

**Public Joint Stock Company Gazprom Neft**

**Financial Statements and  
Independent Auditor's Report**

**31 December 2018**

# Independent Auditor's Report

To the shareholders and the Board of Directors of Public Joint-Stock Company Gazprom Neft:

## *Our opinion*

In our opinion, the enclosed financial statements present fairly, in all material respects, the financial position of Gazprom Neft PJSC (hereinafter the "Company") as of 31 December 2018, the results of its operations and its cash flows for the year then ended in accordance with the reporting rules established in the Russian Federation.

## **The object of the audit**

We have audited the attached financial statements of the Company which comprise the following:

- The balance sheet as at 31 December 2018;
- Statement of financial results for the year then ended;
- Statement of changes in equity for the year then ended;
- Statement of cash flows for the year then ended; and
- Notes to the balance sheet and statement of financial results.

## *Basis for our opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibility under these standards is described hereinafter in section "The auditor's responsibility" of this report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Independence**

We are independent from the Company pursuant to the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code) and the ethics requirements of the Code of Professional Ethics for Auditors and Rules of Independence of Auditors and Audit Organizations applicable to our audit of financial statements in the Russian Federation, we also complied with other ethical duties in compliance with such requirements and the IESBA Code.

## *Our audit methodology*

### **Overview**

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<b>Materiality</b>	<ul style="list-style-type: none"><li>• Materiality at the level of financial statements as a whole: RUB 20,700 million comprising 1% of pre-tax profit.</li></ul>
<b>Key matters of audit</b>	<ul style="list-style-type: none"><li>• Recognition of revenue</li></ul>

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Joint-Stock Company PricewaterhouseCoopers Audit (JSC PricewaterhouseCoopers Audit)

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Our audit methodology includes determining the materiality and assessment of risks of material misstatements in financial statements. In particular, we have analyzed in which areas the management made subjective judgments, for instance, with respect to material accounting estimates, which included using assumptions and consideration of future events associated, due to their nature, with uncertainty. We also considered the risk of bypassing the internal controls by the management, including, inter alia, assessment of the existence of signs of the management's bias which creates the risk of material misstatement as a result of fraud.

We chose the scope for audit so that we could perform the work in the amount sufficient to express our opinion about the financial statements as a whole taking into account that Company's structure, the accounting processes and controls used by the Company and taking into consideration the specifics of the industry in which the Company operates.

## **Materiality**

Our application of materiality influenced the volume of audit we chose. In conducting an audit of financial statements, the overall objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error. They are considered material if it is reasonable to expect that they will, whether individually or jointly, affect the economic decisions of the users made on the basis of such financial statements.

Based on our professional judgement, we identified certain quantitative thresholds for materiality, including those for the materiality at the level of financial statements of the Company as a whole, as provided in the table below. With the help of the above thresholds and taking into consideration the qualitative factors, we determined the volume of our audit, as well as the nature, time and volume of our audit procedures and evaluated the influence of misstatements (taken individually and jointly), if any, on the financial statements as a whole.

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***Materiality at the level of financial statements as a whole.*** RUB 20,700 million (millions of rubles)

***How we determined it*** 1% of pre-tax profit

***Substantiation of the materiality level applied*** We decided to use, as the baseline parameter for determining the materiality level, the pre-tax profit because the Company is orientated towards making profit. Also, we believe that this baseline parameter is generally considered by users for the purposes of evaluating the results of the Company's operations and it is the commonly accepted baseline parameter. We established the materiality at 1%, which is within the range of acceptable threshold values of materiality applicable for enterprises orientated towards making profit in this sector.

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## Key matters of audit

Key matters of audit are the matters which, according to our professional judgement, were the most material for our audit of the financial statements for the current period. Such matters were considered in the context of our audit of the financial statement on the whole and during the formation of our opinion about such statements and we express no separate opinion about such matters.

### A key matter of audit

### Which audit procedures were performed with regard to the key matter of audit

#### *Recognition of revenue*

*In Note 2.17 (Recognition of revenue from sales) and Note 5.12 (Revenue from sale of goods, products, work, services) to the financial statements, the information about the relevant accounting policy and revenue figures for various types of sales are disclosed.*

This year, we continued to pay special attention to revenue recognition due to the following reasons:

- the audience's continued interest to this line of financial statements as an indicator of the performance results,
- the significance of this amount in terms of value,
- a wide variety of the Company's sources of revenue,
- and related risks of material misstatements in financial statements as a result of error or fraud.

The Company has several sources of revenue, mainly, from sale of crude oil, petroleum products and other inventories. The Company sells oil and petroleum products to industrial consumers in the Russian Federation and abroad.

These sources of revenue are different in the terms of its recognition, including determination of the price and conditions for the transfer of title.

Still large volumes of business transactions, possible unauthorized entry of transactions in the accounting system, different management accounting systems and existing methods of interaction between them and the accounting system create opportunities for intentional manipulations or errors.

We evaluated the risk of fraud or error for each individual source of revenue and adapted the audit strategy based on the anticipated certainty in relation to the internal controls.

We have continued performing electronic data processing (EDP) procedures across all transactions relating to revenue from the Company's sales of crude oil, petroleum products and gas for the entire audited period. With the help of these procedures, we checked the correctness of calculation of each revenue transaction with the assessed receivables or payment received from the counterparty, fully covering all the revenue transactions.

As during previous year, we assessed the organization and tested operational efficiency of means of control relating to the revenue recognition in the Company.

Our material audit procedures plan this year included the following procedures:

- a detailed testing of selected transactions resulting in revenue recognition;
- procedures relating to the receipt of confirmation letters from counterparties regarding accounts receivable as at the end of the reporting period;
- Verification of correctness of the timing of revenue recognition by comparing the dates of transfer of title to goods under the terms of contracts with the corresponding dates of revenue recognition in the Company's accounting records.

We also tested the accounting records related to revenue made manually and compared the actual sales price with the provisions of the sales contracts and the shipped quantity of products with the shipping documents.

#### *Other information*

The management is responsible for other information. Other information contains the Annual Report of Gazprom Neft PJSC for 2018, the Issuer's Quarterly Report for Q1 2019 which we expect to be furnished with after the date of this auditor's report.

Our opinion of the financial statements does not extend to other information and we will not provide the conclusion expressing our confidence in any form regarding such information.

In connection with the audit performed by us, our duty is to review the above information when

it is presented to us and to consider whether there are any material discrepancies between other information and the financial statements or our knowledge obtained during our audit and whether other information contains any other material misstatements.

If, based on the work carried out by us with respect to other information which we received before the date of this auditor's report, we conclude that such other information contains a material misstatement, we will have to make it known. We did not discover any facts which are required to be included in our report.

### *The responsibility for the financial statements of the persons responsible for corporate governance, for financial statements*

The Company management is responsible for the preparation and fair presentation of these financial statements in accordance with the reporting rules established in the Russian Federation and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from any material misstatement, whether due to fraud or error.

When preparing the financial statement, the management is responsible for assessing the Company's ability to continue its operations as a going concern, for disclosure, when required, of the information related to applicability of the going concern principle, and for preparing the financial statements using the going-concern basis of accounting unless management either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so.

Those individuals responsible for corporate governance are responsible for the supervision over the process of preparation of the Company's financial statements.

### *Auditor's responsibility*

Our responsibility is to provide reasonable assurance about whether the financial statements are free from material misstatement due to fraud or error and to issue the auditor's report containing our opinion. Reasonable assurance is a high but not absolute level of assurance that an audit conducted in conformance with the ISA always detects material misstatements, if there are any. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with International Standards on Auditing. Our audit consisted, among other things, of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control;
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Concluding on the appropriateness of management's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However,

future events or conditions may cause the company to cease to continue as a going concern;  
and

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with individuals responsible for corporate governance making them aware among other things of the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also furnish individuals responsible for corporate governance with a statement confirming that we have complied with all ethical requirements with respect of independence and have informed such individuals about any relationships and other matters which might be reasonably considered as affecting the auditor's independence and, when necessary, about precautions taken.

Those matters of which we notified individuals responsible for corporate governance, we select those which were the most important for the audit of financial statements for the current period and, therefore, are deemed key audit matters. We describe such matters in our auditor's report, except when public disclosure of such matters is prohibited by any law or regulation or when, very rarely, we conclude that information about any matter should not be disclosed in our report because it is reasonable to expect that negative consequences of disclosing such information will exceed the social importance of it being communicated.

Head of the task based on which results this independent auditor's report has been issued – Irina Vladimirovna Shanina.

28 February 2019

Moscow, Russian Federation

I.V. Shanina, Head of Task (qualification certificate No. 01-001340)

Joint-Stock Company PricewaterhouseCoopers Audit

The Client: Gazprom Neft PJSC

Certificate of entry in the Unified State Register of Legal Entities issued on 21 August 2002 under No. 1025501701686

St Petersburg, Russian Federation, 190000, ulitsa Pochtamtorskaya 3-5

Independent auditor: Independent Auditor

Joint-Stock Company PricewaterhouseCoopers Audit

State registration certificate No. 008.890, issued by Moscow Registration Bureau on 28 February 1992.

Certificate of entry in the Unified State Register of Legal Entities issued on 22 August 2002 under No. 1027700148431

A member of the Non-Commercial Partnership Russian Audit Chamber (the "Association")

Principal Registration Record Number (ORNZ) in the register of auditors and audit organizations – 11603050547

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**Accounting balance  
as at 31 December 2018**

Company **Gazprom Neft PJSC**  
 Taxpayer Identification Number  
 Type of activity: **wholesale of solid, liquid and gaseous fuel and similar products**

Form of incorporation / ownership  
**public joint stock company / joint private and foreign ownership**  
 Monetary unit: thousands of rubles  
 Location (address) **190000, St Petersburg, ulitsa Pochtamtskaya 3-5, litera A**

	Codes		
OKUD Form	0710001		
Date (dd, mm, yy)	31	12	2018
OKPO code	42045241		
INN	5504036333		
OKVED code	46.71		
as per OKOPF/OKFS	1 22 47	34	
as per OKEI	384		

Notes	Indicator	Code	as at 31 December 2018	as at 31 December 2017	as at 31 December 2016
<b>ASSET</b>					
<b>I. NON-CURRENT ASSETS</b>					
5. 2	Intangible assets, incl.	1110	2,370,037	989,373	657,726
	intellectual property rights	1111	2,368,241	985,394	647,729
	other	1119	1,796	3,979	9,997
	R&D findings	1120	160,809	124,715	139,450
	Intangible prospecting assets	1130	4,669,883	53,131	21,103
	Tangible prospecting assets	1140	3,067	-	-
5. 3	Fixed assets incl.	1150	3,601,594	1,032,304	1,814,267
	Fixed asset property incl.	1151	885,413	723,024	583,929
	buildings, structures, machinery, equipment and other fixed assets	1153	885,413	723,024	583,929
	unfinished capital investments	1154	2 716 181	309,280	1,222,245
	capitalised land reclamation and dismantling cost	1157	-	-	8,093
5. 6	Financial investments, incl.	1170	935,066,022	883,744,855	999,277,190
	subsidiary investments	1171	509,212,734	506,296,766	424,525,530
	affiliates investments	1172	73,830,723	41,655,171	41,655,171
	investments in other organizations	1173	3,945,754	3,972,362	4,027,862
	long-term loans and debt securities	1174	348,055,357	331,803,618	528,998,279
	other	1175	21,454	16,938	70,348
	Deferred tax assets	1180	4,554,776	1,162,702	-
5. 4	Other non-current assets, incl.:	1190	13,143,525	12,428,108	11,350,216
	non-exclusive rights property	1191	9,912,780	9,062,557	7101 704
	advanced payments for capital investments	1192	57,574	3,025	67,083
	other	1197	3,173,171	3,362,526	4,181,429
	<b>Total for Section I</b>	<b>1100</b>	<b>963,569,713</b>	<b>899,535 188</b>	<b>1,013,259,952</b>



Comments	Indicator	Code	as at 31 December 2018	as at 31 December 2017	as at 31 December 2016
<b>ASSET</b>					
<b>II. CURRENT ASSETS</b>					
5. 5	Inventory, incl.	1210	32,772,576	27,677,326	24,747,790
	raw materials, consumables, other similar assets	1211	3,375,280	5,227,468	3,754,890
	costs of work-in-progress	1212	1,590,762	1,221,546	958,581
	finished goods and goods for resale	1213	27,778,809	21,160,766	19,956,094
	goods dispatched	1215	27,725	67,546	78,225
5. 11	Value added tax on the assets acquired	1220	24,411,938	10,435,462	13,041,602
5. 7	Accounts receivable, incl.	1230	462,542,924	369,922,988	301,919,705
	Accounts receivable (due in over 12 months after the reporting date), incl.	1231	129,712,136	157,681,492	134,023,338
	other receivables	1234	129,712,136	157,681,492	134,023,338
	Accounts receivable (due within 12 months after the reporting date), incl.	1235	332,830,788	212,241,496	167,896,367
	buyers and customers	1236	132,270,018	97,732,791	96,232,538
	advances paid out	1238	14,828,004	13,282,930	12,533,858
	other receivables	1239	185,732,766	101,225,775	59,129,971
5. 6	Financial investments (excl. cash equivalents), incl.	1240	195,125,835	232,280,832	105,071,053
	short-term loans and debt securities	1241	144,284,655	232,280,832	105,071,053
	bank deposits	1242	50,841,180	-	-
5. 8	Cash and equivalents, incl.	1250	139,898,658	44,313,162	6,411,149
	settlement accounts	1252	7,244,318	13,785,424	2,512,296
	foreign currency accounts	1253	7,408,803	4,386,989	3,898,230
	other cash and equivalents	1259	125,245,537	26,140,749	623
	Other non-current assets, incl.:	1260	415,730	303,729	264,300
	other	1262	415,730	303,729	264,300
	<b>Total for Section II</b>	<b>1200</b>	<b>855,167,661</b>	<b>684,933,499</b>	<b>451,455,599</b>
	<b>BALANCE</b>	<b>1600</b>	<b>1,818,737,374</b>	<b>1,584,468,687</b>	<b>1,464,715,551</b>

	Indicator	code	As of 31 December, 2018	as at 31 December 2017	as at 31 December 2016
	<b>LIABILITIES</b>				
	<b>III. CAPITAL AND RESERVES</b>				
	Charter capital (joint stock capital, charter fund and partner's contributions)	1310	7,586	7,586	7,586
	Additional capital (w/o revaluation)	1350	7,807,598	7,807,598	7,807,598
	Reserve funds	1360	379	379	379
	Retained earnings (pending loss)	1370	362,772,555	400,848,468	344,021,355
5. 17	<b>Total for Section III</b>	<b>1300</b>	<b>370 588118</b>	<b>408,664,031</b>	<b>351,836,918</b>
	<b>IV. LONG-TERM LIABILITIES</b>				
5.10	Borrowed assets incl.	1410	639,889,335	541,651,314	624,614,916
	bank loans due for repayment beyond 12 months from report date	1411	285,153,268	196,148,744	251,510,913
	other loans due for payment beyond 12 months from report date	1412	354,736,067	345,502,570	373,104,003
	Deferred tax liabilities	1420			4,308,103
5 15	Estimated liabilities	1430	6,178,681	407,399	5,551,220
	<b>Total for Section IV</b>	<b>1400</b>	<b>646,068,016</b>	<b>542,058,713</b>	<b>634,474,239</b>
	<b>V. SHORT-TERM LIABILITIES</b>				
5.10	Borrowed assets incl.	1510	262,475,146	305,779,437	252,598,353
	other loans due for payment within 12 months	1512	166,853,957	174,588,098	186,847,962
	current portion of long term loans and borrowings	1513	95,621,189	131,191,339	65,750,391
59	Accounts payable, incl.	1520	535,636,517	312,230,672	222,658,078
	Suppliers and contractors	1521	404,157,846	212,423,942	155,362,366
	payable to employees	1522	1,780	9,834	9,120
	payable to state non-budget funds	1523	34,486	68,129	311,074
	taxes and duties payable	1524	14,555	243,083	154,728
	other creditors incl.	1525	26,877,798	52,060,593	66,799,916
	advances received	1527	16,692,934	14,935,285	15,528,984
	other payables	1528	10,184,864	37,125,308	51,270,932
	dividends payable to participants (shareholders)	1529	104,550,052	47,425,091	20,874
	Deferred income	1530		26,370	46,148
5. 15	Estimated liabilities	1540	3,969,577	15 709464	3,101,815
	<b>Total for Section V</b>	<b>1500</b>	<b>802,081,240</b>	<b>633,745,943</b>	<b>478,404,394</b>
	<b>BALANCE</b>	<b>1700</b>	<b>1,818,737,374</b>	<b>1,584,468,687</b>	<b>1,464,715,551</b>

Director General

\_\_\_\_\_  
(signature)

A.V. Dyukov  
(printed name)

Chief  
Accounting  
Officer

\_\_\_\_\_  
(signature)

O.N. Makretskaya  
(printed name)

28 February 2019

**Profit & Loss Account  
for 2018**

Company **Gazprom Neft PJSC**  
Taxpayer Identification Number  
Type of activity: **wholesale of solid, liquid and gaseous fuel and similar products**

Form of incorporation / ownership  
**public joint stock company / joint private and foreign ownership**  
Monetary unit: thousands of rubles  
Location (address) **190000, St.Petersburg. ulitsa Pochtamtskaya 3-5, litera A**

Codes		
0710002		
OKUD Form	31	12 2018
Date (dd, mm, yy)		
OKPO code	42045241	
INN	5504036333	
OKVED code	46.71	
as per OKOPF/OKFS	1 22 47	34
as per OKEI	384	

Notes	Indicator	Code	for 2018	for 2017
5. 12.	<b>Revenue</b>	2110	2,070,008,652	1,374,515,419
	Incl. from the sale of:			
	crude oil, petroleum products and gas	2111	2,033,506,839	1,345,010,339
	other	2118	36,501,813	29,505,080
5. 13.	<b>Cost of sales</b>	2120	(1,809,140,813)	(1,148,696,789)
	incl.:			
	oil and oil products	2121	(1,778,905,941)	(1,125,478,108)
	other	2129	(30,234,872)	(23,218,681)
	<b>Gross profit (loss)</b>	2100	260,867,839	225,818,630
5. 13.	Sales expenses	2210	(209,854,174)	(171,073,967)
5. 13.	Administrative expenses	2220	(36,677,190)	(33,920,594)
	<b>Profit (loss) from sales</b>	2200	14,336,475	20,824,069
	Income from participation in other companies	2310	125,441,623	149,431,926
	Interest receivable	2320	32,561,051	45,021,553
	Interest payable	2330	(47,311,980)	(47,747,210)
5. 14.	Other income	2340	23,855,029	7,390,998
5. 14.	Other expenses	2350	(62,769,804)	(17,084,577)
	Profit (loss) before tax	2300	86,112,394	157,836,759
	<b>Profit tax, including:</b>	2405	2,925,132	(7,971,123)
5. 11.	current profit tax	2410	2,245,445	(7,817,097)
5. 11.	previous year profit tax	2411	679,687	(154,026)
5. 11.	<i>incl. permanent taxable liabilities (assets) from line 2405</i>	2421	1 495148	721,921
5.11.	Change in deferred tax liabilities	2430	2191 113	3,656,416
5. 11.	Change in deferred tax assets	2450	430,900	2,039,513
5. 11.	Other	2460	770,259	(225,322)
	Redistribution of profit tax within consolidated taxpayers group	2465	(2,257,713)	(473,235)
	<b>Net profit (loss)</b>	2400	90,172,085	154,863,008
	Total financial result for the period	2500	90,172,085	154,863,008
	For reference:			
	Basic earnings (loss) per share, rub.	2900	19	33

Director General \_\_\_\_\_ A.V. Dyukov \_\_\_\_\_ Chief Accounting Officer \_\_\_\_\_ O.N. Makretskaya \_\_\_\_\_  
(signature) (printed name) (signature) (printed name)

28 February 2019

Statement of changes in equity  
for 2018

Company **Gazprom Neft PJSC**  
Taxpayer Identification Number  
Type of activity: **wholesale of solid, liquid and gaseous fuel and similar products**

Form of incorporation / ownership  
**public joint stock company / joint private and foreign ownership**  
Monetary unit: thousands of rubles  
Location (address) **190000, St.Petersburg, ulitsa Pochtamtskaya 3-5, litera A**

Codes	
OKUD Form	0710003
Date (dd, mm, yy)	31   12   2018
OKPO code	42045241
INN	5504036333
OKVED code	46.71
as per OKOPF/OKFS	1 22 47   34
as per OKEI	384

1. Capital flow

Notes	Indicator	code	Charter capital	Treasury shares	Add-on capital	Reserve funds	Retained earnings (pending loss)	Total
			1	2	3	4	5	6
	Capital value as at 31 December 2016	3100	7,586	( - )	7,807,598	379	344,021,355	351,836,918
	for 2017							
	Capital increase – total,	3210	-		-	-	154,877,190	154,877,190
	Incl. net profit	3211	X	X	X	X	154,863,008	154,863,008
	asset revaluation	3212	X	X		X		
	earnings directly attributed to capital increase	3213	X	X		X		
	additional issue of shares	3214	-			X	X	
	share par-value increase	3215	-			X		X
	corporate restructuring	3216	-					
	redemption of own shares	3217	X		X	X	X	
	other	3219	-		-	-	14,182	14,182

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Notes	Indicator	Code	Charter capital	Treasury shares	Add-on capital	Reserve funds	Retained earnings (pending loss)	Total
	Capital decrease – total,	3220	( - )	-	( - )	( - )	( 98,050,077 )	( 98,050,077 )
	including	3221	X	X	X	X	( - )	( - )
	dividends	3227	X	X	X	X	( 98,050,077 )	( 98,050,077 )
	Capital value as at 31 December 2017	3200	7,586	( - )	7,807,598	379	400,848,468	408,664,031
	for 2018							
5. 17	Capital increase – total,	3310	-		-	-	90,176,242	90,176,242
	including:							
	net profit	3311	X	X	X	X	90,172,085	90,172,085
	other	3319	-	-		-	4,157	4,157
5. 17	Capital decrease – total,	3320	( - )	-	( - )	( - )	( 128,252,155 )	( 128,252,155 )
	including	3321	X	X	X	X	( - )	( - )
	dividends	3327	X	X	X	X	( 128,252,155 )	( 128,252,155 )
	Capital value as at 31 December, 20	3300	7586	( - )	7,807,598	379	362,772,555	370,588,118

## 2. Adjustments due to changes in accounting policy and rectification of errors

Indicator	Code	as at 31 December 2016	Capital changes throughout 2017		as at 31 December 2017
			on account of net income (loss)	other factors	
Capital – total		-	-	-	-
prior to adjustments	3400	-	-	-	-
adjustment due to:		-	-	-	-
change in accounting policy	3410	-	-	-	-
rectification of errors	3420	-	-	-	-
after adjustments	3500	-	-	-	-
including:		-	-	-	-
Retained earnings (pending loss):		-	-	-	-
prior to adjustments	3401	-	-	-	-
adjustment due to:		-	-	-	-
change in accounting policy	3411	-	-	-	-
rectification of errors	3421	-	-	-	-
after adjustments	3501	-	-	-	-
additional capital (prior to adjustments)	3402	-	-	-	-
adjustment due to:		-	-	-	-
change in accounting policy	3412	-	-	-	-
rectification of errors	3422	-	-	-	-
after adjustments	3502	-	-	-	-
reserve funds		-	-	-	-
prior to adjustments	3403	-	-	-	-
adjustment due to:		-	-	-	-
change in accounting policy	3413	-	-	-	-
rectification of errors	3423	-	-	-	-
after adjustments	3503	-	-	-	-
treasury shares before adjustments	3404	-	-	-	-
adjustment due to:		-	-	-	-
change in accounting policy	3414	-	-	-	-
rectification of errors	3424	-	-	-	-
after adjustments	3504	-	-	-	-

## 3. Net asset value

Indicator	Code	as at 31 December 2018	as at 31 December 2017	as at 31 December 2016
Net asset value	3600	370 588118	408,690,401	351,883,066

Director General

\_\_\_\_\_  
(signature)A.V. Dyukov  
(printed name)

Chief Accounting Officer

\_\_\_\_\_  
(signature)O.N. Makretskaya  
(printed name)

28 February 2019

**Cash flow statement  
for 2018**

OKUD Form Date (dd, mm, yy) OKPO code	Codes		
	0710004		
	31	12	2018
	42045241		
	5504036333		
	46.71		
	1 22 47	34	
	384		

Organisation **Gazprom Neft PJSC**

Taxpayer Identification Number

INN

Type of activity

**Wholesale of solid, liquid and gaseous fuel  
similar products**

and

OKVED code

Form of incorporation / ownership **public joint stock company**  
**company / joint private and foreign ownership**

acc. to OKOPF/OKFS

Monetary unit: thousands of rubles

as per OKEI

Notes	Indicator	Code	for 2018	for 2017
<b>cash flow from current transactions</b>				
	<b>Receipts – total</b>	4110	1,439,376,926	921,130,956
	including:			
	from sale of products, goods, works and services	4111	1,413,306,060	890,659,209
	rent and license payments, royalties, fees and other similar payments	4112	1,588,279	1,208,905
	other receipts:			
	advance payments from buyers	4113	24,482,587	29,262,842
	sales of other properties	4114	14,095,603	14,919,568
		4115	29,223	19,697
5. 8.	other receipts	4119	10,357,761	14,323,577
	<b>Payments – total</b>	4120	(2,004,608,174)	(1,399,066,415)
	including:			
	to suppliers (contractors) of raw materials, materials, works and services	4121	(1,641,826,172)	(1,118,184,821)
	payment for the labour of employees	4122	(23,914,322)	(12,195,197)
	interest on liabilities	4123	(50,327,092)	(43,001,426)
	corporate income tax	4124	(3,522,970)	(8,230,646)
	other payments:			
	customs payments	4125	(285,017,618)	(217,454,325)
	insurance payments	4126	(94,444,732)	(79,279,919)
	advance payments	4127	(3,913,314)	(2,305,148)
	sale of foreign currency	4128	(16,416,401)	(13,228,949)
	taxes and levies settlements other than income tax	4129	(143,606)	(214,739)
		4130	(97,945,449)	(69,532,964)
5. 8.	other payments and transfers	4139	(72,154,116)	(52,892,606)
	<b>Cash flow balance from current transactions</b>	<b>4100</b>	<b>(565,231,248)</b>	<b>(477,935,459)</b>
<b>Cash flow from investment activities</b>				
	<b>Receipts – total</b>			
	including:			
	from sale of non-current assets (except financial investments)	4210	279,741,360	207,928,207
	from sale of shares (holdings) of other organisations	4211	283,349	157,041
	from loan repayments, sale of debt securities (debt claims)	4212	22,358,237	
	from dividends, interest payments from financial investments or similar receipts from participating interest in other organisations	4213	124,150,672	110,002,955
		4214	132,862,242	97,757,858
	other receipts	4219	86,860	10,353
	<b>Payments – total</b>	4220	(180,052,328)	(173,240,695)
	including:			
	in respect of acquisition, creation, modernisation, reconstruction, and preparations for the use of non-current assets	4221	(8,097,389)	(4,188,865)
	in respect of acquisition of shares (holdings) in other organisations	4222	(30,697,437)	(81,771,246)
	in respect of acquisition of debt securities (debt claims), provision of loans to others	4223	(141,257,502)	(87,280,584)
	<b>Cash flow balance from investment activities</b>	<b>4200</b>	<b>99,689,032</b>	<b>34,687,512</b>

Notes	Indicator	Code	for 2018	for 2017
<b>Cash flow from financial activities</b>				
	<b>Receipts – total</b>			
	including			
	receipt of credits and loans	4310	1,030 430152	929,469,577
	from issue of bonds, promissory notes and other debt securities	4311	1,004,279,972	859,474,696
	other receipts	4314	26,146,121	69,991,375
		4319	4,059	3,506
	<b>Payments – total</b>			
	including			
	payment of dividends or other profit distribution payments to owners (stakeholders)	4320	(474,367,155)	(446,767,690)
	due to discharge (buy-back) of promissory notes and other debt securities, repayment of credits and loans	4322	(71,119,793)	(50,637,592)
	other payments	4323	(386127163)	(385,631,043)
		4329	(17120199)	(10,499,063)
	Cash flow balance from financial activities	4300	556,062,997	482,701,879
	Cash flow balance for reporting period	4400	90,520,781	39,453,932
	Balance of cash and cash equivalents as of the beginning of the reporting period	4450	44 313162	6,411,149
	Balance of cash and cash equivalents as at the end of the reporting period	4500	139,898,658	44,313,162
	Effect of exchange rate changes (with respect to russian rouble)	4490	5 064715	(1,551,919)

Director General

\_\_\_\_\_  
(signature)

A.V. Dyukov  
(printed name)

Chief  
Accounting  
Officer

\_\_\_\_\_  
(signature)

O.N. Makretskaya  
(printed name)

28 February 2019



## Notes to the Balance Sheet and Statement of Financial Results

These Notes to the Balance Sheet and Statement of Financial Results are integral part of financial statements of Gazprom Neft PJSC for 2018 prepared pursuant to applicable law and regulations of the Russian Federation.

### 1 GENERAL INFORMATION

#### 1.1 Background

Public Joint Stock Company Gazprom Neft (Gazprom Neft PJSC, hereinafter “the Company”) was established pursuant to decree No. 1403 of the Russian President “On Specifics of Privatization and Transformation into Joint-Stock Companies of State-Owned Companies, Production and Scientific Research Association in the Oil, Oil Processing Industry and Oil Product Supply Sector” dated 17 November 1992, No. 872 “On Establishment of Open Joint-Stock Company Siberian Oil Company” dated 24 August 1995 and decree No. 972 of the Russian Government “On Establishment of Open Joint-Stock Company Siberian Oil Company” dated 29 September 1995.

In 2015, the Company was re-registered from an open joint-stock company into a public joint-stock company due to the requirement to bring the organizational and legal form of the Company in compliance with the changes to the Russian Civil Code made by Federal Law No. 99-FZ dated 05.05.2014 “On Changes to Chapter 4 of Part I of the Russian Civil Code and Repeal of Certain Provisions of Russian Laws and Regulations.”

The Company’s main shareholder is Gazprom PJSC holding 92.663% of shares (this shareholding did not change during the period).

#### 1.2 Legal address (location) of the Company

The company is registered at: 190000, St Petersburg, ul. Pochtamtskaya, d. 3–5 litera A, ch. pom. 1N, kab. 2401 (mailing address: 190000, St Petersburg, ul. Pochtamtskaya, d. 3–5, litera A).

#### 1.3 Management bodies of the Company

##### General Shareholders’ Meeting of the Company

The General Shareholders’ Meeting is the Company’s supreme management body. The scope of competence, method of convening, holding and proceedings during the General Shareholders’ Meeting of the Company are defined by the federal laws and regulations and the Company’s Charter.

##### The Board of Directors of the Company

The Company’s Board of Directors performs day-to-day management of the Company’s operations, excluding the matters reserved, pursuant to the federal laws and regulations and the Company’s Charter, to the competence of the General Shareholders’ Meeting. Members of the Board of Directors are appointed by the General Shareholders’ Meeting for the term lasting until the next annual General Shareholders’ Meeting.

As at 31.12.2018, the Board of Directors of Gazprom Neft PJSC is composed of the following members:

Alexey Borisovich Miller	Chairman of the Management Committee, Deputy Chairman of the Board of Directors, Gazprom PJSC
Vladimir Ivanovich Alisov	First Deputy Head of Department, Gazprom PJSC
Valery Alexandrovich Golubev	Deputy Chairman of the Management Committee, member of the Management Committee, Gazprom PJSC
Dmitriev Andrey Igorevich	First Deputy Head of Department, Gazprom PJSC
Alexander Valerievich Dyukov	Chief Executive Officer, Chairman of the Management Board, Gazprom Neft PJSC
Andrey Vyacheslavovich Kruglov	Deputy Chairman of the Management Committee, member of the Management Committee, Gazprom PJSC
Yelena Vladimirovna Mikhailova	Head of Department, Member of the Management Committee, Gazprom PJSC
Kirill Gennadievich Seleznev	Head of Department, Member of the Management Committee, Gazprom PJSC
Valery Pavlovich Serdyukov	independent director

Mikhail Leonidovich Sereda	Member and Deputy Chairman of the Management Committee, Head of the Administration of the Management Committee, Gazprom PJSC
Igor Yurievich Fedorov	Member of the Management Committee, Head of Department, Gazprom PJSC
Sergey Alexandrovich Fursenko	Independent director, President, Member of the Board of Directors, JSC FC Zenit
Vsevolod Vladimirovich Cherepanov	Member of the Management Committee, Head of Department, Gazprom PJSC

The current composition of the Board of Directors was elected at the Annual General Shareholders' Meeting held on 09.06.2018.

From 01.01.2018 to 08.06.2018, the Board of Directors of Gazprom Neft PJSC included the following members:

Alexey Borisovich Miller	Chairman of the Management Committee, Deputy Chairman of the Board of Directors, Gazprom PJSC
Vladimir Ivanovich Alisov	First Deputy Head of Department, Gazprom PJSC
Valery Alexandrovich Golubev	Deputy Chairman of the Management Committee, member of the Management Committee, Gazprom PJSC
Marat Marselevich Garaev	Director General, OOO Gazprom pererabotka
Alexander Valerievich Dyukov	Chief Executive Officer, Chairman of the Management Board, Gazprom Neft PJSC
Andrey Vyacheslavovich Kruglov	Deputy Chairman of the Management Committee, member of the Management Committee, Gazprom PJSC
Yelena Vladimirovna Mikhailova	Head of Department, Member of the Management Committee, Gazprom PJSC
Kirill Gennadievich Seleznev	Head of Department, Member of the Management Committee, Gazprom PJSC
Valery Pavlovich Serdyukov;	independent director
Mikhail Leonidovich Sereda;	Member and Deputy Chairman of the Management Committee, Head of the Administration of the Management Committee, Gazprom PJSC
Nikolay Nikolaevich Dubik	First Deputy Director General, Gazprom Export LLC
Sergey Alexandrovich Fursenko	Independent director, President, Member of the Board of Directors, JSC FC Zenit
Vsevolod Vladimirovich Cherepanov	Member of the Management Committee, Head of Department, Gazprom PJSC

#### **Sole executive body of the Company**

In 2017 and 2018, the sole executive body of the Company was its CEO, Alexander Valeryevich Dyukov.

#### **The collegial executive body of the Company**

Pursuant to the Charter, the collegial executive body of the Company is its Management Board.

According to the resolution of the Board of Directors dated 26.12.2017, the Management Board is composed of ten members.

The Management Board of the Company elected by the resolution of the Company's Board of Directors, as at 31.12.2018, is composed of the following members:

Igor Konstantinovich Antonov	Deputy CEO for Security, Gazprom Neft PJSC
Vladislav Valerievich Baryshnikov	Deputy CEO for International Business Development, Gazprom Neft PJSC
Alexander Mikhailovich Dybal	Deputy CEO for Corporate Communications, Gazprom Neft PJSC
Alexander Valerievich Dyukov	Chairman of the Management Board, Gazprom Neft PJSC
Elena Anatolievna Ilyukhina	Deputy CEO for Legal and Corporate Matters, Gazprom Neft PJSC
Kirill Albertovich Kravchenko	Deputy CEO for Administration, Gazprom Neft PJSC
Andrey Nikolayevich Patrushev	Deputy CEO for Offshore Development, Gazprom Neft PJSC

Anatoliy Moiseevich Cherner	Deputy Chairman of the Management Board, Deputy CEO for Logistics, Refining and Sales, Gazprom Neft PJSC.
Vadim Vladislavovich Yakovlev	Deputy Chairman of the Management board, First Deputy CEO, Gazprom Neft PJSC
Alexey Viktorovich Yankevich	Deputy CEO for Economics and Finance, Gazprom Neft PJSC

#### **1.4 Control over financial and business operations of the Company**

Control over financial and business operations of the Company is carry out by the Audit Committee.

The Company's Audit Committee is comprised of five members appointed by the General Shareholders' Meeting for a term lasting until the next annual General Shareholders' Meeting.

The current composition of the Audit Committee was elected by the annual General Shareholders' Meeting on 09.06.2018.

The Audit Committee is composed of:

Margarita Ivanovna Mironova	First Deputy Head of Administration of the Management Committee, Head of Department of the Administration of the Management Committee, Gazprom PJSC
Vadim Kasymovich Bikulov	Deputy Head of Department, Head of Section, Gazprom PJSC
Mikhail Aleksandrovich Veigel	Head of Department's Section, Gazprom PJSC
Galina Yurievna Delvig	Head of Internal Audit Department, Gazprom Neft PJSC
Sergey Vladimirovich Rubanov	Head of Unit, Gazprom PJSC.

#### **1.5 The Company's operations**

The Company's principal line of business is sale of crude oil and petroleum products. The Company also carries out other types of activities, including arranging transportation, lease of assets, provision of commission and other services.

The Company carries out its operations pursuant to the licenses received to perform certain types of activities:

- geological prospecting, exploration and production of hydrocarbons;
- production of fresh groundwater;
- water resources management;
- etc.

The Company has secured the following types of licenses:

- for prospecting and exploration of mineral resources (3 licenses);
- for production of mineral resources (2 licenses); and
- for prospecting, exploration and production of mineral resources (8 licences).

License holder	Licence block (field)	License			Registration date
		Series	Number	Type	
Gazprom Neft PJSC	Zapadno-Yubileyny	SLH	02456	NE	10.12.2015
Gazprom Neft PJSC	Zapadno-Yubileyny	SLH	02457	NP	10.12.2015
Gazprom Neft PJSC	Karabashsky 17	KhMN	03413	NP	17.04.2018
Gazprom Neft PJSC	Karabashsky 18	KhMN	03414	NP	17.04.2018
Gazprom Neft PJSC	Karabashsky 19	KhMN	03415	NP	17.04.2018
Gazprom Neft PJSC	Karabashsky 25	KhMN	03416	NP	18.04.2018
Gazprom Neft PJSC	Karabashsky 26	KhMN	03417	NP	18.04.2018
Gazprom Neft PJSC	Karabashsky 27	KhMN	03418	NP	18.04.2018
Gazprom Neft PJSC	Pokhvistenskiy	ORB	03139	NP	01.06.2018
Gazprom Neft PJSC	Savitskiy	ORB	03138	NP	01.06.2018
Gazprom Neft PJSC	Severo-Samburgskiy	SLH	16360	NE	20.04.2017
Gazprom Neft PJSC	Yuzhno-Novoportovskiy	SLH	02550	NP	20.04.2018
Gazprom Neft PJSC	Surovy	SLH	02551	NP	20.04.2018

## 1.6 Branches and representative offices (territorially autonomous units)

As at 31.12.2018, the Company had 12 territorially autonomous units (hereinafter "TAU").

No.	Name of branch (structural unit)	Location
1	Moscow Branch	117647, Moscow, ul. Profsoyuznaya, 125A
2	Autonomous unit of Gazprom Neft PJSC in Moscow	109429, Moscow, Kapotnya, 2 kvartal, d.1, k.3
3	Autonomous unit of Gazprom Neft PJSC in Omsk Oblast	644040, Omsk, prospekt Gubkina, 1
4	Autonomous unit of Gazprom Neft PJSC in Omsk Oblast	644043, Russia, Omsk, ul. Frunze, 54
5	Autonomous unit of Gazprom Neft PJSC in St Petersburg at ulitsa Paradnaya, d.1A	191014, St Petersburg, ul. Paradnaya, d.1., lit. A
6	Autonomous unit of Gazprom Neft PJSC in Noyabrsk	629807, Noyabrsk, ul. Lenina, d. 51
7	Autonomous unit of Gazprom Neft PJSC in Khanty-Mansiysk	628011, Khanty-Mansiysk, ul. Lenina, d. 56
8	Autonomous unit of Gazprom Neft PJSC in St Petersburg at ulitsa Repishcheva, d. 20A	197349, St Petersburg, ul. Repishcheva, d. 20A
9	Autonomous unit of Gazprom Neft PJSC in St Petersburg (Moskovksy Prospekt)	190013, St Petersburg, Moskovksy Prospekt, d. 60/129, lit. A
10	Autonomous unit of Gazprom Neft PJSC in Moscow (Nauchny proezd)	117246, Moscow, Nauchny proezd, d. 17
11	Autonomous unit of Gazprom Neft PJSC in St Petersburg (Zoologicheskiy pereulok, d. 2-4)	197198, St Petersburg, Zoologicheskiy pereulok, d. 2-4
12	Autonomous unit of Gazprom Neft PJSC in St Petersburg (Bolshaya Morskaya ulitsa, 15A)	191186, St Petersburg, Bolshaya Morskaya ulitsa, d. 15A

During 2018, there were no changes in the composition of TAU.

## 1.7 Headcount

The Company's headcount was 1,786, 1,741 and 1,729 employees as at 31.12.2018, 31.12.2017 and 31.12.2016, respectively.

## 2 SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES IN FINANCIAL STATEMENTS

### 2.1 Basis for preparation

The Company's 2018 annual accounts were prepared in accordance with the Federal Law "On Accounting" of 06.12.2011 No. 402-FZ, Regulations on Accounting and Reporting in the Russian Federation adopted by Order of the Russian Ministry of Finance of 29.07.1998 no. 34n, the Accounting regulation "Corporate Financial Reports" (PBU 4/99), adopted by Order of the Russian Ministry of Finance of 06.07.1999 no. 43n, and by other regulatory for dealing being part of the system regulating business accounting and reporting procedures in the Russian Federation.

The Company's accounting policy was approved by the Order No.137-P dated 26.12.2017 On Approval of Gazprom Neft PJSC's Accounting Policy for 2017".

### 2.2 Assets and liabilities in foreign currency

When accounting for business transactions denominated in foreign currency (including those to be paid in rubles), the exchange rate of the relevant currency set by the Central Bank of the Russian Federation as of the date of the transaction shall be applied.

The value of cash on bank accounts (bank deposits), monetary and payment documents, securities (except for shares), funds in settlements, including borrowed liabilities (except for funds received and issued in advance and prepayments), expressed in foreign currency, is reflected in financial statements in amounts calculated on the basis of official exchange rates in effect as of the reporting date.

	as at 31.12.2018	as at 31.12.2017	as at 31.12.2016
USD	69.4706	57.6002	60.6569
EUR	79.4605	68.8668	63.8111

Exchange differences occurring during the year from transactions with assets and liabilities denominated in foreign currencies, as well as from translation of their value at the reporting date, are recorded within other income or other expenses on a net basis.

### 2.3 Current and non-current assets and liabilities

In the balance sheet, the accounts receivable and payable, including loans, is shown as current if the term of their maturity (repayment) is equal to or less than 12 months after the reporting date or is not set.

If accounts receivable and payable, including loans, at the beginning of the reporting period are classified as non-current and during the reporting period it became certain that the accounts receivable and payable will be repaid within 12 months after the reporting date, such accounts receivable and payable are reclassified as current. Such accounts receivable and payable are shown as current at the end of the reporting period.

Financial investments are classified as current or non-current on the basis of anticipated time of their use (conversion, holding or repayment) after the reporting date.

### 2.4 Intangible assets

Intangible assets on the balance sheet are shown at their original cost less amortization accumulated for the whole time of their use.

Intangible assets include the cost of purchasing exclusive rights to intellectual property (including exclusive rights to software).

The amortization of the intangible assets is calculated using the straight-line method. The Company sets the useful life for each kind of the amortized intangible assets when such assets are registered on the basis of the validity period of rights and the period of control over the asset or the anticipated time of use of such asset during which the Company is expected to receive economic benefit (earnings), but not more than the company's period of operation.

The Company annually reviews the useful lives of intangible assets to determine whether they need to be adjusted. If the length of the period during which it is planning to use the asset changes significantly, its useful life is subject to adjustment. Any adjustments that arise in connection with the above are shown as changes to estimated values.

The Company does not carry out revaluation of intangible assets.

Testing for impairment of intangible assets is carried out if there are any signs of such impairment pursuant to the procedure described in the International Financial Reporting Standards.

## 2.5 Fixed assets

Fixed assets include assets that meet the requirements of the Accounting Regulations "Fixed Assets Accounting" (PBU 6/01), approved by Order of the Russian Ministry of Finance No. 26n of 30.03.2001.

### 2.5.1 Items of fixed assets

Fixed assets include land plots, buildings, structures, transmission equipment, machinery, equipment, means of transportation with the useful life over 12 months.

Completed construction, accepted for operation and actually used real estate objects, the ownership rights on which are not registered in accordance with the procedure established by the legislation, are accounted separately as part of fixed assets.

Objects in respect of which the conditions for their accounting as fixed assets are met and which unit cost does not exceed RUB40,000 (inclusively) (except for real estate and vehicles) are reflected in the inventories and are written off as expenses as they are transferred into operation. In order to ensure safekeeping of such objects in production and operation, control over their movement is put in place.

Fixed assets are shown on financial statements at their original value including costs of their upgrade, reconstruction, completion, additional equipment and partial liquidation less the depreciation accumulated during the time of their operation.

Fixed assets are registered on the books at their actual cost of purchase (construction).

Useful life of fixed asset groups as adopted by the Company are listed below:

Group of fixed assets	Useful life of objects registered on the books (years)	
	before 01.01.2002	from 01.01.2002
Wells	15	15-20
Structures	5-50	2-30
Transmission equipment	10-20	5-25
Computer equipment		3-7
Machines and equipment	2-20	2-30
Buildings	10-83	7-100

Depreciation of fixed assets is charged monthly on a straight-line basis, based on economically reasonable useful lives, in accordance with technical specifications, recommendations of manufacturers, etc.

Profits and losses from disposal of fixed assets are included in other income and expenses in the Profit & Loss Account.

The Company does not carry out revaluation of fixed assets.

Items of fixed assets received under a lease contract or a perpetual use contract, are accounted for in the assessment specified in the contract. In case of absence in the documents of the cost of fixed assets received in temporary possession and (or) use, they are reflected at the current market value (in terms of land plots - at cadastral value).

### 2.5.2 Investments in non-current assets

Investments in non-current assets include:

- capital construction in progress;
- costs of Completion, retrofitting, reconstruction, modernization, technical re-equipment and maintenance of capacity;
- costs of creating/acquiring intangible assets;
- acquisition of fixed assets;
- purchase of equipment for installation, intended for installation in facilities under construction (reconstruction); and
- unfinished research, development and technological work (R&D).

Value of investments in non-current assets does not include the interest on borrowings because during the reporting period and comparable periods, borrowings were used directly for purchasing, building and/or manufacturing assets preparation of which for anticipated use requires a long time (over 12 months).

In the balance sheet, the objects of investments in non-current assets, taking into account their materiality, are reflected in respective additional lines to line 1110 Intangible assets, 1120 R&D findings, 1150 Fixed assets – depending on the type of assets in which such items will be recognized after the relevant investments in non-current assets are completed.

## 2.6 Financial investments

Financial investments are shown at their original actual cost less the impairment, except the financial investments for which it is possible to determine the current market value as required by law. The latter are revaluated monthly at the current market value. The difference between the value of such financial investments as of the current reporting date and their previous evaluation is included in other income and expenses.

Financial investments for which the current market value is not determined are shown on the balance sheet as of the end of the reporting period at their accounting (balance sheet) value, except the investments in the companies in relation to which as of the above date there are conditions of stable material value reduction. On the basis of the information available to the Company, the calculated value of such financial investments as of the reporting date is determined. The excess accounting (balance sheet) value of such investment over their calculated value is covered by the reserve made to cover the impairment of financial investments, the total amount of such reserve is included in other expenses. The reserve to cover the impairment of financial investments is adjusted quarterly on the basis of the results of tests for impairment of financial investments.

Depending on the nature of the financial investments, the procedure of their acquisition and use, the unit of accounting for financial investments may be a contribution into the charter capital, loan agreement, agreement for opening a bank deposit (except for deposits on demand or for the period up to 3 months), series of securities issue etc.

The securities for which their current market value is not determined are shown in accounting records at the time of their disposed of or retired using the FIFO method.

Other financial investments for which the current market value is not determined (including promissory notes and certificates of deposit) are recorded upon disposal at the original cost of each unit.

Investments at which the current market value is determined are recorded upon disposal at their last valuation.

Income and expenses on financial investments are included in other income and expenses.

## 2.7 Other non-current assets

Other non-current assets include:

- exclusive and non-exclusive licenses (usage rights) for the results of intellectual activity (including licenses for software and databases);
- upfront payments issued for capital investments;
- commissions on long-term borrowings; and
- other non-current assets.

Rights to use software products and other non-exclusive rights are written off evenly over the periods to which these are attributable.

## 2.8 Inventory

The following assets owned by the Company are registered to be accounted for as inventories:

- those used as raw materials and other materials in the manufacturing of products, performance of works and provision of services;
- those intended for sale; and
- those used for the Company's management purposes.

The Company's inventories include:

- raw materials – inventories used in the production of the products, performance of work, provision of services;

- production in progress and semi-finished products made by the Company;
- finished products – inventories intended for sale (final result of the production cycle technical and qualitative characteristics of which meet contractual conditions or requirements of other documents when required by law);
- goods – inventories purchased or received from other legal entities and individuals for sale;
- tools, instruments, fixtures with a useful life of less than one year;
- special tools, special fixtures, special equipment, special clothing;
- assets which satisfy the criteria of recognition as fixed assets with the value within the limit (RUB 40,000); and
- other inventories.

The inventories purchased for sale to contractors during performance of any work related to capital repairs or construction and as part of procurement for subsidiaries and other entities are accounted for as goods for resale and the earnings and expenses related to their sale are accounted for as part of earnings and expenses related to core operations.

The inventories are registered on the books at the actual cost.

The materials are evaluated at the time of release for production and other disposal using the average cost method.

The value of special tools, special fixtures, special equipment, special clothing with useful lives up to 12 months is charged as a lump sum to the costs accounts at the time when they are released for operation. The value of special tools, special fixtures, special equipment, special clothing with useful lives over 12 months is written off using the straight-line method on the basis of the present value and the standard rates calculated on the basis of their useful lives.

The goods purchased for sale are evaluated and shown in the accounting records at the cost of their acquisition (purchase price). When such goods are sold, their value is written off at the value equal to average cost.

For the raw materials and consumables used during the production of products (performance of work, provision of services), the reserve for reduction in value is only made when the current market value of such products (work, services) as at the reporting date is lower than its present cost.

Finished products are accounted for at their present production cost without general running costs. At the time of disposal, finished products are evaluated using the average cost method.

When finished products (goods) are sold at agency agreements (consignment agreements, commission contracts) or if the title to the products (goods) passes after the date of shipment, the value of such products (goods) as at the reporting date is shown as part of inventories in line 1215 Goods dispatched.

## **2.9 Costs of production and sale, production in progress**

Costs of production in progress on the balance sheet include the value of semi-finished products made by the Company and evaluated at their present value without the general running costs.

The selling and marketing expenses are charged monthly in full to the results of financial and business operations, except the transportation expenses which are distributed among the products and goods remaining unsold at the end of the reporting period.

The general running costs are charged monthly as administrative expenses in full to the results of the financial and business operations.

## **2.10 Receivables**

Trade receivables are determined on the basis of contracts prices between the Company and buyers (customers) inclusive of VAT.

Those trade receivables which were not paid or are highly unlikely to be paid within the time required under respective contracts and not covered by relevant guarantees, suretyships or any other performance bond are shown in the balance sheet less the reserves made for bad debts.

Bad debt is written off the balance sheet at the time when it is recognized as such and is accounted off balance for five years after it was written off in order to monitor the possibility of its recovery if the debtor's financial situation changes.

## **2.11 Cash and cash equivalents**

Cash equivalents include highly liquid financial investments that may be easily converted into a cash



amount known in advance and that are subject to insignificant risk of value change. Cash equivalents may include bank deposits opened with lending institutions and repayable on demand or with the maturity of up to three months, as well as highly liquid bonds of issuing banks with a maturity of up to three months.

In the cash flow statement, the Company cash flows which cannot be unambiguously classified as part of cash flows from current, investment and financial operations are referred to cash flows from current operations.

Cash and cash equivalents balance in foreign currency as the beginning and end of the reporting period are shown on the balance sheet and the cash flow statement in rubles in the amount calculated on the basis of the official exchange rate in effect on the relevant reporting date.

The receipts and payments in foreign currencies are converted into rubles for the purposes of included in the cash flow statement at the exchange rate published by the Bank of Russia on the date of the operation involving such receipt or payment of foreign currency. The operations of exchanging foreign currency into rubles and vice versa are not recognized as cash flows for the purposes of the cash flow statement.

The difference resulting from recalculation of cash flows and cash and cash equivalents balances expressed in foreign currency at the exchange rate in effect on the dated of the operations in foreign currency and on the reporting dates is included in the line of the cash flow statement "Effect of exchange rate changes".

The statement of cash flows is presented on the net basis:

- cash receipts from customers to be transferred to consignees, principals;
- VAT amounts included in the receipts from buyers and customers, payments to suppliers and contractors and payments to the budget system and VAT returned from it;
- amounts relating to provision (receipt) of intragroup loans characterized by fast turnover, large amounts and short return periods;
- amounts related to buying and selling foreign currency; and
- transactions of placing and return of cash to and from bank deposits effected during the presorting reporting period (excluding the interest accrued).

## **2.12 Charter capital, additional capital and reserves**

The size of charter capital is equal to the amount defined by the Company Charter.

Pursuant to the Charter, the Company forms statutory reserves equal to 5% of the charter capital.

Additional paid-in capital includes amounts of share premium.

## **2.13 Credits and loans received**

Loan and credit indebtedness is shown in the financial statements taking into account the interest payable at the end of the reporting period in accordance with the terms of contracts.

Interest on loans and borrowings is accrued by the Organization in accordance with the procedure set out in the loan agreement or credit agreement and is recognized as other expenses in the reporting periods to which these accruals relate.

Incremental costs associated with obtaining loans and borrowings are included in other expenses on a straight-line basis over the period of the loan or credit.

Borrowings and loans are expected to be settled within 12 months after the reporting date and are reported as current liabilities in the financial statements of the reporting year.

## **2.14 Estimated liabilities and contingent liabilities**

The Company creates estimated liabilities connected with:

- payments of employee remunerations based on annual (quarterly) performance results;
- annual leave payments (including basic and additional leave payments);
- employee benefits upon retirement;
- remunerations based on achieving long-term performance indicators;
- employee remunerations based on the results of project implementation and individual stages (milestones, control points) of the project;
- the liquidation of fixed assets and land reclamation.

The amounts of provisions accrued for the reporting period are shown as expenses related to core operations (except for estimated liabilities relating to fixed assets liquidation and land reclamation).

The Company creates estimated liabilities for payment of remunerations based on achieving long-term performance indicators. Estimated liabilities as at the end of the reporting year are based on the estimated amount of future expenses for payment of a given remuneration at the end of the remuneration program cycle. The amounts of estimated liabilities accrued for the reporting period are included in management expenses.

### **2.15 Deferred taxes**

The Company recognizes deferred tax assets and deferred tax liabilities, permanent tax assets and permanent tax liabilities in its accounting and reporting, i.e. amounts that may affect current income tax in the current and/or subsequent reporting periods.

The amount of current income tax is determined on the basis of accounting data. Herewith, the amount of current income tax corresponds to the amount of calculated income tax as reflected in the income tax return for the reporting period, including the amount of tax withheld on dividends received.

The amounts of deferred tax asset and deferred tax liability are reflected in the balance sheet on a net basis, except for cases when the legislation of the Russian Federation on taxes and duties provides for separate formation of the tax base within non-current assets (line 1180 of the balance sheet "Deferred tax assets") and long-term liabilities (line 1420 of the balance sheet "Deferred tax liabilities"), respectively.

### **2.16 Profit tax associated with payments within the CTG**

Starting from 2013, the Company is a responsible member of the consolidated taxpayer group (CTG).

The Organization, as a responsible member of a CTG, recognizes income tax accrual and settlements with the participants under the CTG Agreement using account 78, "Settlements with members of a consolidated taxpayer group".

The procedure for calculating profit tax within a CTG is determined by the Accounting Policy for the purposes of tax accounting of the Consolidated Taxpayer Group for 2018, as well as by the agreement on the establishment of a CTG. Herewith, the amount of income tax calculated by each CTG member based on its total taxable income and expenses may differ from the amount of income tax payable by a CTG member to the budget in respect of that member.

The full amount of income tax payable to the budget for the entire CTG is reflected in account 1520 "Accounts Payable", in detail line 1524 "Taxes and duties payable".

A participant's liability to the Organization under a CTG agreement and to the budget in respect of income tax under CTG is recorded in account 1230 "Accounts Receivable" in detail line 1239 "Other receivables".

Line 2410 "Current Profit Tax" of the Profit & Loss Account reflects the amount of income tax calculated by the Company for inclusion in the consolidated tax base of the CTG. The difference between the amount of current income tax calculated by the Company for inclusion in the consolidated tax base of the CTG and the amount of cash due from(to) a CTG participant is disclosed in line 2465 "Redistribution of profit tax within consolidated taxpayers group" of the Profit & Loss Account.

### **2.17 Recognition of revenue from sales**

Proceeds from sales of goods, products and provision of services are recognized as revenue at the time when the title to goods or products are transferred (or the services are provided). Revenue from sales is shown in the statements less the value added tax.

Export customs duties are shown as part of sales expenses and do not reduce the amount of revenue from sales of goods (work, services).

### **2.18 Other earnings and expenses**

The Company's other income and expenses includes:

- interest on purchased bonds - for each past month in accordance with the terms of the bonds issue;
- interest on loans granted - for each past month in accordance with the terms of contracts;
- interest on the balance of funds on settlement accounts - for each past month in accordance with the terms of contracts;
- interest on deposit agreements - for each past month in accordance with the terms of agreements;
- income from participating in other entities (including dividends) – as soon as they are declared;
- excess of positive exchange rate differences over negative ones;
- excess of income from insurance of interest rate risks (hedging) over the relevant amount of expenses;
- excess of income from sale of foreign currency over the relevant expenses amount;

- excess of income over expenses created as a result of correcting immaterial errors of prior years, adjusting the income amounts, as a result of using accrual method, when documents are received after annual statements have been approved;
- excess of income from commodity swap operations over the relevant amount of expenses;
- excess of income from the operations with forward contracts over the relevant amount of expenses;
- excess of income from the operations with other derivatives over the relevant amount of expenses;
- and
- other income.

Other expenses include:

- interest on loans received – for each expired month according to the terms and conditions of relevant agreements;
- expenses related to sale and other disposal of securities and shares;
- charitable expenses;
- expenses related to establishing reserves to cover bad debt, impairment of financial investments;
- excess of negative exchange rate differences over positive ones;
- excess of expenses related to sale of foreign currency over the relevant income amount;
- excess of expenses over income resulting from correction of insignificant mistakes of previous years;
- excess of expenses related to insurance of interest rate risks (hedging) over the relevant amount of income;
- excess of expenses related to commodity swap operations over the relevant amount of income;
- excess of expenses related to the operations with forward contracts over the relevant amount of income;
- excess of expenses related to the operations with other derivatives over the relevant amount of income; and
- other expenses.

When income and related expenses are incurred as a result of the same or similar fact of economic life, such income and expenses are shown in the statement of financial performance on a net basis.

### 3 CHANGES TO THE ACCOUNTING POLICY

In 2018, the following changes were made to the accounting policy with regard to the recognition of highly liquid bonds with a maturity of up to 3 months, deferred tax assets and liabilities in the financial statements:

1. Highly liquid investments that can be easily converted to a known amount of cash and are subject to insignificant risk of changes in value are classified as cash equivalents. As a result, the assets were transferred from line 1240 " Financial investments (excl. cash equivalents)" to line 1250 "Cash and equivalents".
2. The amounts of deferred tax asset and deferred tax liability are reflected in the balance sheet on a net basis, except for cases when the legislation of the Russian Federation on taxes and duties provides for separate formation of the tax base within non-current assets (line 1180 of the balance sheet "Deferred tax assets") and long-term liabilities (line 1420 of the balance sheet "Deferred tax liabilities"), respectively.

Certain indicators of columns "as at 31 December 2017" and "as at 31 December 2016" of the balance sheet, as well as indicators of the Cash flow statement for 2017, for the purposes of comparability of financial statements, were generated with the view of adjustments due to changes in accounting policy.

Adj. no.	Line code	Line name	Amount before adjustment	Adjustment	Amount after adjustment
<b>Balance sheet:</b>					
<b>Adjustment of 2017 indicators</b>					
2	1180	Deferred tax assets	5,028,946	(3,866,244)	1,162,702
1	1240	Financial investments (excl. cash equivalents), incl.	242,281,542	(10,000,710)	232,280,832
	1241	Short-term loans and debt securities	242,281,542	(10,000,710)	232,280,832
1	1250	Cash and equivalents, incl.	34,312,452	10,000,710	44,313,162
	1259	other cash and equivalents	16,140,039	10,000,710	26,140,749
2	1420	Deferred tax liabilities	3,866,244	(3,866,244)	-
<b>Adjustment of 2016 indicators</b>					
2	1180	Deferred tax assets	2,840,977	(2,840,977)	
2	1420	Deferred tax liabilities	7,149,080	(2,840,977)	4,308,103
<b>Cash flow statement:</b>					
<b>Adjustment of 2017 indicators</b>					
1	4213	from loan repayments, sale of debt securities (debt claims)	115,002,955	(5,000,000)	110,002,955
1	4223	in respect of acquisition of debt securities (debt claims), provision of loans to others	(102,281,294)	15,000,710	(87,280,584)
1	4500	Balance of cash equivalents as at the end of the reporting period	34,312,452	10,000,710	44,313,162

#### 4 Adjustment of values of the previous reporting period

Certain indicators of columns "as at 31 December 2017" and "as at 31 December 2016" of the balance sheet, as well as the indicators of Table 17 "Expenses on ordinary activities" of these Notes for 2017, for the purpose of comparability of financial statements were generated with the view of adjustments due to changes in accounting policy.

1. Clarification has been made to the classification of intangible prospecting assets. Costs directly relating to obtaining licenses for geological exploration of new license areas (Severo-Samburgsky, Zapadno-Yubileiny) were transferred from line 1190 "Other non-current assets" to line 1130 "Intangible prospecting assets".
2. Clarification has been made to the classification of costs of uncompleted transactions relating to the acquisition of financial investments, which are likely to be included in their costs. As a result, assets were transferred from line 1190 "Other non-current assets" to line 1170 "Financial investments".
3. Clarification has been made to the classification of material expenses in Table 17 "Expenses on ordinary activities" of these Notes for 2017. Excise duties on petroleum products shipped and petroleum product transportation costs were transferred from "Materials costs" to "Other costs".

Adj. no.	Line code	Line name	Amount before adjustment	Adjustment	Amount after adjustment
<b>Balance sheet:</b>					
<b>Adjustment of 2017 indicators</b>					
1	1130	Intangible prospecting assets		53,131	53,131
2	1170	Financial investments	883,727,917	16,938	883,744,855
	1175	Other	-	16,938	16,938
1.2	1190	Other non-current assets, incl.:	12,498,177	(70,069)	12,428,108
	1197	Other	3,432,595	(70,069)	3,362,526
<b>Adjustment of 2016 indicators</b>					
1	1130	Intangible prospecting assets		21,103	21,103
2	1170	Financial investments	999,206,842	70,348	999,277,190
	1175	Other	-	70,348	70,348
1.2	1190	Other non-current assets, incl.:	11,441,667	(91,451)	11,350,216
	1197	Other	4,272,880	(91,451)	4,181,429

**Table 17. Expenses on ordinary activities:**

<b>Adjustment of 2017 indicators</b>					
3	Material costs		808,920,166	(152,301,228)	656,618,938
3	Other costs;		105,925,257	152,300,962	258,226,219

## 5 EXPLANATIONS TO MATERIAL PARAMETERS

Indicators as at 31.12.2017 and 31.12.2016 in Section V of these Notes are given with adjustments disclosed in Section IV "Adjustment of values of the previous reporting period".

### 5.1 Segment reporting

#### *Operational segments*

The Company and its subsidiaries and affiliates ("the Gazprom Neft Group") is a vertically integrated group of oil companies operating in the Russian Federation, the CIS and other countries. The core activities of the Gazprom Neft Group are exploration, development of oil and gas fields, oil and gas production, production and sale of petroleum products. Information, the results of which are systematically analysed by the persons authorized in the Company to make decisions on the allocation of resources within the Company, is formed in respect of the Gazprom Neft Group as a whole. No reportable segment information is generated at the Company level, as segment data is analysed by persons having respective decision-making and resource allocation powers in respect of the Gazprom Neft Group.

#### *Geographical areas*

The Company identifies the following geographical areas:

- export and sales on the international market;
- domestic market (Russian Federation); and
- the CIS countries.

Information on the revenue from sales in the above geographical areas is provided in section 5.12 of these Notes. The Company assets are primarily located in the Russian Federation, for which reason they refer to a single geographical area identified according to the location of assets, i.e. the Russian Federation.

The Company sells crude oil and petroleum products primarily to related parties.

Information about revenues from the sales to above customers is provided in item 5.20 of these Notes.

### 5.2 Intangible assets

**Table 1. Information on availability and movement of intangible assets**

	Intangible assets, total	Intellectual property rights	Other
<b>Initial value</b>			
<b>As of 31.12.2017</b>	<b>1,449,736</b>	<b>1,409,876</b>	<b>39,860</b>
Costs incurred during the period	1,578,410	1,578,410	-
Recognized as intangible assets	396,241	396,241	-
Retirement	(303,941)	(299,547)	(4,394)
<b>As of 31.12.2018</b>	<b>3,120,446</b>	<b>3,084,980</b>	<b>35,466</b>
<b>Depreciation and impairment</b>			
<b>As of 31.12.2017</b>	<b>(460,363)</b>	<b>(424,482)</b>	<b>(35,881)</b>
Amortization for the period	(299,381)	(297,198)	(2,183)
Retirement	9,335	4,941	4,394
<b>As of 31.12.2018</b>	<b>(750,409)</b>	<b>(716,739)</b>	<b>(33,670)</b>
<b>Depreciated value</b>			
<b>As of 31.12.2017</b>	<b>989,373</b>	<b>985,394</b>	<b>3,979</b>
<b>As of 31.12.2018</b>	<b>2,370,037</b>	<b>2,368,241</b>	<b>1,796</b>
<b>Initial value</b>			
<b>As of 31.12.2016</b>	<b>1,082,108</b>	<b>978,728</b>	<b>103,380</b>

	Intangible assets, total	Intellectual property rights	Other
Costs incurred during the period	678,712	678,712	-
Recognized as intangible assets	16,475	16,475	-
Retirement	(327,559)	(264,039)	(63,520)
<b>as at 31.12.2017</b>	<b>1,449,736</b>	<b>1,409,876</b>	<b>39,860</b>
<b>Depreciation and impairment as at 31.12.2016</b>	<b>(424,382)</b>	<b>(330,999)</b>	<b>(93,383)</b>
Amortization for the period	(169,134)	(163,855)	(5,279)
Retirement	133,153	70,372	62,781
<b>as at 31.12.2017</b>	<b>(460,363)</b>	<b>(424,482)</b>	<b>(35,881)</b>
<b>Depreciated value as at 31.12.2016</b>	<b>657,726</b>	<b>647,729</b>	<b>9,997</b>
<b>as at 31.12.2017</b>	<b>989,373</b>	<b>985,394</b>	<b>3,979</b>

In the reporting year, the useful life and method of depreciation of intangible assets did not change in comparison with the previous reporting period.

Intangible assets received by the Organization for temporary use were as follows:

RUB633,382,000, RUB633,382,000, RUB3,724,000, as at 31.12.2018, 31.12.2017 and 31.12.2016 respectively.

Intangible assets with fully repaid value comprised RUB166,385,000, RUB40,815,000, RUB119,547,000 as at 31.12.2018, 31.12.2017 and 31.12.2016 respectively.

### 5.3 Fixed assets

Table 2. Information on the existence and changes to the fixed assets and capital investments in progress

	Fixed assets, total	Wells	Machinery and equipment	Buildings, structures and transmission equipment	Other FA	Capitalised land reclamation and dismantling cost	Unfinished capital investments in fixed assets
<b>Initial value</b>							
<b>as at 31.12.2017</b>	3,514,297	-	2,588,163	382,412	543,722	-	309,280
Received	679,147	-	696,262	73,425	(90,540)	-	3,057,383
Start-up	-	-	-	-	-	-	(646,484)
Retirement	(69,397)	-	(11,968)	(4,296)	(53,133)	-	(3,998)
<b>as at 31.12.2018</b>	<b>4,124,047</b>	<b>-</b>	<b>3,272,457</b>	<b>451,541</b>	<b>400,049</b>	<b>-</b>	<b>2,716,181</b>
<b>Depreciation</b>							
<b>as at 31.12.2017</b>	<b>(2,791,273)</b>	<b>-</b>	<b>(2,316,324)</b>	<b>(249,252)</b>	<b>(225,697)</b>	<b>-</b>	<b>-</b>
Amortization for the period	(493,354)	-	(313,451)	(120,523)	(59,380)	-	-
Retirement	45,993	-	11,383	2,030	32,580	-	-
<b>as at 31.12.2018</b>	<b>(3,238,634)</b>	<b>-</b>	<b>(2,618,392)</b>	<b>(367,745)</b>	<b>(252,497)</b>	<b>-</b>	<b>-</b>
<b>as at 31.12.2017</b>	<b>723,024</b>	<b>-</b>	<b>271,839</b>	<b>133,160</b>	<b>318,025</b>	<b>-</b>	<b>309,280</b>
<b>as at 31.12.2018</b>	<b>885,413</b>	<b>-</b>	<b>654,065</b>	<b>83,796</b>	<b>147,552</b>	<b>-</b>	<b>2,716,181</b>
<b>Initial value as at 31.12.2016</b>	<b>3,082,657</b>	<b>133,666</b>	<b>2,412,512</b>	<b>66,182</b>	<b>470,297</b>	<b>10,182</b>	<b>1,222,245</b>

	Fixed assets, total	Wells	Plant and machinery	Buildings, structures and transmission equipment	Other FA	Capitalised land reclamation and dismantling cost	Unfinished capital investments in fixed assets
Received	737,000	-	293,813	326,444	116,743	-	(36,754)
Start-up	-	-	-	-	-	-	(394,132)
Retirement	(305,360)	(133,666)	(118,162)	(10,214)	(43,318)	(10,182)	(482,079)
<b>as at 31.12.2017</b>	<b>3,514,297</b>	<b>-</b>	<b>2,588,163</b>	<b>382,412</b>	<b>543,722</b>	<b>-</b>	<b>309,280</b>
<b>Depreciation</b>							
<b>as at 31.12.2016</b>	<b>(2,498,728)</b>	<b>(29,982)</b>	<b>(2,228,089)</b>	<b>(37,067)</b>	<b>(203,590)</b>	<b>(2,089)</b>	<b>-</b>
Amortization for the period	(454,317)	(8,461)	(175,961)	(217,705)	(52,190)	-	-
Retirement	161,772	38,443	87,726	5,520	30,083	2,089	-
<b>as at 31.12.2017</b>	<b>(2,791,273)</b>	<b>-</b>	<b>(2,316,324)</b>	<b>(249,252)</b>	<b>(225,697)</b>	<b>-</b>	<b>-</b>
<b>Depreciated value</b>							
<b>as at 31.12.2016</b>	<b>583,929</b>	<b>103,684</b>	<b>184,423</b>	<b>29,115</b>	<b>266,707</b>	<b>8,093</b>	<b>1,222,245</b>
<b>as at 31.12.2017</b>	<b>723,024</b>	<b>-</b>	<b>271,839</b>	<b>133,160</b>	<b>318,025</b>	<b>-</b>	<b>309,280</b>

Table 3. Information on the use of fixed assets

	as at 31.12.2018	as at 31.12.2017	as at 31.12.2016
<b>Fixed assets leased out and registered on the balance sheet (depreciated book value) – total, incl.</b>	<b>69,129</b>	<b>56,652</b>	<b>154,208</b>
Plant and machinery	18,711	22,532	10,220
Means of transportation	50,418	34,120	103,684
Other fixed assets	-	-	40,304
<b>Leased fixed assets registered off balance (value under lease contract or cadastral value) – total, incl.</b>	<b>63,314,578</b>	<b>63,263,284</b>	<b>2,963,903</b>
Land plots	976	742	79,616
Buildings, structures, roads and transmission equipment	2,393,087	2,393,087	2,595,602
Plant and machinery	46,377	45,728	107,341
Means of transportation	60,856,554	60,799,299	160,998
Other fixed assets	17,584	24,428	20,346

Including the depreciated book value of the fixed assets leased out to subsidiaries (Group companies) of RUB50,659,000, RUB305,000 and RUB113,904,000 as at 31.12.2018, 31.12.2017 and 31.12.2016 respectively.

The most significant leased objects as of 31.12.2018 and 31.12.2017 are the following means of transportation: 8 tankers with the cost of RUB60,628.869 million.

The Company leases land plots with the area of 129,3995 ha, 90,1503 ha and 178 ha as at 31.12.2018, 31.12.2017 and 31.12.2016.

#### 5.4 Other non-current assets

Table 4. Information on other non-current assets

	as at 31.12.2018	as at 31.12.2017	as at 31.12.2016
<b>Other non-current assets, incl.:</b>	<b>13,143,525</b>	<b>12,428,108</b>	<b>11,350,216</b>
<b>Items of non-exclusive rights, incl.:</b>	<b>9,912,780</b>	<b>9,062,557</b>	<b>7,101,704</b>
Depreciated book value of non-exclusive rights to software	5,706,383	4,282,737	3,782,801
Costs of acquiring non-exclusive rights to software	4,115,450	4,731,692	3,316,855
other	90,947	48,128	2,048
<b>advanced payments for capital investments</b>	<b>57,574</b>	<b>3,025</b>	<b>67,083</b>
<b>other, incl.:</b>	<b>3,173,171</b>	<b>3,362,526</b>	<b>4,181,429</b>
Additional costs to raise financing	608,875	798,229	1,626,045
other	2,564,296	2,564,297	2,555,384



## 5.5 Inventory

Table 5. Information on inventory

	as at 31.12.2018	as at 31.12.2017	as at 31.12.2016
<b>Inventory, total:</b>	<b>32,772,576</b>	<b>27,677,326</b>	<b>24,747,790</b>
raw materials and other materials and production in progress	4,966,042	6,449,014	4,713,471
finished goods and goods for resale	27,778,809	21,160,766	19,956,094
goods dispatched	27,725	67,546	78,225

Considering that the current market value of the products (work, services) produced by the Company matches or exceeds its present cost, the reserve to cover the reduction in the value of the inventories used for the production of the above products (performance of work, provision of services) was not established.

No inventories were pledged.

## 5.6 Long- and short-term financial investments

Table 6. Information on the existence and changes in long-term financial investments

	Financial investments, total	Investments in subsidiaries	affiliates	other entities	Loans provided and debt securities	Other
<b>Initial value as at 31.12.2017</b>	<b>883,793,395</b>	<b>506,296,771</b>	<b>41,655,171</b>	<b>3,972,362</b>	<b>331,803,618</b>	<b>65,473</b>
Received at original value	115,589,593	24,349,999	32,175,552	100,000	57,276,991	1,687,051
Retired at original value	(66,925,047)	(21,434,036)	-	(73,608)	(43,734,868)	(1,682,535)
Currency translation differences	23,407,144	-	-	-	23,407,144	-
Change in current market value	(53,000)	-	-	(53,000)	-	-
Transfer due to time	(20,697,528)	-	-	-	(20,697,528)	-
<b>Initial value as at 31.12.2018</b>	<b>935,114,557</b>	<b>509,212,734</b>	<b>73,830,723</b>	<b>3,945,754</b>	<b>348,055,357</b>	<b>69,989</b>
<b>Allowance for impairment as at 31.12.2017</b>	<b>(48,540)</b>	<b>(5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(48,535)</b>
Change in allowance for impairment	5	5	-	-	-	-
<b>Allowance for impairment as at 31.12.2018</b>	<b>(48,535)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(48,535)</b>
<b>Book value as at 31.12.2018</b>	<b>935,066,022</b>	<b>509,212,734</b>	<b>73,830,723</b>	<b>3,945,754</b>	<b>348,055,357</b>	<b>21,454</b>
<b>Initial value as at 31.12.2016</b>	<b>999,277,195</b>	<b>424,525,535</b>	<b>41,655,171</b>	<b>4,027,862</b>	<b>528,998,279</b>	<b>70,348</b>
Received at original value	180,788,594	81,771,236	-	-	99,017,358	-
Retired at original value	(138,548,733)	-	-	-	(138,543,858)	(4,875)
Currency translation differences	(4,803,735)	-	-	-	(4,803,735)	-
Change in current market value	(55,500)	-	-	(55,500)	-	-
Transfer due to time	(152,864,426)	-	-	-	(152,864,426)	-
<b>Initial value as at 31.12.2017</b>	<b>883,793,395</b>	<b>506,296,771</b>	<b>41,655,171</b>	<b>3,972,362</b>	<b>331,803,618</b>	<b>65,473</b>
<b>Allowance for impairment as at 31.12.2016</b>	<b>(5)</b>	<b>(5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Change in allowance for impairment	(48,535)	-	-	-	-	(48,535)
<b>Allowance for impairment as at 31.12.2017</b>	<b>(48,540)</b>	<b>(5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(48,535)</b>
<b>Book value as at 31.12.2016</b>	<b>999,277,190</b>	<b>424,525,530</b>	<b>41,655,171</b>	<b>4,027,862</b>	<b>528,998,279</b>	<b>70,348</b>
<b>Book value as at 31.12.2017</b>	<b>883,744,855</b>	<b>506,296,766</b>	<b>41,655,171</b>	<b>3,972,362</b>	<b>331,803,618</b>	<b>16,938</b>

Loans granted included in the line "Long-term financial investments" were issued at the rates from 1.78657% to 9.6775%, from 1.77886% to 15.10% and from 1.91671% to 15.09% in 2018, 2017 and 2016, respectively; including for a period from 1 to 3 years in amount of RUB231,887,809,000, RUB57,911,777,000 and RUB449,971,424,000 as at 31.12.2018, 31.12.2017 and 31.12.2016, respectively.

Information on income from placement of cash balances in deposit accounts and on income from loans is disclosed in paragraph 5.14 of these Notes.

Additional information on the composition and movement of financial investments is disclosed in Section 5.20 of these Notes.

In March 2018, the Company acquired additional 326 shares in Arcticgaz JSC for a total amount of RUB32,098,479,000. The liability for the acquired shares in the amount of RUB 23,630,782 thousand was partially settled by offsetting similar counterclaims.

In November 2018, the Company received a holding in the charter capital of LLC Gazpromneft-Tyumen in the total amount of RUB1.6 billion as a payment of the liquidation value of PJSC Gazpromneft-Tyumen.

**Table 7. List of significant subsidiaries**

Name	Size of holding as at, %			Type of activity:
	31.12.2018	31.12.2017	31.12.2016	
Nafta Industrija Srbije A.D. Novi Sad	56.15	56.15	56.15	Exploration, production, refining, marketing and distribution of crude oil and petroleum products and natural gas exploration and production
JSC Gazpromneft-NNG	98.904	98.904	98.904	Production of crude oil and associated petroleum gas (APG)
Gazpromneft Yamal LLC	90	90	90	Exploration of oil, gas and other mineral fields
Gazpromneft-Khantos LLC	100	100	100	Production of crude oil and associated petroleum gas (APG)
Gazpromneft-Shelf LLC	100	100	100	Carrying out geological and geophysical exploration and additional exploration of hydrocarbon fields
Gazpromneft Moscow Refinery JSC	100	100	100	Processing, transportation, storage, sale of hydrocarbons and refined products
JSC Gazpromneft-ONPZ	100	100	100	Provision of services in refining, production and marketing of refined products, chemicals and petrochemicals

Line name	Size of holding as at, %			Type of activity:
	31.12.2018	31.12.2017	31.12.2016	
Gazpromneft-Corporate Sales LLC	100	100	100	Operation of filling station complexes and oil storage facilities
Gazpromneft-Regional Sales LLC	99.99	99.99	99.99	Wholesale of motor fuel and other oil products
Gazpromneft-Centre LLC	99.933	99.94	99.939	Motor fuels retailing
GPN-Invest LLC	100	100	100	Investments in securities
MPC Lakhta Centre JSC	100	100	100	Investment activities
GPN-Finance LLC	100	100	100	Investments in securities
Gazpromneft-Vostok LLC	51	100	100	Hydrocarbon exploration and production

In September 2018, the Company completed a transaction on alienation of a non-controlling interest for 49% of the charter capital of Gazpromneft-Vostok LLC to third parties.

Due to the sale of interest, the Company recognised an income in amount of RUB22,358,237,000 as part of "Other income" (line 2340) of the Profit & Loss Account, and the value of disposed financial investments in amount of RUB19,957,370,000 as part of "Other expenses" (line 2350) of the Profit & Loss Account.

Third-party proceeds from the transaction on alienation of a non-controlling interest in the charter capital of Gazpromneft-Vostok LLC is reflected in cash flows from investment transactions in the line "Proceeds from sale of shares (holdings) of other organisations" (line 4212) of the Cash flow statement.

**Table 8. Information on availability and movement of short-term investments**

	Financial investments, total	Loans provided	Bank deposits
<b>Initial value as at 31.12.2017</b>	<b>232,280,832</b>	<b>232,280,832</b>	-
Received at original value	75,962,715	2,535,405	73,427,310
Retired at original value	(136,332,810)	(112,832,810)	(23,500,000)
Currency translation differences	2,517,571	1,603,701	913,870
Transfer due to time	20,697,527	20,697,527	-
<b>Initial value as at 31.12.2018</b>	<b>195,125,835</b>	<b>144,284,655</b>	<b>50,841,180</b>
<b>Book value as at 31.12.2018</b>	<b>195,125,835</b>	<b>144,284,655</b>	<b>50,841,180</b>
<b>Initial value as at 31.12.2016</b>	<b>105,071,053</b>	<b>105,071,053</b>	-
Received original value	28,011,225	28,011,225	-
Retired original value	(53,515,706)	(53,515,706)	-
Currency translation differences	(150,166)	(150,166)	-
Transfer due to time	152,864,426	152,864,426	-
<b>Initial value as at 31.12.2017</b>	<b>232,280,832</b>	<b>232,280,832</b>	-
<b>Book value as at 31.12.2016</b>	<b>105,071,053</b>	<b>105,071,053</b>	-
<b>Book value as at 31.12.2017</b>	<b>232,280,832</b>	<b>232,280,832</b>	-

No provision for impairment of short-term investments has been made.

Loans granted included in the line "Short-term financial investments" were issued at the rate from 1.78657% to 5.8225%.

Information on income from placement of free cash on deposit accounts and on the income from loans is disclosed in paragraph 5.14 of these Notes.

Short-term investments primarily include loans to subsidiaries. This information is disclosed in paragraph 5.20 of these Notes.

No financial investments have been pledged.

## 5.7 Receivables

Table 9. Availability and movement of receivables

	as at 31.12.2018	as at 31.12.2017	as at 31.12.2016
<b>Long-term accounts receivable, total:</b>	<b>129,712,136</b>	<b>157,681,492</b>	<b>134,023,338</b>
other	129,712,136	157,681,492	134,023,338
bad debt allowance	-	-	-
<b>Short-term receivables, total:</b>	<b>332,830,788</b>	<b>212,241,496</b>	<b>167,896,367</b>
settlements with buyers and clients	132,295,697	97,781,353	96,280,036
advances paid out	25,210,357	23,665,342	22,917,855
other	185,733,353	101,226,437	59,130,689
bad debt allowance	(10,408,619)	(10,431,636)	(10,432,213)

The line "Other accounts receivable (due in over 12 months after the reporting date)" (line 1234 of the balance sheet) reflects:

- receivables on interest-free, long-term loans extended to related party entities in amounts RUB53,994,762,000, RUB111,351,803,000 and RUB76,918,540,000 as at 31.12.2018, 31.12.2017 and 31.12.2016, respectively.
- interest receivable on long-term loans to related parties in amounts of RUB75,716,920,000, RUB46,329,259,000 and RUB57,104,797,000 as at 31.12.2018, 31.12.2017 and 31.12.2016, respectively.

The line "Other accounts receivable (due within 12 months after the reporting date)" (line 1239 of the balance sheet) reflects:

- receivable on interest-free, short-term loans extended to related party entities in amounts of RUB105,542,953,000 and RUB7,875,028,000 as at 31.12.2018 and 31.12.2017, respectively.
- interest receivable on short-term loans to related parties in amounts of RUB22,249,617,000, RUB43,775,600,000 and RUB7,498,154,000 as at 31.12.2018, 31.12.2017 and 31.12.2016, respectively.

Table 10. Changes in the allowance for bad debts

	for 2018	for 2017
<b>Opening balance</b>	<b>(10,431,636)</b>	<b>(10,432,213)</b>
Accrued	(717)	(2,358)
Reversed	9,047	2,624
Used	14,776	246
Currency translation differences	(89)	65
<b>Closing balance</b>	<b>(10,408,619)</b>	<b>(10,431,636)</b>

## 5.8 Cash and cash equivalents

Table 11. Composition of cash and cash equivalents

Indicator	as at 31.12.2018	as at 31.12.2017	as at 31.12.2016
Cash in payment accounts	7,244,318	13,785,424	2,512,296
Cash in foreign currency accounts	7,408,803	4,386,989	3,898,230
Bank deposits	125,244,663	16,139,056	-
Other cash equivalents	874	10,001,693	623
<b>Total</b>	<b>139,898,658</b>	<b>44,313,162</b>	<b>6,411,149</b>

The line "Other cash equivalents" in Table 11 "Composition of cash and cash equivalents" as at 31.12.2017 includes highly liquid bonds of the issuing banks VTB (JSC) and VEB with a maturity of up to 3 months in the amount of RUB10,000,710,000. There is no cash with restrictions on use.

The cash amount which may be additionally raised by the Company is RUB199,222,123,000, RUB180,250,000,000 and RUB52,000,000,000 as at 31.12.2018, 31.12.2017 and 31.12.2016, respectively.

Cash flows from current operations, line "Other receipts" (line 4119) of the Cash Flow Statement also includes:

- receipts from participants in a CTG for income tax settlements in amount of RUB5,877,208,000 for 2018 and RUB4,292,531,000 for 2017;
- refund of taxes and fees in amount of RUB314,487,000 for 2018 and RUB1,000,199,000 for 2017;
- cash receipts in the form of interest on the balance in bank accounts in amount of RUB674,626,000

- for 2018 and RUB827,651,000 for 2017;
- refund of customs charges of RUB1,293,436,000 for 2018 and RUB3,997,468,000 for 2017;
- cash received under assignment agreements amounting to RUB32,137,000 for 2018 and RUB1,731,863,000 for 2017;
- other receipts of RUB2,165,867,000 for 2018 and RUB2,473,865,000 for 2017.

Cash flows from current operations, line “Other payments” (line 4139) of the Cash Flow Statement also includes:

- sponsorship and charitable donations, contributions to non-commercial partnerships amounting to RUB3,391,661,000 for 2018 and RUB1,407,649,000 for 2017;
- settlements with other creditors in amount of RUB5,160,058,000 for 2018 and RUB1,952,978,000 for 2017.;
- payments related to claim settlements amounting to RUB965,094,000 for 2018 and RUB660,755,000 for 2017;
- payments for bank services in amount of RUB698,245,000 for 2018 and RUB646,262,000 for 2017;
- transfer of cash to members of the CTG amounting to RUB158,251,000 for 2018 and RUB3,264,149,000 for 2017;
- comptroller settlements in amount of RUB59,253,433,000 for 2018 and RUB44,142,333,000 for 2017;
- other payments in amount of RUB2,527,373,000 for 2018 and RUB818,480,000 for 2017.

## 5.9 Accounts payable

Table 12. Availability and movement of payables

	as at 31.12.2018	as at 31.12.2017	as at 31.12.2016
<b>Short-term payables, total:</b>	<b>535,634,740</b>	<b>312,230,672</b>	<b>222,658,073</b>
Suppliers and contractors	404,157,846	212,423,942	155,362,366
payable to employees	1,780.00	9,834.00	9,120.00
outstanding insurance payments	34,486	68,129	311,074
taxes and duties payable	14,555	243,083	154,723
advances received	16,692,934	14,935,285	15,528,984
dividends payable to participants (shareholders)	104,550,052	47,425,091	20,874
other creditors	10,183,087	37,125,308	51,270,932

As of 31.12.2018, the line “Accounts payable” (line 1520 in the Balance Sheet) mainly shows payables to suppliers of crude oil and payables under commission agreements and agency contracts for supply of crude oil and petroleum products. The larger portion of accounts payable refers to payments to related parties (as at 31.12.2018 – RUB363,902,665,000, as at 31.12.2017 – RUB248,745,262,000, as at 31.12.2016 – RUB200,572,059,000). More detailed information of the above amounts is provided in Table 21. Assets and liabilities incurred from transactions with related parties.

Line “Advances received” (line 1527 of the Balance Sheet) shows advances less the value added tax, which amounts to RUB2,725,346,000. (RUB2,193,515,000 and RUB2,577,969,000 as at 31.12.2017 and 31.12.2016, respectively).

Line “Other payments” (line 1528 of the Balance Sheet) shows, among other things:

- payables to commissioner (principal, grantor) in amount of RUB44,690,000 (RUB30,310,542,000 and RUB31,164,789,000 as at 31.12.2017 and 31.12.2016, respectively); and
- payables for shares purchased in amount of RUB7,145,925,000 (RUB6,561,853,000 and RUB16,214,698,000 as at 31.12.2017 and 31.12.2016, respectively).

## 5.10 Credits and loans

### Bank loans

Table 13. Information on long- and short-term credits and loans

	as at 31.12.2018	as at 31.12.2017	as at 31.12.2016
<b>Long-term bank credits, incl.:</b>	<b>285,153,268</b>	<b>196,148,744</b>	<b>251,510,913</b>
from 1 to 2 years	-	75,291,690	12,131,380
from 2 to 5 years	285,153,268	120,857,054	231,147,901
over 5 years	-	-	8,231,632
<b>Long-term loans, incl.:</b>	<b>354,736,067</b>	<b>345,502,570</b>	<b>373,104,003</b>
Bonds	120,000,000	120,000,000	70,000,000

Short-term loans	166,853,957	174,588,098	186,847,962
Part of long-term credits and loans with maturity within 12 months after the reporting date	95,621,189	131,191,339	65,750,391
<b>Total credits and loans:</b>	<b>902,364,481</b>	<b>847,430,751</b>	<b>877,213,269</b>

Total amount of bank loans received during 2018 amounted to RUB337,811,402,000 (RUB311,795,333,000 – in 2017); total amount of loans repaid during 2018 (without interest) amounted to RUB249,730,737,000 (RUB361,582,443,000 – in 2017); interest on bank loans paid in 2018 amounted to RUB17,305,863,000 (RUB17,545,231,000 – in 2017).

The weighted average effective interest rate for short-term and long-term bank credits was 6.92%, 5.57% and 5.94 % as at 31.12.2018, 31.12.2017 and 31.12.2016, respectively.

In the reporting year, the interest on credits included in other expenses amounted to RUB17,613,501,000 (RUB17,416,301,000 – in 2017).

The weighted average effective interest rate for short-term and long-term loans was 6.37%, 5.89% and 5.35 % as at 31.12.2018, 31.12.2017 and 31.12.2016, respectively.

In the reporting year, the interest on bank loans included in other expenses , amounted to RUB29,522,370,000 (RUB30,280,603,000 – in 2017).

Information on the nature, value and individuals who have issued security for the loans received and the date of issue thereof is provided in paragraph 5.19 of these Notes. Further information on long-term and short-term loans is disclosed in paragraph 5.20 of these Notes.

## 5.11 Taxes

### Income tax

In accordance with the Regulations on Accounting "Accounting for Income Tax Settlements" (PBU 18/02), the Company has reflected the following indicators in its accounting records, as well as in the Statement of Financial results for 2018.

**Table 14. Calculation of income tax**

	for 2018	for 2017
<b>Profit (loss) before tax</b>	<b>86,112,394</b>	<b>157,836,759</b>
Profit (loss) before tax (16.77%-2018/16.80%-2017)	(37,994,714)	8,315,268
Profit (loss) before tax 13%	61,468	18,690
Profit (loss) before tax 0%	124,045,640	149,502,801
<b>Deemed profit tax expenses (deemed income)</b>	<b>(6,362,606)</b>	<b>1,399,246</b>
<b>Permanent taxable liabilities (assets), including:</b>	<b>1,495,148</b>	<b>721,921</b>
Permanent differences increasing/(increasing) taxable profit, including:	8,917,174	4,297,608
Expenses/income not taken into account in taxation/accounting	3,939,801	2,964,277
other	4,977,373	1,333,331
<b>Deferred tax assets</b>	<b>430,900</b>	<b>2,039,513</b>
Temporary deductible differences, including:	2,569,920	12,141,251
bad debt allowance	(3,629,554)	2,176,521
other	6,199,474	9,964,730
<b>Deferred tax liabilities</b>	<b>2,191,113</b>	<b>3,656,416</b>
Temporary taxable differences, including:	13,067,965	21,766,702
hedging of exchange risks	16,959,087	21,183,067
other	(3,891,123)	583,635
<b>Taxable income tax base</b>	<b>(25,096,919)</b>	<b>46,520,829</b>
Taxable profit tax base included in CTG	(25,096,919)	46,520,829
<b>Profit tax, including:</b>	<b>2,925,132</b>	<b>(7,971,123)</b>
current profit tax	2,253,436	(7,814,667)
income tax 13%	(7,991)	(2,430)
previous year profit tax	679,687	(154,026)
<b>Other</b>	<b>770,259</b>	<b>(225,322)</b>
<b>Redistribution of income tax within consolidated taxpayers group</b>	<b>(2,257,713)</b>	<b>(473,235)</b>
<b>Net profit (loss) in the reporting period</b>	<b>90,172,085</b>	<b>154,863,008</b>

In 2013, a Consolidated Taxpayer's Group (CTG) was put in place within the Gazprom Neft Group of Companies, in which Gazprom Neft PJSC is a responsible participant. In 2018, the CTG comprised 11 members.

In 2018 and 2017, corporate income tax within CTG was calculated in the amount of RUB2,605,257,000 and RUB12,941,925,000, respectively.

In 2018, according to revised tax returns on corporate income tax for 2017 and 2016, the corporate income tax was reduced to the amount of RUB426,552,000 and RUB409,774,000, respectively.

In lines 1180 "Deferred tax assets" and 1420 "Deferred tax liabilities" of the balance sheet, the amounts of deferred tax asset and deferred tax liability are netted to reflect the overall effect of deferred tax on the amount of income tax in subsequent periods.

**Table 15. Information on deferred tax assets and liabilities**

	as at 31.12.2018	as at 31.12.2017	as at 31.12.2016
Deferred tax assets	6,544,346	5,028,946	2,840,977
Deferred tax liabilities	(1,989,570)	(3,866,244)	(7,149,080)

#### *Value added tax*

Line 1220 "Value added tax on the assets acquired" shows the VAT amounts invoiced by the Company's counterparties at the time of purchasing of goods (work, services), the Company, as of the end of the reporting period, did not accept them for deduction and did not include them into the value of the assets acquired or into expenses.

This line shows the amounts for which the Company expects to make the deduction of the VAT amounts within 12 months after the reporting date.

The input VAT amount related to export operations which was not submitted by the Company for deduction to the budget, as at 31.12.2018 was RUB24,337,936,000 (RUB10,430,587,000 and RUB12,900,150,000 as at 31.12.2017 and 31.12.2016, respectively).

## **5.12 Revenue from sale of goods, products, work, services**

**Table 16. Revenue from sale of goods, products, work, services by segment**

	Domestic market	Export and sales on the international market	The CIS
<b>Year ended on 31.12.2018</b>			
Sales of crude oil	155,029,811	598,666,944	39,665,643
Sales of petroleum products	889,904,928	270,895,423	44,144,079
Sales of gas	35,200,011	-	-
Other sales	36,441,503	60,310	-
<b>Total revenue:</b>	<b>1,116,576,253</b>	<b>869,622,677</b>	<b>83,809,722</b>
<b>Year ended on 31.12.2017</b>			
Sales of crude oil	122,590,567	252,548,643	31,550,297
Sales of petroleum products	676,896,615	182,558,143	43,330,016
Sales of gas	35,536,058	-	-
Other sales	29,505,080	-	-
<b>Total revenue:</b>	<b>864,528,320</b>	<b>435,106,786</b>	<b>74,880,313</b>

Total revenue in 2018 increased by 51% (RUB695.5 billion) due to the growth of prices for crude oil and petroleum products on world markets. Growth of revenues from international sales by RUB434.5 billion is explained by an increase sales of crude oil by RUB346.1 billion, which is also due to the price factor.

Domestic revenues in 2018 were RUB252.0 billion higher year-on-year. The main indicator of growth is the increase in revenues from sales of petroleum products by RUB213.0 billion due to the increase in domestic sales (+6.1%, 1.7 million tonnes), as well as the growth of petroleum products prices. Growth of revenues from domestic crude sales by RUB32.4 billion is explained by the price factor.

## **5.13 Expenses on ordinary activities.**

**Table 17. Expenses on ordinary activities**

Cost item	for 2018	for 2017
Material costs	944,501,141	656,618,938
Payroll	17,749,978	17,889,923
Social needs	3,038,026	3,199,520

**Notes to the balance sheet and the statement of financial results for 2018**  
(RUB thousands, unless otherwise stated)

Depreciation	2,692,473	1,973,394
Other costs <i>including</i>	380,044,712	332,921,243
Transportation costs	134,730,772	111,064,910
Excise tax	126,735,826	128,275,580
Taxes levies and fees	93,527,569	74,695,024
<b>Item total</b>	<b>1,348,026,330</b>	<b>1,012,603,018</b>
<b>Actual cost of goods, works, services sold</b>	<b>709,295,707</b>	<b>341,723,645</b>
<b>Changes in the balance of finished products and work in progress: (growth)/decrease</b>	<b>(1,649,860)</b>	<b>(635,313)</b>
<b>Total, expenses on ordinary activities</b>	<b>2,055,672,177</b>	<b>1,353,691,350</b>

#### 5.14 Other earnings and expenses

**Table 18. Other earnings and expenses**

Indicator	for 2018	for 2017
<b>Interest receivable</b>	<b>32,561,051</b>	<b>45,021,553</b>
<i>including</i>		
Income from bank account balance	674,626	827,651
Income from debt securities	515,056	43,328
Interest income on loans issued	28,296,256	43,293,363
Return on deposit	3,064,974	857,185
Other	10,139	26
<b>Interest payable</b>	<b>(47,311,980)</b>	<b>(47,747,210)</b>
<i>including</i>		
Interest on loans received	(18,618,365)	(20,965,062)
Interest on loans in foreign currency and rubles	(17,613,501)	(17,416,301)
Loan interest	(11,080,114)	(9,365,847)
<b>Income from participation in other companies</b>	<b>125,441,623</b>	<b>149,431,926</b>
<i>including</i>		
Dividends	125,441,623	149,431,926
<b>Other income</b>	<b>23,855,029</b>	<b>7,390,998</b>
<i>including</i>		
Revenues from sales of foreign currency	580,227	-
Income from the sale of fixed assets, intangible assets and inventories	58,137	445,515
Currency translation differences	-	6,233,387
Fines, penalties received	713,776	617,636
Income from sale and other disposal of securities and shares	22,348,121	-
Other	154,768	94,460
<b>Other expenses</b>	<b>(62,769,804)</b>	<b>(17,084,577)</b>
<i>including</i>		
Expenses from sales of foreign currency	-	(517,725)
Costs related to the sale of property, plant and equipment, intangible assets and inventories	(49,969)	(418,310)
Expenses on derivative financial instruments	(17,354,101)	(10,326,551)
Currency translation differences	(15,569,074)	-
Expenses from sale and other disposal of securities and shares	(21,434,031)	-
Bank services	(907,927)	(1,423,233)
Fines, penalties paid	(943,164)	(637,255)
Losses of previous periods	(1,769,847)	(1,142,987)
Charitable expenses	(3,140,281)	(1,363,866)
Social expenses	(481,281)	(72,531)
Other	(1,120,129)	(1,182,119)

The Statement of Financial Results shows net (i.e. without breakdown) other income/expenses:

1. exchange rate differences equal to (RUB15,569,074,000) (in 2017 amounting to RUB6,233,387,000), including:
  - income of RUB92,804,927,000 (in 2017 amounting to RUB68,832,963,000), including from recalculation transactions related to the value of assets and liabilities denominated in foreign currency and payable in foreign currency amounting to RUB92,483,581,000 (in 2017 amounting to RUB64,928,876,000) and those payable in rubles amounting to RUB321,346,000 (in 2017 amounting to RUB3,904,087,000);
  - expenses of RUB108,374,001,000 (in 2017 amounting to RUB62,599,576,000), including from recalculation transactions related to the value of assets and liabilities denominated in foreign currency and payable in foreign currency amounting to RUB108,427,489,000 (in 2017 amounting to



RUB56,593,592,000) and those payable in rubles amounting to RUB53,488,000 (in 2017 amounting to RUB6,005,984,000)

2. transactions related to sale of foreign currency of RUB580,227,000 (in 2017 amounting to RUB517,725,000), including:
  - income of RUB2,010,944,000 (in 2017 amounting to RUB563,981,000);
  - expenses of RUB1,430,717,000 (in 2017 amounting to RUB1,081,706,000).
3. transactions with financial derivatives equal to (RUB17,354,101,000) (in 2017 amounting to RUB10,326,551,000), including:
  - income of RUB54,238,852,000 (in 2017 amounting to RUB279,827,000);
  - expenses of RUB71,592,953,000 (in 2017 amounting to RUB10,606,378,000).
4. income and expenses of prior years discovered in the reporting period, amounting to (RUB1,769,847,000) (in 2017 amounting to RUB1,142,987,000), including:
  - income of RUB225,797,000 (in 2017 amounting to RUB153,033,000);
  - expenses of RUB1,995,644,000 (in 2017 amounting to RUB1,296,020,000).

## 5.15 Estimated liabilities, contingent liabilities and assets

### Estimated liabilities

Table 19. Availability and movement of estimated liabilities

Indicator for 2018	at the beginning of year	created	used	written off as excess / Reversed	transfer to short-term	at the end of year
<b>Long-term estimated liabilities, total</b>	<b>407,399</b>	<b>5,809,499</b>	<b>(38,217)</b>			<b>6,178,681</b>
including:						
payable to personnel	407,399	5,809,499	(38,217)	-	-	6,178,681
<b>Short-term estimated liabilities, total</b>	<b>15,709,464</b>	<b>6,294,502</b>	<b>(18,983,651)</b>	<b>949,262</b>		<b>3,969,577</b>
including:						
payable to personnel	15,709,464	6,294,502	(18,983,651)	949,262	-	3,969,577
<b>for 2017</b>						
<b>Long-term estimated liabilities, total</b>	<b>5,551,220</b>	<b>6,864,118</b>	<b>(11,960)</b>		<b>(11,995,979)</b>	<b>407,399</b>
including:						
payable to personnel	5,539,260	6,864,118	-	-	(11,995,979)	407,399
for the liquidation of fixed assets and land reclamation	11,960		(11,960)			
<b>Short-term estimated liabilities, total</b>	<b>3,101,815</b>	<b>6,096,102</b>	<b>(5,996,644)</b>	<b>512,212</b>	<b>11,995,979</b>	<b>15,709,464</b>
including:						
payable to personnel	3,101,815	6,096,102	(5,996,644)	512,212	11,995,979	15,709,464

Due to the payment of remuneration based on the results of long-term performance indicators in 2018, the amount of estimated liabilities under the long-term incentive program in the amount of RUB11,995,979,000 was in 2017 transferred from long-term to short-term liabilities.

### Contingent liabilities

The Company is a party to a number of legal proceedings arising in the ordinary course of business. There are no current claims or causes of action that could have a material adverse effect on the operations or financial standing of the Company.

The Company acts as a guarantor of third party obligations, as described in Clause 5.19 of these Notes. The Company does not expect any material liabilities to arise from the guarantees issued.

## 5.16 Hedging foreign exchange and interest rate risks

The Company is exposed to currency risk primarily because sales and financing transactions may be denominated in foreign currencies, while the majority of the Company's expenses are denominated in Russian rubles.

The currency in which most of the above transactions are carried out is the US dollar.

The Company's foreign currency risk is significantly mitigated by the presence of foreign currency denominated assets and liabilities: the current structure of revenues and liabilities acts as a hedging

mechanism, where multidirectional cash flows compensate each other.

The Company uses hedges in respect of these cash flows denominated in foreign currency to prevent volatility in profit or loss, mainly for financing activities.

The Company policy is to hedge the risk of variability in cash flows due to changes in foreign exchange rates on highly probable forecast transactions.

A significant portion of the Company's foreign currency denominated borrowings were at variable interest rates (linked to LIBOR or EURIBOR). In order to minimize the risk of adverse changes in the LIBOR and EURIBOR rates, the Company Treasury carries out periodic analysis of current interest rates in the capital market on which basis it decides whether to hedge the interest rate or to borrow at fixed or variable rates.

Proceeds and losses on hedging transactions are included in other income and expenses of the Company for the reporting period (Clause 5.14 of these Notes).

As at 31.12.2018 and 31.12.2017, the Company has open positions on forward contracts and cross-currency and interest rate swaps with a nominal value of USD140 million and USD1,742 million, respectively. These instruments are intended to hedge the Company's cash flows. Information on the results of transactions is disclosed in Clause 5.14 of these Notes.

Detailed information on the fair value and timing of outstanding cash flow hedging transactions is disclosed in Note 33 "Cash flow hedges" of the Consolidated Financial Statements of the Gazprom Neft Group for 2018. Furthermore, Note 34 "Financial risk management" provides information on the Group-wide financial risk management.

#### 5.17 Capital and reserves

As at December 31, 2018, the Company's charter capital amounted to RUB7,586,080 and consisted of 4,741,299,639,000 fully paid ordinary registered shares, which remained unchanged in 2018. The nominal value of one ordinary share is RUB0.0016.

Additional capital (share premium) of the Company amounted to RUB7,807,598,000 as at the end of the reporting period. There were no changes in additional capital during 2018. Since the reserve fund is fully formed, no payments were made to the reserve fund in the reporting year.

Pursuant to the decisions of the General Shareholders' Meeting based on the results of the Company's operations in 2017 and for the first 9 months of 2018, decisions were made to pay dividends in the amount of RUB10, RUB5 and RUB22.05 per ordinary share, respectively, which amounted to RUB175,665,151,000 (dividends for 9 months 2017 amounted to RUB47,412,996,000, for 2017–RUB23,706,498,000 and for 9 months 2018 – RUB104,545,657,000, respectively).

#### 5.18 Profit (loss) per share

Basic profit (loss) per share reflects the amount of the profit (loss) of the reporting year payable to the holders of ordinary shares. It is calculated as a ratio of the basic profit (loss) for the reporting year to the weighted average number of ordinary shares outstanding during the reporting year.

No securities which may have a diluting effect were issued.

#### 5.19 Collaterals for obligations

Table 20. Collaterals for obligations

Indicator	as at	as at	as at 31.12.2016
	31.12.2018	31.12.2017	
Collaterals for obligations received	6,573,235	6,430,066	206,771
Collaterals for obligations issued	28,579,771	22,951,493	15,096,013

The Company has issued guarantees to the following organizations:

**Table 21. Issued guarantees**

	as at <b>31.12.2018</b>	as at <b>31.12.2017</b>	as at <b>31.12.2016</b>
Gazpromneft-Shipping LLC	8,799,009	7218 166	7,220,430
JSC Gazpromneft-MNPZ	19,148,943	15,733,327	7,699,639
Gazpromneft-Catalytic Systems LLC	631,819	-	-
Gazprom Neft Yamal LLC	-	-	124,481
Other	-	-	51,463
<b>Total</b>	<b>28,579,771</b>	<b>22,951,493</b>	<b>15,096,013</b>

In November 2016, the Company issued a guarantee to PJSC Sberbank until November 2022 as a security for the agreement on opening a credit line for JSC Gazpromneft-MNPZ. Guarantees issued amounted to RUB19,148,943,000, RUB15,733,327,000 and RUB7,699,639,000 as at 31.12.2018, 31.12.2017 and 31.12.2016, respectively.

In September 2015, the Company issued a guarantee to PJSC Sberbank until August 2022 as a security for the agreement on opening a credit line for Gazpromneft-Shipping LLC. Guarantees issued amounted to RUB8,799,009,000, RUB7,218,166,000 and RUB7,220,430,000 as at 31.12.2018, 31.12.2017 and 31.12.2016, respectively.

In June and July 2018, the Company issued guarantees to Bank GPB (JSC) until December 2026 to secure contracts on opening of letters of credit for Gazpromneft-Catalytic Systems LLC. Guarantees issued amounted to RUB410,728,000 and RUB221,091,000 as at 31 December 2018, respectively.

## **5.20 Related-party transactions**

In the normal course of business, the Company enters into transactions with related parties under Russian law.

The list of related parties is based on the scope of relationships between the enterprises, taking into account the requirement of priority of scope over form.

Amounts of related party transactions and balances are disclosed separately for the following groups of related parties, which have different form of relationship with the Company:

- The parent company;
- Subsidiaries;
- Affiliates;
- Key management personnel: the chief executive officer (other individuals exercising powers of the sole executive body), their deputies, members of the collegial executive body, members of the board of directors; and
- Other related parties.

The most significant affiliates for Gazprom Neft PJSC are:

- OJSC Tomskneft VNK and its subsidiaries;
- Salym Petroleum Development;
- Messoyakhaneftegaz AO;
- PJSC Tomskneft VNK and its subsidiaries; and
- Arktikgaz JSC.

Table 22. Information on related party transactions

	<b>Parent company</b>	<b>Subsidiaries</b>	<b>Affiliates</b>	<b>Other related parties</b>
<b>2018</b>				
Sales of oil, gas and petroleum products	-	863,407,548	16,956,273	83,846,209
Other revenue	3,942	28,138,266	480,011	79,887
Purchases of oil, gas and petroleum products	-	(908,715,908)	(355,168,573)	(27,046,214)
Costs of purchased works, services	(9,008,747)	(84,154,150)	(28,334,126)	(1,850,487)
Capital purchases	1	5,000,591	23,185	171,944
Acquisition of equity investments	-	24,276,392	32,175,551	-
Dividends receivable	-	125,566,329	6,385	-
Dividends payable	122,710,457	631,877	-	-
Interest receivable on loans issued	-	27,027,071	1,009,601	214,487
Interest payable on loans received	-	6,987,626	1,168,353	2,549,947
Loans received	-	648,636,631	11,062,106	39,577,372
Loans issued	-	(91,477,347)	(100,000)	(15,344)
<b>2017</b>				
Sales of oil, gas and petroleum products	-	643,492,193	10,518,941	64,277,448
Other revenue	3,941	21,894,867	155,212	44,137
Purchases of oil, gas and petroleum products	-	(459,474,935)	(246,493,290)	(19,620,103)
Costs of purchased works, services	(9,776,295)	(62,808,742)	(29,504,449)	(1,666,390)
Capital purchases	-	1,920,575	-	18,602
Acquisition of equity investments	-	81,771,236	-	-
Dividends receivable	-	149,502,801	13,073	-
Dividends payable	98,813,392	483,076	-	-
Interest receivable on loans issued	-	37,496,522	5,479,595	-
Interest payable on loans received	-	9,256,457	38,968	2,871,316
Loans received	-	559,543,672	2,066,734	50,963,163
Loans issued	-	(86,852,030)	(200,000)	-

**Table 23. Information on cash flows on settlements with related parties**

	for 2018			for 2017		
	Parent company	Subsidiaries	Affiliates	Parent company	Subsidiaries	Affiliates
<i>Cash flow from current transactions</i>						
Receipts	28,121,551	360,521,561	17,644,882	35,918,263	249,839,828	11,126,311
Payments	(9,078,164)	(1,045,598,059)	(382,678,039)	(9,859,405)	(830,613,098)	(287,211,571)
<i>Cash flow from investment operations</i>						
Receipts	-	220,842,731	21,082,729	-	163,368,633	43,606,441
Payments	(1)	(117,037,193)	(8,567,697)	(46,921,843)	(170,594,347)	(200,000)
<i>Cash flow from financial activities</i>						
Receipts	-	653,941,307	11,062,106	-	559,543,672	2,066,734
Payments	(65,901,465)	(31,375,779)	(10,804,850)	-	(25,272,763)	(2,706,500)

**Table 24. Assets and liabilities incurred from transactions with related parties**

	Parent company	Subsidiaries	Affiliates	Other related parties
<b>as at 31.12.2018</b>				
Accounts receivable (including interest on loans receivable)	60,626	339,240,158	2,866,064	9,960,926
Short-term loans issued	-	143,668,711	615,945	-
Long-term loans issued	-	345,149,804	-	2,905,553
Short-term payable	(100,057,194)	(319,031,842)	(92,408,458)	(932,199)
Short-term loans received (including interest)	-	(166,227,304)	(13,294,614)	(48,519,305)
Long-term loans received (including interest)	-	(26,324,267)	-	(20,000,000)
<b>as at 31.12.2017</b>				
Accounts receivable (including interest on loans receivable)	4,559,119	262,222,086	22,302,346	8,826,069
Short-term loans issued	-	218,134,678	11,255,945	-
Long-term loans issued	-	306,356,283	25,447,336	-
Short-term payable	(45,504,005)	(203,298,136)	(44,531,184)	(776,246)
Current loans received (including interest)	-	(179,386,213)	(367,189)	-
Long-term loans received (including interest)	-	(41,159,171)	-	(57,600,200)
<b>as at 31.12.2016</b>				
Accounts receivable (including interest on loans receivable)	4,298,580	197,113,706	12,156,216	6,061,716
Short-term loans issued	-	104,623,008	100	-
Long-term loans issued	-	494,713,543	31,300,952	-
Short-term payable	(816,087)	(184,850,953)	(13,265,427)	(1,639,592)
Current loans received (including interest)	-	(185,804,970)	(1,028,792)	-
Long-term loans received (including interest)	-	(62,857,340)	-	(10,417,639)

*Remuneration paid to key management personnel*

The Organization's key management personnel include members of the Board of Directors and members of the Management Board.

**Table 25. Remuneration of key management personnel**

Remuneration of key management personnel	for 2018	for 2017
Remunerations	1,694,436	1,588,205
Accruals for the long-term incentive programme	875,714	1,149,394
<b>Total excluding insurance payments</b>	<b>2,570,150</b>	<b>2,737,599</b>
Insurance payments	393,233	251,569
<b>Total</b>	<b>2,963,383</b>	<b>2,989,168</b>

The Company has in place a long-term remuneration programme based on the share price increase, which envisages payments to management for increasing the value of the Gazprom Neft Group to its shareholders over a certain period of time.

**5.21 Events after the reporting date**

In January 2019, Gazprom Neft raised RUB20 billion under a long-term credit facility agreement with a Russian bank maturing in June 2021.

**5.22 Tax risk management**

Russian tax and customs legislation is subject to frequent changes and may be subject to varying interpretations. Management's interpretation of such legislation, including the calculation of taxes payable to the budgets of all levels applicable to Gazprom Neft's operations and activities, may be challenged in practice by the relevant authorities. The position of the Russian tax authorities with respect to the application of Russian tax legislation and the assumptions used may be quite categorical, and there is a risk that taxation of transactions and activities that have not been challenged in the past may be challenged in the future, with possible additional charges for taxes, fees, fines and penalties. Generally, a tax audit may cover a period not exceeding three calendar years preceding the year in which the decision to conduct a tax audit was made. However, under certain circumstances, longer periods may be subject to review. Currently, 2015-2018 remain open for tax audit. Management of the Company believes that it has made a reasonable assessment of any additional accruals arising from such reviews.

Russian transfer pricing legislation generally complies with the international transfer pricing principles developed by the Organization for Economic Cooperation and Development (OECD) with certain specific features. Transfer pricing legislation provides for the possibility of imposing additional tax liabilities in respect of controlled transactions (transactions with related parties and certain types of transactions with unrelated parties), provided that the transaction price does not correspond to the market price. The management has implemented internal controls for the purposes of complying with the current transfer pricing legislation.

Tax liabilities arising from controlled transactions are determined by reference to actual transaction prices. It is possible that, as transfer pricing rules continue to evolve, these prices could be challenged. The impact of these developments cannot be reliably estimated, but may be significant to the Company's financial position and/or its business operations.

The Organization's controlled transactions are regularly reviewed by internal services to ensure compliance with the transfer pricing legislation. Management of Gazprom Neft believes that the documentation in the area of transfer pricing, prepared in accordance with the requirements of the new legislation, justifies the tax position of Gazprom Neft and confirms the data of submitted tax returns. In addition, in order to mitigate potential tax risks, Gazprom Neft regularly negotiates pricing agreements with tax authorities. During 2018, Gazprom Neft entered into 4 (four) pricing agreements with tax authorities for the most significant intragroup transactions.

At the same time, as the law enforcement practice in respect of the Russian transfer pricing legislation is limited and some provisions of the new legislation contain contradictions and may lead to their ambiguous interpretation, the impact of the transfer pricing rules on the amount of Gazprom Neft's tax liabilities cannot be determined with a sufficient level of reliability.

### 5.23 Financial risk management

The Organization's financial risk management information is not disclosed in these financial statements, as the Organization's management performs analysis of these risks only at the level of the Gazprom Neft Group. Information on financial risk management across the Gazprom Neft Group is made available in its consolidated financial statements.

<b>Chief Executive Officer</b>	_____	<b>A.V. Dyukov</b>
<b>Chief Accounting Officer</b>	_____	<b>O.N. Makretskaya</b>

28 February 2019