



Rosneft Oil Company

**Interim Condensed Consolidated Financial Statements
(unaudited)**

Three and six months ended June 30, 2019

Rosneft Oil Company

Interim condensed consolidated financial statements (unaudited)

Three and six months ended June 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 30 June 2019, the interim consolidated statement of profit or loss, interim consolidated statement of other comprehensive income for the three and six-month periods, interim consolidated statement of changes in shareholders' equity and interim consolidated statement of cash flows for the six-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

21 August 2019

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-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	June 30, 2019 (unaudited)	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents	10	245	832
Restricted cash	10	12	12
Other short-term financial assets	11	573	633
Accounts receivable	12	730	642
Inventories	13	485	393
Prepayments and other current assets	14	492	510
Total current assets		2,537	3,022
Non-current assets			
Property, plant and equipment	15	8,431	8,445
Right-of-use assets	3	153	—
Intangible assets		53	75
Other long-term financial assets	16	240	239
Investments in associates and joint ventures		848	735
Bank loans granted		255	239
Deferred tax assets		29	28
Goodwill		85	85
Other non-current non-financial assets	17	173	295
Total non-current assets		10,267	10,141
Total assets		12,804	13,163
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	18	1,344	1,130
Loans and borrowings and other financial liabilities	19	737	978
Income tax liabilities		19	23
Other tax liabilities	20	372	327
Provisions	21	40	43
Prepayment on long-term oil and petroleum products supply agreements	22	357	354
Other current liabilities		20	19
Total current liabilities		2,889	2,874
Non-current liabilities			
Loans and borrowings and other financial liabilities	19	3,033	3,413
Deferred tax liabilities		813	837
Provisions	21	251	244
Prepayment on long-term oil and petroleum products supply agreements	22	889	1,072
Other non-current liabilities		47	46
Total non-current liabilities		5,033	5,612
Equity			
Share capital		1	1
Additional paid-in capital		633	633
Other funds and reserves		(185)	(191)
Retained earnings		3,815	3,610
Rosneft shareholders' equity		4,264	4,053
Non-controlling interests		618	624
Total equity		4,882	4,677
Total liabilities and equity		12,804	13,163

Chief Executive Officer

I.I. Sechin

August 21, 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 June 30, 2019 (unaudited)	Three months ended June 30, 2018 (unaudited, restated*)	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited, restated*)
Revenues and equity share in profits of associates and joint ventures					
Oil, gas, petroleum products and petrochemicals sales	5	2,085	2,025	4,116	3,714
Support services and other revenues		23	20	44	41
Equity share in profits of associates and joint ventures		27	20	52	32
Total revenues and equity share in profits of associates and joint ventures		2,135	2,065	4,212	3,787
Costs and expenses					
Production and operating expenses		147	130	312	288
Cost of purchased oil, gas, petroleum products and refining costs		426	285	739	517
General and administrative expenses		46	43	111	78
Pipeline tariffs and transportation costs		154	152	324	312
Exploration expenses		3	3	4	5
Depreciation, depletion and amortization		164	157	338	309
Taxes other than income tax	6	664	682	1,331	1,250
Export customs duty	7	210	240	391	455
Total costs and expenses		1,814	1,692	3,550	3,214
Operating income		321	373	662	573
Finance income		37	29	77	59
Finance expenses	8	(56)	(76)	(120)	(136)
Other income	9	1	21	4	27
Other expenses	9	(15)	(71)	(121)	(87)
Foreign exchange differences		15	72	30	73
Cash flow hedges reclassified to profit or loss	24	(37)	(37)	(73)	(73)
Income before income tax		266	311	459	436
Income tax expense	6	(46)	(66)	(83)	(96)
Net income		220	245	376	340
Net income attributable to:					
- Rosneft shareholders		194	217	325	298
- non-controlling interests		26	28	51	42
Net income attributable to Rosneft per common share (in RUB) – basic and diluted					
		18.31	20.47	30.67	28.12
Weighted average number of shares outstanding (millions)					
		10,598	10,598	10,598	10,598

* Some amounts for the three and six months ended June 30, 2018 have been restated – see Note 4.

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

Rosneft Oil Company

Interim consolidated statement of other comprehensive income

(in billions of Russian rubles)

Notes	Three months ended June 30, 2019 (unaudited)	Three months ended June 30, 2018 (unaudited, restated*)	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited, restated*)
Net income	220	245	376	340
Other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent periods				
Foreign exchange differences on translation of foreign operations	(10)	(36)	(57)	(32)
Foreign exchange cash flow hedges	24 37	37	73	74
Income from changes in fair value of debt financial assets at fair value through other comprehensive income	1	2	2	2
Increase in loss allowance for expected credit losses on debt financial assets at fair value through other comprehensive income	–	5	–	5
Equity share in other comprehensive loss of associates	(1)	(2)	(2)	(2)
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent periods	(8)	(9)	(15)	(16)
Total other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent periods, net of tax	19	(3)	1	31
Other comprehensive income – not to be reclassified to profit or loss in subsequent periods				
Income from changes in fair value of equity financial assets at fair value through other comprehensive income	4	–	6	2
Income tax related to other comprehensive income – not to be reclassified to profit or loss in subsequent periods	(1)	–	(1)	–
Total comprehensive income – not to be reclassified to profit or loss in subsequent periods, net of tax	3	–	5	2
Total comprehensive income, net of tax	242	242	382	373
Total comprehensive income, net of tax, attributable to:				
- Rosneft shareholders	216	214	331	331
- non-controlling interests	26	28	51	42

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	–	–	–	–	298	298	42	340
Other comprehensive income	–	–	–	33	–	33	–	33
Total comprehensive income	–	–	–	33	298	331	42	373
Dividends declared (Note 23)	–	–	–	–	(70)	(70)	(26)	(96)
Change of interest in subsidiaries	–	–	(1)	–	–	(1)	25	24
Other movements	–	–	(1)	–	–	(1)	–	(1)
Balance at June 30, 2018 (unaudited, restated)	10,598	1	625	(289)	3,514	3,851	604	4,455
Balance at January 1, 2019	10,598	1	633	(191)	3,610	4,053	624	4,677
Net income	–	–	–	–	325	325	51	376
Other comprehensive income	–	–	–	6	–	6	–	6
Total comprehensive income	–	–	–	6	325	331	51	382
Dividends declared (Note 23)	–	–	–	–	(120)	(120)	(66)	(186)
Change of interests in subsidiaries	–	–	1	–	–	1	3	4
Other movements	–	–	(1)	–	–	(1)	6	5
Balance at June 30, 2019 (unaudited)	10,598	1	633	(185)	3,815	4,264	618	4,882

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	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited, restated)
Operating activities			
Net income		376	340
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation, depletion and amortization		338	309
Loss on disposal of non-current assets	9	6	5
Dry hole costs		2	1
Offset of prepayments received on oil and petroleum products long term supply agreements	22	(180)	(94)
Offset of prepayments made on oil and petroleum products long term supply agreements		87	80
Foreign exchange gain on non-operating activities		(61)	(37)
Cash flow hedges reclassified to profit or loss		73	73
Offset of other financial liabilities		(66)	(71)
Equity share in profits of associates and joint ventures		(52)	(32)
Non-cash income from acquisitions, net	9	–	(20)
Loss from disposal of non-production assets		–	1
Changes in provisions for financial assets		27	6
Loss from changes in estimates and impairment of assets		95	59
Finance expenses	8	120	136
Finance income		(77)	(59)
Income tax expense	6	83	96
<i>Changes in operating assets and liabilities</i>			
Increase in accounts receivable, gross		(102)	(49)
Increase in inventories		(91)	(67)
Decrease in restricted cash		–	6
Increase in prepayments and other current assets		(47)	(8)
Increase in long-term prepayments made on oil and petroleum products supply agreements		(44)	–
Increase/(decrease) in accounts payable and accrued liabilities		15	(53)
Increase in other tax liabilities		45	65
Increase in other current liabilities		–	2
Interest paid on long-term prepayment received on oil and petroleum products supply agreements		(4)	(3)
Net increase in operating assets of subsidiary banks		(24)	(51)
Net increase in operating liabilities of subsidiary banks		7	54
Net cash provided by operating activities before income tax and interest		526	689
Income tax payments		(121)	(109)
Interest received		38	35
Dividends received		19	4
Net cash provided by operating activities		462	619

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	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited, restated)
Investing activities			
Capital expenditures		(436)	(452)
Acquisition of licenses and auction fee payments		(2)	(2)
Acquisition of short-term financial assets		(67)	(158)
Proceeds from sale of short-term financial assets		112	67
Acquisition of long-term financial assets		–	(3)
Proceeds from sale of long-term financial assets		5	3
Financing of joint ventures		(8)	–
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		(1)	(34)
Proceeds from sale of subsidiaries, net of cash disposed		5	–
Proceeds from sale of property, plant and equipment		3	3
Net cash used in investing activities		(389)	(570)
Financing activities			
Proceeds from short-term loans and borrowings		223	173
Repayment of short-term loans and borrowings		(593)	(1,146)
Proceeds from long-term loans and borrowings		212	1,211
Repayment of long-term loans and borrowings		(326)	(178)
Proceeds from other financial liabilities		39	65
Repayment of other financial liabilities		(40)	(59)
Interest paid		(141)	(124)
Repurchase of bonds		–	(39)
Proceeds from sale of non-controlling share in subsidiary		–	12
Other financing		6	–
Dividends paid to non-controlling shareholders		(13)	(5)
Net cash used in financing activities		(633)	(90)
Net decrease in cash and cash equivalents		(560)	(41)
Cash and cash equivalents at beginning of period	10	832	322
Effect of foreign exchange on cash and cash equivalents		(27)	12
Cash and cash equivalents at end of period	10	245	293

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 six months ended June 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 six months ended June 30, 2019 were approved and authorized for issue by the Chief Executive Officer of the Company on August 21, 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	(16)
payments upon contracts with a lease term of 12 months or less (including all economically reasonable prolongation options)	(12)
payments for leases of low-value items	(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 amount of Right-of-use assets as of January 1, 2019 amounted to RUB 143 billion.

- *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.

Rosneft Oil Company

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

3. Changes in accounting policies (continued)

- *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 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 June 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.

The following table summarizes the effect from the finalized estimations on the consolidated statement of profit or loss for the three and six months ended June 30, 2018:

	Three months ended June 30, 2018			Six months ended June 30, 2018		
	Before finalized estimation	Effect from finalized estimation	After finalized estimation	Before finalized estimation	Effect from finalized estimation	After finalized estimation
Operating income	373	–	373	573	–	573
Finance income	29	–	29	59	–	59
Finance expenses	(76)	–	(76)	(136)	–	(136)
Other income	32	(11)	21	38	(11)	27
Other expenses	(71)	–	(71)	(87)	–	(87)
Foreign exchange differences	72	–	72	73	–	73
Cash flow hedges reclassified to profit or loss	(37)	–	(37)	(73)	–	(73)
Income before income tax	322	(11)	311	447	(11)	436
Income tax expense	(66)	–	(66)	(96)	–	(96)
Net income	256	(11)	245	351	(11)	340
Net income attributable to:						
- Rosneft shareholders	228	(11)	217	309	(11)	298
- non-controlling interests	28	–	28	42	–	42
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	21.51	(1.04)	20.47	29.16	(1.04)	28.12
Weighted average number of shares outstanding (millions)	10,598	–	10,598	10,598	–	10,598

Rosneft Oil Company

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

5. Segment information

The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The Exploration and production segment is engaged in field exploration and the production of crude oil and natural gas. The Refining and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as in the purchase, sale and transportation of crude oil and petroleum products. Corporate and other unallocated activities are not part of 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 June 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	1,250	2,124	38	(1,277)	2,135
<i>Including: equity share in profits of associates and joint ventures</i>	<i>17</i>	<i>10</i>	<i>–</i>	<i>–</i>	<i>27</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	762	2,112	53	(1,277)	1,650
Depreciation, depletion and amortization	134	27	3	–	164
Total costs and expenses	896	2,139	56	(1,277)	1,814
Operating income	354	(15)	(18)	–	321
Finance income	–	–	37	–	37
Finance expenses	–	–	(56)	–	(56)
Total finance expenses	–	–	(19)	–	(19)
Other income	–	–	1	–	1
Other expenses (Note 9)	–	–	(15)	–	(15)
Foreign exchange differences	–	–	15	–	15
Cash flow hedges reclassified to profit or loss	–	–	(37)	–	(37)
Income before income tax	354	(15)	(73)	–	266
Income tax expense	(67)	3	18	–	(46)
Net income	287	(12)	(55)	–	220

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 June 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	1,223	2,061	33	(1,252)	2,065
<i>Including: equity share in profits of associates and joint ventures</i>	<i>18</i>	<i>2</i>	<i>–</i>	<i>–</i>	<i>20</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	724	2,019	44	(1,252)	1,535
Depreciation, depletion and amortization	125	30	2	–	157
Total costs and expenses	849	2,049	46	(1,252)	1,692
Operating income	374	12	(13)	–	373
Finance income	–	–	29	–	29
Finance expenses	–	–	(76)	–	(76)
Total finance expenses	–	–	(47)	–	(47)
Other income	–	–	21	–	21
Other expenses	–	–	(71)	–	(71)
Foreign exchange differences	–	–	72	–	72
Cash flow hedges reclassified to profit or loss	–	–	(37)	–	(37)
Income before income tax	374	12	(75)	–	311
Income tax expense	(71)	(2)	7	–	(66)
Net income	303	10	(68)	–	245

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 six months ended June 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	2,473	4,188	74	(2,523)	4,212
<i>Including: equity share in profits of associates and joint ventures</i>	40	10	2	–	52
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,487	4,127	121	(2,523)	3,212
Depreciation, depletion and amortization	276	57	5	–	338
Total costs and expenses	1,763	4,184	126	(2,523)	3,550
Operating income	710	4	(52)	–	662
Finance income	–	–	77	–	77
Finance expenses	–	–	(120)	–	(120)
Total finance expenses	–	–	(43)	–	(43)
Other income	–	–	4	–	4
Other expenses (Note 9)	–	–	(121)*	–	(121)
Foreign exchange differences	–	–	30	–	30
Cash flow hedges reclassified to profit or loss	–	–	(73)	–	(73)
Income before income tax	710	4	(255)	–	459
Income tax expense	(134)	(1)	52	–	(83)
Net income	576	3	(203)	–	376

* 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 six months ended June 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	2,166	3,796	62	(2,237)	3,787
<i>Including: equity share in profits of associates and joint ventures</i>	30	2	–	–	32
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,317	3,739	86	(2,237)	2,905
Depreciation, depletion and amortization	244	61	4	–	309
Total costs and expenses	1,561	3,800	90	(2,237)	3,214
Operating income	605	(4)	(28)	–	573
Finance income	–	–	59	–	59
Finance expenses	–	–	(136)	–	(136)
Total finance expenses	–	–	(77)	–	(77)
Other income	–	–	27	–	27
Other expenses	–	–	(87)	–	(87)
Foreign exchange differences	–	–	73	–	73
Cash flow hedges reclassified to profit or loss	–	–	(73)	–	(73)
Income before income tax	605	(4)	(165)	–	436
Income tax expense	(115)	1	18	–	(96)
Net income	490	(3)	(147)	–	340

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

	Three months ended June 30, 2019 (unaudited)	Three months ended June 30, 2018 (unaudited)	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
International sales of crude oil, petroleum products and petrochemicals – non-CIS	1,525	1,485	2,980	2,686
International sales of crude oil and petroleum products – CIS, other than Russia	84	93	173	164
Domestic sales of crude oil, petroleum products and petrochemicals	415	397	833	755
Sales of gas	61	50	130	109
Total oil, gas, petroleum products and petrochemicals sales	2,085	2,025	4,116	3,714

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 June 30, 2019 (unaudited)	Three months ended June 30, 2018 (unaudited)	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Current income tax expense	49	47	102	84
Deferred tax benefit due to the origination and reversal of temporary differences	(3)	19	(19)	12
Total income tax expense	46	66	83	96

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

	Three months ended June 30, 2019 (unaudited)	Three months ended June 30, 2018 (unaudited)	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Mineral extraction tax	567	566	1,115	1,021
Excise tax	47	86	121	170
Property tax	10	11	19	21
Social charges	19	17	37	34
Tax on additional income from production of hydrocarbons	19	–	35	–
Other	2	2	4	4
Total taxes other than income tax	664	682	1,331	1,250

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 June 30, 2019 (unaudited)	Three months ended June 30, 2018 (unaudited)	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Export customs duty on oil sales	161	176	292	334
Export customs duty on petroleum products and petrochemicals sales	49	64	99	121
Total export customs duty	210	240	391	455

Rosneft Oil Company

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

8. Finance expenses

Finance expenses comprise the following:

	Three months ended June 30, 2019 (unaudited)	Three months ended June 30, 2018 (unaudited)	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Interest expenses on				
Loans and borrowings	(26)	(33)	(57)	(65)
Interest on the lease liability	(1)	(1)	(2)	(1)
Prepayment on long-term oil and petroleum products supply agreements (Note 22)	(19)	(23)	(40)	(43)
Other interest expenses	(4)	(2)	(8)	(4)
Total interest expenses	(50)	(59)	(107)	(113)
Increase in provision due to the unwinding of a discount	(5)	(4)	(10)	(9)
Increase in loss allowance for expected credit losses on debt financial assets:				
- at fair value through other comprehensive income	-	(3)	-	(3)
- at amortised cost	(1)	(1)	(2)	(1)
Net loss from operations with derivative financial instruments	-	(9)	-	(9)
Other finance expenses	-	-	(1)	(1)
Total finance expenses	(56)	(76)	(120)	(136)

9. Other income and expenses

Other income and expenses comprise the following:

	Three months ended June 30, 2019 (unaudited)	Three months ended June 30, 2018 (unaudited, restated)	Six months ended June 30, 2019 (unaudited)	Six months ended June 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	-	6	-	6
Gain on bargain purchase	-	13	-	13
Other	1	2	2	4
Total other income	1	21	4	27
Sale and disposal of property, plant and equipment and intangible assets	(4)	(3)	(6)	(5)
Impairment of assets	-	(48)	(90)	(48)
Disposal of companies and non-production assets	-	(1)	-	(1)
Provision for legal claims	-	(8)	-	(12)
Social payments, charity, financial aid	(4)	(7)	(10)	(10)
Other	(7)	(4)	(15)	(11)
Total other expenses	(15)	(71)	(121)	(87)

Rosneft Oil Company

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

9. Other income and expenses (continued)

Impairment of assets

In March 2019, the agreement between oil companies and the Government of the Russian Federation on the stabilization of retail prices for petrol and diesel fuel on domestic market was prolonged. Furthermore, the compensation mechanism introduced in the excise computation does not fully compensate for the regulatory decline in prices in relation to the export alternative. The Company considered this event as an impairment indicator for the Refining and Distribution segment, which entailed estimation of the recoverable amount of the distribution assets of this segment performed by the Company.

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 six months ended June 30, 2019. There were no indicators of additional impairment in the second 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 ton in 2019, and RUB 2.9 thousand per ton 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.

10. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	June 30, 2019 (unaudited)	December 31, 2018
Cash on hand and in bank accounts in RUB	29	30
Cash on hand and in bank accounts in foreign currencies	111	572
Deposits	95	221
Other	10	9
Total cash and cash equivalents	245	832

Rosneft Oil Company

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

10. Cash and cash equivalents (continued)

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

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

Restricted cash includes the obligatory reserve of subsidiary banks with the CBR in the amount of RUB 7 billion as of June 30, 2019 and RUB 6 billion as of December 31, 2018.

11. Other short-term financial assets

Other short-term financial assets comprise the following:

	June 30, 2019 (unaudited)	December 31, 2018
Financial assets at fair value through other comprehensive income		
Bonds	147	162
Promissory notes	142	151
Stocks and shares	45	42
Loans granted under reverse repurchase agreements	62	56
Financial assets at amortized cost		
Bonds	1	1
Loans issued to associates	2	2
Deposits and certificates of deposit	169	218
Financial assets at fair value through profit or loss		
Deposits	1	1
Bonds	1	–
Derivative financial instruments	3	–
Total other short-term financial assets	573	633

12. Accounts receivable

Accounts receivable include the following:

	June 30, 2019 (unaudited)	December 31, 2018
Trade receivables	639	523
Bank loans to customers	124	124
Other accounts receivable	50	51
Total	813	698
Allowance for expected credit losses	(83)	(56)
Total accounts receivable, net of allowance	730	642

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

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 loss allowance for expected credit losses on accounts receivable:

	As of January 1, 2019	Increase in allowance	Decrease in allowance	As of June 30, 2019
Loss allowance at an amount equal to 12-month expected credit losses on trade receivables	37	5	(6)	36
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	8	(7)	20
Total	56	40	(13)	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 an amount equal to lifetime expected credit losses was recognized during the period due to occurrence of credit impairment of an asset, which was not credit impaired upon initial recognition.

13. Inventories

Inventories comprise the following:

	June 30, 2019 (unaudited)	December 31, 2018
Crude oil and gas	173	91
Petroleum products and petrochemicals	199	205
Materials and supplies	113	97
Total inventories	485	393

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

	Three months ended June 30, 2019 (unaudited)	Three months ended June 30, 2018 (unaudited)	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Cost of inventories recognized as an expense during the period	468	349	831	623

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.

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:

	June 30, 2019 (unaudited)	December 31, 2018
Value added tax and excise receivable	243	221
Prepayments to suppliers	178	217
<i>- Current portion of long-term prepayments issued</i>	85	148
Settlements with customs	24	41
Profit and other tax payments	38	20
Other	9	11
Total prepayments and other current assets	492	510

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

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	9,730	2,327	140	12,197
Depreciation, depletion and impairment losses as of January 1, 2019	(3,164)	(615)	(49)	(3,828)
Net book value as of January 1, 2019	6,566	1,712	91	8,369
Prepayments for property, plant and equipment as of January 1, 2019	9	15	29	53
Total as of January 1, 2019	6,575	1,727	120	8,422
Cost				
Additions	434	41	3	478
<i>Including capitalized expenses on loans and borrowings</i>	60	22	-	82
Disposals and other movements	(15)	(1)	(11)	(27)
Foreign exchange differences	(75)	(22)	(2)	(99)
Cost of asset retirement (decommissioning) obligations	2	-	-	2
As of June 30, 2019	10,076	2,345	130	12,551
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(276)	(49)	(4)	(329)
Disposals and other movements	7	-	6	13
Impairment of assets (Note 9)	-	(82)	-	(82)
Foreign exchange differences	34	3	1	38
As of June 30, 2019	(3,399)	(743)	(46)	(4,188)
Net book value as of June 30, 2019	6,677	1,602	84	8,363
Prepayments for property, plant and equipment as of June 30, 2019	20	18	30	68
Total as of June 30, 2019	6,697	1,620	114	8,431

Rosneft Oil Company

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

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

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).

The depreciation charge for the six months ended June 30, 2019 includes RUB 8 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 82 billion (including RUB 82 billion in capitalized interest expense) and RUB 84 billion (including RUB 70 billion in capitalized interest expense) of expenses on loans and borrowings for the six months ended June 30, 2019 and 2018, respectively. The weighted average semiannual rates used to determine the amount of borrowing costs eligible for capitalization were 3.62% and 4.95% for the six months ended June 30, 2019 and 2018, respectively.

16. Other long-term financial assets

Other long-term financial assets comprise the following:

	June 30, 2019 (unaudited)	December 31, 2018
Financial assets at fair value through other comprehensive income		
Stocks and shares	20	18
Financial assets at amortized cost		
Bonds	27	28
Loans granted	19	18
Loans issued to associates	31	31
Deposits and certificates of deposit	21	23
Long-term accounts receivable	11	11
Financial assets at fair value through profit or loss		
Deposits	111	110
Total other long-term financial assets	240	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 June 30, 2019 and December 31, 2018.

As of June 30, 2019 and December 31, 2018, no long-term financial assets were received by the Company as collateral.

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:

	June 30, 2019 (unaudited)	December 31, 2018
Long-term advances issued	172	293
Other	1	2
Total other non-current non-financial assets	173	295

In January 2019 part of the advances issued in 2017 amounting to US\$ 1.8 billion was reclassified as the Company's capital contribution to the joint venture, which operates the oil pipeline in Iraqi Kurdistan. The total value of the assets transferred as the capital contribution amounted to US\$ 1.9 billion at the transaction date.

18. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	June 30, 2019 (unaudited)	December 31, 2018
Financial liabilities		
Accounts payable to suppliers and contractors	530	452
Current operating liabilities of subsidiary banks	459	451
Salary and other benefits payable	86	88
Dividends payable	174	1
Other accounts payable	59	63
Total financial liabilities	1,308	1,055
Non-financial liabilities		
Short-term advances received	36	75
Total accounts payable and accrued liabilities	1,344	1,130

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	June 30, 2019 (unaudited)	December 31, 2018
Long-term			
Bank loans	RUB	321	423
Bank loans	US\$, euro	797	921
Bonds	RUB	497	461
Eurobonds	US\$	161	177
Borrowings	RUB	80	77
Other borrowings	RUB	675	704
Other borrowings	US\$	649	691
<i>Less: current portion of long-term loans and borrowings</i>		<i>(380)</i>	<i>(202)</i>
Total long-term loans and borrowings		2,800	3,252
Lease liabilities		147	27
Other long-term financial liabilities		103	139
<i>Less: current portion of long-term lease liabilities</i>		<i>(17)</i>	<i>(5)</i>
Total long-term loans and borrowings and other financial liabilities		3,033	3,413
Short-term			
Bank loans	RUB	160	326
Bank loans	US\$, euro	29	16
Other borrowings	RUB	–	209
Other borrowings	US\$	10	25
<i>Current portion of long-term loans and borrowings</i>		<i>380</i>	<i>202</i>
Total short-term loans and borrowings and current portion of long-term loans and borrowings		579	778
<i>Current portion of long-term lease liabilities</i>		<i>17</i>	<i>5</i>
Other short-term financial liabilities		141	162
Short-term liabilities related to derivative financial instruments		–	33
Total short-term loans and borrowings and other financial liabilities		737	978
Total loans and borrowings and other financial liabilities		3,770	4,391

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 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 19 billion as of June 30, 2019 and RUB 28 billion as of December 31, 2018, respectively, and is included in Trade receivables.

In the first half of 2019 the Company raised funds through the placement of three series of documentary non-convertible fixed interest-bearing long-term bonds with a nominal value of RUB 35 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 nominal value of RUB 30 billion, coupon 8.70% p.a. and maturity period of 10 years. Coupon payments will be made on a quarterly 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.

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)

In the first half of 2019 the Company continued to settle other long-term borrowings in the form of repurchase operations and entered into new transactions. As of June 30, 2019, the liabilities of the Company under those transactions amounted to the equivalent of RUB 1,324 billion at the CBR official exchange rate as of June 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 June 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

In the first half of 2019 the Company drew down funds under short-term fixed and floating rates loans from Russian and foreign banks.

In the first half 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 June 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 June 30, 2019). Own corporate bonds were used as an instrument for those transactions.

In the first half of 2019 the Company was current on all payments under loan agreements and interest payments.

Liabilities related to derivative financial instruments

Derivative financial instruments comprise the following:

	Issue date	Expiry date	Nominal amount as of June 30, 2019 (unaudited)		Interest rate type	Fair value of the liabilities	
			US\$ million	RUB billion*		June 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 June 30, 2019.

20. Other current tax liabilities

Other current tax liabilities comprise the following:

	June 30, 2019 (unaudited)	December 31, 2018
Mineral extraction tax	173	163
VAT	132	121
Excise duties	34	27
Property tax	9	10
Tax on additional income from production of hydrocarbons	19	–
Personal income tax	3	3
Other	2	3
Total other tax liabilities	372	327

Rosneft Oil Company

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

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	3	2	4	9
Increase/(decrease) in the liability resulting from:				
Changes in estimates	(1)	–	(3)	(4)
Changes in the discount rate	–	–	–	–
Foreign exchange differences	(4)	–	(1)	(5)
Unwinding of discount	8	2	–	10
Utilization	(1)	(2)	(3)	(6)
As of June 30, 2019 (unaudited), including	218	46	27	291
<i>Non-current</i>	214	31	6	251
<i>Current</i>	4	15	21	40

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.

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
As of January 1	1,426	1,586
Received	–	123
Reimbursed	(180)	(94)
Total prepayment on long-term oil and petroleum products supply agreements	1,246	1,615
Less current portion	(357)	(351)
As of June 30	889	1,264

The off-set of prepayments, made during the first half of 2019 and 2018, amounted to RUB 180 billion and RUB 94 billion (US\$ 3.74 billion and US\$ 2.74 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date), respectively.

Rosneft Oil Company

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

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.

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 June 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 June 30, 2019 (unaudited)			For the six months ended June 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	(108)	22	(86)	(144)	29	(115)
Foreign exchange effects recognized during the period	–	–	–	–	–	–
Foreign exchange effects reclassified to profit or loss	37	(8)	29	73	(15)	58
Total recognized in other comprehensive income/(loss) for the period (unaudited)	37	(8)	29	73	(15)	58
Total recognized in other comprehensive (loss)/income as of June 30, 2019 (unaudited)	(71)	14	(57)	(71)	14	(57)

Rosneft Oil Company

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

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

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

Year	2019	2020	2021	Total
Reclassification	(73)	2	–	(71)
Income tax	14	–	–	14
Total, net of tax	(59)	2	–	(57)

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 June 30, 2019 (unaudited)			
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Financial assets at fair value through other comprehensive income	37	359	–	396
Financial assets at fair value through profit or loss	–	2	–	2
Derivative financial instruments	–	3	–	3
Non-current assets				
Financial assets at fair value through other comprehensive income	–	20	–	20
Financial assets at fair value through profit or loss	–	111	–	111
Total assets measured at fair value	37	495	–	532

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.

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

25. Fair value of financial instruments (continued)

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)	
	June 30, 2019 (unaudited)	December 31, 2018	June 30, 2019 (unaudited)	December 31, 2018
Financial liabilities				
<i>Financial liabilities at amortized cost:</i>				
Loans and borrowings with a variable interest rate	(2,237)	(2,669)	(2,193)	(2,614)
Loans and borrowings with a fixed interest rate	(1,142)	(1,361)	(1,126)	(1,316)

26. Related party transactions

For the purpose of these 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 recorded based on market interest rates. Taxes are accrued and paid in accordance with applicable tax law. The Company sells crude oil and petroleum products to related parties in the ordinary course of business at prices close to average market prices.

Transactions with shareholders and companies under their control

Revenues and income

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	278	433
Support services and other revenues	3	4
Finance income	12	9
	293	446

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)

Costs and expenses

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Production and operating expenses	5	5
Cost of purchased oil, gas, petroleum products and refining costs	31	48
Pipeline tariffs and transportation costs	239	246
Other expenses	11	9
Finance expenses	23	9
	309	317

Other operations

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Acquisition of subsidiaries and interest in associates	(1)	(3)
Loans received	101	159
Loans repaid	(300)	(107)
Loans and borrowings issued	(1)	(2)
Repayment of loans and borrowings issued	–	18
Deposits placed	(36)	(2)
Deposits repaid	67	–

Settlement balances

	June 30, 2019 (unaudited)	December 31, 2018
Assets		
Cash and cash equivalents	37	498
Accounts receivable	38	77
Prepayments and other current assets	59	65
Other financial assets	241	325
	375	965
Liabilities		
Accounts payable and accrued liabilities	158	47
Loans and borrowings and other financial liabilities	534	904
	692	951

Rosneft Oil Company

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

26. Related party transactions (continued)

Transactions with joint ventures

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

Revenues and income

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	7	6
Support services and other revenues	2	8
Finance income	8	3
	<u>17</u>	<u>17</u>

Costs and expenses

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Production and operating expenses	3	2
Cost of purchased oil, gas, petroleum products and refining costs	154	137
Pipeline tariffs and transportation costs	5	5
Other expenses	2	1
Finance expenses	1	1
	<u>165</u>	<u>146</u>

Other operations

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Loans received	9	–
Loans and borrowings issued	(1)	–
Repayment of loans and borrowings issued	1	22
Deposits placed	(7)	–

Settlement balances

	June 30, 2019 (unaudited)	December 31, 2018
Assets		
Accounts receivable	14	3
Other financial assets	20	17
	<u>34</u>	<u>20</u>

Rosneft Oil Company

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

26. Related party transactions (continued)

Transactions with joint ventures (continued)

	June 30, 2019 (unaudited)	December 31, 2018
Liabilities		
Accounts payable and accrued liabilities	154	141
Loans and borrowings and other financial liabilities	20	30
	174	171

Transactions with associates

Revenues and income

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	163	177
Support services and other revenues	1	1
Finance income	2	1
	166	179

Costs and expenses

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Production and operating expenses	6	6
Cost of purchased oil, gas, petroleum products and refining costs	43	9
Pipeline tariffs and transportation costs	1	1
Other expenses	10	6
Finance expenses	5	2
	65	24

Other operations

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Loans received	39	–
Loans repaid	(71)	–
Loans and borrowings issued	–	(1)
Repayment of loans and borrowings issued	1	2

Rosneft Oil Company

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

26. Related party transactions (continued)

Transactions with associates (continued)

Settlement balances

	June 30, 2019 (unaudited)	December 31, 2018
Assets		
Accounts receivable	57	26
Prepayments and other current assets	10	13
Other financial assets	12	57
	79	96
Liabilities		
Accounts payable and accrued liabilities	33	16
Loans and borrowings and other financial liabilities	186	239
	219	255

Transactions with non-state pension funds

Costs and expenses

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Other expenses	4	3

Other operations

	Six months ended June 30, 2019 (unaudited)	Six months ended June 30, 2018 (unaudited)
Loans received	4	2
Repayment of loans and borrowings issued	6	–

Settlement balances

	June 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 realized 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 Rosneft and some of its subsidiaries for 2015-2017. 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 first half 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 six months ended June 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 763 billion and RUB 758 billion as of June 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 second quarter of 2019, stating that the supplied oil substantially exceeded the maximum permitted levels of organochlorine compounds (compared to the permitted 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 have not received the contracted amounts of oil due to the oil pumping stoppage through the trunk oil pipeline “Druzhba” resulting from the contamination.

Calculation of losses incurred by PJSC “Rosneft Oil Company” can be completed 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 for that period due to the reduced oil intake into the system of PJSC “Transneft”), obtaining a complete and legally supported claims from counterparties and their re-submission to PJSC “Transneft” for compensation.

Rosneft Oil Company

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

28. Events after reporting period

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. The retail network of PTK is present in St. Petersburg, Leningrad, Murmansk, Novgorod, Pskov, Tver regions, and also the Republic of Karelia. The assets include 141 filling stations and 2 modern petroleum storage depots. The acquisition of the new business will provide the Company with an additional synergistic effect, and will increase the efficiency of the fuel sales channel.

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