



Rosneft Oil Company

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

Three and six months ended June 30, 2021

Rosneft Oil Company
Interim condensed consolidated financial statements (unaudited)
Three and six months ended June 30, 2021

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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 June 30, 2021, the interim consolidated statement of profit or loss, interim consolidated statement of comprehensive income for the three and six-month periods, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six-month period then ended and notes to interim condensed consolidated financial statements (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

August 13, 2021

Details of the entity

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

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on December 5, 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-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	June 30, 2021 (unaudited)	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents	9	525	806
Restricted cash	9	17	17
Other short-term financial assets	10	773	817
Accounts receivable	11	659	468
Bank loans granted		216	131
Inventories	12	440	361
Prepayments and other current assets	13	442	322
Total current assets		3,072	2,922
Non-current assets			
Property, plant and equipment	14	10,407	10,401
Right-of-use assets		164	155
Intangible assets		75	80
Other long-term financial assets	15	286	275
Investments in associates and joint ventures		825	846
Bank loans granted		357	363
Deferred tax assets		56	54
Goodwill		80	82
Other non-current non-financial assets	16	226	172
Total non-current assets		12,476	12,428
Total assets		15,548	15,350
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	17	1,672	1,546
Loans and borrowings and other financial liabilities	18	611	798
Income tax liabilities		22	14
Other tax liabilities	19	582	301
Provisions	20	55	68
Prepayment on long-term oil and petroleum products supply agreements	21	406	357
Other current liabilities		7	8
Total current liabilities		3,355	3,092
Non-current liabilities			
Loans and borrowings and other financial liabilities	18	3,718	3,810
Deferred tax liabilities		1,030	1,072
Provisions	20	366	437
Prepayment on long-term oil and petroleum products supply agreements	21	1,187	1,401
Other non-current liabilities		78	51
Total non-current liabilities		6,379	6,771
Equity			
Share capital		1	1
Treasury shares	22	(370)	(370)
Additional paid-in capital		1,099	1,100
Reserve for foreign exchange differences on translation of foreign operations		(87)	(66)
Other funds and reserves		32	34
Retained earnings	22	4,323	4,007
Rosneft shareholders' equity		4,998	4,706
Non-controlling interests		816	781
Total equity		5,814	5,487
Total liabilities and equity		15,548	15,350

Chief Executive Officer _____

I.I. Sechin

August 13, 2021

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, 2021 (unaudited)	Three months ended June 30, 2020 (unaudited)	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited, restated)
Revenues and equity share in profits of associates and joint ventures					
Oil, gas, petroleum products and petrochemicals sales	4	2,121	1,016	3,817	2,741
Support services and other revenues		25	18	52	40
Equity share in profits of associates and joint ventures		21	5	35	16
Total revenues and equity share in profits of associates and joint ventures		2,167	1,039	3,904	2,797
Costs and expenses					
Production and operating expenses		171	201	282	403
Cost of purchased oil, gas, petroleum products, goods for retail and refining costs		370	90	661	363
General and administrative expenses		43	17	83	46
Transportation costs and other commercial expenses		164	157	315	372
Exploration expenses		3	4	4	6
Depreciation, depletion and amortization		163	165	318	341
Taxes other than income tax	5	766	384	1,433	1,017
Export customs duty	6	120	53	198	180
Total costs and expenses		1,800	1,071	3,294	2,728
Operating income/(loss)		367	(32)	610	69
Finance income		28	23	56	47
Finance expenses	7	(52)	(25)	(110)	(105)
Other income	8	7	1	12	3
Other expenses	8	(37)	(21)	(52)	(67)
Foreign exchange differences		13	111	18	(66)
Realized foreign exchange differences on hedge instruments		–	1	–	1
Income/(loss) before income tax		326	58	534	(118)
Income tax (expense)/benefit	5	(63)	(13)	(103)	20
Net income/(loss)		263	45	431	(98)
Net income/(loss) attributable to:					
- Rosneft shareholders		233	43	382	(113)
- non-controlling interests		30	2	49	15
Net income/(loss) attributable to Rosneft per common share (in RUB) – basic and diluted		24.53	4.35	40.21	(11.04)
Weighted average number of shares outstanding (millions)		9,500	9,875	9,500	10,236

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)

Notes	Three months ended June 30, 2021 (unaudited)	Three months ended June 30, 2020 (unaudited)	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Net income/(loss)	263	45	431	(98)
Other comprehensive (loss)/income – to be reclassified to profit or loss in subsequent periods				
Foreign exchange differences on translation of foreign operations	(23)	(88)	(21)	59
Foreign exchange cash flow hedges	–	(1)	–	(1)
Income/(loss) from changes in fair value of debt financial assets at fair value through other comprehensive income	–	6	(2)	2
Equity share in other comprehensive loss of associates	(1)	–	(1)	(5)
Income tax related to other comprehensive (income)/loss – to be reclassified to profit or loss in subsequent periods	–	(1)	–	1
Total other comprehensive (loss)/income – to be reclassified to profit or loss in subsequent periods, net of tax	(24)	(84)	(24)	56
Other comprehensive (loss)/income – not to be reclassified to profit or loss in subsequent periods				
(Loss)/income from changes in fair value of equity financial assets at fair value through other comprehensive income	(1)	1	1	(1)
Total comprehensive (loss)/income – not to be reclassified to profit or loss in subsequent periods, net of tax	(1)	1	1	(1)
Total comprehensive income/(loss), net of tax	238	(38)	408	(43)
Total comprehensive income/(loss), net of tax, attributable to:				
- Rosneft shareholders	208	(40)	359	(58)
- non-controlling interests	30	2	49	15

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	Reserve for foreign exchange differences on translation of foreign operations	Other funds and reserves	Retained earnings	Rosneft shareholders' equity	Non- controlling interests	Total equity
Balance at January 1, 2020	10,598	1	–	635	(185)	31	4,032	4,514	635	5,149
Net (loss)/income	–	–	–	–	–	–	(113)	(113)	15	(98)
Other comprehensive income/(loss)	–	–	–	–	59	(4)	–	55	–	55
Total comprehensive income/(loss)	–	–	–	–	59	(4)	(113)	(58)	15	(43)
Dividends declared (Note 22)	–	–	–	–	–	–	(172)	(172)	(30)	(202)
Acquisition of treasury shares (Note 22)	(1,055)	–	(354)	–	–	–	–	(354)	–	(354)
Change of interest in subsidiaries	–	–	–	–	–	–	–	–	(1)	(1)
Other movements	–	–	–	–	–	–	–	–	4	4
Balance at June 30, 2020 (unaudited)	9,543	1	(354)	635	(126)	(27)	3,747	3,930	623	4,553
Balance at January 1, 2021	9,500	1	(370)	1,100	(66)	34	4,007	4,706	781	5,487
Net income	–	–	–	–	–	–	382	382	49	431
Other comprehensive loss	–	–	–	–	(21)	(2)	–	(23)	–	(23)
Total comprehensive (loss)/income	–	–	–	–	(21)	(2)	382	359	49	408
Dividends declared (Note 22)	–	–	–	–	–	–	(66)	(66)	(15)	(81)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	1	1
Other movements	–	–	–	(1)	–	–	–	(1)	–	(1)
Balance at June 30, 2021 (unaudited)	9,500	1	(370)	1,099	(87)	32	4,323	4,998	816	5,814

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, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Operating activities			
Net income/(loss)		431	(98)
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Depreciation, depletion and amortization		318	341
Loss on disposal of non-current assets	8	2	5
Dry holes costs		2	3
Offset of prepayments received on oil and petroleum products long term supply agreements	21	(165)	(135)
Offset of prepayments made under oil and petroleum products long term supply agreements		5	9
Foreign exchange (gain)/loss on non-operating activities		(48)	119
Cash flow hedges reclassified to profit or loss		–	(1)
Offset of other financial liabilities		(81)	(74)
Equity share in profits of associates and joint ventures		(35)	(16)
Loss on disposal of investments		–	3
Changes in provisions for financial assets		1	(27)
Loss from changes in provisions and impairment of assets		30	36
Income from disposal of subsidiaries		–	–
Finance expenses	7	110	105
Finance income		(56)	(47)
Income tax expense/(benefit)	5	103	(20)
<i>Changes in operating assets and liabilities</i>			
(Increase)/decrease in accounts receivable, gross		(209)	196
(Increase)/decrease in inventories		(88)	69
Increase in restricted cash		–	(2)
(Increase)/decrease in prepayments and other current assets		(22)	96
Increase in long-term prepayments made on oil and petroleum products supply agreements		(92)	(12)
Increase/(decrease) in accounts payable and accrued liabilities		101	(81)
Increase/(decrease) in other tax liabilities		283	(153)
Increase in other current reserves		–	2
Decrease in other current liabilities		(1)	(2)
(Decrease)/increase in other non-current liabilities		(1)	1
Interest paid on long-term prepayment received under oil and petroleum products supply agreements		(2)	(11)
Net increase in operating assets of subsidiary banks		(86)	(21)
Net increase in operating liabilities of subsidiary banks		14	131
Net cash provided by operating activities before income tax and interest		514	416
Income tax payments		(112)	(82)
Interest received		37	48
Dividends received		14	1
Net cash provided by operating activities		453	383

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, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Investing activities			
Capital expenditures		(462)	(367)
Acquisition of licenses and auction fee payments		(5)	(3)
Acquisition of short-term financial assets		(17)	(13)
Proceeds from sale of shares in associated companies		15	–
Proceeds from sale of short-term financial assets		78	20
Acquisition of long-term financial assets		(27)	(4)
Proceeds from sale of long-term financial assets		1	1
Proceeds from sale of subsidiaries, net of cash disposed		5	(8)
Proceeds from sale of property, plant and equipment		3	9
Net cash used in investing activities		(409)	(365)
Financing activities			
Proceeds from short-term loans and borrowings		43	467
Repayment of short-term loans and borrowings		(153)	(454)
Proceeds from long-term loans and borrowings		98	466
Repayment of long-term loans and borrowings		(146)	(343)
Proceeds from other financial liabilities		–	54
Repayment of other financial liabilities		(14)	(62)
Distributions to non-controlling shareholders of subsidiaries		(4)	–
Interest paid		(121)	(125)
Other financing received		4	6
Treasury shares acquired	22	–	(12)
Dividends paid to non-controlling shareholders		(8)	(18)
Dividends paid to shareholders		(22)	(20)
Net cash used in financing activities		(323)	(41)
Net decrease in cash and cash equivalents		(279)	(23)
Cash and cash equivalents at beginning of period	9	806	228
Effect of foreign exchange on cash and cash equivalents		(2)	8
Cash and cash equivalents at end of period	9	525	213

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, 2021

(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 on 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 2020 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 2020 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 2020 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 2020 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 six months ended June 30, 2021 were approved and authorized for issue by the Chief Executive Officer of the Company on August 13, 2021.

Rosneft Oil Company

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

3. Changes in accounting policies and comparative amounts

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of amendments to existing standards effective as of January 1, 2021:

- *Amendments to IFRS 7 Financial instruments: Disclosures and IFRS 9 Financial instruments, as well as IFRS 4 Insurance contracts and IFRS 16 Leases named Interest Rate Benchmark Reform – Phase II.* The amendments provide certain temporary reliefs which address the financial reporting effects related to the transfer to the risk-free interest rate. The amendments did not have a material impact on the consolidated financial statements.

Sales of oil, gas, petroleum products and petrochemicals and the Cost of purchased oil, gas, petroleum products, goods for retail and refining costs in the first half of 2020 in the part of trading operations were reduced (netted) by RUB 7 billion based on the criteria in IFRS 15 *Revenue from Contracts with Customers*.

4. 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, except that intersegment transactions are valued at market prices.

Rosneft Oil Company

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

4. Segment information (continued)

The performance of the operating segments for the three months ended June 30, 2021 (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	1,345	2,168	54	(1,400)	2,167
<i>Including: equity share in profits of associates and joint ventures</i>	<i>13</i>	<i>7</i>	<i>1</i>	<i>–</i>	<i>21</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	859	2,103	75	(1,400)	1,637
Depreciation, depletion and amortization	133	26	4	–	163
Total costs and expenses	992	2,129	79	(1,400)	1,800
Operating income/(loss)	353	39	(25)	–	367
Finance income	–	–	28	–	28
Finance expenses	–	–	(52)	–	(52)
Total finance expenses	–	–	(24)	–	(24)
Other income	–	–	7	–	7
Other expenses	–	–	(37)	–	(37)
Foreign exchange differences	–	–	13	–	13
Income/(loss) before income tax	353	39	(66)	–	326
Income tax (expense)/benefit	(68)	(6)	11	–	(63)
Net income/(loss)	285	33	(55)	–	263

Rosneft Oil Company

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

4. Segment information (continued)

The performance of the operating segments for the three months ended June 30, 2020 (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	493	1,057	54	(565)	1,039
<i>Including: equity share in profits of associates and joint ventures</i>	<i>1</i>	<i>4</i>	<i>–</i>	<i>–</i>	<i>5</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	337	1,075	59	(565)	906
Depreciation, depletion and amortization	133	28	4	–	165
Total costs and expenses	470	1,103	63	(565)	1,071
Operating income/(loss)	23	(46)	(9)	–	(32)
Finance income	–	–	23	–	23
Finance expenses	–	–	(25)	–	(25)
Total finance expenses	–	–	(2)	–	(2)
Other income	–	–	1	–	1
Other expenses	–	–	(21)	–	(21)
Foreign exchange differences	–	–	111	–	111
Realized foreign exchange differences on hedge instruments	–	–	1	–	1
Income/(loss) before income tax	23	(46)	81	–	58
Income tax (expense)/benefit	(4)	10	(19)	–	(13)
Net income/(loss)	19	(36)	62	–	45

Rosneft Oil Company

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

4. Segment information (continued)

The performance of the operating segments for the six months ended June 30, 2021 (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	2,483	3,917	101	(2,597)	3,904
<i>Including: equity share in profits of associates and joint ventures</i>	22	12	1	–	35
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,577	3,851	145	(2,597)	2,976
Depreciation, depletion and amortization	258	53	7	–	318
Total costs and expenses	1,835	3,904	152	(2,597)	3,294
Operating income/(loss)	648	13	(51)	–	610
Finance income	–	–	56	–	56
Finance expenses	–	–	(110)	–	(110)
Total finance expenses	–	–	(54)	–	(54)
Other income	–	–	12	–	12
Other expenses	–	–	(52)	–	(52)
Foreign exchange differences	–	–	18	–	18
Income/(loss) before income tax	648	13	(127)	–	534
Income tax (expense)/benefit	(125)	–	22	–	(103)
Net income/(loss)	523	13	(105)	–	431

Rosneft Oil Company

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

4. Segment information (continued)

The performance of the operating segments for the six months ended June 30, 2020 (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	1,356	2,828	106	(1,493)	2,797
<i>Including: equity share in profits of associates and joint ventures</i>	<i>3</i>	<i>12</i>	<i>1</i>	<i>–</i>	<i>16</i>
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	963	2,790	127	(1,493)	2,387
Depreciation, depletion and amortization	278	55	8	–	341
Total costs and expenses	1,241	2,845	135	(1,493)	2,728
Operating income/(loss)	115	(17)	(29)	–	69
Finance income	–	–	47	–	47
Finance expenses	–	–	(105)	–	(105)
Total finance expenses	–	–	(58)	–	(58)
Other income	–	–	3	–	3
Other expenses	–	–	(67)	–	(67)
Foreign exchange differences	–	–	(66)	–	(66)
Realized foreign exchange differences on hedge instruments	–	–	1	–	1
Income/(loss) before income tax	115	(17)	(216)	–	(118)
Income tax (expense)/benefit	(22)	6	36	–	20
Net income/(loss)	93	(11)	(180)	–	(98)

Rosneft Oil Company

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

4. Segment information (continued)

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, 2021 (unaudited)	Three months ended June 30, 2020 (unaudited)	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited, restated)
International sales of crude oil, petroleum products and petrochemicals – non-CIS	1,518	610	2,672	1,858
International sales of crude oil and petroleum products – CIS, other than Russia	58	39	129	61
Domestic sales of crude oil, petroleum products and petrochemicals	479	314	877	706
Sales of gas	66	53	139	116
Total oil, gas, petroleum products and petrochemicals sales	2,121	1,016	3,817	2,741

5. Income tax and other taxes

Income tax expenses comprise the following:

	Three months ended June 30, 2021 (unaudited)	Three months ended June 30, 2020 (unaudited)	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Current income tax expense	(66)	(29)	(130)	(41)
Deferred tax benefit due to the origination and reversal of temporary differences	3	16	27	61
Total income tax (expense)/benefit	(63)	(13)	(103)	20

In 2012 the Company created a consolidated group of taxpayers (hereinafter “CGT”), 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 61.

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

	Three months ended June 30, 2021 (unaudited)	Three months ended June 30, 2020 (unaudited)	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Mineral extraction tax	551	182	984	627
Excise tax	26	159	85	284
Property tax	11	10	21	20
Insurance contributions	23	23	46	46
Tax on additional income from production of hydrocarbons	148	7	281	36
Other	7	3	16	4
Total taxes other than income tax	766	384	1,433	1,017

Rosneft Oil Company

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

6. Export customs duty

Export customs duty comprises the following:

	Three months ended June 30, 2021 (unaudited)	Three months ended June 30, 2020 (unaudited)	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Export customs duty on oil sales	84	38	134	118
Export customs duty on petroleum products and petrochemicals sales	36	15	64	62
Total export customs duty	120	53	198	180

In the first half of 2020, following the adoption of Federal law No. 24-FZ dated February 18, 2020 the one-off effect amounting to RUB 30 bln 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.

7. Finance expenses

Finance expenses comprise the following:

	Three months ended June 30, 2021 (unaudited)	Three months ended June 30, 2020 (unaudited)	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Interest expenses on				
Loans and borrowings	(28)	(28)	(56)	(52)
Interest on the lease liability	(1)	(1)	(3)	(3)
Prepayment on long-term oil and petroleum products supply agreements (Note 21)	(11)	(9)	(24)	(21)
Other interest expenses	(3)	(4)	(6)	(9)
Total interest expenses	(43)	(42)	(89)	(85)
Increase in provision due to the unwinding of a discount	(6)	(6)	(12)	(12)
Increase in allowance for expected credit losses on debt financial assets at amortized cost	(1)	–	(1)	(1)
Change in fair value of financial assets measured at fair value through profit or loss	(1)	20	(6)	(2)
Net loss from operations with derivative financial instruments	–	4	–	(3)
Other finance expenses	(1)	(1)	(2)	(2)
Total finance expenses	(52)	(25)	(110)	(105)

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

8. Other income and expenses

Other income and expenses comprise the following:

	Three months ended June 30, 2021 (unaudited)	Three months ended June 30, 2020 (unaudited)	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Insurance recoveries	4	–	4	1
Other	3	1	8	2
Total other income	7	1	12	3
Sale and disposal of property, plant and equipment and intangible assets	(2)	(4)	(2)	(5)
Impairment of assets	(22)	–	(22)	(27)
Social payments, charity, financial aid	(4)	(4)	(10)	(8)
Other	(9)	(13)	(18)	(27)
Total other expenses	(37)	(21)	(52)	(67)

Impairment of assets

In the second quarter of 2021, the Company recognized impairment of upstream production assets of RUB 19 billion, and exploration and evaluation assets of RUB 3 billion.

9. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	June 30, 2021 (unaudited)	December 31, 2020
Cash on hand and in bank accounts in RUB	59	56
Cash on hand and in bank accounts in foreign currencies	259	468
Deposits	203	273
Other	4	9
Total cash and cash equivalents	525	806

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

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

Restricted cash includes the obligatory reserve of subsidiary banks with the CBR in the amount of RUB 11 billion and RUB 17 billion as of June 30, 2021 and December 31, 2020, respectively.

Rosneft Oil Company

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

10. Other short-term financial assets

Other short-term financial assets comprise the following:

	June 30, 2021 (unaudited)	December 31, 2020
Financial assets at fair value through other comprehensive income		
Bonds	198	198
Promissory notes	118	116
Stocks and shares	50	47
Loans granted under reverse repurchase agreements	56	56
Financial assets at amortized cost		
Bonds	–	1
Loans issued	20	20
Loans issued to associates and joint ventures	1	–
Deposits and certificates of deposit	309	363
Financial assets at fair value through profit or loss		
Deposits	1	1
Bonds	19	15
Derivative financial instruments	1	–
Total other short-term financial assets	773	817

11. Accounts receivable

Accounts receivable include the following:

	June 30, 2021 (unaudited)	December 31, 2020
Trade receivables	674	497
Other accounts receivable	67	55
Total	741	552
Allowance for expected credit losses	(82)	(84)
Total accounts receivable, net of allowance	659	468

As of June 30, 2021 and December 31, 2020 accounts receivable were not pledged as collateral for loans and borrowings provided to the Company, except as discussed in Note 18.

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

	As of January 1, 2021	Increase in allowance	Decrease in allowance	As of June 30, 2021
Allowance at an amount equal to 12-month expected credit losses on trade receivables	16	6	(6)	16
Allowance at an amount equal to lifetime expected credit losses on trade receivables	40	–	(1)	39
Allowance for expected credit losses on other accounts receivable	28	3	(4)	27
Total	84	9	(11)	82

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

11. Accounts receivable (continued)

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.

12. Inventories

Inventories comprise the following:

	June 30, 2021 (unaudited)	December 31, 2020
Crude oil and gas	122	86
Petroleum products and petrochemicals	187	145
Materials and supplies	131	130
Total inventories	440	361

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

	Three months ended June 30, 2021 (unaudited)	Three months ended June 30, 2020 (unaudited)	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Cost of inventories recognized as an expense during the period	406	114	734	427

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.

13. Prepayments and other current assets

Prepayments and other current assets comprise the following:

	June 30, 2021 (unaudited)	December 31, 2020
Value added tax and excise receivable	258	166
Prepayments to suppliers	90	124
- <i>Current portion of long-term prepayments issued</i>	39	5
Assets being transferred	67	-
Settlements with customs	15	13
Profit and other tax payments	2	10
Other	10	9
Total prepayments and other current assets	442	322

Assets being transferred represent the net value of certain assets and liabilities of a number of mature oil production and service assets (“tail” assets”), the legal ownership for which is to be transferred to the counterparty in 2021 to settle the respective liability (Note 17).

Settlements with customs primarily represent prepaid export duties related to the export of crude oil and petroleum products (Note 6).

Rosneft Oil Company

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

14. Property, plant and equipment

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
Cost as of January 1, 2021	12,636	2,555	172	15,363
Depreciation, depletion and impairment losses as of January 1, 2021	(4,066)	(892)	(67)	(5,025)
Net book value as of January 1, 2021	8,570	1,663	105	10,338
Prepayments for property, plant and equipment as of January 1, 2021	21	41	1	63
Total as of January 1, 2021	8,591	1,704	106	10,401
Cost				
Additions	410	41	3	454
<i>Including capitalized expenses on loans and borrowings</i>	59	19	–	78
Disposals and other movements	(38)	(3)	(1)	(42)
Disposal of subsidiaries	(901)	–	(6)	(907)
Foreign exchange differences	(19)	(12)	–	(31)
Changes in cost of asset retirement (decommissioning) obligations	(49)	–	–	(49)
As of June 30, 2021	12,039	2,581	168	14,788
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(257)	(45)	(5)	(307)
Disposals and other movements	31	3	(1)	33
Disposal of subsidiaries	767	–	2	769
Impairment of assets	(22)	–	–	(22)
Foreign exchange differences	10	5	–	15
As of June 30, 2021	(3,537)	(929)	(71)	(4,537)
Net book value as of June 30, 2021	8,502	1,652	97	10,251
Prepayments for property, plant and equipment as of June 30, 2021	104	49	3	156
Total as of June 30, 2021	8,606	1,701	100	10,407

The depreciation charge for the six months ended June 30, 2021 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 78 billion (including RUB 65 billion in capitalized interest) and RUB 86 billion (including RUB 68 billion in capitalized interest) of borrowing costs for the six months ended June 30, 2021 and 2020, respectively. The weighted average semiannual rates used to determine the amount of borrowing costs eligible for capitalization were 2.63% and 2.97% for the six months ended June 30, 2021 and 2020, respectively.

Rosneft Oil Company

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

15. Other long-term financial assets

Other long-term financial assets comprise the following:

	June 30, 2021 (unaudited)	December 31, 2020
Financial assets at fair value through other comprehensive income		
Shares and participating interests	36	37
Financial assets at amortized cost		
Bonds	52	26
Loans granted	29	22
Loans granted to associates and joint ventures	5	6
Deposits and certificates of deposit	6	25
Other accounts receivable	17	13
Financial assets at fair value through profit or loss		
Deposits	139	144
Other	2	2
Total other long-term financial assets	286	275

Bank deposits of the Company are placed in rubles and US dollars at interest rates ranging from 4.9% to 8.75% p.a.

No long-term financial assets were pledged as collateral as of June 30, 2021 and December 31, 2020.

16. Other non-current non-financial assets

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

	June 30, 2021 (unaudited)	December 31, 2020
Long-term advances issued	224	170
Other	2	2
Total other non-current non-financial assets	226	172

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

17. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	June 30, 2021 (unaudited)	December 31, 2020
Financial liabilities		
Accounts payable to suppliers and contractors	510	422
Current operating liabilities of subsidiary banks	700	724
Salary and other benefits payable	127	111
Dividends payable	51	1
Cash consideration payable	98	100
Obligation to transfer the assets	87	82
Other accounts payable	45	42
Total financial liabilities	1,618	1,482
Non-financial liabilities		
Short-term advances received	54	64
Total accounts payable and accrued liabilities	1,672	1,546

Rosneft Oil Company

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

17. Accounts payable and accrued liabilities (continued)

Obligation to transfer the assets represents the obligations to transfer interests in a number of mature oil production and service assets (“tail” assets”, Note 13). During the first half of 2021, part of the obligations was settled by transferring legal rights to the shares in a number of entities.

18. Loans and borrowings and other financial liabilities

Loans and borrowings and other financial liabilities comprise the following:

	Currency	June 30, 2021 (unaudited)	December 31, 2020
Long-term			
Bank loans	RUB	808	807
Bank loans	US\$, euro	850	913
Bonds	RUB	566	581
Eurobonds	US\$	147	150
Borrowings	RUB	127	122
Other borrowings	RUB	873	744
Other borrowings	US\$	661	750
<i>Less: current portion of long-term loans and borrowings</i>		<i>(490)</i>	<i>(452)</i>
Total long-term loans and borrowings		3,542	3,615
Lease liabilities		168	157
Other long-term financial liabilities		29	56
<i>Less: current portion of long-term lease liabilities</i>		<i>(21)</i>	<i>(18)</i>
Total long-term loans and borrowings and other financial liabilities		3,718	3,810
Short-term			
Bank loans	RUB	–	90
Bank loans	US\$, euro	3	6
Borrowings	RUB	2	–
Borrowings	US\$	6	16
Other borrowings	RUB	–	49
Other borrowings	US\$	–	7
<i>Current portion of long-term loans and borrowings</i>		<i>490</i>	<i>452</i>
Total short-term loans and borrowings		501	620
<i>Current portion of long-term lease liabilities</i>		<i>21</i>	<i>18</i>
Other short-term financial liabilities		76	147
Short-term liabilities related to derivative financial instruments		13	13
Total short-term loans and borrowings and other financial liabilities		611	798
Total loans and borrowings and other financial liabilities		4,329	4,608

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

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

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 32 billion as of June 30, 2021 and RUB 22 billion as of December 31, 2020, respectively, and is included in Trade receivables.

During the first half of 2021 the Company continued to settle other long-term borrowings under the repurchasing agreement operations. As of June 30, 2021, the liabilities of the Company under those transactions amounted to the equivalent of RUB 1,534 billion at the CBR official exchange rate as of June 30, 2021. 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, 2021 and December 31, 2020 the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

Short-term loans and borrowings

During the first half of 2021 the Company continued to settle other short-term borrowings under the repurchasing agreement operations. Own corporate bonds were used as an instrument for those transactions.

During the first half of 2021 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.

Rosneft Oil Company

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

19. Other current tax liabilities

Other current tax liabilities comprise the following:

	June 30, 2021 (unaudited)	December 31, 2020
Mineral extraction tax	199	133
VAT	160	99
Excise duties	37	32
Property tax	10	9
Tax on additional income from production of hydrocarbons	168	24
Personal income tax	3	2
Other	5	2
Total other tax liabilities	582	301

20. Provisions

	Asset retirement obligations	Environmental remediation provision	Legal and tax claims and other provisions	Total
As of January 1, 2021, including	406	51	48	505
<i>Non-current</i>	400	33	4	437
<i>Current</i>	6	18	44	68
Provisions charged during the year	4	2	12	18
Increase/(decrease) in the liability resulting from:				
Changes in estimates	–	–	(2)	(2)
Changes in the discount rate	(53)	–	–	(53)
Foreign exchange differences	(2)	–	(1)	(3)
Unwinding of discount	11	1	–	12
Utilization	(2)	(4)	(4)	(10)
Disposal	(40)	(5)	(1)	(46)
As of June 30, 2021 (unaudited), including	324	45	52	421
<i>Non-current</i>	320	31	15	366
<i>Current</i>	4	14	37	55

21. 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)

21. 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.

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
As of January 1	1,758	1,082
Reclassified		(28)
Settled	(165)	(135)
Total prepayment on long-term oil and petroleum products supply agreements	1,593	919
Less current portion	(406)	(349)
As of June 30	1,187	570

The amounts settled under these contracts were RUB 165 billion and RUB 135 billion (US\$ 3.37 billion and US\$ 2.89 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date), for the first half of 2021 and 2020 respectively.

22. Shareholders' equity

On June 1, 2021 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2020 in the amount of RUB 6.94 per share, which comprised RUB 65.9 billion (excluding dividends related to treasury shares).

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 first half of 2020 the Company acquired 37,744,753 treasury shares (including in form of global depository receipts) in the amount of RUB 12.1 billion, as a part of the share buyback program. During the first half of 2021 the Company did not acquired treasury shares.

23. 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.

Rosneft Oil Company

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

23. Fair value of financial instruments (continued)

The Company uses the following hierarchy to determine and disclose the fair value of financial instruments, depending on the valuation methodology

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: methodologies in which all inputs that significantly affect the fair value are directly or indirectly observable in the open market;
- Level 3: techniques which use inputs which have a significant effect on the fair value that are not based on the data observable in the open market.

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, 2021				
(unaudited)				
	Level 1	Level 2	Level 3	Total
Assets				
Current assets				
Financial assets at fair value through other comprehensive income	82	305	35	422
Financial assets at fair value recognized in profit or loss	–	20	–	20
Derivative financial instruments	–	1	–	1
Non-current assets				
Financial assets at fair value through other comprehensive income	9	–	27	36
Financial assets at fair value recognized in profit or loss	–	139	2	141
Total assets measured at fair value	91	465	64	620
Liabilities				
Derivative financial instruments	–	(13)	–	(13)
Total liabilities measured at fair value	–	(13)	–	(13)

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.

Financial assets measured at fair value through other comprehensive income in Level 3 are investments in shares of non-listed companies that are measured on the basis of information not observable in the market. The fair value of investments in unquoted equity instruments was determined using the adjusted net assets method. There were no significant changes in fair value during the reporting period.

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

Rosneft Oil Company

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

23. Fair value of financial instruments (continued)

	Carrying value		Fair value (Level 2)	
	June 30, 2021 (unaudited)	December 31, 2020	June 30, 2021 (unaudited)	December 31, 2020
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(2,805)	(2,964)	(2,724)	(2,876)
Loans and borrowings with a fixed interest rate	(1,238)	(1,271)	(1,251)	(1,313)
Lease liabilities	(168)	(157)	(165)	(169)

24. 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 entered 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 ordinary course of 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 approximating average market prices.

Transactions with major shareholders and companies under their control

Revenues and income

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	396	247
Support services and other revenues	3	1
Finance income	13	9
Other income	5	1
	417	258

Rosneft Oil Company

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

24. Related party transactions (continued)

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

Costs and expenses

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Production and operating expenses	36	9
Cost of purchased oil, gas, petroleum products and refining costs	36	25
Transportation costs and other commercial expenses	229	224
Other expenses	7	5*
Finance expenses	30	19
	338	282

* Including effect of acquisitions and disposals of subsidiaries and shares in joint operations.

Other operations

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Acquisitions and disposals of subsidiaries and shares in joint operations and associates	–	(8)
Purchase of other long-term financial assets	(26)	–
Loans received	34	278
Loans repaid	(102)	(213)
Loans and borrowings issued	–	(2)
Deposits placed	1	–
Repayment of loans and borrowings issued	(1)	–

Settlement balances

	June 30, 2021 (unaudited)	December 31, 2020
Assets		
Cash and cash equivalents	102	467
Accounts receivable	188	166
Prepayments and other current assets	39	44
Other financial assets	404	376
	733	1,053
Liabilities		
Accounts payable and accrued liabilities	419	372
Loans and borrowings and other financial liabilities	809	858
	1,228	1,230

Rosneft Oil Company

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

24. Related party transactions (continued)

Transactions with joint ventures

Revenues and income

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	9	8
Support services and other revenues	5	2
Finance income	2	2
Other income	2	–
	18	12

Costs and expenses

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Production and operating expenses	1	1
Cost of purchased oil, gas, petroleum products and refining costs	158	96
Transportation costs and other commercial expenses	4	3
Finance expenses	1	2
	164	102

Other operations

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Loans received	42	14
Loans repaid	(47)	(5)
Loans and borrowings issued	–	(3)
Repayment of loans and borrowings issued	–	20

Settlement balances

	June 30, 2021 (unaudited)	December 31, 2020
Assets		
Accounts receivable	19	9
Prepayments and other current assets	2	2
Other financial assets	3	3
	24	14
Liabilities		
Accounts payable and accrued liabilities	170	110
Loans and borrowings and other financial liabilities	48	54
	218	164

Rosneft Oil Company

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

24. Related party transactions (continued)

Transactions with associates

Revenues and income

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Oil, gas, petroleum products and petrochemicals sales	170	148
Support services and other revenues	–	1
Finance income	3	1
Other expenses	–	5
	173	155

Costs and expenses

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Production and operating expenses	1	1
Cost of purchased oil, gas, petroleum products and refining costs	20	15
Transportation costs and other commercial expenses	1	1
Finance expenses	3	4
	25	21

Other operations

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Loans received	3	60
Loans repaid	(68)	(18)

Settlement balances

	June 30, 2021 (unaudited)	December 31, 2020
Assets		
Accounts receivable	63	71
Prepayments and other current assets	3	1
Other financial assets	3	3
	69	75
Liabilities		
Accounts payable and accrued liabilities	15	22
Loans and borrowings and other financial liabilities	78	159
	93	181

Rosneft Oil Company

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

24. Related party transactions (continued)

Transactions with non-state pension funds

Costs and expenses

	Six months ended June 30, 2021 (unaudited)	Six months ended June 30, 2020 (unaudited)
Other expenses	2	2
	<u>2</u>	<u>2</u>

Settlement balances

	June 30, 2021 (unaudited)	December 31, 2020
Liabilities		
Accounts payable and accrued liabilities	1	1
	<u>1</u>	<u>1</u>

25. Contingencies

Russian business environment

The Russian economy has been negatively impacted by sanctions imposed on Russia by a number of countries. Ruble interest rates are growing. The combination of the above 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 counterparties operating in foreign jurisdictions. Besides commercial risks, assets in a number of regions of the Company's activities are also subject to political, economic and regulatory risks which are analyzed by the Company on a regular basis.

Since the beginning of March 2020, the world markets were experiencing a significant volatility 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. In the opinion of the Company's management, these trends will not have a material impact on the Company's future financial position, results of operations and business prospects.

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 20).

Rosneft Oil Company

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

25. 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 respect of 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 balance sheet or results of operations.

As a 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 2021 with respect to the taxation of domestic oil sales and refining transactions in Russia.

The Company believes that transfer pricing risks in relation to intragroup transactions during the six months ended June 30, 2021 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 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 1,196 billion (including VAT) and RUB 668 billion (including VAT) as of June 30, 2021 and December 31, 2020, 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 the 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.

Rosneft Oil Company

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

25. 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 legally supported claims from all counterparties and their re-submission to PJSC "Transneft" for compensation.

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