



Rosneft Oil Company

Interim condensed consolidated financial statements
(unaudited)

Three and nine months ended September 30, 2020

Rosneft Oil Company

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Three and nine months ended September 30, 2020

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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 30 September 2020, the interim consolidated statement of profit or loss, interim consolidated statement of comprehensive income for the three and nine-month periods, interim consolidated statement of changes in 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

13 November 2020

Details of the entity

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

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

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

	Notes	September 30, 2020 (unaudited)	December 31, 2019 (restated)*
ASSETS			
Current assets			
Cash and cash equivalents	10	273	228
Restricted cash	10	11	10
Other short-term financial assets	11	586	501
Accounts receivable	12	558	750
Inventories	13	370	438
Prepayments and other current assets	14	222	469
Total current assets		2,020	2,396
Non-current assets			
Property, plant and equipment	15	9,107	8,704
Right-of-use assets		159	160
Intangible assets		77	69
Other long-term financial assets	16	283	229
Investments in associates and joint ventures		837	803
Bank loans granted		345	291
Deferred tax assets		52	33
Goodwill		93	93
Other non-current non-financial assets	17	251	171
Total non-current assets		11,204	10,553
Total assets		13,224	12,949
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	18	1,250	1,162
Loans and borrowings and other financial liabilities	19	833	795
Income tax liabilities		8	23
Other tax liabilities	20	302	379
Provisions	21	65	55
Prepayment on long-term oil and petroleum products supply agreements	22	356	332
Other current liabilities		6	9
Total current liabilities		2,820	2,755
Non-current liabilities			
Loans and borrowings and other financial liabilities	19	4,038	3,033
Deferred tax liabilities		787	843
Provisions	21	461	343
Prepayment on long-term oil and petroleum products supply agreements	22	481	750
Other non-current liabilities		75	73
Total non-current liabilities		5,842	5,042
Equity			
Share capital		1	1
Treasury shares	23	(362)	-
Additional paid-in capital		635	635
Other funds and reserves		1	(154)
Retained earnings	23	3,686	4,035
Rosneft shareholders' equity		3,961	4,517
Non-controlling interests		601	635
Total equity		4,562	5,152
Total liabilities and equity		13,224	12,949

* Certain amounts have been restated to reflect the effects of finalized purchase price allocation of 2019 acquisitions (Note 4).

Chief Executive Officer  I.I. Sechin

November 13, 2020

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, 2020 (unaudited)	Three months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Revenues and equity share in profits of associates and joint ventures					
Oil, gas, petroleum products and petrochemicals sales	5	1,401	2,197	4,149	6,313
Support services and other revenues		19	20	59	64
Equity share in profits of associates and joint ventures		19	23	35	75
Total revenues and equity share in profits of associates and joint ventures		1,439	2,240	4,243	6,452
Costs and expenses					
Production and operating expenses		166	217	569	522
Cost of purchased oil, gas, petroleum products, goods for retail and refining costs		155	376	525	1,122
General and administrative expenses		33	32	79	143
Transportation costs and other commercial expenses		139	207	511	531
Exploration expenses		5	3	11	7
Depreciation, depletion and amortization		160	172	501	510
Taxes other than income tax	6	549	669	1,566	2,000
Export customs duty	7	73	208	253	599
Total costs and expenses		1,280	1,884	4,015	5,434
Operating income		159	356	228	1,018
Finance income		24	36	71	113
Finance expenses	8	(55)	(56)	(160)	(176)
Other income	9	1	3	4	7
Other expenses	9	(26)	(14)	(93)	(135)
Foreign exchange differences		(161)	11	(227)	41
Realized foreign exchange differences on hedge instruments		–	(36)	1	(109)
(Loss)/income before income tax		(58)	300	(176)	759
Income tax benefit/(expense)	6	8	(50)	28	(133)
Net (loss)/income		(50)	250	(148)	626
Net (loss)/income attributable to:					
- Rosneft shareholders		(64)	225	(177)	550
- non-controlling interests		14	25	29	76
Net (loss)/income attributable to Rosneft shareholders per common share (in RUB) – basic and diluted		(6.71)	21.23	(17.70)	51.90
Weighted average number of shares outstanding (millions)		9,535	10,598	10,001	10,598

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

Rosneft Oil Company

Interim consolidated statement of comprehensive income

(in billions of Russian rubles)

	Three months ended September 30, 2020 (unaudited)	Three months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Net (loss)/income	(50)	250	(148)	626
Other comprehensive income – to be reclassified to profit or loss in subsequent periods				
Foreign exchange differences on translation of foreign operations	95	(7)	154	(64)
Foreign exchange cash flow hedges	–	36	(1)	109
(Loss)/income from changes in fair value of debt financial assets at fair value through other comprehensive income	(1)	1	1	3
Increase in loss allowance for expected credit losses on debt financial assets at fair value through other comprehensive income	3	1	3	1
Equity share in other comprehensive income/(loss) of associates	2	(1)	(3)	(3)
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent periods	(1)	(6)	–	(21)
Total other comprehensive income – to be reclassified to profit or loss in subsequent periods, net of tax	98	24	154	25
Other comprehensive income/(loss) – not to be reclassified to profit or loss in subsequent periods				
Income/(loss) from changes in fair value of equity financial assets at fair value through other comprehensive income	2	(1)	1	5
Income tax related to other comprehensive income – not to be reclassified to profit or loss in subsequent periods	–	–	–	(1)
Total comprehensive income/(loss) – not to be reclassified to profit or loss in subsequent periods, net of tax	2	(1)	1	4
Total comprehensive income, net of tax	50	273	7	655
Total comprehensive income/(loss), net of tax, attributable to:				
- Rosneft shareholders	36	248	(22)	579
- non-controlling interests	14	25	29	76

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 equity

(in billions of Russian rubles, except share amounts)

	Number of shares (millions)	Share capital	Treasury shares	Additional paid-in capital	Other funds and reserves	Retained earnings	Rosneft share-holders' equity	Non-controlling interests	Total equity
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 interest 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
Balance at January 1, 2020	10,598	1	–	635	(154)	4,035	4,517	635	5,152
Net (loss)/income	–	–	–	–	–	(177)	(177)	29	(148)
Other comprehensive income	–	–	–	–	155	–	155	–	155
Total comprehensive income/(loss)	–	–	–	–	155	(177)	(22)	29	7
Dividends declared (Note 23)	–	–	–	–	–	(172)	(172)	(63)	(235)
Acquisition of treasury shares (Note 23)	(1,078)	–	(362)	–	–	–	(362)	–	(362)
Change of interest in subsidiaries	–	–	–	–	–	–	–	(1)	(1)
Other movements	–	–	–	–	–	–	–	1	1
Balance at September 30, 2020 (unaudited)	9,520	1	(362)	635	1	3,686	3,961	601	4,562

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, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Operating activities			
Net (loss)/income		(148)	626
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation, depletion and amortization		501	510
Loss on disposal of non-current assets	9	8	7
Dry holes costs		6	3
Offset of prepayments received on oil and petroleum products long-term supply agreements	22	(217)	(261)
Offset of prepayments made on oil and petroleum products long-term supply agreements		9	116
Foreign exchange loss/(gain) on non-operating activities		283	(55)
Cash flow hedges reclassified to profit or loss		(1)	109
Offset of other financial liabilities		(116)	(122)
Equity share in profits of associates and joint ventures		(35)	(75)
Loss on disposal of investments		3	–
Changes in provisions for financial assets		(25)	27
Loss from changes in estimates and impairment of assets		49	109
Finance expenses	8	160	176
Finance income		(71)	(113)
Income tax (benefit)/expense	6	(28)	133
<i>Changes in operating assets and liabilities</i>			
Decrease/(increase) in accounts receivable, gross		150	(179)
Decrease/(increase) in inventories		41	(46)
(Increase)/decrease in restricted cash		(1)	5
Decrease/(increase) in prepayments and other current assets		106	(29)
Increase in long-term prepayments made on oil and petroleum products supply agreements		(12)	(67)
Decrease in accounts payable and accrued liabilities		(108)	(15)
(Decrease)/increase in other tax liabilities		(77)	47
Increase in other current reserves		3	–
Decrease in other current liabilities		(4)	–
Increase in other non-current liabilities		1	–
Interest paid on long-term prepayment received on oil and petroleum products supply agreements		(12)	(6)
Net increase in operating assets of subsidiary banks		(25)	(52)
Net increase in operating liabilities of subsidiary banks		205	6
Net cash provided by operating activities before income tax and interest		645	854
Income tax payments		(100)	(173)
Interest received		64	56
Dividends received		16	31
Net cash provided by operating activities		625	768

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)

		Nine months ended September 30, 2020	Nine months ended September 30, 2019
	Notes	(unaudited)	(unaudited)
Investing activities			
Capital expenditures		(569)	(634)
Acquisition of licenses and auction fee payments		(3)	(3)
Acquisition of short-term financial assets		(54)	(80)
Proceeds from sale of short-term financial assets		25	173
Acquisition of long-term assets		(45)	(12)
Proceeds from sale of long-term financial assets		4	7
Proceeds from sale of subsidiaries, net of cash disposed		(8)	5
Acquisition of interest in subsidiaries, net of cash acquired		–	(8)
Proceeds from sale of property, plant and equipment		11	5
Net cash used in investing activities		(639)	(547)
Financing activities			
Proceeds from short-term loans and borrowings		603	242
Repayment of short-term loans and borrowings		(765)	(618)
Proceeds from long-term loans and borrowings		1,112	315
Repayment of long-term loans and borrowings		(440)	(353)
Proceeds from other financial liabilities		54	45
Repayment of other financial liabilities		(89)	(47)
Interest paid		(188)	(210)
Other financing received		6	11
Treasury shares acquired	23	(19)	–
Dividends paid to shareholders	23	(172)	(120)
Dividends paid and other payments to non-controlling shareholders		(56)	(74)
Net cash provided by / (used in) financing activities		46	(809)
Net increase/(decrease) in cash and cash equivalents		32	(588)
Cash and cash equivalents at beginning of period	10	228	832
Effect of foreign exchange on cash and cash equivalents		13	(25)
Cash and cash equivalents at end of period	10	273	219

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, 2020

(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 2019 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 2019 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 2019 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 2019 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 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, 2020 were approved and authorized for issue by the Chief Executive Officer of the Company on November 13, 2020.

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 Revised version of Conceptual Framework for Financial Reporting as well as amendments to existing standards effective as of January 1, 2020:

- *Revised version of Conceptual Framework for Financial Reporting.* In particular, the revised version introduced new definitions of assets and liabilities, as well as amended definitions of income and expenses. The revised version of *Conceptual Framework* did not have a material impact on the consolidated financial statements.
- *Amendments to IFRS 3 Business Combinations.* The amendments enhanced definition of a business set out by the standard. The amendments did not have a material impact on the consolidated financial statements.
- *Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.* The amendments to IAS 1 and IAS 8 introduced new definition of material. The amendments did not have a material impact on the consolidated financial statements.
- *Amendments to IFRS 7 Financial instruments: Disclosures and IFRS 9 Financial instruments named Interest Rate Benchmark Reform.* The amendments provided relief from certain requirements of hedge accounting, as their fulfillment could lead to discontinuation of hedge accounting due to uncertainty caused by the reform. The amendments did not have a material impact on the consolidated financial statements.

4. Acquisitions and disposals of subsidiaries and shares in joint operations

2020

Disposals of assets in Venezuela

On April 30, 2020, the Company closed a previously announced transaction to transfer all assets in Venezuela to a company 100% owned by the Government of the Russian Federation, including interests in Petromonagas, Petroperija, Boqueron, Petromiranda and Petrovictoria exploration and production entities, as well as in oilfield services companies, commercial and trading operations. The Company's operations in Venezuela have been completely discontinued. As a result of the transaction, a 100% subsidiary of the Company became the owner of 9.6% of the registered ordinary shares of Rosneft (Note 23).

The above mentioned transaction under common control was recorded in the consolidated financial statements of the Company by charging the Statement of profit or loss with the difference between the fair market value at the date of transaction of the treasury shares received, and the carrying value of the disposed assets and investments in Venezuela at the same date.

The effects of the transaction on the Company's financial statements are summarized below:

Treasury shares (decrease in share capital)	342
Reclassification of the foreign exchange differences (decrease in equity)	23
Deferred tax on foreign exchange differences	1
	<hr/>
	366
Less: carrying amount of investments and other assets transferred	<hr/>
	(369)
Net result recorded in the statement of profit or loss	<hr/> <hr/>
	(3)

Rosneft Oil Company

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

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

2020 (continued)

25% of the assets disposed off relate to Exploration and production segment, 75% – to Refining and distribution.

The net result of the transaction is included in Other expenses in the interim consolidated statement of profit or loss for the three and nine months ended September 30, 2020 (Note 9).

2019

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

In July 2019 Company completed the acquisition of 100% shares in “Petersburg Fuel Company” group (“PTK”). Fair value of consideration amounted to RUB 13 billion, including contingent consideration. The acquisition of PTK is in line with the Company’s strategy aimed at developing the retail business and expanding its presence in the key regions of the country.

As of June 30, 2020 the Company completed the assessment of the fair values of assets acquired and liabilities assumed.

Final allocation of the purchase price to the fair value of assets acquired and liabilities assumed is summarized below:

ASSETS

Current assets

Accounts receivable and other assets

1

Total current assets

1

Non-current assets

Property, plant and equipment

8

Total non-current assets

8

Total assets

9

LIABILITIES

Current liabilities

Accounts payable and accrued liabilities

1

Loans and borrowings and other financial liabilities

1

Total current liabilities

2

Non-current liabilities

Loans and borrowings and other financial liabilities

1

Deferred tax liabilities

1

Total non-current liabilities

2

Total liabilities

4

Total identifiable net assets at fair value

5

Total consideration transferred

13

Goodwill

8

Rosneft Oil Company

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

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

2019 (continued)

The “PTK” acquisition will provide the Company with an additional synergy effect and will increase the efficiency of the fuel supply channel.

Had the “PTK” acquisition taken place at the beginning of the reporting period (January 1, 2019), revenues and net profit of the combined entity for the nine months ended September 30, 2019 would have been RUB 6,456 billion and RUB 627 billion, respectively.

The effects of finalized allocation of the purchase price to the fair value of assets acquired and liabilities assumed on the consolidated balance sheet of the Company at December 31, 2019 are summarized below:

	Before update in estimates December 31, 2019	Effect of update	After update in estimates December 31, 2019
ASSETS			
Total current assets	2,396	–	2,396
Non-current assets			
Property, plant and equipment	8,713	(9)	8,704
Right-of-use assets	160	–	160
Intangible assets	69	–	69
Other long-term financial assets	229	–	229
Investments in associates and joint ventures	803	–	803
Bank loans granted	291	–	291
Deferred tax assets	33	–	33
Goodwill	85	8	93
Other non-current non-financial assets	171	–	171
Total non-current assets	10,554	(1)	10,553
Total assets	12,950	(1)	12,949
LIABILITIES AND EQUITY			
Total current liabilities	2,755	–	2,755
Non-current liabilities			
Loans and borrowings and other financial liabilities	3,033	–	3,033
Deferred tax liabilities	844	(1)	843
Provisions	343	–	343
Prepayment on long-term oil and petroleum products supply agreements	750	–	750
Other non-current liabilities	73	–	73
Total non-current liabilities	5,043	(1)	5,042
Total equity	5,152	–	5,152
Total liabilities and equity	12,950	(1)	12,949

Rosneft Oil Company

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

5. Segment information

The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The Exploration and production segment is engaged in field exploration and the production of crude oil and natural gas. The Refining and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as in the purchase, sale and transportation of crude oil and petroleum products. Corporate and other unallocated activities are not part of 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.

The performance of the operating segments for the three months ended September 30, 2020 (unaudited) is presented 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	805	1,455	53	(874)	1,439
<i>Including: equity share in profits of associates and joint ventures</i>	<i>11</i>	<i>8</i>	<i>–</i>	<i>–</i>	<i>19</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	510	1,419	65	(874)	1,120
Depreciation, depletion and amortization	128	28	4	–	160
Total costs and expenses	638	1,447	69	(874)	1,280
Operating income/(loss)	167	8	(16)	–	159
Finance income	–	–	24	–	24
Finance expenses	–	–	(55)	–	(55)
Total finance expenses	–	–	(31)	–	(31)
Other income	–	–	1	–	1
Other expenses	–	–	(26)	–	(26)
Foreign exchange differences	–	–	(161)	–	(161)
Realized foreign exchange differences on hedge instruments	–	–	–	–	–
Income/(loss) before income tax	167	8	(233)	–	(58)
Income tax (expense)/benefit	(32)	–	40	–	8
Net income/(loss)	135	8	(193)	–	(50)

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 presented 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
Realized foreign exchange differences on hedge instruments	–	–	(36)	–	(36)
Income/(loss) before income tax	310	37	(47)	–	300
Income tax (expense)/benefit	(58)	(4)	12	–	(50)
Net income/(loss)	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 nine months ended September 30, 2020 (unaudited) is presented below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	2,161	4,290	159	(2,367)	4,243
<i>Including: equity share in profits of associates and joint ventures</i>	<i>14</i>	<i>20</i>	<i>1</i>	<i>–</i>	<i>35</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,473	4,216	192	(2,367)	3,514
Depreciation, depletion and amortization	406	83	12	–	501
Total costs and expenses	1,879	4,299	204	(2,367)	4,015
Operating income/(loss)	282	(9)	(45)	–	228
Finance income	–	–	71	–	71
Finance expenses	–	–	(160)	–	(160)
Total finance expenses	–	–	(89)	–	(89)
Other income	–	–	4	–	4
Other expenses	–	–	(93)	–	(93)
Foreign exchange differences	–	–	(227)	–	(227)
Realized foreign exchange differences on hedge instruments	–	–	1	–	1
Income/(loss) before income tax	282	(9)	(449)	–	(176)
Income tax (expense)/benefit	(54)	6	76	–	28
Net income/(loss)	228	(3)	(373)	–	(148)

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 presented 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/(loss)	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	–	–	(135)	–	(135)
Foreign exchange differences	–	–	41	–	41
Realized foreign exchange differences on hedge instruments	–	–	(109)	–	(109)
Income/(loss) before income tax	1,020	41	(302)	–	759
Income tax (expense)/benefit	(192)	(5)	64	–	(133)
Net income/(loss)	828	36	(238)	–	626

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, 2020 (unaudited)	Three months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
International sales of crude oil, petroleum products and petrochemicals – non-CIS	858	1,567	2,723	4,546
International sales of crude oil, petroleum products and petrochemicals – CIS, other than Russia	57	81	118	254
Domestic sales of crude oil, petroleum products and petrochemicals	431	489	1,137	1,322
Sales of gas	55	60	171	191
Total oil, gas, petroleum products and petrochemicals sales	1,401	2,197	4,149	6,313

Rosneft Oil Company

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

6. Income tax and other taxes

Income tax comprise the following:

	Three months ended September 30, 2020 (unaudited)	Three months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Current income tax expense	16	33	57	134
Deferred tax (benefit)/expense due to the origination and reversal of temporary differences	(24)	17	(85)	(1)
Total income tax (benefit)/expense	(8)	50	(28)	133

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

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

	Three months ended September 30, 2020 (unaudited)	Three months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Mineral extraction tax	330	540	957	1,654
Excise tax	158	67	442	188
Property tax	11	10	31	29
Insurance contributions	19	20	65	57
Tax on additional income from production of hydrocarbons	28	30	64	65
Other	3	2	7	7
Total taxes other than income tax	549	669	1,566	2,000

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.

Rosneft Oil Company

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

7. Export customs duty

Export customs duty comprises the following:

	Three months ended September 30, 2020 (unaudited)	Three months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Export customs duty on oil sales	51	153	169	445
Export customs duty on petroleum products and petrochemicals sales	22	55	84	154
Total export customs duty	73	208	253	599

During the nine months of 2020, following the adoption of Federal law No. 24-FZ dated February 18, 2020 the one-off effect amounting to RUB 30 billion was recorded to reflect the customs duty exemption for the 2019 export deliveries of crude oil produced in certain subsoil areas where the tax on additional income regime was implemented in 2019.

8. Finance expenses

Finance expenses comprise the following:

	Three months ended September 30, 2020 (unaudited)	Three months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Interest expenses on				
Loans and borrowings	(31)	(29)	(83)	(86)
Lease liability	(1)	(1)	(4)	(3)
Prepayment on long-term oil and petroleum products supply agreements (Note 22)	(8)	(16)	(29)	(56)
Other	(3)	(5)	(12)	(13)
Total interest expenses	(43)	(51)	(128)	(158)
Unwinding of discount	(6)	(4)	(18)	(14)
Increase in loss allowance for expected credit losses on debt financial assets:				
- at fair value through other comprehensive income	(3)	(1)	(3)	(1)
- at amortised cost	(1)	-	(2)	(2)
Change in fair value of financial assets measured at fair value through profit or loss	1	-	(1)	-
Net loss from operations with derivative financial instruments	(3)	-	(6)	-
Other finance expenses	-	-	(2)	(1)
Total finance expenses	(55)	(56)	(160)	(176)

Rosneft Oil Company

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

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended September 30, 2020 (unaudited)	Three months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Insurance recoveries	–	–	1	2
Other	1	3	3	5
Total other income	1	3	4	7
Sale and disposal of property, plant and equipment and intangible assets	(4)	(1)	(8)	(7)
Impairment of assets	(15)	(3)	(42)	(93)
Social payments, charity, financial aid	(4)	(5)	(12)	(15)
Other	(3)	(5)	(31)	(20)
Total other expenses	(26)	(14)	(93)	(135)

An impairment loss of RUB 15 billion represents the write-down of certain properties, plant and equipment in the Exploration and production segment to their recoverable amounts as a result of prevailing conditions in the hydrocarbon market. The recoverable amount was determined at the level of several CGU's based on their fair value.

An impairment loss of RUB 8 billion represents a write-down to zero of the carrying amount of certain assets as a result of the analysis of the Company's exploration and evaluation asset portfolio.

The remaining amount of impairment relates to a decrease in the recoverable amount of investments in certain joint ventures in the Exploration and production segment as a result of prevailing conditions in the hydrocarbon market. The recoverable amount was determined at the CGU level based on its fair value.

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	September 30, 2020 (unaudited)	December 31, 2019
Cash on hand and in bank accounts in RUB	45	14
Cash on hand and in bank accounts in foreign currencies	42	92
Deposits	180	109
Other	6	13
Total cash and cash equivalents	273	228

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

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

Restricted cash includes the obligatory reserve of subsidiary banks with the CBR in the amount of RUB 8 billion as of September 30, 2020 and RUB 7 billion as of December 31, 2019.

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

11. Other short-term financial assets

Other short-term financial assets comprise the following:

	September 30, 2020 (unaudited)	December 31, 2019
Financial assets at fair value through other comprehensive income		
Bonds	209	158
Promissory notes	183	151
Shares	46	46
Loans granted under reverse repurchase agreements	56	55
Financial assets at amortized cost		
Bonds	1	1
Loans issued	7	7
Loans issued to associates and joint ventures	–	19
Deposits and certificates of deposit	81	60
Financial assets at fair value through profit or loss		
Deposits	2	1
Bonds	1	1
Derivative financial instruments	–	2
Total other short-term financial assets	586	501

12. Accounts receivable

Accounts receivable include the following:

	September 30, 2020 (unaudited)	December 31, 2019
Trade receivables	425	678
Bank loans to customers	153	130
Other accounts receivable	55	37
Total	633	845
Allowance for expected credit losses	(75)	(95)
Total accounts receivable, net of allowance	558	750

As of September 30, 2020 and December 31, 2019 accounts receivable were not pledged as collateral for loans and borrowings provided to the Company, except as discussed in Note 19.

Rosneft Oil Company

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

12. Accounts receivable (continued)

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

	As of January 1, 2020	Increase in allowance	Decrease in allowance including recovery	As of September 30, 2020
Allowance at an amount equal to 12-month expected credit losses on trade receivables	47	16	(41)	22
Allowance at an amount equal to lifetime expected credit losses on trade receivables	27	7	–	34
Allowance for expected credit losses on other accounts receivable	21	7	(9)	19
Total	95	30	(50)	75

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

13. Inventories

Inventories comprise the following:

	September 30, 2020 (unaudited)	December 31, 2019
Crude oil and gas	83	135
Petroleum products and petrochemicals	152	186
Materials and supplies	135	117
Total inventories	370	438

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

	Three months ended September 30, 2020 (unaudited)	Three months ended September 30, 2019 (unaudited)	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Cost of inventories recognized as an expense during the period	186	365	613	1,196

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 interim consolidated statement of profit or loss.

As of March 31, 2020 following a significant decrease in oil prices, the cost of inventories were written down to the lower of cost or net realizable value, with the resulting expense recognized within “Production and operating expenses” in the interim consolidated statement of profit or loss in the amount of RUB 16 billion.

Rosneft Oil Company

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

14. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	September 30, 2020 (unaudited)	December 31, 2019
Value added tax and excise receivable	141	183
Prepayments to suppliers	50	209
- <i>Current portion of long-term prepayments issued</i>	4	64
Settlements with customs	8	34
Profit and other tax payments	15	35
Other	8	8
Total prepayments and other current assets	222	469

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

15. Property, plant and equipment

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
Cost as of January 1, 2020 (restated)	10,537	2,419	154	13,110
Depreciation, depletion and impairment losses as of January 1, 2020 (restated)	(3,670)	(743)	(57)	(4,470)
Net book value as of January 1, 2020 (restated)	6,867	1,676	97	8,640
Prepayments for property, plant and equipment as of January 1, 2020	17	13	34	64
Total as of January 1, 2020 (restated)	6,884	1,689	131	8,704
Cost				
Additions	609	62	11	682
<i>Including capitalized expenses on loans and borrowings</i>	100	31	–	131
Disposals and other movements	(56)	(14)	–	(70)
Foreign exchange differences	230	70	5	305
Cost of asset retirement (decommissioning) obligations	80	–	–	80
As of September 30, 2020	11,400	2,537	170	14,107
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(401)	(73)	(8)	(482)
Disposals and other movements	33	5	–	38
Impairment of assets (Note 9)	(23)	–	–	(23)
Foreign exchange differences	(115)	(16)	(3)	(134)
As of September 30, 2020	(4,176)	(827)	(68)	(5,071)
Net book value as of September 30, 2020	7,224	1,710	102	9,036
Prepayments for property, plant and equipment as of September 30, 2020	22	47	2	71
Total as of September 30, 2020	7,246	1,757	104	9,107

Rosneft Oil Company

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

15. Property, plant and equipment (continued)

The depreciation charge for the nine months ended September 30, 2020 includes RUB 11 billion of depreciation which was capitalized as part of the construction cost of property, plant and equipment and cost of inventory.

As of January 1, 2020, certain items of property, plant and equipment were reallocated between segments Exploration and production and Corporate and other activities due to the changes in the management structure.

The Company capitalized RUB 131 billion (including RUB 100 billion in capitalized interest expense) and RUB 138 billion (including RUB 121 billion in capitalized interest expense) of expenses on loans and borrowings for the nine months ended September 30, 2020 and 2019, respectively. The nine-month weighted average rates used to determine the amount of borrowing costs eligible for capitalization were 4.25% and 5.34% for the nine months ended September 30, 2020 and 2019, respectively.

16. Other long-term financial assets

Other long-term financial assets comprise the following:

	September 30, 2020 (unaudited)	December 31, 2019
Financial assets at fair value through other comprehensive income		
Stocks and shares	36	21
Financial assets at amortized cost		
Bonds	26	26
Loans granted	19	18
Loans granted to associates and joint ventures	5	12
Deposits and certificates of deposit	25	20
Other accounts receivable	15	10
Financial assets at fair value through profit or loss		
Deposits	151	122
Bonds	6	–
Total other long-term financial assets	283	229

No long-term financial assets were pledged as collateral as of September 30, 2020 and December 31, 2019.

Rosneft Oil Company

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

17. Other non-current non-financial assets

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

	September 30, 2020 (unaudited)	December 31, 2019
Long-term advances issued	249	169
Other	2	2
Total other non-current non-financial assets	251	171

Long-term advances issued represent primarily advance payments under contracts for future crude oil purchases.

18. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	September 30, 2020 (unaudited)	December 31, 2019
Financial liabilities		
Accounts payable to suppliers and contractors	387	544
Current operating liabilities of subsidiary banks	697	438
Salary and other benefits payable	98	102
Dividends payable	12	1
Other accounts payable	20	19
Total financial liabilities	1,214	1,104
Non-financial liabilities		
Short-term advances received	36	58
Total accounts payable and accrued liabilities	1,250	1,162

Trade and other payables are non-interest bearing.

Rosneft Oil Company

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

19. Loans and borrowings and other financial liabilities

Loans and borrowings and other financial liabilities comprise the following:

	Currency	September 30, 2020 (unaudited)	December 31, 2019
Long-term			
Bank loans	RUB	804	397
Bank loans	US\$, euro	993	745
Bonds	RUB	594	548
Eurobonds	US\$	160	157
Borrowings	RUB	117	111
Borrowings	US\$	33	–
Other borrowings	RUB	744	503
Other borrowings	US\$	808	643
<i>Less: current portion of long-term loans and borrowings</i>		<i>(441)</i>	<i>(315)</i>
Total long-term loans and borrowings		3,812	2,789
Lease liabilities		164	146
Other long-term financial liabilities		80	116
<i>Less: current portion of long-term lease liabilities</i>		<i>(18)</i>	<i>(18)</i>
Total long-term loans and borrowings and other financial liabilities		4,038	3,033
Short-term			
Bank loans	RUB	117	87
Bank loans	US\$, euro	–	36
Borrowings	RUB	1	1
Borrowings	US\$	14	7
Other borrowings	RUB	45	159
Other borrowings	US\$	4	3
<i>Current portion of long-term loans and borrowings</i>		<i>441</i>	<i>315</i>
Total short-term loans and borrowings and current portion of long-term loans and borrowings		622	608
<i>Current portion of long-term lease liabilities</i>		<i>18</i>	<i>18</i>
Other short-term financial liabilities		185	168
Short-term liabilities related to derivative financial instruments		8	1
Total short-term loans and borrowings and other financial liabilities		833	795
Total loans and borrowings and other financial liabilities		4,871	3,828

Long-term loans and borrowings

Long-term bank loans from a foreign bank are denominated in U.S. dollars are partially secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts normally provide the lender with the express right of claim to contractual revenue in the amount of the late loan repayments, which the purchaser generally remits directly through transit currency accounts with the lender banks. The outstanding balance of Accounts receivable arising from such contracts amounts to RUB 17 billion as of September 30, 2020 and RUB 32 billion as of December 31, 2019, respectively, and is included in Trade receivables.

During the nine months of 2020, the Company fully repaid Eurobonds (Series 8) of USD 0.5 billion (RUB 31.6 billion at the CBR official exchange rate at the transaction date) assumed in the TNK-BP acquisition.

Rosneft Oil Company

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

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

Long-term loans and borrowings (continued)

During the nine months of 2020 the Company drew down funds under long-term fixed and floating rates loans from Russian banks.

During the nine months of 2020 the Company placed documentary fixed interest-bearing non-convertible long-term bonds with total value of RUB 43 billion.

During the nine months of 2020 the Company continued to settle other long-term borrowings under the repurchasing agreement operations and entered into the new transactions. As of September 30, 2020, the liabilities of the Company under those transactions amounted to the equivalent of RUB 1,552 billion at the CBR official exchange rate as of September 30, 2020. 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, 2020 and December 31, 2019 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 2020 the Company drew down funds under short-term fixed and floating rates loans from Russian banks.

During the nine months of 2020 the Company continued to settle other short-term borrowings under the repurchasing agreement operations and entered into the new transactions. As of September 30, 2020 the liabilities of the Company under those transactions amounted to the equivalent of RUB 49 billion (at the CBR official exchange rate as of September 30, 2020). Own corporate bonds were used as an instrument for those transactions.

During the nine months of 2020 the Company was current on all payments under loan agreements and interest payments.

Liabilities related to derivative financial instruments

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

The Company enters into cross-currency rate swaps to sell currencies in order to 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.

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

20. Other current tax liabilities

Other current tax liabilities comprise the following:

	September 30, 2020 (unaudited)	December 31, 2019
Mineral extraction tax	107	181
VAT	97	123
Excise duties	55	30
Property tax	10	9
Tax on additional income from production of hydrocarbons	29	31
Personal income tax	3	3
Other	1	2
Total other tax liabilities	302	379

21. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal and tax claims and other provisions	Total
As of January 1, 2020, including	315	47	36	398
<i>Non-current</i>	309	31	3	343
<i>Current</i>	6	16	33	55
Provisions charged during the year	3	3	12	18
Increase/(decrease) in the liability resulting from:				
Changes in estimates	–	–	(1)	(1)
Changes in the discount rate	77	–	–	77
Foreign exchange differences	21	–	9	30
Unwinding of discount	17	1	–	18
Utilization	(3)	(4)	(7)	(14)
As of September 30, 2020 (unaudited), including	430	47	49	526
<i>Non-current</i>	426	32	3	461
<i>Current</i>	4	15	46	65

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 require the buyer to make a prepayment. The total minimum delivery volume under those contracts at inception approximated 400 million tonnes. The crude oil and petroleum product prices are based on current market prices. The prepayments are settled through physical deliveries of crude oil and petroleum products.

Rosneft Oil Company

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

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

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

	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
As of January 1	1,082	1,426
Received	–	–
Reclassified	(28)	–
Settled	(217)	(261)
Total prepayment on long-term oil and petroleum products supply agreements	837	1,165
Less: current portion	(356)	(368)
As of September 30	481	797

The off-set amounts under these contracts were RUB 217 billion and RUB 261 billion (US\$ 4.6 billion and US\$ 5.4 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date), for the nine months of 2020 and 2019 respectively.

23. Shareholders' equity

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.

On June 2, 2020 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2019 in the amount of RUB 18.07 per share, which comprised RUB 172.5 billion (excluding dividends related to treasury shares).

During the nine months of 2020 the Company acquired 60,954,174 treasury shares (including in form of global depositary receipts) in the amount of RUB 20.7 billion, as a part of the share buyback program.

Shares received in the exchange for the investments and assets in Venezuela (Note 4) were valued at the Company's shares quoted price on the transaction date (April 30, 2020) in the amount of RUB 341.5 billion.

Rosneft Oil Company

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

24. 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, 2020 (unaudited)			
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Financial assets at fair value through other comprehensive income	69	417	8	494
Financial assets at fair value recognized in profit or loss	–	3	–	3
Non-current assets				
Financial assets at fair value through other comprehensive income	–	36	–	36
Financial assets at fair value recognized in profit or loss	–	157	–	157
Total assets measured at fair value	69	613	8	690
Liabilities				
Derivative financial instruments	–	(8)	–	(8)
Total liabilities measured at fair value	–	(8)	–	(8)

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

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

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

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

24. Fair value of financial instruments (continued)

There were no transfers of financial assets and liabilities between levels during the reporting period.

	Carrying value		Fair value (Level 2)	
	September 30,	December 31,	September 30,	December 31,
	2020 (unaudited)	2019	2020 (unaudited)	2019
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(3,137)	(2,230)	(3,029)	(2,148)
Loans and borrowings with a fixed interest rate	(1,297)	(1,167)	(1,341)	(1,170)
Lease liabilities	(164)	(146)	(165)	(143)

25. 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 major 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 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 and purchases crude oil and petroleum products from related parties in the ordinary course of business at prices close to average market prices.

Transactions with major shareholders and companies under their control

Revenues and income

	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	342	522
Support services and other revenues	1	3
Finance income	14	25
Other income	2	–
	359	550

Rosneft Oil Company

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

25. Related party transactions (continued)

Transactions with major shareholders and companies under their control (continued)

Costs and expenses

	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Production and operating expenses	14	12
Cost of purchased oil, gas, petroleum products and refining costs	35	48
Transportation costs and other commercial expenses	326	364
Other expenses	6*	4
Finance expenses	36	45
	417	473

* Including effect of acquisitions and disposals of subsidiaries and shares in joint operations (Note 4).

Other operations

	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Acquisitions and disposals of subsidiaries and shares in joint operations and associates (Note 4)	(8)	(1)
Purchase of other long-term financial assets	(22)	–
Loans received	903	105
Loans repaid	(435)	(332)
Loans and borrowings issued	(2)	(3)
Repayment of loans and borrowings issued	2	27
Deposits placed	–	(10)
Deposits repaid	–	89
Other	–	5

Settlement balances

	September 30, 2020 (unaudited)	December 31, 2019
Assets		
Cash and cash equivalents	58	88
Accounts receivable	119	100
Prepayments and other current assets	37	44
Other financial assets	251	225
	465	457
Liabilities		
Accounts payable and accrued liabilities	463	279
Loans and borrowings and other financial liabilities	905	443
	1,368	722

Rosneft Oil Company

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

25. Related party transactions (continued)

Transactions with joint ventures

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

Revenues and income

	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	8	31
Support services and other revenues	3	3
Finance income	3	2
	14	36

Costs and expenses

	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Production and operating expenses	1	3
Cost of purchased oil, gas, petroleum products and refining costs	138	170
Transportation costs and other commercial expenses	11	4
Other expenses	1	2
Finance expenses	2	1
	153	180

Other operations

	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Loans received	29	9
Loans repaid	(21)	–
Loans and borrowings issued	(5)	(5)
Repayment of loans and borrowings issued	2	1
Deposits placed	–	(3)

Rosneft Oil Company

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

25. Related party transactions (continued)

Transactions with joint ventures (continued)

Settlement balances

	September 30, 2020 (unaudited)	December 31, 2019
Assets		
Accounts receivable	7	9
Prepayments and other current assets	1	1
Other financial assets	2	21
	10	31
Liabilities		
Accounts payable and accrued liabilities	95	244
Loans and borrowings and other financial liabilities	49	23
	144	267

Transactions with associates

Revenues and income

	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	221	250
Support services and other revenues	1	2
Finance income	2	30
Other expenses	5	–
	229	282

Costs and expenses

	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Production and operating expenses	1	15
Cost of purchased oil, gas, petroleum products and refining costs	18	73
Transportation costs and other commercial expenses	1	2
Other expenses	–	4
Finance expenses	6	7
	26	101

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

25. Related party transactions (continued)

Transactions with associates (continued)

Other operations

	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Loans received	62	45
Loans repaid	(141)	(126)
Loans and borrowings issued	–	(27)
Repayment of loans and borrowings issued	–	44

Settlement balances

	September 30, 2020 (unaudited)	December 31, 2019
Assets		
Accounts receivable	75	91
Prepayments and other current assets	1	–
Other financial assets	3	11
	79	102
Liabilities		
Accounts payable and accrued liabilities	8	35
Loans and borrowings and other financial liabilities	213	232
	221	267

Transactions with non-state pension funds

Costs and expenses

	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Production and operating expenses	6	–
Other expenses	2	4

Other operations

	Nine months ended September 30, 2020 (unaudited)	Nine months ended September 30, 2019 (unaudited)
Loans received	–	4
Loans repaid	–	(6)

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

25. Related party transactions (continued)

Transactions with non-state pension funds (continued)

Settlement balances

	September 30, 2020 (unaudited)	December 31, 2019
Liabilities		
Accounts payable and accrued liabilities	1	2
	<u>1</u>	<u>2</u>

26. Contingencies

Russian business environment

Despite of the measures undertaken by the Government of the Russian Federation aimed at supporting liquidity and facilitating refinancing of foreign loans of Russian banks and companies, uncertainty in relation to the access to capital markets and cost of capital for the Company continues to exist. This uncertainty may impact financial condition, results of operations and economic perspectives of the Company.

The Company is not able to significantly influence overall economic situation in the country. However in case of negative impact driven by changes of the situation in the country, it will undertake all the necessary measures to minimize negative consequences on its financial condition and operating results.

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

Since the beginning of March 2020, the world markets are experiencing a significant decline in oil demand and oil prices, in particular as a result of COVID-19 pandemic. Russian ruble value has fallen significantly against the major world currencies. Should these factors continue in the long-term, it will continue to have a significant impact on the Company's financial position, cash flows and results of operations.

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. Reliably estimated probable obligations were recognized within provisions in the interim condensed consolidated financial statements of the Company (Note 21).

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

26. Contingencies (continued)

Taxation

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

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

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

During the reporting period, the tax authorities continued their inspections of some of Rosneft subsidiaries for 2015-2019. The Company's management does not expect the outcome of the inspections to have a material impact on the Company's consolidated financial position 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 2020 with respect to the taxation of oil sales and refining transactions in Russia.

The Company believes that transfer pricing risks in relation to intragroup transactions during the nine months ended September 30, 2020 and earlier will not have a material effect on its financial position or results of operations.

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 the refineries and 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 632 billion and RUB 762 billion as of September 30, 2020 and December 31, 2019, 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, which could arise as a result of changes in existing regulations or the settlement of civil litigation, or as a result of changes in environmental standards, cannot be reliably estimated but may be material. With the existing system of control, management believes that there are no material liabilities for environmental damage other than those recorded in these interim condensed consolidated financial statements.

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

26. Contingencies (continued)

Risks and opportunities associated with climate change

Within the framework of its corporate risk management system, the Company on an annual basis identifies and evaluates risks and opportunities related to climate change impact on its business activities.

In the process of investment decision making, the risks associated with health, safety and environment (HSE), ecology, and climate change are analyzed. For large projects, the analysis of the alignment with the Company's strategic goals, environmental standards and requirements of the Russian and international legislation is performed, as well as the analysis and assessment of external risks related to the impact on the environment (changes in legislation, changes in technologies, market risks, reputation risks, etc.).

In addition, the risks and opportunities associated with climate change and the transition to low-carbon energy are considered in the Company's strategic management and business planning processes (especially for projects located in climate-sensitive regions: marine projects, Arctic projects, etc.) as well as for of the global energy developments scenario planning.

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", 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.

Currently the Company is working with foreign customers and PJSC "Transneft" on the settlement of claims. 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 documentary supported claims from all counterparties and their re-submission to PJSC "Transneft" for compensation.

27. Events after reporting date

In October 2020 Amendments to the Tax Code Chapter 25.4 "Tax on additional income from production of hydrocarbons" and Chapter 26 "Tax on the extraction of commercial minerals" (as it relates to oil production taxation) and the Federal Law on the Customs Tariff were enacted. As a result, the fiscal regime for a substantial number of oilfields is changed significantly effective January 1, 2021. In particular certain fiscal preferences in MET formula are eliminated in relation to depleted fields and extra-viscous oil. Furthermore, special formulas as they are listed in the Federal Law on the Customs Tariff are eliminated with the right to apply AIT regime to most of the oilfield impacted. The Company is in the process of evaluating effects of these Amendments on its future results of operations.

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