



Rosneft Oil Company

Interim Condensed Consolidated Financial Statements
(unaudited)

Three and nine months ended September 30, 2019

Rosneft Oil Company

Interim condensed consolidated financial statements (unaudited)

Three and nine months ended September 30, 2019

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Report on Review of Interim Financial Information

To the Shareholders and Board of Directors
of Rosneft Oil Company

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), which comprise the interim consolidated balance sheet as at September 30, 2019, the interim consolidated statement of profit or loss, interim consolidated statement of other comprehensive income for the three and nine-month periods, interim consolidated statement of changes in shareholders' equity and interim consolidated statement of cash flows for the nine-month period then ended and notes to interim condensed consolidated financial statements, including a summary of significant accounting policies (interim financial information).

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

Scope of review

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

Conclusion

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



D.E. Lobachev
Partner
Ernst & Young LLC

November 6, 2019

Details of the entity

Name: Rosneft Oil Company
Record made in the State Register of Legal Entities on August 12, 2002, State Registration Number 1027700043502.
Address: Russia 115035, Moscow, Sofiyskaya embankment, 26/1.

Details of the auditor

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

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

	Notes	September 30, 2019 (unaudited)	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents	10	219	832
Restricted cash	10	7	12
Other short-term financial assets	11	535	633
Accounts receivable	12	795	642
Inventories	13	437	393
Prepayments and other current assets	14	468	510
Total current assets		2,461	3,022
Non-current assets			
Property, plant and equipment	15	8,555	8,445
Right-of-use assets	3	158	–
Intangible assets		51	75
Other long-term financial assets	16	249	239
Investments in associates and joint ventures		857	735
Bank loans granted		293	239
Deferred tax assets		32	28
Goodwill		85	85
Other non-current non-financial assets	17	194	295
Total non-current assets		10,474	10,141
Total assets		12,935	13,163
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	18	1,346	1,130
Loans and borrowings and other financial liabilities	19	802	978
Income tax liabilities		22	23
Other tax liabilities	20	375	327
Provisions	21	39	43
Prepayment on long-term oil and petroleum products supply agreements	22	368	354
Other current liabilities		19	19
Total current liabilities		2,971	2,874
Non-current liabilities			
Loans and borrowings and other financial liabilities	19	3,031	3,413
Deferred tax liabilities		834	837
Provisions	21	283	244
Prepayment on long-term oil and petroleum products supply agreements	22	797	1,072
Other non-current liabilities		48	46
Total non-current liabilities		4,993	5,612
Equity			
Share capital		1	1
Additional paid-in capital		636	633
Other funds and reserves		(162)	(191)
Retained earnings		3,877	3,610
Rosneft shareholders' equity		4,352	4,053
Non-controlling interests		619	624
Total equity		4,971	4,677
Total liabilities and equity		12,935	13,163

Chief Executive Office  I.I. Sechin

November 06, 2019

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

Rosneft Oil Company

Interim consolidated statement of profit or loss

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

	Notes	Three months ended September 30, 2019 (unaudited)	Three months ended September 30, 2018 (unaudited, restated*)	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited, restated*)
Revenues and equity share in profits of associates and joint ventures					
Oil, gas, petroleum products and petrochemicals sales	5	2,197	2,245	6,313	5,959
Support services and other revenues		20	17	64	58
Equity share in profits of associates and joint ventures		23	24	75	56
Total revenues and equity share in profits of associates and joint ventures		2,240	2,286	6,452	6,073
Costs and expenses					
Production and operating expenses		217	165	522	446
Cost of purchased oil, gas, petroleum products, goods for retail and refining costs		376	304	1,122	828
General and administrative expenses		32	35	143	113
Pipeline tariffs and transportation costs		207	161	531	473
Exploration expenses		3	2	7	7
Depreciation, depletion and amortization		172	163	510	472
Taxes other than income tax	6	669	745	2,000	1,995
Export customs duty	7	208	289	599	744
Total costs and expenses		1,884	1,864	5,434	5,078
Operating income		356	422	1,018	995
Finance income		36	30	113	89
Finance expenses	8	(56)	(81)	(176)	(217)
Other income	9	3	21	7	48
Other expenses	9	(14)	(150)	(135)	(237)
Foreign exchange differences		11	27	41	100
Cash flow hedges reclassified to profit or loss	24	(36)	(36)	(109)	(109)
Income before income tax		300	233	759	669
Income tax expense	6	(50)	(56)	(133)	(152)
Net income		250	177	626	517
Net income attributable to:					
- Rosneft shareholders		225	142	550	440
- non-controlling interests		25	35	76	77
Net income attributable to Rosneft per common share (in RUB) – basic and diluted					
		21.23	13.40	51.90	41.52
Weighted average number of shares outstanding (millions)					
		10,598	10,598	10,598	10,598

* Certain amounts for the three and nine months ended September 30, 2018 have been restated resulting from final purchase price allocation (Note 4) and also certain reclassifications to conform to the current period presentation.

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

Rosneft Oil Company

Interim consolidated statement of other comprehensive income

(in billions of Russian rubles)

		Three months ended September 30, 2019 (unaudited)	Three months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited, restated)
Net income		250	177	626	517
Other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent periods					
Foreign exchange differences on translation of foreign operations		(7)	5	(64)	(27)
Foreign exchange cash flow hedges	24	36	36	109	110
Income/(loss) from changes in fair value of debt financial assets at fair value through other comprehensive income		1	(4)	3	(2)
Increase in loss allowance for expected credit losses on debt financial assets at fair value through other comprehensive income		1	2	1	7
Equity share in other comprehensive loss of associates		(1)	(3)	(3)	(5)
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent periods		(6)	(6)	(21)	(22)
Total other comprehensive income – to be reclassified to profit or loss in subsequent periods, net of tax		24	30	25	61
Other comprehensive (loss)/income – not to be reclassified to profit or loss in subsequent periods					
(Loss)/income from changes in fair value of equity financial assets at fair value through other comprehensive income		(1)	2	5	4
Income tax related to other comprehensive (loss)/income – not to be reclassified to profit or loss in subsequent periods		–	(1)	(1)	(1)
Total comprehensive (loss)/income – not to be reclassified to profit or loss in subsequent periods, net of tax		(1)	1	4	3
Total comprehensive income, net of tax		273	208	655	581
Total comprehensive income, net of tax, attributable to:					
- Rosneft shareholders		248	173	579	504
- non-controlling interests		25	35	76	77

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

Rosneft Oil Company

Interim consolidated statement of changes in shareholders' equity

(in billions of Russian rubles, except share amounts)

	Number of shares (millions)	Share capital	Additional paid-in capital	Other funds and reserves	Retained earnings	Rosneft share- holders' equity	Non- controlling interests	Total equity
Balance at January 1, 2018	10,598	1	627	(322)	3,286	3,592	563	4,155
Net income (restated, Note 4)	–	–	–	–	440	440	77	517
Other comprehensive income	–	–	–	64	–	64	–	64
Total comprehensive income (restated)	–	–	–	64	440	504	77	581
Dividends declared (Note 23)	–	–	–	–	(225)	(225)	(55)	(280)
Change of interest in subsidiaries	–	–	–	–	–	–	24	24
Other movements	–	–	(1)	–	–	(1)	–	(1)
Balance at September 30, 2018 (unaudited, restated)	10,598	1	626	(258)	3,501	3,870	609	4,479
Balance at January 1, 2019	10,598	1	633	(191)	3,610	4,053	624	4,677
Net income	–	–	–	–	550	550	76	626
Other comprehensive income	–	–	–	29	–	29	–	29
Total comprehensive income	–	–	–	29	550	579	76	655
Dividends declared (Note 23)	–	–	–	–	(283)	(283)	(91)	(374)
Change of interests in subsidiaries	–	–	1	–	–	1	3	4
Other movements	–	–	2	–	–	2	7	9
Balance at September 30, 2019 (unaudited)	10,598	1	636	(162)	3,877	4,352	619	4,971

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

Rosneft Oil Company

Interim consolidated statement of cash flows

(in billions of Russian rubles)

	Notes	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited, restated)
Operating activities			
Net income		626	517
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation, depletion and amortization		510	472
Loss on disposal of non-current assets	9	7	7
Dry hole costs		3	1
Offset of prepayments received on oil and petroleum products long term supply agreements	22	(261)	(195)
Offset of prepayments made on oil and petroleum products long term supply agreements		116	129
Foreign exchange gain on non-operating activities		(64)	(66)
Cash flow hedges reclassified to profit or loss		109	109
Offset of other financial liabilities		(122)	(126)
Equity share in profits of associates and joint ventures		(75)	(56)
Non-cash income from acquisitions, net	9	–	(26)
Loss from disposal of non-production assets		–	1
Changes in provisions for financial assets		27	2
Loss from changes in estimates and impairment of assets		109	196
Finance expenses	8	176	217
Finance income		(113)	(89)
Income tax expense	6	133	152
<i>Changes in operating assets and liabilities</i>			
(Increase)/decrease in accounts receivable, gross		(179)	71
Increase in inventories		(46)	(79)
Decrease in restricted cash		5	6
Increase in prepayments and other current assets		(29)	(30)
Increase in long-term prepayments made on oil and petroleum products supply agreements		(67)	(40)
Decrease in accounts payable and accrued liabilities		(15)	(50)
Increase in other tax liabilities		47	115
Decrease in current provisions		–	(1)
Decrease in other current liabilities		–	(5)
Increase in other non-current liabilities		–	3
Interest paid on long-term prepayment received on oil and petroleum products supply agreements		(6)	(4)
Net increase in operating assets of subsidiary banks		(52)	(68)
Net increase in operating liabilities of subsidiary banks		6	73
Net cash provided by operating activities before income tax and interest		845	1,236
Income tax payments		(164)	(165)
Interest received		56	50
Dividends received		31	5
Net cash provided by operating activities		768	1,126

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

Rosneft Oil Company

Interim consolidated statement of cash flows (continued)

(in billions of Russian rubles)

	Notes	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited, restated)
Investing activities			
Capital expenditures		(634)	(679)
Acquisition of licenses and auction fee payments		(3)	(2)
Acquisition of short-term financial assets		(80)	(191)
Proceeds from sale of short-term financial assets		173	88
Acquisition of long-term financial assets		(3)	(4)
Proceeds from sale of long-term financial assets		7	67
Financing of joint ventures		(9)	–
Acquisition of interest in associates and joint ventures		–	(1)
Proceeds from sale of investments in joint ventures		–	7
Acquisition of interest in subsidiaries, net of cash acquired, and joint arrangements		(8)	(37)
Proceeds from sale of subsidiaries, net of cash disposed		5	–
Proceeds from sale of property, plant and equipment		5	4
Net cash used in investing activities		(547)	(748)
Financing activities			
Proceeds from short-term loans and borrowings		242	180
Repayment of short-term loans and borrowings		(618)	(1,289)
Proceeds from long-term loans and borrowings		315	1,248
Repayment of long-term loans and borrowings		(353)	(217)
Proceeds from other financial liabilities		45	190
Repayment of other financial liabilities		(47)	(61)
Interest paid		(210)	(202)
Repurchase of bonds		–	(39)
Proceeds from sale of non-controlling share in subsidiary		–	12
Other financing		11	–
Dividends paid to Rosneft shareholders		(120)	(70)
Dividends paid to non-controlling shareholders		(74)	(35)
Net cash used in financing activities		(809)	(283)
Net (decrease)/increase in cash and cash equivalents		(588)	95
Cash and cash equivalents at beginning of period	10	832	322
Effect of foreign exchange on cash and cash equivalents		(25)	17
Cash and cash equivalents at end of period	10	219	434

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

Rosneft Oil Company

Notes to the interim condensed consolidated financial statements (unaudited)

Three and nine months ended September 30, 2019

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

1. General

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

2. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for 2018 prepared in accordance with International Financial Reporting Standards (“IFRS”).

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Company omitted disclosures which would substantially duplicate the information contained in its 2018 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequently to the issuance of its 2018 audited consolidated financial statements. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to ensure that the presented information is not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company’s 2018 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments necessary to present fairly the Company’s financial position, results of operations, statements of changes in shareholders’ equity and cash flows for the interim reporting periods.

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

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

The interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 were approved and authorized for issue by the Chief Executive Officer of the Company on November 6, 2019.

Rosneft Oil Company

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

3. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the new standards and interpretations as well as amendments to existing standards effective as of January 1, 2019.

The following standards were applied for the first time in 2019:

- *IFRS 16 Leases*. The new standard, issued in 2016, replaces the previous leases standard, IAS 17 *Leases*, and the related interpretations; IFRS 16 eliminates the classification of leases as either operating leases or finance leases thus establishing a single lessee accounting model.

The Company elected to apply the modified retrospective approach which provides for recognition of the cumulative effect of initial application at the date of the initial application i.e. January 1, 2019.

At the date of initial application the Company used the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as finance or operating leases applying IAS 17 and IFRIC 4. The Company also elected to use the recognition exemptions for lease contracts that have a lease term of 12 months or less (including all economically reasonable prolongation options) and do not contain a purchase option, and lease contracts for which the underlying asset is of low value (below RUR 300 thousand).

One-off increase in non-current assets and financial liabilities due to recognition of operating leases on the balance sheet totaled RUB 103 billion as of January 1, 2019.

This amount can be reconciled to the undiscounted future minimum lease payments under the operating lease agreements disclosed in the annual consolidated financial statements of the Company as of December 31, 2018 as follows:

Future minimum lease payments under operating lease agreements as of December 31, 2018	312
Effect of discounting using incremental borrowing rate as of the date of initial application	(178)
Present value of future minimum lease payments	134
<i>Decreased by the present value of the following:</i>	
payments for the rent of land related to exploration and evaluation and for rent of wells payments upon contracts with a lease term of 12 months or less (including all economically reasonable prolongation options)	(16)
payments for leases of low-value items	(12)
	(3)
Total	103

Previously recognized liabilities for finance leases in the amount of RUB 27 billion were included into Lease liabilities, thus total Lease liabilities as of January 1, 2019 amounted to RUB 130 billion. Previously recognized finance lease assets in the amount of RUB 23 billion as of January 1, 2019 were reclassified to Right-of-use assets from Property, plant and equipment. In addition, Right-of-use assets as of January 1, 2019 were also adjusted for RUB 17 billion represented by the rights for land lease previously recognized within Intangible assets as a result of business combinations. Thus, the total carrying value of Right-of-use assets as of January 1, 2019 amounted to RUB 143 billion.

Rosneft Oil Company

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

3. Changes in accounting policies (continued)

- *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 be accepted by the tax authorities. The interpretation did not have a material impact on the consolidated financial statements.
- *Amendments to IFRS 9 Financial Instruments named Prepayment Features with Negative Compensation.* The amendments relate to financial assets with an option of early prepayment, the conditions of which allow early prepayment in a variable amount, which in turn may exceed as well as may be lower than remaining outstanding cash flows. The amendments allow to measure such prepaid financial assets with so-called negative compensation at amortized cost or at fair value through other comprehensive income if a specified condition is met – instead of at fair value through profit or loss. The amendments did not have a material impact on the consolidated financial statements due to the absence of such instruments.
- *Amendments to IAS 19 Employee Benefits named Plan Amendment, Curtailment or Settlement.* The amendments specify how companies determine pension expenses when changes to a defined benefit pension plan occur. The amendments did not have a material impact on the consolidated financial statements.

4. Acquisitions of subsidiaries and shares in joint operations

Acquisitions of 2019

Acquisition of 100% shares in the entities of “Petersburg Fuel Company” group

In July 2019 the Company completed acquisition of 100% share in the entities of “Petersburg Fuel Company” (“PTK”) group. The acquisition of PTK group of companies is in line with the Company’s strategy aimed at developing the retail business and expanding its presence in key regions of the country. As of September 30, 2019 the Company has not yet completed the assessment of the fair value of consideration and of the assets acquired and liabilities assumed. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be completed within 12 months from the acquisition date.

Acquisitions of 2018

Acquisition of interests in joint ventures with ExxonMobil

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

As of September 30, 2018 the Company prepared preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed. The purchase price allocation was finalized in December 2018.

Rosneft Oil Company

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

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

Acquisitions of 2018 (continued)

The following table summarizes the effect from the final purchase price allocation on the consolidated statement of profit or loss for the nine months ended September 30, 2018:

	Nine months ended September 30, 2018		
	Preliminary	Revisions	Final
Operating income	995	–	995
Finance income	89	–	89
Finance expenses	(217)	–	(217)
Other income	59	(11)	48
Other expenses	(237)	–	(237)
Foreign exchange differences	100	–	100
Cash flow hedges reclassified to profit or loss	(109)	–	(109)
Income before income tax	680	(11)	669
Income tax expense	(152)	–	(152)
Net income	528	(11)	517
Net income attributable to:			
- Rosneft shareholders	451	(11)	440
- non-controlling interests	77	–	77
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	42.56	1.04	41.52
Weighted average number of shares outstanding (millions)	10,598	–	10,598

5. Segment information

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

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

Rosneft Oil Company

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

5. Segment information (continued)

The performance of the operating segments for the three months ended September 30, 2019 (unaudited) is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	1,152	2,233	45	(1,190)	2,240
<i>Including: equity share in profits of associates and joint ventures</i>	<i>17</i>	<i>6</i>	<i>–</i>	<i>–</i>	<i>23</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	705	2,166	31	(1,190)	1,712
Depreciation, depletion and amortization	137	30	5	–	172
Total costs and expenses	842	2,196	36	(1,190)	1,884
Operating income	310	37	9	–	356
Finance income	–	–	36	–	36
Finance expenses	–	–	(56)	–	(56)
Total finance expenses	–	–	(20)	–	(20)
Other income	–	–	3	–	3
Other expenses	–	–	(14)	–	(14)
Foreign exchange differences	–	–	11	–	11
Cash flow hedges reclassified to profit or loss	–	–	(36)	–	(36)
Income before income tax	310	37	(47)	–	300
Income tax expense	(58)	(4)	12	–	(50)
Net income	252	33	(35)	–	250

Rosneft Oil Company

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

5. Segment information (continued)

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

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

Rosneft Oil Company

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

5. Segment information (continued)

The performance of the operating segments for the nine months ended September 30, 2019 (unaudited) is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	3,625	6,421	119	(3,713)	6,452
<i>Including: equity share in profits of associates and joint ventures</i>	<i>57</i>	<i>16</i>	<i>2</i>	<i>–</i>	<i>75</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	2,192	6,293	152	(3,713)	4,924
Depreciation, depletion and amortization	413	87	10	–	510
Total costs and expenses	2,605	6,380	162	(3,713)	5,434
Operating income	1,020	41	(43)	–	1,018
Finance income	–	–	113	–	113
Finance expenses	–	–	(176)	–	(176)
Total finance expenses	–	–	(63)	–	(63)
Other income	–	–	7	–	7
Other expenses (Note 9)	–	–	(135)*	–	(135)
Foreign exchange differences	–	–	41	–	41
Cash flow hedges reclassified to profit or loss	–	–	(109)	–	(109)
Income before income tax	1,020	41	(302)	–	759
Income tax expense	(192)	(5)	64	–	(133)
Net income	828	36	(238)	–	626

* Includes the impairment of assets in Refining and distribution segment (Note 9).

Rosneft Oil Company

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

5. Segment information (continued)

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

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	3,501	6,100	95	(3,623)	6,073
<i>Including: equity share in profits of associates and joint ventures</i>	<i>53</i>	<i>2</i>	<i>1</i>	<i>–</i>	<i>56</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	2,112	5,983	134	(3,623)	4,606
Depreciation, depletion and amortization	374	92	6	–	472
Total costs and expenses	2,486	6,075	140	(3,623)	5,078
Operating income	1,015	25	(45)	–	995
Finance income	–	–	89	–	89
Finance expenses	–	–	(217)	–	(217)
Total finance expenses	–	–	(128)	–	(128)
Other income	–	–	48	–	48
Other expenses	–	–	(237)	–	(237)
Foreign exchange differences	–	–	100	–	100
Cash flow hedges reclassified to profit or loss	–	–	(109)	–	(109)
Income before income tax	1,015	25	(371)	–	669
Income tax expense	(192)	(5)	45	–	(152)
Net income	823	(20)	(326)	–	517

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

	Three months ended September 30, 2019 (unaudited)	Three months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
International sales of crude oil, petroleum products and petrochemicals – non-CIS	1,567	1,610	4,546	4,296
International sales of crude oil and petroleum products – CIS, other than Russia	81	99	254	263
Domestic sales of crude oil, petroleum products and petrochemicals	489	481	1,322	1,236
Sales of gas	60	55	191	164
Total oil, gas, petroleum products and petrochemicals sales	2,197	2,245	6,313	5,959

Rosneft Oil Company

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

6. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended September 30, 2019 (unaudited)	Three months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Current income tax expense	33	41	134	125
Deferred tax loss/(benefit) due to the origination and reversal of temporary differences	17	15	(1)	27
Total income tax expense	50	56	133	152

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

	Three months ended September 30, 2019 (unaudited)	Three months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Mineral extraction tax	540	640	1,654	1,661
Excise tax	67	77	188	247
Property tax	10	10	29	32
Social charges	20	16	57	50
Tax on additional income from production of hydrocarbons	30	–	65	–
Other	2	2	7	5
Total taxes other than income tax	669	745	2,000	1,995

In accordance with the Federal Law No. 199-FZ *On Amending Parts One and Two of the Tax Code of the Russian Federation* enacted on July 19, 2018 the tax on additional income (hereinafter AIT) from production of hydrocarbons was introduced for a number of oil fields starting from January 1, 2019. The AIT tax rate is 50% charged on the income from the hydrocarbons sales calculated as the difference between the estimated sales revenues and certain costs associated with the production, preparation and transportation of hydrocarbons. At the same time the MET for these oil fields is charged at a reduced rate. Several Company's oil fields have implemented the new tax regime starting from January 1, 2019.

7. Export customs duty

Export customs duty comprises the following:

	Three months ended September 30, 2019 (unaudited)	Three months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Export customs duty on oil sales	153	209	445	543
Export customs duty on petroleum products and petrochemicals sales	55	80	154	201
Total export customs duty	208	289	599	744

Rosneft Oil Company

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

8. Finance expenses

Finance expenses comprise the following:

	Three months ended September 30, 2019 (unaudited)	Three months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Interest expenses on				
Loans and borrowings	(29)	(34)	(86)	(99)
Interest on the lease liability	(1)	–	(3)	(1)
Prepayment on long-term oil and petroleum products supply agreements (Note 22)	(16)	(24)	(56)	(67)
Other interest expenses	(5)	(2)	(13)	(6)
Total interest expenses	(51)	(60)	(158)	(173)
Increase in provision due to the unwinding of a discount	(4)	(5)	(14)	(14)
Increase in loss allowance for expected credit losses on debt financial assets:				
- at fair value through other comprehensive income	(1)	(1)	(1)	(4)
- at amortised cost	–	(1)	(2)	(2)
Change in fair value of financial assets measured at fair value through profit or loss	–	(9)	–	(9)
Net loss from operations with derivative financial instruments	–	(5)	–	(14)
Other finance expenses	–	–	(1)	(1)
Total finance expenses	(56)	(81)	(176)	(217)

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended September 30, 2019 (unaudited)	Three months ended September 30, 2018 (unaudited, restated)	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited, restated)
Compensation payment for licenses from joint venture parties	–	–	–	1
Insurance indemnity	–	–	2	3
Gain on re-measurement of fair value of the Company's investment in joint ventures	–	1	–	7
Gain on bargain purchase	–	6	–	19
Other	3	14	5	18
Total other income	3	21	7	48
Sale and disposal of property, plant and equipment and intangible assets	(1)	(2)	(7)	(7)
Impairment of assets	(3)	(136)	(93)	(184)
Disposal of non-production assets	–	–	–	(1)
Provision for legal claims	–	(1)	–	(13)
Social payments, charity, financial aid	(5)	(6)	(15)	(16)
Other	(5)	(5)	(20)	(16)
Total other expenses	(14)	(150)	(135)	(237)

Rosneft Oil Company

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

9. Other income and expenses (continued)

Impairment of assets

In the first quarter 2019 the Company identified impairment indicators for the Refining and Distribution segment, which entailed estimation of the recoverable amount of the distribution assets of this segment.

As a result of this estimation, the excess of the carrying value of the distribution assets above their value in use amounted to RUB 80 billion, of which RUB 73 billion relates to Property, plant and equipment and RUB 7 billion – to Right-of-use assets. The impairment loss was recognized within Other expenses in these interim condensed consolidated financial statements in the consolidated statement of profit or loss for the nine months ended September 30, 2019. There were no indicators of additional impairment in the third quarter. The Company will continue to monitor changes in facts and circumstances, which may require this estimate to be revised in the future.

Key assumptions applied to the calculation of value in use

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

- *Petroleum products gross distribution margin*

The following average gross distribution margin for petroleum products was used in performed impairment test: RUB 2.3 thousand per tonne in 2019, and RUB 2.9 thousand per tonne in 2020 and onwards.

- *Sales volumes*

Forecasted sales volumes were set for the purposes of impairment testing based on the business plan parameters.

- *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 the discount rate was 9.1% p.a.

Provided all the remaining key assumptions stay constant, further deterioration of the gross distribution margin will result in further impairment.

Rosneft Oil Company

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

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	September 30, 2019 (unaudited)	December 31, 2018
Cash on hand and in bank accounts in RUB	39	30
Cash on hand and in bank accounts in foreign currencies	112	572
Deposits	59	221
Other	9	9
Total cash and cash equivalents	219	832

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

Deposits are interest bearing and denominated mainly in RUB and U.S. dollars.

Restricted cash includes the obligatory reserve of subsidiary banks with the CBR in the amount of RUB 6 billion as of September 30, 2019 and December 31, 2018.

11. Other short-term financial assets

Other short-term financial assets comprise the following:

	September 30, 2019 (unaudited)	December 31, 2018
Financial assets at fair value through other comprehensive income		
Bonds	152	162
Promissory notes	148	151
Stocks and shares	45	42
Loans granted under reverse repurchase agreements	61	56
Financial assets at amortized cost		
Bonds	1	1
Loans issued to associates	2	2
Deposits and certificates of deposit	120	218
Financial assets at fair value through profit or loss		
Deposits	2	1
Bonds	1	–
Derivative financial instruments	3	–
Total other short-term financial assets	535	633

Rosneft Oil Company

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

12. Accounts receivable

Accounts receivable include the following:

	September 30, 2019 (unaudited)	December 31, 2018
Trade receivables	703	523
Bank loans to customers	123	124
Other accounts receivable	52	51
Total	878	698
Allowance for expected credit losses	(83)	(56)
Total accounts receivable, net of allowance	795	642

No accounts receivable were pledged as collateral for loans and borrowings provided to the Company as of September 30, 2019 and December 31, 2018.

Set out below is the movement in the loss allowance for expected credit losses on accounts receivable:

	As of January 1, 2019	Increase in allowance	Decrease in allowance	As of September 30, 2019
Loss allowance at an amount equal to 12-month expected credit losses on trade receivables	37	8	(8)	37
Loss allowance at an amount equal to lifetime expected credit losses on trade receivables	–	27	–	27
Allowance for expected credit losses on other accounts receivable	19	4	(4)	19
Total	56	39	(12)	83

Due to the generally high credit quality and short term-nature of trade receivables, the loss allowance for expected credit losses for majority of significant counterparties is determined based on 12-month expected credit losses. The Company has no trade receivables assets of buyers and customers that are credit impaired upon initial recognition.

Loss allowance at the amount equal to lifetime expected credit losses was recognized during the reporting period due to occurrence of credit impairment of an asset, which was not credit impaired upon initial recognition.

Rosneft Oil Company

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

13. Inventories

Inventories comprise the following:

	September 30, 2019 (unaudited)	December 31, 2018
Crude oil and gas	133	91
Petroleum products and petrochemicals	191	205
Materials and supplies	113	97
Total inventories	437	393

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

	Three months ended September 30, 2019 (unaudited)	Three months ended September 30, 2018 (unaudited)	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Cost of inventories recognized as an expense during the period	365	348	1,196	972

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

14. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	September 30, 2019 (unaudited)	December 31, 2018
Value added tax and excise receivable	226	221
Prepayments to suppliers	158	217
- <i>Current portion of long-term prepayments issued</i>	77	148
Settlements with customs	22	41
Profit and other tax payments	54	20
Other	8	11
Total prepayments and other current assets	468	510

Settlements with customs primarily represent prepaid export duties related to the export of crude oil and petroleum products (Note 7).

Rosneft Oil Company

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

15. Property, plant and equipment and construction in progress

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
Cost as of January 1, 2019	9,711	2,342	144	12,197
Depreciation, depletion and impairment losses as of January 1, 2019	(3,177)	(602)	(49)	(3,828)
Net book value as of January 1, 2019	6,534	1,740	95	8,369
Prepayments for property, plant and equipment as of January 1, 2019	9	15	29	53
Total as of January 1, 2019	6,543	1,755	124	8,422
Cost				
Acquisitions of subsidiaries and shares in joint operations (Note 4)	–	14	–	14
Additions	666	74	3	743
<i>Including capitalized expenses on loans and borrowings</i>	<i>91</i>	<i>30</i>	<i>–</i>	<i>121</i>
Disposals and other movements	(24)	(3)	(11)	(38)
Foreign exchange differences	(62)	(26)	(2)	(90)
Cost of asset retirement (decommissioning) obligations	22	–	–	22
As of September 30, 2019	10,313	2,401	134	12,848
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(414)	(72)	(6)	(492)
Disposals and other movements	9	2	6	17
Impairment of assets (Note 9)	(1)	(85)	–	(86)
Foreign exchange differences	28	3	1	32
As of September 30, 2019	(3,555)	(754)	(48)	(4,357)
Net book value as of September 30, 2019	6,758	1,647	86	8,491
Prepayments for property, plant and equipment as of September 30, 2019	16	17	31	64
Total as of September 30, 2019	6,774	1,664	117	8,555

Cost, Depreciation, depletion and impairment losses, Net book value as of January 1, 2019 include the effects of the first time adoption of IFRS 16 *Leases* (Note 3).

As of January 1, 2019, certain items of property, plant and equipment were reallocated between segments Exploration and production, Refining and distribution and Corporate and other activities due to clarification of the nature of their use.

The depreciation charge for the nine months ended September 30, 2019 includes RUB 10 billion of depreciation which was capitalized as part of the construction cost of property, plant and equipment and cost of inventory.

The Company capitalized RUB 138 billion (including RUB 121 billion in capitalized interest expense) and RUB 137 billion (including RUB 108 billion in capitalized interest expense) of expenses on loans and borrowings for the nine months ended September 30, 2019 and 2018, respectively. The nine-month weighted average rates used to determine the amount of borrowing costs eligible for capitalization were 6.89% and 8.32% for the nine months ended September 30, 2019 and 2018, respectively.

Rosneft Oil Company

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

16. Other long-term financial assets

Other long-term financial assets comprise the following:

	September 30, 2019 (unaudited)	December 31, 2018
Financial assets at fair value through other comprehensive income		
Stocks and shares	19	18
Financial assets at amortized cost		
Bonds	27	28
Loans granted	22	18
Loans issued to associates	31	31
Deposits and certificates of deposit	21	23
Long-term accounts receivable	10	11
Financial assets at fair value through profit or loss		
Deposits	119	110
Total other long-term financial assets	249	239

Bank deposits of the Company are placed in rubles, US dollars and euros at interest rates ranging from 1.5% to 8.75% p.a.

Bonds mainly include federal loan bonds owned by JSCB Peresvet and JSC Russian Regional Development Bank (VBRR).

No long-term financial assets were pledged as collateral as of September 30, 2019 and December 31, 2018.

17. Other non-current non-financial assets

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

	September 30, 2019 (unaudited)	December 31, 2018
Long-term advances issued	193	293
Other	1	2
Total other non-current non-financial assets	194	295

Rosneft Oil Company

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

18. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2019 (unaudited)	December 31, 2018
Financial liabilities		
Accounts payable to suppliers and contractors	526	452
Current operating liabilities of subsidiary banks	455	451
Salary and other benefits payable	85	88
Dividends payable	181	1
Other accounts payable	66	63
Total financial liabilities	1,313	1,055
Non-financial liabilities		
Short-term advances received	33	75
Total accounts payable and accrued liabilities	1,346	1,130

Trade and other payables are non-interest bearing.

19. Loans and borrowings and other financial liabilities

Loans and borrowings and other financial liabilities comprise the following:

	Currency	September 30, 2019 (unaudited)	December 31, 2018
Long-term			
Bank loans	RUB	392	423
Bank loans	US\$, euro	793	921
Bonds	RUB	525	461
Eurobonds	US\$	162	177
Borrowings	RUB	82	77
Other borrowings	RUB	675	704
Other borrowings	US\$	663	691
<i>Less: current portion of long-term loans and borrowings</i>		<i>(487)</i>	<i>(202)</i>
Total long-term loans and borrowings		2,805	3,252
Lease liabilities		153	27
Other long-term financial liabilities		91	139
<i>Less: current portion of long-term lease liabilities</i>		<i>(18)</i>	<i>(5)</i>
Total long-term loans and borrowings and other financial liabilities		3,031	3,413
Short-term			
Bank loans	RUB	141	326
Bank loans	US\$, euro	36	16
Borrowings	RUB	1	–
Borrowings	US\$	7	–
Other borrowings	RUB	–	209
Other borrowings	US\$	10	25
<i>Current portion of long-term loans and borrowings</i>		<i>487</i>	<i>202</i>
Total short-term loans and borrowings and current portion of long-term loans and borrowings		682	778
<i>Current portion of long-term lease liabilities</i>		<i>18</i>	<i>5</i>
Other short-term financial liabilities		102	162
Short-term liabilities related to derivative financial instruments		–	33
Total short-term loans and borrowings and other financial liabilities		802	978
Total loans and borrowings and other financial liabilities		3,833	4,391

Rosneft Oil Company

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

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

Long-term loans and borrowings

Long-term bank loans from a foreign bank to finance special-purpose business activities denominated in U.S. dollars are partially secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts normally provide the lender with the direct 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 as of September 30, 2019 and RUB 28 billion as of December 31, 2018, respectively, and is included in Trade receivables.

During the nine months of 2019 the Company raised funds through the placement of four issues of documentary non-convertible fixed interest-bearing long-term bonds with a total nominal value of RUB 60 billion and maturity periods of 5 and 10 years: the first one with nominal value of RUB 5 billion, coupon 8.85% p.a. and maturity period of 5 years; the second and the third series with a total nominal value of RUB 30 billion, coupon 8.70% p.a. and maturity period of 10 years; the fourth one with nominal value of RUB 25 billion, coupon 7.95% p.a. and maturity period of 10 years. Coupon payments are to be made on a quarterly basis for the first, the second and the third series, for the fourth one coupon payments are to be made on a semi-annual basis. Bonds allow early repurchase at the request of the bond holder, as set out in the respective offering documents. Such purchase/repayment of the bonds does not constitute early redemption.

During the nine months of 2019 the Company continued to settle other long-term borrowings in the form of repurchase operations and entered into new transactions. As of September 30, 2019, the liabilities of the Company under those transactions amounted to the equivalent of RUB 1,338 billion at the CBR official exchange rate as of September 30, 2019. The Company's own corporate bonds were used as an instrument for those transactions.

The Company is obliged to comply with a number of restrictive financial and other covenants contained in several of its loan agreements. Such covenants include maintaining certain financial ratios. As of September 30, 2019 and December 31, 2018 the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

Short-term loans and borrowings

During the nine months of 2019 the Company drew down funds under short-term fixed and floating rates loans from Russian and foreign banks.

During the nine months of 2019 the Company continued to meet its obligations in relation to other short-term borrowings in the form of repurchase operations and entered into new transactions. As of September 30, 2019 the liabilities of the Company under those transactions amounted to the equivalent of RUB 10 billion (at the CBR official exchange rate as of September 30, 2019). Own corporate bonds were used as an instrument for those transactions.

During the nine months of 2019 the Company was current on all payments under loan agreements and interest payments.

Rosneft Oil Company

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

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

Liabilities related to derivative financial instruments

Derivative financial instruments comprise the following:

	Issue date	Expiry date	Nominal amount as of September 30, 2019 (unaudited)		Interest rate type	Fair value of the liabilities	
			US\$ million	RUB billion*		September 30, 2019 (unaudited)	December 31, 2018
Swaps	2014	2019	–	–	floating	–	33
Total			–	–		–	33

* The equivalent nominal amount at the CBR official exchange rate as of September 30, 2019.

20. Other current tax liabilities

Other current tax liabilities comprise the following:

	September 30, 2019 (unaudited)	December 31, 2018
Mineral extraction tax	166	163
VAT	128	121
Excise duties	36	27
Property tax	9	10
Tax on additional income from production of hydrocarbons	30	–
Personal income tax	3	3
Other	3	3
Total other tax liabilities	375	327

21. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2019, including	213	44	30	287
<i>Non-current</i>	207	29	8	244
<i>Current</i>	6	15	22	43
Provisions charged during the year	4	4	5	13
Increase/(decrease) in the liability resulting from:				
Changes in estimates	–	–	(3)	(3)
Changes in the discount rate	25	–	–	25
Foreign exchange differences	(3)	–	(1)	(4)
Unwinding of discount	12	2	–	14
Utilization	(2)	(4)	(4)	(10)
As of September 30, 2019 (unaudited), including	249	46	27	322
<i>Non-current</i>	245	32	6	283
<i>Current</i>	4	14	21	39

Rosneft Oil Company

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

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

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

Deliveries of oil and petroleum products that reduce the prepayment amounts commenced in 2015. The Company considers these contracts to be regular-way contracts which were entered into for the purpose of goods delivery.

	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
As of January 1	1,426	1,586
Received	–	123
Reimbursed	(261)	(195)
Total prepayment on long-term oil and petroleum products supply agreements	1,165	1,514
Less current portion	(368)	(350)
As of September 30	797	1,164

The off-set of prepayments, made during the nine months of 2019 and 2018, amounted to RUB 261 billion and RUB 195 billion (US\$ 5.4 billion and US\$ 5.2 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date), respectively.

23. Shareholders' equity

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

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

On June 4, 2019 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2018 in the amount of RUB 11.33 per share, which comprised RUB 120.1 billion.

On September 30, 2019 the Extraordinary Shareholders' Meeting approved interim dividends on the Company's common shares for the first half of 2019 in the amount of RUB 15.34 per share, which comprised RUB 162.6 billion.

Rosneft Oil Company

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

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

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

A portion of future monthly export revenues expected to be received in U.S. dollars was designated as a hedged item. The nominal amounts of the hedged item and the hedging instruments were equal. To the extent that a change in the foreign currency rate impacts the fair value of the hedging instrument, the effects are recognized in other comprehensive income or loss and then reclassified to profit or loss in the 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. As of September 30, 2019 and December 31, 2018 hedge instruments are not designated.

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

	For the three months ended September 30, 2019 (unaudited)			For the nine months ended September 30, 2019 (unaudited)		
	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 period	(71)	14	(57)	(144)	29	(115)
Foreign exchange effects recognized during the period	–	–	–	–	–	–
Foreign exchange effects reclassified to profit or loss	36	(7)	29	109	(22)	87
Total recognized in other comprehensive income/(loss) for the period (unaudited)	36	(7)	29	109	(22)	87
Total recognized in other comprehensive (loss)/income as of September 30, 2019 (unaudited)	(35)	7	(28)	(35)	7	(28)

The schedule of expected reclassification of accumulated foreign exchange loss from other comprehensive income to profit or loss, as of September 30, 2019, is presented below:

Year	2019	2020	2021	Total
Reclassification	(37)	2	–	(35)
Income tax	7	–	–	7
Total, net of tax	(30)	2	–	(28)

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

25. Fair value of financial instruments

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

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

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

	Fair value measurement as of September 30, 2019 (unaudited)			
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Financial assets at fair value through other comprehensive income	44	362	–	406
Financial assets at fair value through profit or loss	–	3	–	3
Derivative financial instruments	–	3	–	3
Non-current assets				
Financial assets at fair value through other comprehensive income	–	19	–	19
Financial assets at fair value through profit or loss	–	119	–	119
Total assets measured at fair value	44	506	–	550

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

The carrying value of cash and cash equivalents and derivative financial instruments recognized in these interim condensed consolidated financial statements equals their fair value.

The carrying value of accounts receivable and accounts payable, loans issued, other financial assets, the lease liability and other financial liabilities recognized in these interim condensed consolidated financial statements approximates their fair value.

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

	Carrying value		Fair value (Level 2)	
	September 30, 2019 (unaudited)	December 31, 2018	September 30, 2019 (unaudited)	December 31, 2018
Financial liabilities				
<i>Financial liabilities at amortized cost</i>				
Loans and borrowings with a variable interest rate	(2,238)	(2,669)	(2,152)	(2,614)
Loans and borrowings with a fixed interest rate	(1,249)	(1,361)	(1,234)	(1,316)

Rosneft Oil Company

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

26. Related party transactions

For the purpose of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholders and companies under their control (including enterprises directly or indirectly controlled by the Russian Government), associates and joint ventures, key management and pension funds.

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

The disclosure of related party transactions is presented on an aggregate basis for shareholders and companies under their control, 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 obtained 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 under their control

Revenues and income

	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	522	685
Support services and other revenues	3	5
Finance income	25	13
	550	703

Costs and expenses

	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Production and operating expenses	12	6
Cost of purchased oil, gas, petroleum products and refining costs	48	72
Pipeline tariffs and transportation costs	364	373
Other expenses	4	14
Finance expenses	45	18
	473	483

Rosneft Oil Company

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

26. Related party transactions (continued)

Transactions with shareholders and companies under their control (continued)

Other operations

	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Acquisition of subsidiaries and interest in associates	(1)	(3)
Loans received	105	161
Loans repaid	(332)	(109)
Loans and borrowings issued	(3)	(3)
Repayment of loans and borrowings issued	27	–
Deposits placed	(10)	(2)
Deposits repaid	89	64
Other	5	–

Settlement balances

	September 30, 2019 (unaudited)	December 31, 2018
Assets		
Cash and cash equivalents	52	498
Accounts receivable	87	77
Prepayments and other current assets	52	65
Other financial assets	367	325
	558	965
Liabilities		
Accounts payable and accrued liabilities	450	47
Loans and borrowings and other financial liabilities	513	904
	963	951

Transactions with joint ventures

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

Revenues and income

	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	31	10
Support services and other revenues	3	2
Finance income	2	4
	36	16

Rosneft Oil Company

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

26. Related party transactions (continued)

Transactions with joint ventures (continued)

Costs and expenses

	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Production and operating expenses	3	2
Cost of purchased oil, gas, petroleum products and refining costs	170	221
Pipeline tariffs and transportation costs	4	9
Other expenses	2	2
Finance expenses	1	1
	180	235

Other operations

	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Loans received	9	–
Loans and borrowings issued	(5)	(1)
Repayment of loans and borrowings issued	1	25
Deposits placed	(3)	–

Settlement balances

	September 30, 2019 (unaudited)	December 31, 2018
Assets		
Accounts receivable	57	3
Other financial assets	49	17
	106	20
Liabilities		
Accounts payable and accrued liabilities	122	141
Loans and borrowings and other financial liabilities	8	30
	130	171

Rosneft Oil Company

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

26. Related party transactions (continued)

Transactions with associates

Revenues and income

	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	250	278
Support services and other revenues	2	1
Finance income	30	3
	282	282

Costs and expenses

	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Production and operating expenses	15	9
Cost of purchased oil, gas, petroleum products and refining costs	73	29
Pipeline tariffs and transportation costs	2	1
Other expenses	4	10
Finance expenses	7	1
	101	50

Other operations

	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Loans received	45	–
Loans repaid	(126)	–
Loans and borrowings issued	(27)	(9)
Repayment of loans and borrowings issued	44	16

Rosneft Oil Company

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

26. Related party transactions (continued)

Transactions with associates (continued)

Settlement balances

	September 30, 2019 (unaudited)	December 31, 2018
Assets		
Accounts receivable	43	26
Prepayments and other current assets	14	13
Other financial assets	32	57
	89	96
Liabilities		
Accounts payable and accrued liabilities	10	16
Loans and borrowings and other financial liabilities	137	239
	147	255

Transactions with non-state pension funds

Costs and expenses

	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Other expenses	4	4

Other operations

	Nine months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2018 (unaudited)
Loans received	4	3
Loans repaid	(6)	(1)

Settlement balances

	September 30, 2019 (unaudited)	December 31, 2018
Liabilities		
Accounts payable and accrued liabilities	1	4
Loans and borrowings and other financial liabilities	1	3
	2	7

Rosneft Oil Company

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

27. Contingencies

Russian business environment

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

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

The Company also has investments in subsidiaries, associates and joint ventures and advances issued to contractors operating in foreign 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.

The Company continuously monitors projects in Venezuela implemented with its participation. Commercial relations with the Venezuelan state oil company PDVSA are carried out on the basis of existing contracts and in accordance with applicable legislation, including international law.

Legal claims

Rosneft and its subsidiaries are involved in litigations which arise from time to time in the course of their business activities. Management believes that the ultimate results of these litigations will not materially affect the performance or financial position of the Company.

Taxation

Legislation and regulations regarding taxation in Russia continue to evolve. Various legislative acts and regulations are not always clearly written, and their interpretation is subject to the opinions of the taxpayers, and local, regional, and national tax authorities, and the Ministry of Finance of the Russian Federation. Instances of inconsistent opinions are not unusual.

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

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

During the reporting period, the tax authorities continued their inspections of some of Rosneft subsidiaries for 2015-2018. 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.

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 from 2012 to the nine months of 2019 with respect to the taxation of oil sales and refining transactions in Russia.

Rosneft Oil Company

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

27. Contingencies (continued)

Taxation (continued)

The Company believes that transfer pricing risks in relation to intragroup transactions during the nine months ended September 30, 2019 and earlier will not have a material effect on its financial position or results of operations.

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

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

Overall, management believes that the Company has paid and accrued all taxes that are applicable. For taxes where uncertainty exists, the Company has accrued tax liabilities based on management’s best estimate of the probable outflow of resources that will be required to settle these liabilities.

Capital commitments

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

The total amount of contracted but not yet delivered goods and services related to the construction and acquisition of property, plant and equipment amounted to RUB 775 billion and RUB 758 billion as of September 30, 2019 and December 31, 2018, respectively.

Environmental liabilities

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

Other matters

Due to the pollution of oil in the trunk pipeline “Druzhba” in April 2019 a number of claims from the customers were submitted to PJSC “Rosneft Oil Company” during the third quarter of 2019, stating that the supplied oil contains substantially exceeded maximum permitted levels of organochlorine compounds (compared to levels determined by the relevant technical regulations and standards). At the same time, PJSC “Rosneft Oil Company” delivered oil to the system of oil trunk pipelines of PJSC “Transneft” in compliance with the requirements of technical regulations and standards.

Also, the Company received claims from the customers who were not delivered the contracted amounts of oil due to the oil pumping interruption in the trunk oil pipeline “Druzhba” resulting from the contamination.

Calculation of losses incurred by PJSC “Rosneft Oil Company” can be finalized after the completion of the comprehensive assessment of the impact of the incident on the Company’s activities (including the forced reduction in oil production due to the reduced oil intake into the system of PJSC “Transneft”), obtaining a complete and legally supported claims from all counterparties and their re-submission to PJSC “Transneft” for compensation.

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)