balance sheet date was outstanding for the whole year. The interest rate on variable rate loans and borrowings will effectively change throughout the year in response to fluctuations in market interest rates.

## 6. Capital and financial risk management (continued)

### Interest rate risk (continued)

The impact measured through the sensitivity analysis does not take into account other potential changes in economic conditions that may accompany the relevant changes in market interest rates.

### Credit risk

The Company controls its own exposure to credit risk. All external customers and their financial guarantors, other than related parties, undergo a creditworthiness check (including sellers of goods and services who act on a prepayment basis). The Company performs an ongoing assessment and monitoring of the financial position and the risk of default. In the event of a default by the parties on their respective obligations under the financial guarantee contracts, the Company's exposure to credit risk will be limited to the corresponding contract amounts. As of December 31, 2017, management assessed such risk as remote.

In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash and performs trade finance operations. The Company primarily has banking relationships with the Russian subsidiaries of large international banking institutions and certain large Russian banks. The Company's exposure to credit risk is limited to the carrying value of financial assets recognized on the consolidated balance sheet.

### Liquidity risk

The Company has mature liquidity risk management processes covering short-term, mid-term and long-term funding. Liquidity risk is controlled through maintaining sufficient reserves and the adequate amount of committed credit facilities and loan funds. Management regularly monitors projected and actual cash flow information, analyzes the repayment schedules of the existing financial assets and liabilities, including upcoming un-accrued interest payments, and performs annual detailed budgeting procedures.

The contractual maturities of the Company's financial liabilities are presented below:

| **Year ended December 31, 2017** | **On demand** | **< 1 year** | **1 to 5 years** | **> 5 years** | **Total** |
|---|---|---|---|---|---|
| Loans and borrowings and other financial liabilities | **–** | **2,247** | **1,407** | **814** | **4,468** |
| Finance lease liabilities | **–** | **9** | **24** | **21** | **54** |
| Accounts payable to suppliers and contractors | **–** | **451** | **–** | **–** | **451** |
| Salary and other benefits payable | **–** | **81** | **–** | **–** | **81** |
| Current operating liabilities of subsidiary banks | **89** | **247** | **–** | **–** | **336** |
| Dividends payable | **–** | **5** | **–** | **–** | **5** |
| Other accounts payable | **–** | **46** | **–** | **–** | **46** |
| Derivative financial liabilities | **–** | **74** | **–** | **–** | **74** |

## 6. Capital and financial risk management (continued)

### Liquidity risk (continued)

| Year ended December 31, 2016 (restated) | On demand | < 1 year | 1 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| Loans and borrowings and other financial liabilities | – | 1,605 | 1,460 | 800 | 3,865 |
| Finance lease liabilities | – | 4 | 16 | 24 | 44 |
| Accounts payable to suppliers and contractors | – | 337 | – | – | 337 |
| Salary and other benefits payable | – | 80 | – | – | 80 |
| Current operating liabilities of subsidiary banks | 41 | 94 | – | – | 135 |
| Other accounts payable | – | 22 | – | – | 22 |
| Derivative financial liabilities | – | 98 | – | – | 98 |
| Voluntary offer to acquire shares | – | 50 | – | – | 50 |

As of December 31, 2017, the Company's current liabilities exceeded its currents assets. Management believes that the Group's current cash on hand, 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. In 2017, the Company was attracting other short-term borrowings under repurchasing agreement operations, using the favorable market conditions. As a result, the amount of short-term liabilities increased while an adequate level of liquidity risk was maintained.

## 7. Acquisitions of subsidiaries and shares in joint operations

### Acquisitions of 2017

***Acquisition of a 30% interest in the concession agreement for the development of the Zohr field***

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 this 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 amounted 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, amounted to US$ 1.1 billion.

The acquired interest in the concession agreement was classified as a joint operation, and was accounted for through the recognition of assets, liabilities, income and expenses in respect of the Company's interests in accordance with IFRS 11, *Joint Arrangements*.

As of December 31, 2017 and the date of authorization of these financial statements for issue the Company had not yet completed the fair value estimation of assets acquired and liabilities assumed of its 30% share in the concession agreement. 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.

***Acquisition of JSCB Peresvet***

In June 2017, the Company acquired a 99.9% share in JSCB Peresvet, a financial institution engaged in 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.

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

### Acquisitions of 2017 (continued)

As of December 31, 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:

***Acquisition of JSCB Peresvet***

| | |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | 1 |
| Obligatory reserves with the Bank of Russia | 1 |
| Loans to customers | 27 |
| Investment securities available for sale | 21 |
| Investment securities held to maturity | 13 |
| Expected future benefits from DIA's financial aid in the form of a reduced rate loan | 17 |
| Investment property | 3 |
| Current profit tax assets | 2 |
| **Total assets** | **85** |
| **LIABILITIES** | |
| Amounts due to credit institutions | 18 |
| Amounts due to customers | 15 |
| Debt securities issued | 7 |
| Other borrowings | 32 |
| Other liabilities | 15 |
| Other provisions | 2 |
| **Total liabilities** | **89** |
| **Total identifiable net assets at fair value** | **(4)** |
| 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** | **12** |
| Fair value of cash consideration transferred | – |
| Intercompany liabilities and claims existing prior to the acquisition | 16 |
| **Consideration transferred to be included for the purpose of goodwill** | **16** |
| Excluding identifiable net assets of JSCB Peresvet | (12) |
| **Goodwill** | **4** |

As of December 31, 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 4 billion is recognized in Other expenses of the Company's consolidated statement of profit or loss for the year ended December 31, 2017 (Note 13).

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 | – |
| **Net cash inflow** | **1** |

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

**Acquisitions of 2017 (continued)**

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 6,016 billion and RUB 312 billion, respectively, for the year ended December 31, 2017.

***Acquisition of LLC Independent Petroleum Company – Projects and LLC Drilling Service Technology***

In April, 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 and of 100% of shares in LLC Drilling Service Technology, a company involved in the provision of drilling services in the Khanty-Mansiysk region. The consideration amounted to RUB 49 billion net of cash acquired.

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

| | |
|---|---|
| **ASSETS** | |
| **Current assets** | |
| Cash and cash equivalents | 5 |
| Other current assets | 5 |
| **Total current assets** | **10** |
| **Non-current assets** | |
| Property, plant and equipment | 101 |
| Deferred tax assets | 2 |
| **Total non-current assets** | **103** |
| **Total assets** | **113** |
| **LIABILITIES** | |
| **Current liabilities** | |
| Other current liabilities | 9 |
| **Total current liabilities** | **9** |
| **Non-current liabilities** | |
| Deferred tax liabilities | 15 |
| Loans and borrowings | 44 |
| **Total non-current liabilities** | **59** |
| **Total liabilities** | **68** |
| **Total identifiable net assets at fair value** | **45** |
| Goodwill | 9 |
| **Total consideration transferred** | **54** |

***Acquisition of TNK Trading International S.A.***

In December 2017 the Company gained control over TNK Trading International S.A. ("TTI") through concluding a number of agreements. Until December 2017 the Company considered its interest in TTI to be a part of investments in joint operations and accounted for its interest using the equity method.

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

### Acquisitions of 2017 (continued)

As of December 31, 2017 and the date of authorization of these financial statements for issue the Company had not yet completed the fair value estimation of TTI'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 | 11 |
| Prepayments on oil supply agreements | 130 |
| Intangible asset | 9 |
| Accounts receivable | 13 |
| Loans issued | 9 |
| **Total assets** | **172** |
| **Liabilities** | |
| Loans and borrowings | 130 |
| Accounts payable | 12 |
| Taxes payable | 2 |
| **Total liabilities** | **144** |
| **Total identifiable net assets at fair value** | **28** |
| Intercompany liabilities and claims existing prior to the acquisition (TTI net liabilities to the Company existing prior to the acquisition) | 120 |
| **Identifiable net assets excluding intercompany liabilities and claims existing prior to the acquisition** | **148** |
| Fair value of cash consideration transferred | – |
| Carrying value of the Company's investment in joint operations | 9 |
| Intercompany liabilities and claims existing prior to the acquisition | 120 |
| **Consideration transferred to be included for the purpose of goodwill** | **129** |
| **Finance liability to the bank** | **19** |
| Excluding identifiable net assets of TTI | (148) |
| **Goodwill** | **–** |

No cash consideration was transferred at the acquisition date.

The identifiable intangible asset amounting to RUB 9 billion represents an estimate of the future benefits arising from the oil trading agreements between TTI and its major oil supplier. The valuation of this intangible asset is subject to updating under the final allocation of the purchase price to the fair value of assets acquired and liabilities assumed.

Cash flows arising from the TTI acquisition:

| | |
|---|---|
| Cash acquired as a result of the TTI acquisition | 11 |
| Cash paid | – |
| **Net cash inflow** | **11** |

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

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

### Acquisitions of 2017 (continued)

Had TTI's 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 6,043 billion and RUB 305 billion, respectively, for the twelve month period ended December 31, 2017.

### Acquisitions of 2016

***Acquisition of shares in refineries in Germany***

On December 31, 2016 the Company acquired shares in refineries in Germany as part of the restructuring of Ruhr Oel GmbH, a joint operation with BP Group, engaged in the processing and sale of crude oil in Western Europe (Note 13). As a result of the restructuring, the Company has become a direct holder and increased its shareholdings in Bayernoil Raffineriegesellschaft mbH from 12.5% to 25%; in Mineraloelraffinerie Oberrhein GmbH from 12% to 24%; and in PCK Raffinerie GmbH (PCK) from 35.42% to 54.17%. In exchange, BP has consolidated 100% of the equity of the Gelsenkirchen refinery and solvents production facility DHC Solvent Chemie GmbH. The total consideration amounted to US$ 1,522 million (RUB 92 billion at the CBR official exchange rate at the acquisition date).

The acquired interest was classified as a joint operation, and was accounted for through the recognition of assets, liabilities, income and expenses in respect of the Company's interests in accordance with IFRS 11, *Joint Arrangements*.

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

| | |
|---|---|
| **ASSETS** | |
| **Current assets** | |
| Accounts receivable | 15 |
| Inventories | 2 |
| **Total current assets** | **17** |
| **Non-current assets** | |
| Property, plant and equipment | 132 |
| Investments in associates and joint ventures | 1 |
| **Total non-current assets** | **133** |
| **Total assets** | **150** |
| **LIABILITIES** | |
| **Current liabilities** | |
| Accounts payable and accrued liabilities | 8 |
| Loans and borrowings and other financial liabilities | 2 |
| Other tax liabilities | 2 |
| **Total current liabilities** | **12** |
| **Non-current liabilities** | |
| Deferred tax liabilities | 34 |
| Other non-current liabilities | 12 |
| **Total non-current liabilities** | **46** |
| **Total liabilities** | **58** |
| **Total identifiable net assets at fair value** | **92** |
| **Total consideration transferred** | **92** |

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

### Acquisitions of 2016 (continued)

Had the refineries acquisition taken place at the beginning of the reporting period (January 1, 2016), revenues and net income of the combined entity would have been RUB 5,299 billion and RUB 219 billion, respectively, for the year ended December 31, 2016.

***Acquisition of JSC Targin***

On December 30, 2016 the Company acquired a 100% interest in JSC Targin, a provider of oilfield services.

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

| | |
|---|---|
| **ASSETS** | |
| **Current assets** | |
| Accounts receivable | 6 |
| Inventories | 2 |
| Cash and cash equivalents | 2 |
| **Total current assets** | **10** |
| **Non-current assets** | |
| Property, plant and equipment | 11 |
| **Total non-current assets** | **11** |
| **Total assets** | **21** |
| **LIABILITIES** | |
| **Current liabilities** | |
| Accounts payable and accrued liabilities | 4 |
| Loans and borrowings | 4 |
| Other current liabilities | 1 |
| **Total current liabilities** | **9** |
| **Non-current liabilities** | |
| Loans and borrowings | 4 |
| **Total non-current liabilities** | **4** |
| **Total liabilities** | **13** |
| **Total identifiable net assets at fair value** | **8** |
| Gain on bargain purchase | (4) |
| **Total consideration transferred** | **4** |

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

Had Targin's acquisition taken place at the beginning of the reporting period (January 1, 2016), revenues and net income of the combined entity would have been RUB 4,982 billion and RUB 196 billion, respectively, for the twelve month period ended December 31, 2016.

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

### Acquisitions of 2016 (continued)

#### *Acquisition of PJSC Bashneft Oil Company*

On October 12, 2016, the Company completed the acquisition of the state's stake in PJSC Bashneft Oil Company totaling 50.0755% of its charter capital. The consideration transferred totaled RUB 329.69 billion. As a result of the transaction, the Company has obtained control over PJSC Bashneft Oil Company and its subsidiaries ("Bashneft").

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

| | |
|---|---|
| **ASSETS** | |
| **Current assets** | |
| 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 measured at fair value | (234) |
| Liability for the mandatory offer | (50) |
| Goodwill | 26 |
| **Total consideration transferred** | **330** |

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

### Acquisitions of 2016 (continued)

Bashneft acquisition cash flow:

| | |
|---|---|
| Net cash acquired | 41 |
| Cash paid | (330) |
| **Net cash outflow** | **(289)** |

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

In November 2016, in accordance with Russian legal requirements, Rosneft submitted a mandatory offer to Bashneft for the acquisition of 55,466,137 Bashneft ordinary shares. The Company included a liability of RUB 50 billion to record its liabilities under the mandatory offer in the purchase price allocation for Bashneft. Following the results of the mandatory offer, finalized in February 2017, the Company's interest in the share capital of Bashneft amounted to 60.33%.

Had the Bashneft acquisition taken place at the beginning of the reporting period (January 1, 2016), revenues and net income of the combined entity would have been RUB 5,420 billion and RUB 225 billion, respectively, for the twelve month period ended December 31, 2016.

### *Other acquisitions*

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.

In 2016 the Company completed several acquisitions, including JSC Targin, PJSC Bashneft, shares in refineries in Germany as part of the Ruhr Oel GmbH restructuring. At the date of the issuance of the consolidated financial statements for the year ended December 31, 2016 the Company made a preliminary allocation of the purchase price of these acquisitions. The allocation of the purchase price of the acquisitions was finalized during 2017.

## 7. 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 |
|---|---|---|---|---|---|
| | | German refineries | Bashneft | Other acquisitions | |
| **ASSETS** | | | | | |
| **Current assets** | **2,300** | **–** | **–** | **–** | **2,300** |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 7,090 | 24 | 41 | (4) | 7,151 |
| 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** | **24** | **67** | **(4)** | **8,817** |
| **Total assets** | **11,030** | **24** | **67** | **(4)** | **11,117** |
| **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 | 21 | 8 | (1) | 813 |
| Provisions | 203 | | – | – | 203 |
| Prepayment on long-term oil and petroleum products supply agreements | 1,586 | | – | – | 1,586 |
| Other non-current liabilities | 43 | 3 | – | – | 46 |
| **Total non-current liabilities** | **4,531** | **24** | **8** | **(1)** | **4,562** |
| **Equity** | | | | | |
| Share capital | 1 | – | – | – | 1 |
| Additional paid-in capital | 603 | – | – | – | 603 |
| Other funds and reserves | (497) | – | – | – | (497) |
| Retained earnings | 3,202 | – | (4) | (3) | 3,195 |
| **Rosneft shareholders' equity** | **3,309** | **–** | **(4)** | **(3)** | **3,302** |
| Non-controlling interests | 417 | – | 63 | – | 480 |
| **Total equity** | **3,726** | **–** | **59** | **(3)** | **3,782** |
| **Total liabilities and equity** | **11,030** | **24** | **67** | **(4)** | **11,117** |

## 8. 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.

Operating segments in 2017:

| | **Exploration and production** | **Refining and distribution** | **Corporate and other unallocated activities** | **Adjustments** | **Consolidated** |
|---|---|---|---|---|---|
| **Total revenues and equity share in profits of associates and joint ventures** | **3,180** | **6,099** | **123** | **(3,388)** | **6,014** |
| *Including: equity share in profits of associates and joint ventures* | *42* | *16* | *2* | *–* | *60* |
| **Costs and expenses** | | | | | |
| Costs and expenses other than depreciation, depletion and amortization | **2,076** | **5,919** | **197** | **(3,388)** | **4,804** |
| Depreciation, depletion and amortization | **462** | **116** | **8** | **–** | **586** |
| **Total costs and expenses** | **2,538** | **6,035** | **205** | **(3,388)** | **5,390** |
| **Operating income** | **642** | **64** | **(82)** | **–** | **624** |
| Finance income | **–** | **–** | **107** | **–** | **107** |
| Finance expenses | **–** | **–** | **(225)** | **–** | **(225)** |
| **Total finance expenses** | **–** | **–** | **(118)** | **–** | **(118)** |
| Other income | **–** | **–** | **109** | **–** | **109** |
| Other expenses | **–** | **–** | **(77)** | **–** | **(77)** |
| Foreign exchange differences | **–** | **–** | **3** | **–** | **3** |
| Cash flow hedges reclassified to profit or loss | **–** | **–** | **(146)** | **–** | **(146)** |
| **Income before income tax** | **642** | **64** | **(311)** | **–** | **395** |
| Income tax expense | **(120)** | **(10)** | **32** | **–** | **(98)** |
| **Net income** | **522** | **54** | **(279)** | **–** | **297** |

## 8. Segment information (continued)

Operating segments in 2016 (restated):

| | 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** | 2,542 | 5,012 | 90 | (2,656) | 4,988 |
| *Including: equity share in profits of associates and joint ventures* | 17 | 8 | 1 | – | 26 |
| **Costs and expenses** | | | | | |
| Costs and expenses other than depreciation, depletion and amortization | 1,504 | 4,862 | 134 | (2,656) | 3,844 |
| Depreciation, depletion and amortization | 395 | 88 | 6 | | 489 |
| **Total costs and expenses** | 1,899 | 4,950 | 140 | (2,656) | 4,333 |
| **Operating income** | 643 | 62 | (50) | – | 655 |
| Finance income | – | – | 91 | – | 91 |
| Finance expenses | – | – | (193) | – | (193) |
| **Total finance expenses** | – | – | (102) | – | (102) |
| Other income | – | – | 49 | – | 49 |
| Other expenses | – | – | (79) | – | (79) |
| Foreign exchange differences | – | – | (70) | – | (70) |
| Cash flow hedges reclassified to profit or loss | – | – | (147) | – | (147) |
| **Income before income tax** | 643 | 62 | (399) | – | 306 |
| Income tax expense | (130) | (12) | 28 | – | (114) |
| **Net income** | 513 | 50 | (371) | – | 192 |

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

| | **2017** | **2016** |
|---|---|---|
| International sales of crude oil, petroleum products and petrochemicals | **3,986** | 3,403 |
| International sales of crude oil and petroleum products – CIS, other than Russia | **262** | 183 |
| Domestic sales of crude oil, petroleum products and petrochemicals | **1,414** | 1,087 |
| Sales of gas | **215** | 214 |
| **Total oil, gas, petroleum products and petrochemicals sales** | **5,877** | 4,887 |

The Company is not dependent on any of its major customers or any one particular customer, as there is a liquid market for crude oil and petroleum products. As of December 31, 2017, the amount of current receivables from the Company's largest customer totaled RUB 59 billion, or around 9% of the Company's trade receivables.

## 9. Taxes other than income tax

Taxes other than income tax for the years ended December 31 comprise the following:

| | 2017 | 2016 |
|---|---|---|
| Mineral extraction tax | **1,488** | 1,007 |
| Excise tax | **326** | 197 |
| Property tax | **38** | 36 |
| Social charges | **61** | 50 |
| Other | **6** | 6 |
| **Total taxes** | **1,919** | 1,296 |

## 10. Export customs duty

Export customs duty for the years ended December 31 comprises the following:

| | 2017 | 2016 |
|---|---|---|
| Export customs duty on oil sales | **480** | 497 |
| Export customs duty on petroleum products and petrochemicals sales | **178** | 160 |
| **Total export customs duty** | **658** | 657 |

## 11. Finance income

Finance income for the years ended December 31 comprises the following:

| | 2017 | 2016 |
|---|---|---|
| **Interest income on** | | |
| Deposits and certificates of deposit | **20** | 24 |
| Loans issued | **29** | 29 |
| Notes receivable | **5** | 4 |
| Bonds | **9** | 4 |
| Long-term advances issued (Note 28) | **29** | 8 |
| Current/settlement accounts | **1** | 10 |
| Other interest income | **1** | – |
| **Total interest income** | **94** | 79 |
| Net gain from operations with derivative financial instruments | **10** | 10 |
| Gain from disposal of financial assets | **3** | – |
| Other finance income | **–** | 2 |
| **Total finance income** | **107** | 91 |

## 12. Finance expenses

Finance expenses for the years ended December 31 comprise the following:

| | 2017 | 2016 |
|---|---|---|
| **Interest expenses on** | | |
| Loans and borrowings | **(113)** | (80) |
| Prepayment on long-term oil and petroleum products supply agreements (Note 33) | **(81)** | (90) |
| Other interest expenses | **(5)** | (7) |
| **Total interest expenses** | **(199)** | (177) |
| Increase in provision due to the unwinding of a discount | **(17)** | (15) |
| Loss from disposal of financial assets | **(8)** | – |
| Other finance expenses | **(1)** | (1) |
| **Total finance expenses** | **(225)** | (193) |

The weighted average rates used to determine the amount of borrowing costs eligible for capitalization were 8.31% and 4.82% p.a. in 2017 and 2016, respectively.

## 13. Other income and expenses

Other income for the years ended December 31 comprises the following:

| | 2017 | 2016 (restated) |
|---|---|---|
| Liability write-off | **–** | 5 |
| Non-cash income from disposal of subsidiaries and shares in joint operations | **–** | 33 |
| Compensation payment for licenses from joint venture parties | **1** | 2 |
| Gain on out-of-court settlement (Note 40) | **100** | – |
| Other | **8** | 9 |
| **Total other income** | **109** | 49 |

In December 2017, the Company, PJSFC Sistema and JSC Sistema-Invest signed an amicable agreement. According to the terms of this agreement, PJSFC Sistema and JSC Sistema-Invest guarantee to compensate the Company previously caused losses amounting to RUB 100 billion (Note 40). As of December 31, 2017, the Company received cash in the amount of RUB 20 billion.

The effect from the disposal of subsidiaries and shares in joint operations mainly includes the effect from the restructuring of Ruhr Oel GmbH. It is calculated as the difference between the fair value of the direct shareholding acquired in the refineries in Germany – Bayernoil Raffineriegesellschaft mbH, Mineraloelraffinerie Oberrhein GmbH and PCK (Note 7) – and the carrying value of the disposed assets and liabilities of Ruhr Oel GmbH as of December 31, 2016. The effect from the restructuring of Ruhr Oel GmbH includes the cumulative foreign exchange differences recognized in other comprehensive income, accumulated in shareholders' equity and reclassified to profit upon the disposal of Ruhr Oel GmbH.

## 13. Other income and expenses (continued)

Other expenses for the years ended December 31 comprise the following:

| | 2017 | 2016 (restated) |
|---|---|---|
| Sale and disposal of property, plant and equipment and intangible assets | **(13)** | (16) |
| Disposal of companies and non-production assets | **(3)** | (2) |
| Impairment of assets | **(26)** | (23) |
| Social payments, charity and financial aid | **(20)** | (16) |
| Other | **(15)** | (22) |
| **Total other expenses** | **(77)** | (79) |

## 14. Personnel expenses

Personnel expenses for the years ended December 31 comprise the following:

| | 2017 | 2016 |
|---|---|---|
| Salary | **249** | 211 |
| Statutory insurance contributions | **62** | 51 |
| Expenses on non-statutory defined contribution plan | **7** | 5 |
| Other employee benefits | **13** | 11 |
| **Total personnel expenses** | **331** | 278 |

Personnel expenses are included in Production and operating expenses, General and administrative expenses and Other expenses in the consolidated statement of profit or loss.

## 15. Operating leases

Operating lease agreements have various terms and conditions and primarily consist of indefinite tenancy agreements for the lease of land plots under oilfield pipelines and petrol stations, agreements for the lease of rail cars and rail tank cars for periods over 12 months, and agreements for the lease of land plots for industrial sites of the Company's oil refining plants. The agreements provide for an annual revision of the rental rates and contractual terms and conditions.

Total operating lease expenses for the years ended December 31, 2017 and 2016 amounted to RUB 28 billion and RUB 28 billion, respectively. The expenses were recognized within Production and operating expenses, General and administrative expenses and Other expenses in the consolidated statement of profit or loss.

Future minimum lease payments under non-cancellable operating leases as of December 31 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Less than 1 year | **29** | 26 |
| From 1 to 5 years | **82** | 83 |
| Over 5 years | **198** | 188 |
| **Total future minimum lease payments** | **309** | 297 |

## 16. Income tax

Income tax expenses for the years ended December 31 comprise the following:

| | 2017 | 2016 (restated) |
|---|---|---|
| Current income tax | **123** | 39 |
| Prior period adjustments | **(3)** | (4) |
| **Current income tax expense** | **120** | 35 |
| Deferred tax relating to the origination and reversal of temporary differences | **(22)** | 79 |
| **Deferred income tax (benefit)/expense** | **(22)** | 79 |
| **Total income tax expense** | **98** | 114 |

In 2017 and 2016, the Company's subsidiaries domiciled in the Russian Federation applied the standard Russian income tax rate of 20%, except for applicable regional tax relief. The income tax rates applicable for subsidiaries incorporated in other jurisdictions may vary from 20% and are calculated according to local regulations.

Temporary differences between these consolidated financial statements and tax records gave rise to the following deferred income tax assets and liabilities:

| | Consolidated balance sheet as of December 31, | | Consolidated statement of profit or loss for the years, ended December 31, | |
|---|---|---|---|---|
| | 2017 | 2016 (restated) | 2017 | 2016 (restated) |
| Other short-term financial assets | **2** | 6 | **(2)** | 3 |
| Short-term accounts receivable | **7** | 7 | **–** | 2 |
| Property, plant and equipment | **14** | 10 | **4** | 2 |
| Short-term accounts payable and accrued liabilities | **13** | 9 | **4** | – |
| Other current liabilities | **16** | 20 | **(4)** | (3) |
| Long-term loans and borrowings and other financial liabilities | **4** | 5 | **(1)** | (1) |
| Long-term provisions | **9** | 10 | **(1)** | – |
| Tax loss carry forward | **58** | 29 | **28** | (69) |
| Other | **9** | 8 | **1** | 1 |
| *Less: deferred tax liabilities offset* | ***(106)*** | *(82)* | **–** | – |
| **Deferred tax assets** | **26** | 22 | **29** | (65) |
| Short-term accounts receivable | **(1)** | (6) | **5** | (5) |
| Inventories | **(13)** | (10) | **(3)** | (4) |
| Property, plant and equipment | **(615)** | (596) | **(15)** | (11) |
| Mineral rights | **(267)** | (261) | **7** | 7 |
| Intangible assets | **(4)** | (5) | **1** | 3 |
| Investments in associates and joint ventures | **(10)** | (9) | **(1)** | (2) |
| Other | **(9)** | (8) | **(1)** | (2) |
| *Less: deferred tax assets offset* | ***106*** | *82* | **–** | – |
| **Deferred tax liabilities** | **(813)** | (813) | **(7)** | (14) |
| **Deferred income tax (expense)/benefit** | | | **22** | (79) |
| **Net deferred tax liabilities** | **(787)** | (791) | | |
| **Recognized in the consolidated balance sheet as following** | | | | |
| Deferred tax assets | **26** | 22 | | |
| Deferred tax liabilities | **(813)** | (813) | | |
| **Net deferred tax liabilities** | **(787)** | (791) | | |

## 16. Income tax (continued)

The reconciliation of net deferred tax liabilities is as follows:

| | 2017 | 2016 (restated) |
|---|---|---|
| **As of January 1** | **(791)** | (557) |
| Deferred income tax (expense)/benefit, recognized in the consolidated statement of profit or loss | **22** | (79) |
| Acquisition of subsidiaries and shares in joint operations (Note 7) | **(13)** | (157) |
| Deferred tax expenses recognized in other comprehensive income | **(5)** | 2 |
| **As of December 31** | **(787)** | (791) |

The reconciliation between tax expense and the product of accounting profit multiplied by the 20% tax rate for the years ended December 31 is as follows:

| | 2017 | 2016 (restated) |
|---|---|---|
| **Income before income tax** | **395** | 306 |
| **Income tax at statutory rate of 20%** | **79** | 61 |
| **Increase/(decrease) resulting from:** | | |
| Effect of change in unrecognized deferred tax assets | **4** | 6 |
| Effect of income tax rates in other jurisdictions | **2** | 4 |
| Effect of special tax treatments | **2** | 3 |
| Effect of income tax relief | **(12)** | (16) |
| Effect of equity share in profits of associates and joint ventures | **(8)** | (3) |
| Effect of tax on intercompany dividends | **1** | 7 |
| Effect of tax on controlled investments in foreign subsidiaries | **2** | – |
| Effect from goodwill write-off | **1** | – |
| Effect from disposal of a subsidiary | **(1)** | – |
| Effect from sale of shares in subsidiaries | **–** | 38 |
| Effect from restructuring of joint ventures | **–** | (6) |
| Effect of prior period adjustments | **1** | 1 |
| Effect of non-taxable income and non-deductible expenses | **27** | 19 |
| **Income tax** | **98** | 114 |

Unrecognized deferred tax assets in the consolidated balance sheet for the years ended December 31, 2017 and 2016 amounted to RUB 55 billion and RUB 48 billion, respectively, related to unused tax losses. In respect of recognized deferred tax assets on tax losses carried forward management considers it probable that future taxable profits will be available for the Company against which these tax losses can be utilized.

The total amount of temporary differences associated with investment in subsidiaries, for which deferred tax liabilities have not been recognized, amounted RUB 653 billion as of December 31, 2017.

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 are included in the Company’s tax base as of December 31, 2018 and recorded in the tax declaration. The consequences of taxation of controlled foreign companies are accounted for within current and deferred tax liabilities.

## 17. Non-controlling interests

Non-controlling interests include:

| | As of December 31, 2017 | | 2017 | As of December 31, 2016 | | 2016 |
|---|---|---|---|---|---|---|
| | **Non-controlling interest (%)** | **Non-controlling interest as of the end of the year** | **Non-controlling interest in net income** | **Non-controlling interest (%)** | **Non-controlling interest as of the end of the year (restated)** | **Non-controlling interest in net income (restated)** |
| PJSC Bashneft Oil Company | **39.67** | **221** | **40** | 39.67 | 191 | – |
| JSC Vankorneft | **49.90** | **140** | **28** | 49.90 | 141 | 13 |
| LLC Taas-Yuriakh Neftegazodobycha | **49.90** | **104** | **3** | 49.90 | 92 | 2 |
| PJSC Verkhnechonskneftegaz | **20.05** | **43** | **3** | 0.06 | – | – |
| LLC Sorovskneft | **39.67** | **20** | **1** | 39.67 | 19 | – |
| PJSC Ufaorgsintez | **42.66** | **19** | **1** | 42.66 | 18 | – |
| LLC Bashneft-Dobycha | **39.67** | **7** | **1** | 39.67 | 6 | – |
| Non-controlling interests in other entities | **various** | **10** | **(2)** | various | 13 | 3 |
| **Total non-controlling interests** | | **564** | **75** | | 480 | 18 |

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. for a consideration of US$ 1.1 billion (RUB 65 billion at the CBR official exchange rate at the transaction closing date).

In May 2016 the Company sold a 15% share in its subsidiary JSC Vankorneft to Oil and Natural Gas Corporation Videsh Limited for a consideration of RUB 72 billion.

In October 2016 the Company sold a 23.9% share in JSC Vankorneft to a consortium of companies, including Oil India Ltd, Indian Oil Corporation and Bharat Petroresources (the “Consortium”) for a consideration of RUB 111 billion.

In October 2016 the Company sold an 11% share in JSC Vankorneft to a subsidiary of Oil and Natural Gas Corporation Videsh Limited for a consideration of RUB 52 billion.

In October 2016 the Company sold a 29.9% share in its subsidiary LLC Taas-Yuriakh Neftegazodobycha to the Consortium for a consideration of RUB 73 billion.

In October 2016 the Company acquired 50.0755% of shares in PJSC Bashneft Oil Company for a cash consideration of RUB 330 billion. The total non-controlling interest in PJSC Bashneft Oil Company and its subsidiaries recognized at the acquisition date, including the outcome of the voluntary offer to acquire PJSC Bashneft Oil Company ordinary shares held by minority shareholders, amounted to RUB 234 billion (Note 7). The total non-controlling interest in PJSC Bashneft Oil Company and its subsidiaries is valued at the fair value at the date of acquisition.

## 17. Non-controlling interests (continued)

The summarized financial information of subsidiaries that have material non-controlling interests is provided below. This information is based on amounts before inter-company eliminations.

| Summarized statement of comprehensive income for 2017 | PJSC Bashneft Oil Company | JSC Vankorneft | LLC Taas-Yuriakh Neftegazodobycha |
|---|---|---|---|
| Revenues | **614** | **330** | **29** |
| Costs and other income and expenses | **(486)** | **(260)** | **(21)** |
| **Income before income tax** | **128** | **70** | **8** |
| Income tax expense | **(27)** | **(12)** | **(2)** |
| **Net income** | **101** | **58** | **6** |
| incl. attributable to non-controlling interests | **40** | **28** | **3** |

| Summarized statement of comprehensive income for 2016 | PJSC Bashneft Oil Company* (restated) | JSC Vankorneft | LLC Taas-Yuriakh Neftegazodobycha |
|---|---|---|---|
| Revenues | 135 | 299 | 25 |
| Costs and other income and expenses | (136) | (202) | (19) |
| **Income before income tax** | (1) | 97 | 6 |
| Income tax expense | – | (16) | (1) |
| **Net income** | (1) | 81 | 5 |
| incl. attributable to non-controlling interests | – | 13 | 2 |

* *From the acquisition date.*

| Summarized balance sheet as at December 31, 2017 | PJSC Bashneft Oil Company | JSC Vankorneft | LLC Taas-Yuriakh Neftegazodobycha |
|---|---|---|---|
| Current assets | **324** | **71** | **11** |
| Non-current assets | **792** | **292** | **215** |
| **Total assets** | **1,116** | **363** | **226** |
| Current liabilities | **234** | **36** | **7** |
| Non-current liabilities | **234** | **35** | **28** |
| Equity | **648** | **292** | **191** |
| **Total equity and liabilities** | **1,116** | **363** | **226** |
| incl. non-controlling interests | **221** | **140** | **104** |

| Summarized balance sheet as at December 31, 2016 | PJSC Bashneft Oil Company (restated) | JSC Vankorneft | LLC Taas-Yuriakh Neftegazodobycha |
|---|---|---|---|
| Current assets | 212 | 99 | 12 |
| Non-current assets | 832 | 266 | 189 |
| **Total assets** | 1,044 | 365 | 201 |
| Current liabilities | 205 | 35 | 7 |
| Non-current liabilities | 265 | 36 | 27 |
| Equity | 574 | 294 | 167 |
| **Total equity and liabilities** | 1,044 | 365 | 201 |
| incl. non-controlling interests | 191 | 141 | 92 |

## 18. Earnings per share

For the years ended December 31 basic and diluted earnings per share comprise the following:

| | 2017 | 2016 (restated) |
|---|---|---|
| Net income attributable to shareholders of Rosneft | **222** | 174 |
| Weighted average number of issued common shares outstanding (millions) | **10,598** | 10,598 |
| **Total basic and diluted earnings per share (RUB)** | **20.95** | 16.42 |

## 19. Cash and cash equivalents

Cash and cash equivalents consist of the following:

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Cash on hand and in bank accounts in RUB | **44** | 25 |
| Cash on hand and in bank accounts in foreign currencies | **124** | 153 |
| Deposits and other cash equivalents in RUB | **142** | 609 |
| Other | **12** | 3 |
| **Total cash and cash equivalents** | **322** | 790 |

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

Deposits are interest bearing and denominated primarily in RUB.

Restricted cash includes the obligatory reserve of subsidiary banks with the CBR in the amount of RUB 4 billion and RUB 2 billion as of December 31, 2017 and 2016, respectively.

## 20. Other short-term financial assets

Other short-term financial assets comprise the following:

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 (restated) |
| **Financial assets available-for-sale** | | |
| Bonds and promissory notes | **135** | 116 |
| Stocks and shares | **44** | 187 |
| **Financial assets held-to-maturity** | | |
| Bonds | **1** | 2 |
| **Loans and accounts receivable** | | |
| Loans granted | **13** | 4 |
| Loans issued to associates | **32** | 22 |
| Notes receivable, net of allowance | **66** | 55 |
| Loans granted under reverse repurchase agreements | **–** | 2 |
| Deposits and certificates of deposit | **44** | 54 |
| **Held-for-trading financial assets at fair value through profit or loss** | | |
| Corporate bonds | **–** | 2 |
| State bonds | **1** | 2 |
| **Total other short-term financial assets** | **336** | 446 |

## 20. Other short-term financial assets (continued)

As of December 31, 2017 and 2016 available-for-sale bonds and notes comprise the following:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| **Type of security** | **Balance** | **Interest rate p.a.** | **Date of maturity** | **Balance** | **Interest rate p.a.** | **Date of maturity** |
| State and municipal bonds | **33** | 5.0-14.15% | January 2018 – March 2033 | 65 | 7.5-14.15% | October 2017 – March 2030 |
| Corporate bonds | **79** | 3.08-14.25% | January 2018 – September 2032 | 31 | 3.72-12.85% | January 2017 – September 2032 |
| Bank of Russia bonds | **4** | 7.75% | January 2018 | – | | |
| Promissory notes | **19** | 4.37% | September 2018 | 20 | 11.7% | December 2021 |
| **Total** | **135** | | | 116 | | |

As of December 31, 2017 and 2016 held-to-maturity bonds comprise the following:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| **Type of security** | **Balance** | **Interest rate p.a.** | **Date of maturity** | **Balance** | **Interest rate p.a.** | **Date of maturity** |
| State and municipal bonds | **1** | 7.7-11.4% | July 2018 – December 2034 | 1 | 7.94-12.1% | June 2017 – November 2019 |
| Corporate bonds | **–** | | | 1 | 5.38-6.0% | February 2017 – April 2017 |
| **Total** | **1** | | | 2 | | |

As of December 31, 2017, notes receivable include corporate notes receivable that are denominated in U.S. dollars with a nominal interest rate from 3.8% to 4.5% p.a. and maturity through January 2022, as well as discounted corporate notes receivable that are denominated in U.S. dollars with a rate of return of 4.5% p.a. and maturity through February 2018.

As of December 31, 2016, notes receivable include corporate notes receivable that are denominated in euro with a nominal interest rate of 2.845% p.a. and maturity through April 2017, as well as discounted corporate notes receivable that are denominated in U.S. dollars with a rate of return of 4.5% p.a. and maturity through February 2017.

As of December 31, 2017, deposits and certificates of deposit denominated in U.S. dollars amount to RUB 39 billion and earn interest ranging from 2.0% to 3.7% p.a. Deposits and certificates of deposit denominated in RUB amount to RUB 3 billion and bear interest rates ranging from 7.2% to 7.56% p.a.

As of December 31, 2016, deposits and certificates of deposit denominated in U.S. dollars amount to RUB 47 billion and earn interest ranging from 1.1% to 4.0% p.a. Deposits and certificates of deposit denominated in RUB amount to RUB 7 billion and bear interest rates ranging from 9.9% to 14.0% p.a.

## 20. Other short-term financial assets (continued)

As of December 31, 2017 and 2016 trading securities comprise the following:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| **Type of security** | **Balance** | **Interest rate p.a.** | **Date of maturity** | **Balance** | **Interest rate p.a.** | **Date of maturity** |
| State and municipal bonds | **1** | 7.28-10.9% | July 2018 – July 2021 | 2 | 2.5-10.9% | April 2017 – August 2023 |
| Corporate bonds | **–** | | | 2 | 5.38-11.7% | February 2017 – September 2032 |
| **Total** | **1** | | | 4 | | |

## 21. Accounts receivable

Accounts receivable include the following:

| | As of December 31, 2017 | As of December 31, 2016 (restated) |
|---|---|---|
| Trade receivables | **658** | 437 |
| Banking loans to customers | **108** | 50 |
| Other accounts receivable | **116** | 29 |
| **Total** | **882** | 516 |
| Allowance for doubtful accounts | **(39)** | (30) |
| **Total accounts receivable, net of allowance** | **843** | 486 |

The allowance for doubtful accounts is recognized at each balance sheet date based on estimates of the Company's management regarding the expected cash inflows to repay accounts receivable.

The Company recognized an allowance for doubtful accounts for all significant past due accounts receivable as of December 31, 2017 and 2016.

As of December 31, 2017 and 2016 accounts receivable were not pledged as collateral for loans and borrowings provided to the Company.

## 22. Inventories

Inventories comprise the following:

| | As of December 31, 2017 | As of December 31, 2016 |
|---|---|---|
| Crude oil and gas | **88** | 67 |
| Petroleum products and petrochemicals | **158** | 137 |
| Materials and supplies | **78** | 79 |
| **Total** | **324** | 283 |

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

## 22. Inventories (continued)

For the years ended December 31:

| | 2017 | 2016 |
|---|---|---|
| Cost of inventories recognized as an expense during the period | **977** | 795 |

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

## 23. Prepayments and other current assets

Prepayments comprise the following:

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Value added tax and excise receivable | **180** | 166 |
| Prepayments to suppliers | **210** | 64 |
| Settlements with customs | **37** | 29 |
| Profit and other tax payments | **19** | 23 |
| Other | **8** | 11 |
| **Total prepayments and other current assets** | **454** | 293 |

Settlements with customs primarily represent export duties related to the export of crude oil and petroleum products (Note 10).

## 24. 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, 2016 (restated)** | 6,410 | 1,525 | 94 | 8,029 |
| **Depreciation, depletion and impairment losses as of January 1, 2016 (restated)** | (1,849) | (289) | (32) | (2,170) |
| **Net book value as of January 1, 2016 (restated)** | 4,561 | 1,236 | 62 | 5,859 |
| Prepayments for property, plant and equipment as of January 1, 2016 | 9 | 27 | 6 | 42 |
| **Total as of January 1, 2016 (restated)** | 4,570 | 1,263 | 68 | 5,901 |
| **Cost** | | | | |
| Acquisitions of subsidiaries and shares in joint operations (Note 7) | 542 | 445 | 15 | 1,002 |
| Additions | 652 | 116 | 27 | 795 |
| *including capitalized expenses on loans and borrowings* | *46* | *17* | *1* | *64* |
| Disposals and other movements | (40) | (23) | (12) | (75) |
| Foreign exchange differences | (73) | (11) | (5) | (89) |
| Cost of asset retirement (decommissioning) obligations | 22 | – | – | 22 |
| **As of December 31, 2016 (restated)** | 7,513 | 2,052 | 119 | 9,684 |
| **Depreciation, depletion and impairment losses** | | | | |
| Depreciation and depletion charge | (403) | (87) | (5) | (495) |
| Disposals and other movements | 25 | 4 | 6 | 35 |
| Impairment of assets | (1) | (1) | – | (2) |
| Foreign exchange differences | 54 | 2 | 1 | 57 |
| **As of December 31, 2016 (restated)** | (2,174) | (371) | (30) | (2,575) |
| **Net book value as of December 31, 2016 (restated)** | 5,339 | 1,681 | 89 | 7,109 |
| Prepayments for property, plant and equipment as of December 31, 2016 | 21 | 16 | 5 | 42 |
| **Total as of December 31, 2016 (restated)** | 5,360 | 1,697 | 94 | 7,151 |
| **Cost** | | | | |
| Acquisitions of subsidiaries and shares in joint operations (Note 7) | **277** | **–** | **4** | **281** |
| Additions | **948** | **125** | **20** | **1,093** |
| *including capitalized expenses on loans and borrowings* | ***105*** | ***39*** | **–** | ***144*** |
| Disposals and other movements | **(25)** | **(17)** | **(2)** | **(44)** |
| Foreign exchange differences | **(23)** | **12** | **(2)** | **(13)** |
| Cost of asset retirement (decommissioning) obligations | **29** | **–** | **–** | **29** |
| **As of December 31, 2017** | **8,719** | **2,172** | **139** | **11,030** |
| **Depreciation, depletion and impairment losses** | | | | |
| Depreciation and depletion charge | **(474)** | **(113)** | **(9)** | **(596)** |
| Disposals and other movements | **11** | **8** | **1** | **20** |
| Impairment of assets | **(4)** | **(2)** | **(7)** | **(13)** |
| Foreign exchange differences | **13** | **–** | **1** | **14** |
| **As of December 31, 2017** | **(2,628)** | **(478)** | **(44)** | **(3,150)** |
| **Net book value as of December 31, 2017** | **6,091** | **1,694** | **95** | **7,880** |
| Prepayments for property, plant and equipment as of December 31, 2017 | **9** | **7** | **27** | **43** |
| **Total as of December 31, 2017** | **6,100** | **1,701** | **122** | **7,923** |

## 24. Property, plant and equipment and construction in progress (continued)

The cost of construction in progress included in property, plant and equipment was RUB 2,013 billion and RUB 1,570 billion as of December 31, 2017 and 2016, respectively.

The depreciation charge for the years ended December 31, 2017 and 2016 includes depreciation which was capitalized as part of the construction cost of property, plant and equipment and the cost of inventory in the amount of RUB 15 billion and RUB 13 billion, respectively.

As of December 31, 2016 and 2015, certain items of property, plant and equipment previously allocated to the Refining and distribution and the Corporate and other unallocated activities segments were reallocated to the Exploration and production and Refining and distribution segments due to amendments to the management structure.

The Company capitalized RUB 144 billion (including RUB 117 billion in capitalized interest expense) and RUB 64 billion (including RUB 64 billion in capitalized interest expense) of expenses on loans and borrowings in 2017 and 2016, respectively.

During 2017 and 2016 the Company received government grants for capital expenditures in the amount of RUB 8 billion and RUB 8 billion, respectively. Grants are accounted for as a reduction of additions in the Exploration and production segment.

### Exploration and evaluation assets

Exploration and evaluation assets included in the Exploration and production segment, including mineral rights to unproved properties, comprise the following:

| | **2017** | **2016 (restated)** |
|---|---|---|
| **Cost as of January 1** | **243** | 251 |
| **Impairment losses as of January 1** | **–** | (13) |
| **Net book value as of January 1** | **243** | 238 |
| **Cost** | | |
| Acquisition of subsidiaries (Note 7) | **47** | 7 |
| Acquisition of interest in joint arrangements | **37** | – |
| Capitalized expenditures | **71** | 26 |
| Reclassified to development assets | **(8)** | (18) |
| Expensed | **(2)** | (5) |
| Utilization of impairment reserve | **–** | (13) |
| Foreign exchange differences | **(2)** | (5) |
| **As of December 31** | **386** | 243 |
| **Impairment losses** | | |
| Utilization/(accrual) of impairment reserve | **–** | 13 |
| **As of December 31** | **–** | – |
| **Net book value as of December 31** | **386** | 243 |

### Provision for asset retirement (decommissioning) obligations

The provision for asset retirement (decommissioning) obligations was RUB 98 billion and RUB 99 billion as of December 31, 2017 and 2016, respectively, and included in Property, plant and equipment.

## 25. Intangible assets and goodwill

Intangible assets and goodwill comprise the following:

| | Rights for land lease | Other intangible assets | Total intangible assets | Goodwill |
|---|---|---|---|---|
| **Cost as of January 1, 2016** | 36 | 30 | 66 | 230 |
| **Amortization as of January 1, 2016** | (12) | (6) | (18) | – |
| **Net book value as of January 1, 2016** | 24 | 24 | 48 | 230 |
| **Cost** | | | | |
| Additions | – | 19 | 19 | – |
| Acquisition of subsidiaries (Note 7) | – | 3 | 3 | 26 |
| Disposals | (1) | (4) | (5) | – |
| Foreign exchange differences | (1) | – | (1) | – |
| **As of December 31, 2016 (restated)** | 34 | 48 | 82 | 256 |
| **Amortization** | | | | |
| Amortization charge | (2) | (5) | (7) | – |
| Disposal of amortization | – | 1 | 1 | – |
| Foreign exchange differences | 1 | – | 1 | – |
| **As of December 31, 2016 (restated)** | (13) | (10) | (23) | – |
| **Net book value as of December 31, 2016 (restated)** | 21 | 38 | 59 | 256 |
| **Cost** | | | | |
| Additions | **–** | **10** | **10** | **–** |
| Acquisition of subsidiaries (Note 7) | **–** | **26** | **26** | **13** |
| Disposals | **–** | **(18)** | **(18)** | **(4)** |
| Foreign exchange differences | **–** | **–** | **–** | **–** |
| **As of December 31, 2017** | **34** | **66** | **100** | **265** |
| **Amortization** | | | | |
| Amortization charge | **(2)** | **(5)** | **(7)** | **–** |
| Disposal of amortization | **–** | **1** | **1** | **–** |
| Foreign exchange differences | **–** | **–** | **–** | **–** |
| **As of December 31, 2017** | **(15)** | **(14)** | **(29)** | **–** |
| **Net book value as of December 31, 2017** | **19** | **52** | **71** | **265** |

The Company performs its annual goodwill impairment test as of October 1 of each year. The impairment test is carried out at the beginning of the fourth quarter of each year using the data that was appropriate at that time. The excess of fair value over identified net assets comprised RUB 1,639 billion and RUB 239 billion for the Exploration and production and Refining and distribution segments, respectively. As a result of the annual test, no impairment of goodwill was identified in 2017 and 2016.

Goodwill acquired through business combinations is allocated to the relevant groups of cash generating units that are its operating segments – the Exploration and production segment and the Refining and distribution segment. In assessing whether goodwill has been impaired, the current values of the operating segments (including goodwill) were compared with their estimated value in use.

| | As of December 31, | |
|---|---|---|
| | **2017** | **2016 (restated)** |
| **Goodwill** | | |
| Exploration and production | **85** | 76 |
| Refining and distribution | **180** | 180 |
| **Total** | **265** | 256 |

## 25. Intangible assets and goodwill (continued)

The Company has estimated the value in use of the operating segments using a discounted cash flow model. Future cash flows have been adjusted for risks specific to each segment and discounted using a rate that reflects current market assessments of the time value of money and the risks specific to each segment, for which the future cash flow estimates have not been adjusted.

The Company's business plan, approved by the Company's Board of Directors, is the primary source of information for the determination of the operating segments' value in use. The business plan contains internal forecasts of oil and gas production, refinery throughputs, sales volumes of various types of refined products, revenues, operating and capital expenditures. As an initial step in the preparation of these plans, various assumptions, such as oil prices, natural gas prices, refining margins, petroleum product margins and cost inflation rates, are set. These assumptions take into account existing prices, U.S. dollar and RUB inflation rates, other macroeconomic factors and historical trends, as well as market volatility.

In determining the value in use for each of the operating segments, twelve-year period cash flows calculated on the basis of the Company management's forecasts have been discounted and aggregated with the segments' terminal value. The use of a forecast period longer than five years originates from the industry's average investment cycle. In determining the terminal value of the Company's segments in the post-forecast period the Gordon model was used.

**Key assumptions applied to the calculation of value in use**

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

- *The discount rate*

  The discount rate calculation is based on the Company's weighted average cost of capital adjusted to reflect the pre-tax discount rate and amounts to 12.4% p.a. in 2017 (13.4% p.a. in 2016).

- *The estimated average annual RUB / U.S. dollar exchange rate*

  The average annual RUB / U.S. dollar exchange rate applied was as follows: RUB 64.7 for 2018, RUB 66.9 for 2019, RUB 68.0 for 2020 and RUB 67.0 from 2021 onwards.

- *Oil and petroleum products prices*

  The forecasted Urals oil price applied was as follows: RUB 2,834 per barrel for 2018, RUB 2,783 per barrel for 2019, RUB 2,883 per barrel for 2020 and RUB 3,015 per barrel from 2021 onwards. The Company's petroleum products price forecasts with regard to the main sales destinations are based on these oil prices with a weighted average price of petroleum products (excluding petrochemicals) of RUB 25.9 thousand per tonne, RUB 25.7 thousand per tonne, RUB 27.0 thousand per tonne and RUB 28.6 thousand per tonne for 2018, 2019, 2020 and from 2021 onwards, respectively.

- *Production volumes*

  Estimated production volumes were based on detailed data for the fields and take into account the field development plans approved by management through the long-term planning process.

**Sensitivity to changes in assumptions**

The effects of changes in key assumptions are as follows:

*Changes in the pre-tax weighted average cost of capital* – the long-term increase in the weighted average cost of capital above 12.8% may have a significant effect on the discounted cash flows of the Refining and distribution segment and may lead to the segment's goodwill impairment.

## 25. Intangible assets and goodwill (continued)

### Sensitivity to changes in assumptions (continued)

*Changes in oil and petroleum products prices* – the long-term decrease in oil prices below RUB 2,901 per barrel for the period 2018 onwards may have a significant effect on the discounted cash flows of the Refining and distribution segment and may lead to the segment's goodwill impairment. A similar effect can be caused by a long-term decrease (in the forecast period from 2018 onwards) in the weighted average price of petroleum products (excluding petrochemicals) below RUB 27.9 thousand per tonne with oil prices at forecast levels.

*Changes in tax regime* – the Russian oil industry tax regime has a significant influence on the rate of return of the Refining and distribution segment's refining operations. In case the current tax regime remains unchanged in the long-term, there is a possibility that estimated discounted cash flows will decrease resulting in a goodwill impairment of the segment.

As of December 31, 2017 and 2016 the Company did not have any intangible assets with indefinite useful lives. As of December 31, 2017 and 2016 no intangible assets have been pledged as collateral.

## 26. Other long-term financial assets

Other long-term financial assets comprise the following:

| | As of December 31, | |
|---|---|---|
| | **2017** | **2016** |
| Bonds | **13** | 1 |
| Bank deposits | **542** | 494 |
| Financial assets available for sale: | | |
| Shares of PJSC INTER RAO UES | **4** | 5 |
| Shares of PJSC Russian Grids | **1** | 2 |
| Shares of JSC Modern Shipbuilding Technology | **11** | 4 |
| Long-term loans issued to associates and joint ventures | **25** | 287 |
| Long-term loans | **5** | 12 |
| Other | **5** | 3 |
| **Total other long-term financial assets** | **606** | 808 |

Bank deposits of the Company are listed in rubles, US dollars and euros at interest rates ranging from 4.9% to 7.9% p.a.

Bonds consist of by federal loan bonds and are held on the balance sheet of JSCB Peresvet.

As of December 31, 2017 and 2016, there were no overdue long-term financial assets for which no impairment provision was created.

No long-term financial assets were pledged as collateral as of December 31, 2017 and 2016.

As of December 31, 2017 and 2016, no long-term financial assets were received by the Company as collateral.

## 27. Investments in associates and joint ventures

Investments in associates and joint ventures comprise the following:

| Name of investee | Country | Company's share as of December 31, 2017, % | As of December 31, 2017 | 2016 |
|---|---|---|---|---|
| **Joint ventures** | | | | |
| Rosneft-Shell Caspian Ventures Limited | Russia | 51.00 | **–** | 1 |
| Taihu Ltd (OJSC Udmurtneft) | Cyprus | 51.00 | **47** | 41 |
| Fuel-filling complex of Vnukovo (Lanard Holdings Limited) | Russia | 50.00 | **18** | 18 |
| Arktikshelfneftegaz CJSC | Russia | 50.00 | **2** | 2 |
| National Oil Consortium LLC | Russia | 80.00 | **24** | 24 |
| OJSC NGK Slavneft | Russia | 49.94 | **156** | 149 |
| TNK Trading International S.A. | Switzerland | 59.95 | **–** | 6 |
| SIA ITERA Latvija | Latvia | 66.00 | **4** | 3 |
| PetroMonagas S.A. | Venezuela | 40.00 | **46** | 41 |
| PETROVICTORIA S.A. | Venezuela | 40.00 | **25** | 26 |
| Nizhnevartovskaya TPP JSC (NVGRES Holdings Limited ) | Russia | 25.01 | **4** | 6 |
| RN Pechora LLC | Russia | 50.10 | **8** | 8 |
| Messoyahaneftegaz JSC | Russia | 50.00 | **15** | – |
| **Associates** | | | | |
| Petrocas Energy International Ltd | Cyprus | 49.00 | **9** | 8 |
| Purgaz CJSC | Russia | 49.00 | **39** | 39 |
| Essar Oil Limited | India | 49.13 | **227** | 18 |
| Other associates | various | various | **14** | 21 |
| **Total associates and joint ventures** | | | **638** | 411 |

The equity share in profits/(losses) of associates and joint ventures comprises the following:

| | Company's share as of December 31, 2017, % | Share in income/(loss) of equity investees 2017 | 2016 |
|---|---|---|---|
| Taihu Ltd | 51.00 | **7** | 10 |
| OJSC NGK Slavneft | 49.94 | **7** | 5 |
| Messoyahaneftegaz JSC | 50.00 | **11** | (1) |
| National Oil Consortium LLC | 80.00 | **1** | (1) |
| PetroMonagas S.A. | 40.00 | **8** | 2 |
| Petroperija S.A. | 40.00 | **5** | – |
| Boqueron S.A. | 26.66 | **4** | – |
| TNK Trading International S.A. | 59.95 | **10** | 6 |
| Essar Oil Limited | 49.13 | **5** | – |
| Petrocas Energy International Ltd | 49.00 | **1** | – |
| Other | various | **1** | 5 |
| **Total equity share in profits of associates and joint ventures** | | **60** | 26 |

## 27. Investments in associates and joint ventures (continued)

The unrecognized share of losses of associates and joint ventures comprises the following:

| Name of investee | As of December31, 2017 | 2016 |
|---|---|---|
| LLC Veninneft | **2** | 2 |
| LLP Adai Petroleum Company | **7** | 6 |
| Boqueron S.A. | **6** | 1 |
| Petroperija S.A. | **3** | – |
| **Total unrecognized share of losses of associates and joint ventures** | **18** | 9 |

Financial information of significant associates and joint ventures as of December 31, 2017 and 2016 is presented below:

| Taihu Ltd | As of December 31, 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents | **21** | 10 |
| Accounts receivable | **19** | 12 |
| Other current assets | **2** | 2 |
| Other non-current assets | **89** | 86 |
| **Total assets** | **131** | 110 |
| Short-term loans and borrowings | **–** | (3) |
| Income tax liabilities | **–** | – |
| Other current liabilities | **(17)** | (14) |
| Long-term loans and borrowings | **(1)** | – |
| Deferred tax liabilities | **(5)** | (6) |
| Other non-current liabilities | **(9)** | (7) |
| **Total liabilities** | **(32)** | (30) |
| **Net assets** | **99** | 80 |
| **One-off adjustment in accordance with the joint-stock agreement** | **(6)** | – |
| **The Company's share, %** | **51.00** | 51.00 |
| **The Company's total share in net assets** | **47** | 41 |

| Taihu Ltd | 2017 | 2016 |
|---|---|---|
| Revenues | **114** | 101 |
| Finance income | **1** | – |
| Finance expenses | **(1)** | (1) |
| Depreciation, depletion and amortization | **(5)** | (5) |
| Other expenses | **(84)** | (70) |
| **Income before income tax** | **25** | 25 |
| **Income tax** | **(5)** | (5) |
| **Net income** | **20** | 20 |
| **One-off adjustment in accordance with the joint-stock agreement** | **(6)** | – |
| **The Company's share, %** | **51.00** | 51.00 |
| **The Company's total share in net income** | **7** | 10 |

## 27. Investments in associates and joint ventures (continued)

The Company's share of the currency translation effect amounted to a loss of RUB 1 billion and an income of RUB 2 billion for the years ended December 31, 2017 and 2016, respectively, which was included in foreign exchange differences in the translation of foreign operations in the consolidated statement of other comprehensive income for 2017 and 2016.

| | As of December 31, | |
|---|---|---|
| **OJSC NGK Slavneft** | **2017** | **2016** |
| Cash and cash equivalents | **4** | 4 |
| Accounts receivable | **45** | 11 |
| Other current assets | **11** | 11 |
| Other non-current assets | **447** | 425 |
| **Total assets** | **507** | 451 |
| Short-term loans and borrowings | **(10)** | (27) |
| Tax liabilities | **(27)** | (23) |
| Other current liabilities | **(29)** | (23) |
| Long-term loans and borrowings | **(88)** | (43) |
| Deferred tax liabilities | **(19)** | (17) |
| Other non-current liabilities | **(22)** | (19) |
| **Total liabilities** | **(195)** | (152) |
| **Net assets** | **312** | 299 |
| **The Company's share, %** | **49.94** | 49.94 |
| **The Company's total share in net assets** | **156** | 149 |

| **OJSC NGK Slavneft** | **2017** | **2016** |
|---|---|---|
| Revenues | **241** | 215 |
| Finance income | **1** | 2 |
| Finance expenses | **(7)** | (7) |
| Depreciation, depletion and amortization | **(47)** | (52) |
| Other expenses | **(171)** | (141) |
| **Gain before income tax** | **17** | 17 |
| Income tax | **(4)** | (6) |
| **Net income** | **13** | 11 |
| **The Company's share, %** | **49.94** | 49.94 |
| **The Company's total share in net income** | **7** | 5 |

### *Investments in Essar Oil Limited*

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).

### *Investments in Venezuela*

In May 2016 the Company increased its stake in the Petromonagas joint venture with the state oil company of Venezuela Petróleos de Venezuela SA ("PDVSA") from 16.7% to 40%. The share of PDVSA was reduced to 60%. The cost of the additional share acquisition was US$ 500 million (RUB 33 billion at the CBR official exchange rate at the date of the transaction).

## 28. Other non-current non-financial assets

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

| | As of December 31, | |
|---|---|---|
| | **2017** | **2016** |
| Long-term advances issued | **282** | 83 |
| Other | **3** | 1 |
| **Total other non-current non-financial assets** | **285** | 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. During the year 2017 the Company made advance payments totaling US$ 2.1 billion (RUB 122 billion at the CBR official exchange rates at the transaction dates) under a Kurdistan Government crude oil purchase contract.

## 29. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

| | As of December 31, | |
|---|---|---|
| | **2017** | **2016 (restated)** |
| **Financial liabilities** | | |
| Accounts payable to suppliers and contractors | **451** | 337 |
| Current operating liabilities of subsidiary banks | **333** | 134 |
| Voluntary offer to acquire PJSC Bashneft Oil Company shares | **–** | 50 |
| Salary and other benefits payable | **81** | 80 |
| Dividends payable | **5** | – |
| Other accounts payable | **46** | 22 |
| **Total financial liabilities** | **916** | 623 |
| | | |
| **Non-financial liabilities** | | |
| Short-term advances received | **55** | 53 |
| **Total accounts payable and accrued liabilities** | **971** | 676 |

Trade and other payables are non-interest bearing.

## 30. Loans and borrowings and other financial liabilities

Loans and borrowings comprise the following:

| | Currency | As of December 31, 2017 | As of December 31, 2016 (restated) |
|---|---|---|---|
| **Long-term** | | | |
| Bank loans | RUB | **326** | 173 |
| Bank loans | US$, euro | **878** | 1,107 |
| Bonds | RUB | **427** | 321 |
| Eurobonds | US$ | **213** | 337 |
| Borrowings | RUB | **71** | 31 |
| Borrowings | euro | **–** | 1 |
| Other borrowings | US$ | **224** | 613 |
| Other borrowings | RUB | **16** | 16 |
| *Less: current portion of long-term loans and borrowings* | | ***(545)*** | *(710)* |
| **Long-term loans and borrowings** | | **1,610** | 1,889 |
| Finance lease liabilities | | **32** | 22 |
| Other long-term financial liabilities | | **146** | 4 |
| *Less: current portion of long-term finance lease liabilities* | | ***(5)*** | *(1)* |
| **Total long-term loans and borrowings and other financial liabilities** | | **1,783** | 1,914 |
| **Short-term** | | | |
| Bank loans | RUB | **237** | 101 |
| Bank loans | US$, euro | **10** | 21 |
| Borrowings | US$ | **–** | 33 |
| Other borrowings | RUB | **919** | 516 |
| Other borrowings | US$ | **346** | 94 |
| *Current portion of long-term loans and borrowings* | | ***545*** | *710* |
| **Short-term loans and borrowings and current portion of long-term loans and borrowings** | | **2,057** | 1,475 |
| *Current portion of long-term finance lease liabilities* | | ***5*** | *1* |
| Other short-term financial liabilities | | **93** | 4 |
| Short-term liabilities related to derivative financial instruments | | **74** | 98 |
| **Total short-term loans and borrowings and other financial liabilities** | | **2,229** | 1,578 |
| **Total loans and borrowings and other financial liabilities** | | **4,012** | 3,492 |

### Long-term loans and borrowings

Long-term bank loans comprise the following:

| Currency | Interest rate p.a. | Maturity date | As of December 31, 2017 | As of December 31, 2016 |
|---|---|---|---|---|
| US$ | LIBOR + 1.00% – LIBOR + 3.50% | 2018-2029 | **869** | 1,081 |
| EUR | EURIBOR + 0.35% – EURIBOR + 2.00% | 2019-2020 | **10** | 27 |
| RUB | 8.30% – 9.75% | 2018-2024 | **326** | 173 |
| **Total** | | | **1,205** | 1,281 |
| Debt issue costs | | | **(1)** | (1) |
| **Total long-term bank loans** | | | **1,204** | 1,280 |

## 30. Loans and borrowings and other financial liabilities (continued)

### Long-term loans and borrowings (continued)

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 22 billion and RUB 24 billion as of December 31, 2017 and 2016, respectively, and is included in Trade receivables of purchasers and customers.

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 of these four loans were fully repaid in previous years. In December 2017 the Company fully repaid the third one. As of December 31, 2017 the total debt and accrued interest on the outstanding loan with a floating rate and maturity in February 2018 amounted to US$ 0.2 billion (RUB 11.3 billion at the CBR official exchange rate as of December 31, 2017), including accrued interest.

For the year ended 31 December 2017, the Company drew down long-term funds from Russian banks: under a floating rate with repayable periods in 2020-2022 and 2024, and fixed rate loans with repayable periods in 2020-2023.

## 30. Loans and borrowings and other financial liabilities (continued)

### Long-term loans and borrowings (continued)

Interest-bearing RUB denominated bearer bonds in circulation comprise the following:

| | Security ID | Date of issue | Date of maturity | Total volume in RUB billions | Coupon (%) | As of December 31, 2017 | As of December 31, 2016 |
|---|---|---|---|---|---|---|---|
| Bonds | 04,05 | 10.2012 | 10.2022[1] | 20 | 7.90% | **20** | 20 |
| Bonds | 07,08 | 03.2013 | 03.2023 | 30 | 8.00% | **31** | 31 |
| Bonds | 06,09,10 | 06.2013 | 05.2023 | 40 | 7.95% | **40** | 40 |
| SE Bonds [4] | БО-05, БО-06 | 12.2013 | 12.2023 | 40 | 7.95% | **11** | 11 |
| SE Bonds | БО-01, БО-07 | 02.2014 | 02.2024 | 35 | 8.90% | **36** | 36 |
| SE Bonds | БО-02, БО-03, БО-04 БО-09[4] | 12.2014 | 11.2024[1] | 65 | 9.40%[5] | **55** | 56 |
| SE Bonds | БО-08, БО-10 БО-11, БО-12, БО-13 БО-14 | 12.2014 | 11.2024[1] | 160 | 9.40%[5] | **–** | – |
| SE Bonds[4] | БО-15, БО-16 БО-17, БО-24 | 12.2014[2] | 12.2020[1] | 400 | 7.85%[5] | **–** | – |
| SE Bonds[4] | БО-18, БО-19, БО-20 БО-21, БО-22, БО-23 БО-25, БО-26 | 01.2015[2] | 01.2021 | 400 | 8.60%[5] | **–** | – |
| SE Bonds[4] | 001P-01 | 12.2016[2] | 11.2026 | 600 | 8.35%[5] | **–** | – |
| SE Bonds | 001P-02 | 12.2016 | 12.2026 | 30 | 9.39%[5] | **30** | 30 |
| SE Bonds | 001P-03 | 12.2016 | 12.2026[1] | 20 | 9.50%[5] | **20** | 20 |
| SE Bonds | 001P-04 | 05.2017 | 04.2027 | 40 | 8.65%[5] | **41** | – |
| SE Bonds | 001P-05 | 05.2017[2] | 05.2025[1] | 15 | 8.60%[5] | **15** | – |
| SE Bonds[4] | 001P-06, 001P-07 | 07.2017 | 07.2027 | 266 | 8.50%[5] | **–** | – |
| SE Bonds[4] | 001P-08 | 10.2017 | 09.2027 | 100 | 8.60%[5] | **–** | – |
| SE Bonds[4] | 002P-01, 002P-02 | 12.2017 | 11.2027 | 600 | 8.35%[5] | **–** | – |
| SE Bonds | 002P-03 | 12.2017 | 12.2027 | 30 | 7.75%[5] | **30** | – |
| Bonds of subsidiary banks: | | | | | | | |
| SE Bonds | 001P-01 | 10.2017 | 10.2020[1] | 10 | 8.50%[5] | **10** | – |
| SE Bonds | БО-02 | 08.2014[3] | 08.2034[1] | 3 | 0.51%[5] | **–** | – |
| SE Bonds | БО-03 | 07.2015[3] | 06.2035[1] | 4 | 0.51%[5] | **–** | – |
| SE Bonds | БО-04 | 04.2015[2] | 04.2018[1] | 3 | 13.25%[5] | **3** | – |
| SE Bonds | БО-П01 | 09.2015[3] | 08.2035[1] | 5 | 0.51%[5] | **–** | – |
| SE Bonds | БО-П02 | 10.2015[3] | 09.2035[1] | 4 | 0.51%[5] | **1** | – |
| SE Bonds | БО-П03 | 11.2015[3] | 10.2035[1] | 1 | 0.51%[5] | **–** | – |
| SE Bonds | БО-П05 | 06.2016[3] | 06.2036[1] | 5 | 0.51%[5] | **–** | – |
| Convertible Bonds | C-01 | 02.2017[3] | 02.2032[1] | 69 | 0.51%[5] | **2** | – |
| Bashneft SE Bonds: | | | | | | | |
| Bonds | 04[6] | 02.2012 | 02.2022 | 10 | 0.10%[5] | **–** | – |
| Bonds | 06, 08 | 02.2013 | 01.2023 | 15 | 8.65%[5] | **15** | 15 |
| Bonds | 07, 09 | 02.2013 | 01.2023 | 15 | 8.85%[5] | **16** | 16 |
| SE Bonds | БО-05[6] | 05.2014 | 05.2024 | 10 | 10.70% | **–** | – |
| SE Bonds | БО-03[6] | 05.2015 | 05.2025 | 5 | 12.00% | **–** | – |
| SE Bonds | БО-04[6] | 06.2015 | 05.2025 | 5 | 12.00% | **–** | – |
| SE Bonds | БО-07[6] | 06.2015 | 06.2025 | 5 | 12.10% | **–** | – |
| SE Bonds | БО-02[6] | 05.2016 | 05.2026 | 10 | 10.50% | **–** | – |
| SE Bonds | БО-06, БО-08 | 05.2016 | 04.2026 | 15 | 10.90%[5] | **16** | 16 |
| SE Bonds | БО-09 | 10.2016 | 10.2026 | 5 | 9.30%[5] | **5** | 5 |
| SE Bonds | БО-10 | 12.2016 | 12.2026 | 5 | 9.50%[5] | **5** | 5 |
| SE Bonds | 001P-01R | 12.2016 | 12.2024[1] | 10 | 9.50%[5] | **10** | 10 |
| SE Bonds | 001P-02R | 12.2016 | 12.2023[1] | 10 | 9.50%[5] | **10** | 10 |
| SE Bonds | 001P-03R | 01.2017 | 01.2024[1] | 5 | 9.40%[5] | **5** | – |
| **Total long-term RUB bonds** | | | | | | **427** | 321 |

[1] Early repurchase at the request of the bond holder is not allowed.

[2] Coupon payments every three months.

[3] Coupon payments at the maturity day.

[4] On the reporting date these issues are partially used as an instrument for other borrowings under repurchasing agreement operations.

[5] For the coupon period effective as of December 31, 2017.

[6] For the coupon period effective as of day of early repurchase.

## 30. Loans and borrowings and other financial liabilities (continued)

### Long-term loans and borrowings (continued)

All of the bonds, excluding certain issues, allow early repurchase at the request of the bond holder as set in the respective offering documents. In addition, the issuer, at any time and at its discretion, may purchase/repay the bonds early with the possibility of subsequently placing the bonds in the market. Such purchase/repayment of the bonds does not constitute an early redemption.

Certain RUB denominated non-convertible bonds were acquired through the acquisitions of PJSC Bashneft Oil Company and JSCB Peresvet (Note 7).

Through the JSCB Peresvet acquisition the Company reported RUB denominated bonds with coupon payments at the end of the redemption and maturity periods of 3, 15 and 20 years. Part of the RUB denominated bonds series C01 consisted of convertible bonds.

Corporate Eurobonds comprise the following:

| | Coupon rate (%) | Currency | Maturity | As of December 31, 2017 | As of December 31, 2016 |
|---|---|---|---|---|---|
| Eurobonds (Series 1) | 3.149% | US$ | 2017 | **–** | 61 |
| Eurobonds (Series 2) | 4.199% | US$ | 2022 | **117** | 123 |
| Eurobonds (Series 4) | 6.625% | US$ | 2017 | **–** | 50 |
| Eurobonds (Series 6) | 7.875% | US$ | 2018 | **65** | 70 |
| Eurobonds (Series 8) | 7.250% | US$ | 2020 | **31** | 33 |
| **Total long-term Eurobonds** | | | | **213** | 337 |

In the fourth quarter of 2012, the Company raised funds through the placement of two Eurobonds in the total amount of US$ 3.0 billion. The Eurobonds were placed in two tranches at par: one in the amount of US$ 1.0 billion with a coupon of 3.149% p.a. and maturity in March 2017, and the other in the amount of US$ 2.0 billion (RUB 115.2 billion at the CBR official exchange rate as of December 31, 2017) with a coupon of 4.199% p.a. and maturity in March 2022. The funds received were used for general corporate purposes.
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).

Eurobonds of the fourth, sixth and eighth series were assumed through the acquisition of TNK-BP.

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 the fourth quarter of 2017 the Company continued to settle other long-term borrowings under repurchasing agreement operations. As of December 31, 2017, the liabilities of the Company under those transactions amounted to the equivalent of RUB 240 billion at the CBR official exchange rate as of December 31, 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 December 31, 2017 and December 31, 2016 the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

## 30. Loans and borrowings and other financial liabilities (continued)

### Short-term loans and borrowings

In 2017 the Company drew down short-term funds from Russian banks under floating and fixed rates.

In 2017 the Company continued to meet its liabilities under repurchasing agreement operations and entered into new agreements. As of December 31, 2017 the liabilities of the Company under those transactions amounted to the equivalent of RUB 1,265 billion (at the CBR official exchange rate as of December 31, 2017). Own corporate bonds were used as an instrument for those transactions.

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

### Finance leases

Repayments of finance lease obligations comprise the following:

| | As of December 31, 2017 | | |
|---|---|---|---|
| | **Minimum lease payments** | **Finance expense** | **Present value of minimum lease payments** |
| Less than 1 year | **9** | **(4)** | **5** |
| From 1 to 5 years | **24** | **(11)** | **13** |
| Over 5 years | **21** | **(7)** | **14** |
| **Total** | **54** | **(22)** | **32** |

| | As of December 31, 2016 | | |
|---|---|---|---|
| | **Minimum lease payments** | **Finance expense** | **Present value of minimum lease payments** |
| Less than 1 year | 4 | (3) | 1 |
| From 1 to 5 years | 16 | (10) | 6 |
| Over 5 years | 24 | (9) | 15 |
| **Total** | 44 | (22) | 22 |

Finance leases entered into by the Company do not contain covenants and are long-term agreements, with certain leases having purchase options at the end of the lease term. Finance leases are denominated in RUB and US$.

Property, plant and equipment under capital leases recognized in Property, plant and equipment (Note 24) comprise the following:

| | As of December 31, | |
|---|---|---|
| | **2017** | **2016** |
| Buildings | **4** | 4 |
| Plant and machinery | **27** | 12 |
| Vehicles | **16** | 16 |
| **Total cost** | **47** | 32 |
| Less: accumulated depreciation | **(18)** | (11) |
| **Total net book value of leased property** | **29** | 21 |

## 30. Loans and borrowings and other financial liabilities (continued)

### Liabilities related to derivative financial instruments

Short-term liabilities related to derivative financial instruments include liabilities related to cross-currency rate swaps.

In accordance with its foreign currency and interest rate risk management policy the Company enters into cross-currency rate swaps to sell US$. The transactions balance the currency of revenues and liabilities and reduce the overall interest rates on borrowings.

The cross-currency rate swaps are recorded in the consolidated balance sheet at fair value. The measurement of the fair value of the transactions is based on a discounted cash flow model and consensus forecasts of foreign currency rates. The consensus forecasts include forecasts of the major international banks and agencies. The Bloomberg system is the main information source for the model.

Derivative financial instruments comprise the following:

| | Issue date | Expiry date | Nominal amount as of December 31, 2017 | | Interest rate type | Fair value of the liabilities as of December 31, | |
|---|---|---|---|---|---|---|---|
| | | | US$ million | RUB billion* | | 2017 | 2016 |
| Swaps | 2012 | 2017 | – | – | floating | – | 18 |
| Swaps | 2013 | 2018 | **2,138** | **123** | floating | **52** | 56 |
| Swaps | 2014 | 2019 | **1,010** | **58** | floating | **22** | 24 |
| **Total** | | | **3,148** | **181** | | **74** | 98 |

* *The equivalent nominal amount at the CBR official exchange rate as of December 31, 2017.*

Reconciliation of movements in financing activities in the Statement of cash flows with balance-sheet items of liabilities:

| | Long-term loans and borrowings | Short-term loans and borrowings | Finance lease liabilities | Other long-term financial liabilities | Other short-term financial liabilities | Short-term liabilities related to derivative financial instruments | Total |
|---|---|---|---|---|---|---|---|
| **As of January 1, 2017, including** | 1,889 | 1,475 | 22 | 4 | 4 | 98 | 3,492 |
| **Financing activities (cash flow)** | | | | | | | |
| Proceeds/repayment of loans and borrowings | **(298)** | **644** | – | **144** | **192** | – | **682** |
| Interest paid | **(145)** | **(70)** | **(4)** | – | – | – | **(219)** |
| Repayment of other financial liabilities | – | – | **(7)** | **(1)** | – | **(14)** | **(22)** |
| **Operating and investing activities (non-cash flow)** | | | | | | | |
| Foreign exchange gain/loss | **(196)** | **96** | – | **(1)** | **1** | – | **(100)** |
| Acquisition of interest in subsidiary, net of cash acquired | **61** | **(8)** | **3** | – | – | – | **56** |
| Offset of other financial liabilities | – | – | – | – | **(105)** | – | **(105)** |
| Acquisition | – | – | **14** | – | – | – | **14** |
| Finance expenses | **134** | **91** | **4** | – | – | – | **229** |
| Finance income | – | – | – | – | – | **(10)** | **(10)** |
| Others | – | **(6)** | – | – | **1** | – | **(5)** |
| Reclassification | **165** | **(165)** | – | – | – | – | – |
| **As of December 31, 2017** | **1,610** | **2,057** | **32** | **146** | **93** | **74** | **4,012** |

## 31. Other short-term tax liabilities

Other short-term tax liabilities comprise the following:

| | As of December 31, 2017 | As of December 31, 2016 |
|---|---|---|
| Mineral extraction tax | **160** | 115 |
| VAT | **78** | 69 |
| Excise duties | **26** | 25 |
| Property tax | **10** | 9 |
| Personal income tax | **2** | 2 |
| Other | **2** | 2 |
| **Total other tax liabilities** | **278** | 222 |

## 32. Provisions

| | Asset retirement obligations | Environmental remediation provision | Legal, tax and other claims | Total |
|---|---|---|---|---|
| **As of January 1, 2016, including** | 123 | 35 | 13 | 171 |
| *Non-current* | *119* | *23* | *1* | *143* |
| *Current* | *4* | *12* | *12* | *28* |
| Provisions charged during the year (Note 40) | 6 | 4 | 5 | 15 |
| Increase/(decrease) in the liability resulting from: | | | | |
| Changes in estimates | 3 | 4 | (3) | 4 |
| Changes in the discount rate | 13 | – | – | 13 |
| Foreign exchange differences | (5) | – | – | (5) |
| Unwinding of discount | 12 | 3 | – | 15 |
| Reclassification to assets held for sale | 28 | 3 | 1 | 32 |
| Utilized | (2) | (8) | (3) | (13) |
| **As of December 31, 2016, including** | 178 | 41 | 13 | 232 |
| *Non-current* | *174* | *28* | *1* | *203* |
| *Current* | *4* | *13* | *12* | *29* |
| Provisions charged during the year (Note 40) | **6** | **5** | **7** | **18** |
| Increase/(decrease) in the liability resulting from: | | | | |
| Changes in estimates | **(5)** | **(1)** | **–** | **(6)** |
| Changes in the discount rate | **28** | **–** | **–** | **28** |
| Foreign exchange differences | **(1)** | **–** | **–** | **(1)** |
| Unwinding of discount | **14** | **3** | **–** | **17** |
| Acquisition of subsidiaries (Note 7) | **–** | **–** | **2** | **2** |
| Utilized | **(2)** | **(7)** | **(7)** | **(16)** |
| **As of December 31, 2017, including** | **218** | **41** | **15** | **274** |
| *Non-current* | ***213*** | ***27*** | ***5*** | ***245*** |
| *Current* | ***5*** | ***14*** | ***10*** | ***29*** |

Asset retirement (decommissioning) obligations represent an estimate of the costs of liquidating wells, the reclamation of sand pits, slurry ponds, and disturbed lands, and the dismantling of pipelines and power transmission lines. The budget for payments under asset retirement obligations is prepared on an annual basis. Depending on the current economic environment the entity's actual expenditures may vary from the budgeted amounts.

## 33. 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 started to be made 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.

| | 2017 | 2016 |
|---|---|---|
| **As of January 1** | **1,841** | 1,905 |
| Acquisition of subsidiaries (Note 7) | **–** | 58 |
| Received | **–** | – |
| Reimbursed | **(255)** | (122) |
| **Total prepayment on long-term oil and petroleum products supply agreements** | **1,586** | 1,841 |
| Less current portion | **(264)** | (255) |
| **Long-term prepayment as of December 31** | **1,322** | 1,586 |

The offset amounts under these contracts were RUB 255 billion and RUB 122 billion (US$ 7.59 billion and US$ 3.85 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date) for 2017 and 2016, respectively.

## 34. Other non-current liabilities

Other non-current liabilities comprise the following:

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 (restated) |
| Joint project liabilities | **23** | 23 |
| Liabilities for investing activities | **4** | 7 |
| Liabilities for joint operation contracts in Germany | **14** | 13 |
| Other | **4** | 3 |
| **Total other non-current liabilities** | **45** | 46 |

## 35. Pension benefit obligations

### Defined contribution plans

The Company makes payments to the State Pension Fund of the Russian Federation. These payments are calculated by the employer as a percentage of salary expense and are expensed as accrued.

The Company also maintains a defined contribution corporate pension plan to finance the non-state pensions of its employees.

## 35. Pension benefit obligations (continued)

### Defined contribution plans (continued)

Pension contributions recognized in the consolidated statement of profit or loss were as follows:

| | 2017 | 2016 |
|---|---|---|
| State Pension Fund | **53** | 43 |
| NPF Neftegarant | **7** | 5 |
| **Total pension contributions** | **60** | 48 |

## 36. Shareholders' equity

### Common shares

As of December 31, 2017 and 2016:

| | |
|---|---|
| **Authorized common shares** | |
| quantity, millions | 10,598 |
| amount, billions of RUB | 0.6 |
| **Issued and fully paid shares** | |
| quantity, millions | 10,598 |
| amount, billions of RUB | 0.6 |
| **Nominal value of 1 common share, RUB** | 0.01 |

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, which comprised 35% of IFRS net income attributable to the Company's shareholders. Dividends were paid by the Company in July 2016.

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, which comprised 35% of IFRS net income attributable to the Company's shareholders. Dividends were paid by the Company in July 2017.

In 2017 the Company revised its dividend policy. The minimum level of dividend payments was increased to 50% of IFRS net income attributable to the Company's shareholders, with the target frequency of payments being twice a year. In accordance with the above, on September 29, 2017 the Extraordinary Shareholders' Meeting approved interim dividends on the Company's common shares for the first half of 2017 in the amount of RUB 40.6 billion, or RUB 3.83 per share, which comprised 50% of IFRS net income attributable to the Company's shareholders. Dividends were paid by the Company in October 2017.

The dividends are distributed from the net profit of PJSC Rosneft Oil Company calculated in compliance with the current legislation of the Russian Federation.

In 2017 and 2016 additional paid-in capital of the Company increased by RUB 24 billion and RUB 96 billion, respectively, as a result of the disposal of interests in subsidiaries (Note 17).

## 37. 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 December 31, 2017** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | |
| **Current assets** | | | | |
| Held-for-trading | **1** | **–** | **–** | **1** |
| Available-for-sale | **50** | **129** | **–** | **179** |
| **Non-current assets** | | | | |
| Available-for-sale | **–** | **16** | **–** | **16** |
| Derivative financial instruments | **–** | **–** | **–** | **–** |
| **Total assets measured at fair value** | **51** | **145** | **–** | **196** |
| Derivative financial instruments | **–** | **(74)** | **–** | **(74)** |
| **Total liabilities measured at fair value** | **–** | **(74)** | **–** | **(74)** |

| | **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 |
| 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.

## 37. Fair value of financial instruments (continued)

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

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

| | Carrying value | | Fair value (Level 2) | |
|---|---|---|---|---|
| | As of December 31, | | As of December 31, | |
| | 2017 | 2016 (restated) | 2017 | 2016 (restated) |
| **Financial liabilities** | | | | |
| Financial liabilities at amortized cost: | | | | |
| Loans and borrowings with a variable interest rate | **(1,549)*** | (2,004) | **(1,467)*** | (1,792) |
| Loans and borrowings with a fixed interest rate | **(2,118)** | (1,360) | **(2,038)** | (1,376) |
| Financial lease liabilities | **(32)** | (22) | **(36)** | (23) |

* *Including financial instruments designated as hedging instruments with a carrying value of RUB 50 billion and a fair value of RUB 47 billion.*

## 38. Related party transactions

For the purpose of these 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. In 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 (Note 35).

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***

| | 2017 | 2016 |
|---|---|---|
| Oil, gas, petroleum products and petrochemicals sales | **784** | 595 |
| Support services and other revenues | **6** | 3 |
| Finance income | **26** | 23 |
| | **816** | 621 |

## 38. Related party transactions (continued)

### Transactions with shareholders and companies controlled by shareholders (continued)

#### *Costs and expenses*

| | 2017 | 2016 |
|---|---|---|
| Production and operating expenses | **14** | 11 |
| Cost of purchased oil, gas, petroleum products and refining costs | **73** | 161 |
| Pipeline tariffs and transportation costs | **473** | 443 |
| Other expenses | **15** | 13 |
| Financial expenses | **8** | 4 |
| | **583** | 632 |

#### *Other operations*

| | 2017 | 2016 |
|---|---|---|
| Acquisition of subsidiaries | **–** | 330 |
| Loans received | **297** | 125 |
| Loans repaid | **(58)** | (2) |
| Loans and borrowings issued | **–** | (30) |
| Repayment of loans and borrowings issued | **1** | – |
| Deposits placed | **(7)** | (47) |
| Deposits repaid | **2** | 109 |

#### *Settlement balances*

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| **Assets** | | |
| Cash and cash equivalents | **57** | 549 |
| Accounts receivable | **68** | 80 |
| Prepayments and other current assets | **61** | 36 |
| Other financial assets | **636** | 588 |
| | **822** | 1,253 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **32** | 47 |
| Loans and borrowings and other financial liabilities | **655** | 352 |
| | **687** | 399 |

### Transactions with joint ventures

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

#### *Revenues and income*

| | 2017 | 2016 |
|---|---|---|
| Oil, gas, petroleum products and petrochemicals sales | **11** | 24 |
| Support services and other revenues | **10** | 5 |
| Finance income | **26** | 22 |
| | **47** | 51 |

## 38. Related party transactions (continued)

### Transactions with joint ventures (continued)

***Costs and expenses***

| | 2017 | 2016 |
|---|---|---|
| Production and operating expenses | **5** | 5 |
| Cost of purchased oil, gas, petroleum products and refining costs | **285** | 213 |
| Pipeline tariffs and transportation costs | **9** | 11 |
| Other expenses | **4** | 4 |
| Finance expenses | **1** | – |
| | **304** | 233 |

***Other operations***

| | 2017 | 2016 |
|---|---|---|
| Acquisition of interest in associates and joint ventures | **(8)** | – |
| Loans received | **–** | 7 |
| Loans repaid | **–** | (9) |
| Loans and borrowings issued | **(2)** | (25) |
| Repayment of loans and borrowings issued | **127** | 17 |

***Settlement balances***

| | As of December 31, | |
|---|---|---|
| | **2017** | **2016** |
| **Assets** | | |
| Accounts receivable | **6** | 9 |
| Prepayments and other current assets | **–** | 1 |
| Other financial assets | **52** | 306 |
| | **58** | 316 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **85** | 29 |
| Loans and borrowings and other financial liabilities | **15** | 8 |
| | **100** | 37 |

### Transactions with associates

***Revenues and income***

| | 2017 | 2016 |
|---|---|---|
| Oil, gas, petroleum products and petrochemicals sales | **222** | 67 |
| Support services and other revenues | **5** | 3 |
| Finance income | **–** | 1 |
| | **227** | 71 |

## 38. Related party transactions (continued)

### Transactions with associates (continued)

***Costs and expenses***

| | 2017 | 2016 |
|---|---|---|
| Production and operating expenses | **11** | 5 |
| Cost of purchased oil, gas, petroleum products and refining costs | **14** | 9 |
| Pipeline tariffs and transportation costs | **1** | – |
| Other expenses | **13** | 8 |
| | **39** | 22 |

***Other operations***

| | 2017 | 2016 |
|---|---|---|
| Loans and borrowings issued | **(32)** | – |

***Settlement balances***

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| **Assets** | | |
| Accounts receivable | **33** | 8 |
| Prepayments and other current assets | **1** | – |
| Other financial assets | **41** | 4 |
| | **75** | 12 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **8** | 6 |
| Loans and borrowings and other financial liabilities | **124** | – |
| | **132** | 6 |

### Transactions with non-state pension funds

***Costs and expenses***

| | 2017 | 2016 |
|---|---|---|
| Other expenses | **7** | 5 |

***Settlement balances***

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **1** | 1 |
| | **1** | 1 |

## 38. Related party transactions (continued)

### Compensation to key management personnel

For the purpose of these consolidated financial statements key management personnel include members of the Management Board of PJSC Rosneft Oil Company and members of the Board of Directors.

Short-term gross benefits of the Management Board members, taking into account personnel rotation, including payroll and bonuses, totaled RUB 2,711 million and RUB 2,884 million in 2017 and 2016, respectively (social security fund contributions, which are not Management Board members' income, totaled RUB 373 million and RUB 395 million, respectively). Short-term gross benefits exclude one-off reimbursements for major acquisition projects and integration of new assets, compensations for medical insurance and transportation costs paid in 2017. Short-term gross benefits for 2017 are disclosed in accordance with the Russian securities law on information disclosure. There were no share-based benefits paid.

On June 22, 2017, the Annual General Shareholders Meeting approved remuneration to the following members of the Company's Board of Directors for the period of their service in the following amounts: Mr. Andrey Akimov – US$ 545,000 (RUB 32.7 million at the CBR official exchange rate on June 22, 2017); Mr. Matthias Warnig – US$ 580,000 (RUB 34.8 million at the CBR official exchange rate on June 22, 2017); Mr. Oleg Viyugin – US$ 580,000 (RUB 34.8 million at the CBR official exchange rate on June 22, 2017); Mr. Donald Humphreys – US$ 565,000 (RUB 33.9 million at the CBR official exchange rate on June 22, 2017). Remuneration does not include compensation of travel expenses. No remuneration was paid to members of the Board of Directors who are state officials (Andrey Belousov and Alexander Novak) or to Mr. Igor Sechin, the Chairman of the Management Board, for their Board of Directors service.

On June 15, 2016, the Annual General Shareholders Meeting approved remuneration to the following members of the Company's Board of Directors for the period of their service in the following amounts: Mr. Andrey Akimov – US$ 560,000 (RUB 37.0 million at the CBR official exchange rate on June 15, 2016); Mr. Matthias Warnig – US$ 580,000 (RUB 38.3 million at the CBR official exchange rate on June 15, 2016); Mr. Oleg Viyugin – US$ 580,000 (RUB 38.3 million at the CBR official exchange rate on June 15, 2016); Mr. Donald Humphreys – US$ 550,000 (RUB 36.3 million at the CBR official exchange rate on June 15, 2016). Remuneration does not include compensation of travel expenses. No remuneration was paid to members of the Board of Directors who are state officials (Andrey Belousov and Alexander Novak) or to Mr. Igor Sechin, the Chairman of the Management Board, for their Board of Directors service.

## 39. Key subsidiaries

| | | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| Name | Country of incorporation | Core activity | Preferred and common shares % | Voting shares % | Preferred and common shares % | Voting shares % |
| **Exploration and production** | | | | | | |
| PJSC Orenburgneft | Russia | Oil and gas development and production | **100.00** | **100.00** | 100.00 | 100.00 |
| JSC Samotlorneftegaz | Russia | Oil and gas development and production | **100.00** | **100.00** | 100.00 | 100.00 |
| JSC Tumenneftegaz | Russia | Oil and gas development and production | **100.00** | **100.00** | 100.00 | 100.00 |
| JSC Verkhnechonskneftegaz | Russia | Oil and gas development and production | **79.95** | **79.95** | 99.94 | 99.94 |
| JSC Vankorneft | Russia | Oil and gas development and production | **50.10** | **50.10** | 50.10 | 50.10 |
| LLC RN-Yuganskneftegaz | Russia | Oil and gas production operator services | **100.00** | **100.00** | 100.00 | 100.00 |
| PJSC Bashneft Oil Company | Russia | Oil and gas development and production | **60.33** | **70.93** | 52.39 | 61.59 |
| **Refining, marketing and distribution** | | | | | | |
| JSC RORC | Russia | Petroleum refining | **100.00** | **100.00** | 100.00 | 100.00 |
| JSC Angarsk Petrochemical Company | Russia | Petroleum refining | **100.00** | **100.00** | 100.00 | 100.00 |
| JSC Novokuybyshev Refinery | Russia | Petroleum refining | **100.00** | **100.00** | 100.00 | 100.00 |
| LLC RN-Komsomolsky Refinery | Russia | Petroleum refining | **100.00** | **100.00** | 100.00 | 100.00 |
| JSC Syzran Refinery | Russia | Petroleum refining | **100.00** | **100.00** | 100.00 | 100.00 |
| JSC Achinsk Refinery | Russia | Petroleum refining | **100.00** | **100.00** | 100.00 | 100.00 |
| JSC Kuybyshev Refinery | Russia | Petroleum refining | **100.00** | **100.00** | 100.00 | 100.00 |
| PJSC Saratov Oil Refinery | Russia | Petroleum refining | **85.48** | **91.13** | 85.48 | 91.13 |
| JSC PCEC | Russia | Marketing and distribution | **100.00** | **100.00** | 100.00 | 100.00 |
| LLC RN-Commerce | Russia | Marketing and distribution | **100.00** | **100.00** | 100.00 | 100.00 |
| Rosneft Trading S.A. | Switzerland | Marketing and distribution | **100.00** | **100.00** | 100.00 | 100.00 |
| Rosneft Trade Limited | Cyprus Republic | Marketing and distribution | **100.00** | **100.00** | 100.00 | 100.00 |
| Rosneft Deutschland GmbH | Germany | Marketing and distribution | **100.00** | **100.00** | 100.00 | 100.00 |
| **Other** | | | | | | |
| JSC RN Holding | Russia | Holding company | **100.00** | **100.00** | 100.00 | 100.00 |
| LLC Neft-Aktiv | Russia | Investing activity | **100.00** | **100.00** | 100.00 | 100.00 |
| Rosneft Finance S.A. | Luxemburg | Finance services | **100.00** | **100.00** | 100.00 | 100.00 |
| JSC Russian Regional Development Bank (VBRR) | Russia | Banking | **98.34** | **98.34** | 98.34 | 98.34 |

## 40. 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.

## 40. Contingencies (continued)

### Russian business environment (continued)

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.

### Guarantees and indemnities issued

An unconditional unlimited guarantee in favor of the Government and municipal authorities of Norway is effective in respect of the Company's operations on the Norwegian continental shelf. That guarantee fully covers all potential ongoing environmental liabilities of RN Nordic Oil AS. A parent company guarantee is required by Norwegian legislation and is an essential condition for licensing the operations of RN Nordic Oil AS on the Norwegian continental shelf jointly with Statoil ASA.

The Company's agreements with Eni S.p.A, Statoil ASA and the ExxonMobil Oil Corporation under the Russian Federation shelf exploration program contain mutual guarantees provided in 2013 and 2014 that are unconditional, unlimited and open-ended, and also provide that the partners will pay a commercial discovery bonus to the Company.

The partnership agreement with the ExxonMobil Oil Corporation for difficult to extract oil reserves in Western Siberia contains mutual guarantees that are unconditional, unlimited and open-ended, and provides for production bonus payments to the Company starting from the launch of commercial production.

In the fourth quarter of 2015 in accordance with the cooperation agreement on difficult to extract oil reserves with Statoil ASA, both parties issued parent guarantees on the discharging of the mutual liabilities of their related parties. These guarantees are unconditional, unlimited and open-ended.

In order to facilitate flexible terms and conditions for supplies and payments within hydrocarbon trading contracts, in 2016 the Company issued sureties to banks covering the period up to the year 2022 and totaling euro 6 billion. As of the period-end the probability of events triggering settlement of sureties was assessed as remote.

In the course of its investing activities, the Company issued sureties to third parties up to the equivalent amount of RUB 8 billion at the CBR official exchange rate as of December 31, 2017. As of the period-end the Company assesses the probability of settlement 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 the 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).

## 40. Contingencies (continued)

### Legal claims (continued)

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 30, 2018, after which the parties will file a waiver of mutual claims on cases 2 and 3.

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 15 billion at the CBR official exchange rate on December 31, 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 April 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 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.

### 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.

## 40. Contingencies (continued)

### Taxation (continued)

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 during 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.

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 716 billion and RUB 641 billion as of December 31, 2017 and 2016, respectively.

## 40. Contingencies (continued)

### Environmental liabilities

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

## 41. Supplementary oil and gas disclosure (unaudited)

IFRS do not require information on oil and gas reserves to be disclosed. While this information has been developed with reasonable care and is disclosed in good faith, it is emphasized that the data represents management's best estimates. Accordingly, this information may not necessarily represent the current financial condition of the Company and its future financial results.

The Company's activities are conducted primarily in Russia, which is considered as a single geographic area.

### Capitalized costs relating to oil and gas production are presented below

***Consolidated subsidiaries and joint operations***

As of December 31:

| | **2017** | **2016 (restated)** |
|---|---|---|
| Oil and gas properties related to proved reserves | **8,333** | 7,270 |
| Oil and gas properties related to unproved reserves | **386** | 243 |
| **Total capitalized costs** | **8,719** | 7,513 |
| Accumulated depreciation, depletion and impairment losses | **(2,628)** | (2,174) |
| **Net capitalized costs** | **6,091** | 5,339 |

### Costs incurred in oil and gas property acquisition, exploration and development activities are presented below

***Consolidated subsidiaries and joint operations***

For the years ended December 31:

| | **2017** | **2016 (restated)** |
|---|---|---|
| Acquisition of properties – proved oil and gas reserves | **193** | 535 |
| Acquisition of properties – unproved oil and gas reserves | **123** | 17 |
| Exploration costs | **45** | 30 |
| Development costs | **876** | 621 |
| **Total costs incurred** | **1,237** | 1,203 |

## 41. Supplementary oil and gas disclosure (unaudited) (continued)

### The results of operations relating to oil and gas production are presented below

***Consolidated subsidiaries and joint operations***

For the years ended December 31:

| | 2017 | 2016 (restated) |
|---|---|---|
| **Revenue** | **3,138** | 2,525 |
| Production costs (excluding production taxes) | **(379)** | (317) |
| Selling, general and administrative expenses | **(104)** | (100) |
| Exploration expense | **(15)** | (14) |
| Depreciation, depletion and amortization, impairment and liquidation losses | **(478)** | (395) |
| Taxes other than income tax | **(1,574)** | (1,073) |
| Income tax | **(120)** | (130) |
| **Results of operations relating to oil and gas production** | **468** | 496 |

### Reserve quantity information

Since 2014 the Company has disclosed its reserves calculated in accordance with the Petroleum Resources Management System (PRMS). For the purpose of the evaluation of reserves as of December 31, 2017 and 2016, the Company used oil and gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers. Proved reserves are those estimated quantities of petroleum which, through the analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable from a given date forward from known reservoirs and under defined economic conditions and operating methods. In certain cases, the recovery of such reserves may require considerable investments in wells and related equipment. Proved reserves also include additional oil and gas reserves that will be extracted after the expiry date of license agreements or may be discovered as a result of secondary and tertiary extraction which have been successfully tested and checked for commercial benefit. Proved developed reserves are those quantities of crude oil and gas expected to be recovered from existing wells using existing equipment and operating methods.

Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Due to inherent industry uncertainties and the limited nature of deposit data, estimates of reserves are subject to change as additional information becomes available.

The Company management included in proved reserves those reserves which the Company intends to extract after the expiry of the current licenses. The licenses for the development and production of hydrocarbons currently held by the Company generally expire between 2019 and 2202, and the licenses for the most important deposits expire between 2038 and 2150. In accordance with the effective version of the law of the Russian Federation *On Subsurface Resources* (the “Law”), licenses are currently granted for a production period determined on the basis of technological and economic criteria applied to the development of the mineral deposit which guarantee the rational use of subsurface resources and necessary environmental protection. In accordance with the Law and upon the gradual expiration of old licenses issued under the previous version of the Law, the Company extends its hydrocarbon production licenses for the whole productive life of the fields. Extension of the licenses depends on compliance with the terms set forth in the existing license agreements. As of the date of these consolidated financial statements, the Company is generally in compliance with all the terms of the license agreements and intends to continue complying with such terms in the future.

## 41. Supplementary oil and gas disclosure (unaudited) (continued)

### Reserve quantity information (continued)

The Company's estimates of net proved liquid hydrocarbons and sales gas reserves and changes thereto for the years ended December 31, 2017 and 2016 are shown in the table below and expressed in million barrels of oil equivalent (liquid hydrocarbons production data was recalculated from tonnes to barrels using field specific coefficients; sales gas production data was recalculated from cubic meters to barrels of oil equivalent ("boe") using an average ratio).

***Consolidated subsidiaries and joint operations***

| | **2017** | 2016 |
|---|---|---|
| | **million boe** | **million boe** |
| Beginning of year | **43,217** | 40,359 |
| Revisions of previous estimates | **909** | 1,169 |
| Extensions and discoveries | **1,046** | 1,038 |
| Improved recovery | **1** | 29 |
| Purchase of new reserves | **470** | 2,388 |
| Sale of reserves | **–** | (10) |
| Production | **(1,862)** | (1,756) |
| **End of year** | **43,781** | 43,217 |
| Proved developed reserves | **20,436** | 20,015 |
| Minority interest in total proved reserves | **2,049** | 1,881 |
| Minority interest in proved developed reserves | **1,306** | 1,327 |

### Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

The standardized measure of discounted future net cash flows related to the above oil and gas reserves is based on PRMS. Estimated future cash inflows from oil, condensate and gas production are computed by applying the projected prices the company uses in its long-term forecasts to year-end quantities of estimated net proved reserves. Future development and production costs are those estimated future expenditures necessary to develop and produce estimated proved reserves as of year-end based on current expenses and costs and forecasts. In certain cases, future values, either higher or lower than current values, were used as a result of anticipated changes in operating conditions.

Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimate future net pre-tax cash flows, net of the tax bases of related assets.

Discounted future net cash flows are calculated using a 10% p.a. discount factor. Discounting requires year-by-year estimates of future expenditures to be incurred in the periods when the reserves are extracted.

The information provided in the table below does not represent management's estimates of the Company's expected future cash flows or of the value of its proved oil and gas reserves. Estimates of proved reserves change over time as new information becomes available. Moreover, probable and possible reserves which may become proved in the future are excluded from the calculations. The arbitrary valuation requires assumptions as to the timing and the amount of future development and production costs. The calculations should not be relied upon as an indication of the Company's future cash flows or of the value of its oil and gas reserves.

## 41. Supplementary oil and gas disclosure (unaudited) (continued)

### Standardized measure of discounted future net cash flows

***Consolidated subsidiaries and joint operations***

| | 2017 | 2016 |
|---|---|---|
| Future cash inflows | **79,122** | 85,996 |
| Future development costs | **(6,105)** | (5,410) |
| Future production costs | **(42,748)** | (45,667) |
| Future income tax expenses | **(5,206)** | (5,857) |
| **Future net cash flows** | **25,063** | 29,062 |
| Discount for estimated timing of cash flows | **(15,996)** | (18,718) |
| **Discounted value of future cash flows as of the end of year** | **9,067** | 10,344 |

### Share of other (minority) shareholders in discounted value of future cash flows

***Consolidated subsidiaries and joint operations***

| | UOM | 2017 | 2016 |
|---|---|---|---|
| Share of other (minority) shareholders in discounted value of future cash flows | RUB billion | **717** | 727 |

### Changes therein relating to proved oil and gas reserves

***Consolidated subsidiaries and joint operations***

| | 2017 | 2016 |
|---|---|---|
| Discounted value of future cash flows as of the beginning of year | **10,344** | 9,750 |
| Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes | **(1,081)** | (1,035) |
| Changes in price estimates, net | **(1,689)** | (607) |
| Changes in estimated future development costs | **(1,185)** | (1,042) |
| Development costs incurred during the period | **876** | 621 |
| Revisions of previous reserves estimates | **188** | 271 |
| Increase in reserves due to discoveries, less respective expenses | **216** | 248 |
| Net change in income taxes | **252** | 289 |
| Accretion of discount | **1,034** | 975 |
| Net changes due to purchases of oil and gas fields | **112** | 876 |
| Net changes due to sales of oil and gas fields | **–** | (2) |
| **Discounted value of future cash flows as of the end of year** | **9,067** | 10,344 |

### Company's share in costs, inventories and future cash flows of the joint ventures and associates

| | UOM | 2017 | 2016 (restated) |
|---|---|---|---|
| Share in capitalized costs relating to oil and gas producing activities (total) | RUB billion | **250** | 218 |
| Share in results of operations for oil and gas producing activities (total) | RUB billion | **42** | 17 |
| Share in estimated proved oil and gas reserves | million boe | **2,078** | 2,192 |
| Share in estimated proved developed oil and gas reserves | million boe | **1,119** | 1,206 |
| Share in discounted value of future cash flows | RUB billion | **483** | 619 |

**Contact information**

PJSC Rosneft Oil Company

Legal address:
Russian Federation, 115035, Moscow, Sofiyskaya embankment, 26/1

Mailing address:
Russian Federation, 117997, Moscow, Sofiyskaya embankment, 26/1

Phone:
+7 (499) 517-88-99

Fax:
+7 (499) 517-72-35

E-mail:
postman@rosneft.ru

Corporate website:
www.rosneft.ru (Russian)
www.rosneft.com (English)