APPENDIX 1. REPORT ON AUDIT RESULTS OF THE CONSOLIDATED FINANCIAL STATEMENT FOR 2018

Independent Auditor's Report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Public Joint Stock Company Gazprom Neft (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit and loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our 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 of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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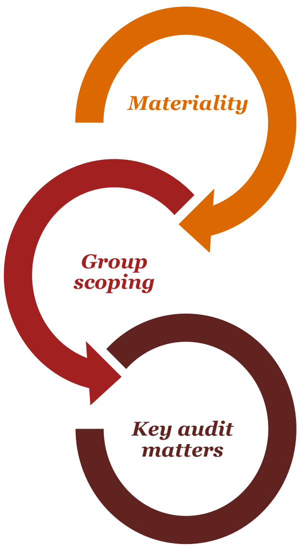
Our audit approach

Overview



- Overall group materiality: Russian Roubles ("RUB") 19,900 million, which represents 2.5% of the adjusted EBITDA

- The Group has offices and operations in different countries with parent company and corporate centre located in Saint Petersburg (Russian Federation). We conducted audit work at 28 components in 5 countries.
- The group engagement team visited the following locations: Saint Petersburg, Ekaterinburg and Omsk (the Russian Federation) as well as Belgrade and Pancevo (Serbia). We also engaged PwC network offices in Serbia, the Russian Federation, Austria, Iraq and the UAE to perform audit procedures at components.
- Our audit scope addressed more than 80% of the Group's revenues and more than 81% of the Group's absolute value of underlying profit before tax.

- Revenue recognition
- Impairment assessment of Iraqi assets

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	RUB 19,900 million
How we determined it	2.5% of the adjusted EBITDA
Rationale for the materiality benchmark applied	We chose to apply adjusted EBITDA as the benchmark for establishing the materiality level, because we believe it is most commonly used to assess the Group's performance (see Note 39 to the consolidated financial statements). Management uses adjusted EBITDA as a means of assessing the performance of the Group's ongoing operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. We established materiality at 2.5%, which is within the range of acceptable quantitative materiality thresholds for profit-oriented entities in this industry.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition *Refer to Notes 2, 4 and 39 in the consolidated financial statements.* This year our focus remained on revenue recognition because of: • the users' ongoing attention to this financial reporting line item as a performance measure, • its sizable amount in value terms, • diversity in revenue streams, • essential associated risks of material misstatement due to both fraud and error and	We continued to use computer-assisted audit techniques (CAATs) for all hydrocarbons revenue transactions at corporate centre, and all revenue transactions from sales of petroleum and associated products through own retail network of petrol stations in the Russian Federation throughout the audited period. In addition, this year we expanded the scope of application of CAATs on the Group's significant component responsible for regional petroleum products wholesale. With the help of these techniques, we performed a reconciliation of each revenue transaction with accrued accounts receivable or payment received from the counterparty covering the total revenue population.

Key audit matter	How our audit addressed the key audit matter
• the adoption of a new accounting standard IFRS 15 "Revenue from contracts with customers" applicable since 1 January 2018. The Group's revenue consists of different streams, comprising mainly sales of crude oil, petroleum products, gas and other sales on domestic and international markets. The Group sells petroleum products to industrial customers via small-scale wholesale distribution channels and via the Group's own network of retail petrol stations in the Russian Federation and abroad. These revenue streams have different terms underlying revenue recognition such as identification of the performance obligation, timing of its satisfaction and allocated transaction price. Application of the new standard required extensive analysis of different types of contracts and contractual arrangements with customers to determine whether any changes in revenue recognition methods are needed. Due to the same high volume of transactions, possible manual intervention, different commercial accounting systems and the interfaces of these with the accounting records, there is the potential for deliberate manipulation or error. We assessed the risk of fraud and error for each individual revenue stream and tailored audit strategy based on internal control reliance expected for all full-scope significant components audits.	Similar to prior year, we evaluated the design and tested operating effectiveness of controls over revenue recognition across significant components. At petrol stations, we validated controls over price setting and reconciliation of data between operating and accounting systems in both quantitative and monetary terms. We performed disaggregated analytics over remaining non-significant components not covered by CAATs and based investigation on contract details and reconciliation of inventory movement starting from production through to final sale. Our audit plan of substantive procedures this year included the following: • the assessment of IFRS 15 adoption by the Group and the corresponding disclosures in the consolidated financial statements; • the verification of whether the Group was entitled to, and appropriately recognised revenue in line with the satisfaction of performance obligations; • the detailed testing of selected operations leading to revenue recognition; • the confirmation of selected accounts receivable balances at the year-end; and • the verification of appropriateness of the timing of revenue recognition by comparing the dates of the satisfaction of performance obligation per contract arrangement against the corresponding dates of revenue recognition. We performed substantive procedures for more than 80% of the Group's revenue including all significant components. We also tested manual journal entries posted to revenue and reconciled actual selling prices to the contractual terms as well as amounts shipped to source shipping documents.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of Iraqi assets	
Refer to notes 2, 3 and 11 in the consolidated financial statements. The Group's assets in Iraq relate to oil and gas production assets located in Badra and exploration and production assets in Kurdistan, which are governed by the terms of the Development and Production Service Contract and the Production Sharing Agreement. These assets are tested for impairment on an annual basis. We continued to focus on this area in 2018 due to the significant remaining carrying value of these assets. Furthermore, estimation of the 'value in use' recoverable amount for these assets requires management to make subjective judgements and estimates about the future production volumes, commodity prices and discount rates. The impairment testing results and carrying value of the assets related to Iraqi projects are disclosed in Note 11 Property, plant and equipment. Management process to determine the 'value in use' did not change comparing to previous periods. High volatility of macroeconomic parameters supplemented by political instability in the region together with sensitivity of the model to management assumptions significantly increase estimation uncertainty for this accounting estimate.	We evaluated and challenged the composition of management's future cash flow forecasts, and the process by which they were prepared, confirming validity of any changes implemented from the prior year. We compared the current year actual results to the figures included in the prior year forecast, to consider whether any forecasts included assumptions that, with hindsight, had been overly optimistic. We used our internal valuation experts and external data from independent sources in assessing and obtaining audit evidence to support the revised assumptions used in impairment testing. The most significant assumptions relate to future oil prices, discount rates depending on Iraq's country risk and the estimation of oil and gas reserves and future production volumes at the fields. For the purpose of the analysis of future market prices, we used Brent crude oil quotations as per Bloomberg, IHS, Wood Mackenzie and PIRA Energy Group's data. We also challenged the discount rate applied by assessing the cost of capital for comparable entities, as well as considering country/territory specific factors. In relation to production volumes and oil and gas reserves, we performed reconciliation of input data to prior year amounts and information received from external experts and science and technology centre engaged with geological studies within the Group.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

When determining our audit approach we considered materiality of the Group components for the consolidated financial statements, our risk assessment for each component, volume of evidence received from our audit procedures at the level of the Group as a whole as well as risks associated with non-significant components for which no full scope audit procedures were performed.

Based on the above we determined the nature and scope of audit procedures at the level of significant components as well as at the level of the group as a whole. We identified the following significant components where we performed full-scope audit procedures: PJSC Gazprom Neft (parent holding company, corporate centre located in Saint Petersburg, the Russian Federation), Gazprom Neft Regional Sales LLC (Russian subsidiary responsible for regional petroleum products wholesale) and Gazpromneft-Centre LLC (Russian subsidiary responsible for retail petroleum products sales). Naftna Industrija Srbije a.d. was determined as the fourth significant component where a PwC network office in Serbia performed full-scope audit procedures based on our instructions.

In addition to audit evidence obtained at the group level and the level of significant components, we performed specified procedures over selected financial line items of several not significant components. Our selection aimed to cover both oil production and refining entities as well as premium channel sales on a rotational basis. We also evaluated controls over reporting at Gazprom Neft Business Service LLC (Russian subsidiary with divisions located in Saint Petersburg, Omsk, Noyabrsk and Ekaterinburg responsible for accounting and bookkeeping services for all Russian entities) and leveraged audit evidence obtained by PwC network offices in the Russian Federation, Iraq, Austria and the UAE during statutory audits of selected components.

Other information

Management is responsible for the other information. The other information comprises "Management's discussion and analysis of financial condition and results of operations for the three months ended December 31 and September 30, 2018 and years ended December 31, 2018 and 2017" (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the PJSC Gazprom Neft Annual Report and 1st quarter 2019 Quarterly Issuer's Report, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the PJSC Gazprom Neft Annual Report and 1st quarter 2019 Quarterly Issuer's Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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 override of internal control.
- Obtain 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, 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 provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. The certified auditor responsible for the audit resulting in this independent auditor's report is Irina Shanina.

AO PricewaterhouseCoopers Audit

20 February 2019

Moscow, Russian Federation

I.V. Shanina, certified auditor (licence no. 01-001340), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint Stock Company Gazprom Neft

Record made in the Unified State Register of Legal Entities on 21 August 2002 under State Registration Number 1025501701686

The Russian Federation, 190000, St. Petersburg, Pochtamtskaya ul., 3-5

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547

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APPENDIX 2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Currency – ₽ millions

	Notes	31 December 2018	31 December 2017
ASSETS			
Current assets			
Cash and cash equivalents	6	247,585	90,608
Short-term financial assets		847	10,449
Trade and other receivables	7	129,15	102,262
Inventories	8	149,956	118,322
Current income tax prepayments		3,179	2,54
Other taxes receivable	9	91,929	58,359
Other current assets	10	40,483	40,047
Total current assets		**663,129**	**422,587**
Non-current assets			
Property, plant and equipment	11	2,366,069	2,052,275
Goodwill and other intangible assets	12	80,139	74,187
Investments in associates and joint ventures	13	328,937	256,758
Long-term trade and other receivables		980	901
Long-term financial assets	15	10,345	31,293
Deferred income tax assets	16	19,127	17,867
Other non-current assets	17	52,2	74,14
Total non-current assets		**2,857,797**	**2,507,421**
TOTAL ASSETS		3,520,926	2,930,008
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	18	90,923	131,76
Current finance lease liabilities	24	1,829	1,397
Trade and other payables	19	307,604	194,438
Other current liabilities	20	39,51	32,5
Current income tax payable		3,328	4,534
Other taxes payable	21	99,085	84,833
Provisions and other accrued liabilities	22	20,043	29,873
Total current liabilities		**562,322**	**479,335**
Non-current liabilities			
Long-term debt	23	684,53	548,654

The accompanying notes are an integral part of these Consolidated Financial Statements

	Notes	31 December 2018	31 December 2017
Non-current finance lease liabilities	24	23,654	20,826
Other non-current financial liabilities	25	44,857	48,569
Deferred income tax liabilities	16	127,448	102,583
Provisions and other accrued liabilities	22	67,192	62,574
Other non-current liabilities		19,104	8,334
Total non-current liabilities		**966,785**	**791,54**
Equity			
Share capital	26	98	98
Treasury shares	26	-1,17	-1,17
Additional paid-in capital		60,397	62,256
Retained earnings		1,680,978	1,431,931
Other reserves		99,874	60,142
Equity attributable to Gazprom Neft shareholders		1,840,177	1,553,257
Non-controlling interest	37	151,642	105,876
Total equity		1,991,819	1,659,133
TOTAL LIABILITIES AND EQUITY		3,520,926	2,930,008

The accompanying notes are an integral part of these Consolidated Financial Statements

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Currency – ₽ millions (except per share data)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Revenue			
Crude oil, gas and petroleum products sales		2,418,717	1,870,790
Other revenue		70,575	63,799
Total revenue from sales	**39**	**2,489,292**	**1,934,589**
Costs and other deductions			
Purchases of oil, gas and petroleum products		(617,306)	(456,037)
Production and manufacturing expenses		(228,618)	(216,530)
Selling, general and administrative expenses		(114,882)	(106,629)
Transportation expenses		(147,182)	(141,982)
Depreciation, depletion and amortisation		(175,451)	(140,998)
Taxes other than income tax	21	(652,784)	(492,269)
Export duties		(94,916)	(76,658)
Exploration expenses		(1,411)	(963)
Total operating expenses		**(2,032,550)**	**(1,632,066)**
Operating profit		**456,742**	**302,523**
Share of profit of associates and joint ventures	13	90,704	45,504
Net foreign exchange loss	29	(33,558)	(241)
Finance income	30	7,506	10,098
Finance expense	31	(21,476)	(25,127)
Other loss, net	28	(19,796)	(7,557)
Total other income		**23,380**	**22,677**
Profit before income tax		**480,122**	**325,200**
Current income tax expense		(59,585)	(43,695)
Deferred income tax expense		(19,544)	(11,827)
Total income tax expense	**32**	**(79,129)**	**(55,522)**
Profit for the period		**400,993**	**269,678**
Other comprehensive income - may be reclassified to profit or loss			
Currency translation differences		36,937	15,603
Cash flow hedge, net of tax	33	14,630	18,434
Other comprehensive income		95	28
Other comprehensive income		**51,662**	**34,065**
Total comprehensive income for the period		**452,655**	**303,743**

The accompanying notes are an integral part of these Consolidated Financial Statements

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Profit attributable to:			
Gazprom Neft shareholders		376,667	253,274
Non-controlling interest		24,326	16,404
Profit for the period		**400,993**	**269,678**
Total comprehensive income attributable to:			
Gazprom Neft shareholders		416,399	279,461
Non-controlling interest		36,256	24,282
Total comprehensive income for the period		**452,655**	**303,743**
Earnings per share attributable to Gazprom Neft shareholders			
Basic earnings (₽ per share)		79.84	53.68
Diluted earnings (₽ per share)		79.84	53.68
Weighted-average number of common shares outstanding (millions)		4,718	4,718

The accompanying notes are an integral part of these Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Currency – ₽ millions

	Attributable to Gazprom Neft shareholders							
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance as of 1 January 2018	**98**	**(1,170)**	**62,256**	**1,431,931**	**60,142**	**1,553,257**	**105,876**	**1,659,133**
Profit for the period	-	-	-	376,667	-	376,667	24,326	400,993
Other comprehensive income								
Currency translation differences	-	-	-	-	25,007	25,007	11,930	36,937
Cash flow hedge, net of tax	-	-	-	-	14,630	14,630	-	14,630
Other comprehensive income	-	-	-	-	95	95	-	95
Total comprehensive income for the period	**-**	**-**	**-**	**376,667**	**39,732**	**416,399**	**36,256**	**452,655**
Transactions with shareholders, recorded in equity								
Dividends to equity holders	-	-	-	(127,620)	-	(127,620)	(11,769)	(139,389)
Transaction under common control	-	-	(2,819)	-	-	(2,819)	-	(2,819)
Change of non-controlling interest in subsidiaries (Note 37)	-	-	960	-	-	960	21,279	22,239
Total transactions with owners	**-**	**-**	**(1,859)**	**(127,620)**	**-**	**(129,479)**	**9,510**	**(119,969)**
Balance as of 31 December 2018	**98**	**(1,170)**	**60,397**	**1,680,978**	**99,874**	**1,840,177**	**151,642**	**1,991,819**

The accompanying notes are an integral part of these Consolidated Financial Statements

	Attributable to Gazprom Neft shareholders							
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total equity
Balance as of 1 January 2017	**98**	**(1,170)**	**51,047**	**1,276,210**	**33,955**	**1,360,140**	**84,027**	**1,444,167**
Profit for the period	-	-	-	253,274	-	253,274	16,404	269,678
Other comprehensive income / (loss)								
Currency translation differences	-	-	-	-	7,725	7,725	7,878	15,603
Cash flow hedge, net of tax	-	-	-	-	18,434	18,434	-	18,434
Other comprehensive income	-	-	-	-	28	28	-	28
Total comprehensive income for the period	**-**	**-**	**-**	**253,274**	**26,187**	**279,461**	**24,282**	**303,743**
Transactions with shareholders, recorded in equity								
Dividends to equity holders	-	-	-	(97,553)	-	(97,553)	(2,433)	(99,986)
Transaction under common control	-	-	11,209	-	-	11,209	-	11,209
Total transactions with shareholders	**-**	**-**	**11,209**	**(97,553)**	**-**	**(86,344)**	**(2,433)**	**(88,777)**
Balance as of 31 December 2017	**98**	**(1,170)**	**62,256**	**1,431,931**	**60,142**	**1,553,257**	**105,876**	**1,659,133**

The accompanying notes are an integral part of these Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Currency – ₽ millions

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities			
Profit before income tax		480,122	325,200
Adjustments for:			
Share of profit of associates and joint ventures	13	(90,704)	(45,504)
Net foreign exchange loss / (gain)	29	33,558	241
Finance income	30	(7,506)	(10,098)
Finance expense	31	21,476	25,127
Depreciation, depletion and amortisation	11, 12	175,451	140,998
Other non-cash items		12,386	3,355
Operating cash flow before changes in working capital		**624,783**	**439,319**
Changes in working capital:			
Accounts receivable		(10,661)	13,655
Inventories		(27,688)	(20,672)
Taxes receivable		(33,855)	(2,502)
Other assets		(4,339)	(1,752)
Accounts payable		51,826	33,002
Taxes payable		13,175	15,600
Other liabilities		11,868	15,478
Total effect of working capital changes		**326**	**52,809**
Income taxes paid		(61,157)	(36,530)
Interest paid		(46,492)	(39,449)
Dividends received		20,063	5,551
Net cash provided by operating activities		**537,523**	**421,700**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		(920)	-
Acquisition of investments in joint ventures		(440)	(8,345)
Disposal of investments in joint ventures		-	476
Bank deposits placement		(640)	(8,462)
Repayment of bank deposits		7,350	2,529
Acquisition of other investments		(70)	-
Proceeds from sales of other investments		-	670
Short-term loans issued		(143)	(200)
Repayment of short-term loans issued		218	33,295
Long-term loans issued		(984)	(1,875)

The accompanying notes are an integral part of these Consolidated Financial Statements

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Repayment of long-term loans issued		12,490	13,048
Purchases of property, plant and equipment and intangible assets		(370,067)	(357,080)
Purchases of oil and gas licences		(5,130)	(10)
Proceeds from sale of property, plant and equipment, intangible assets		4,413	2,210
Proceeds from sale of other non-current assets		-	1,706
Interest received		18,885	9,149
Net cash used in investing activities		**(335,038)**	**(312,889)**
Cash flows from financing activities			
Proceeds from short-term borrowings		442	2,210
Repayment of short-term borrowings		(220)	(9,207)
Proceeds from long-term borrowings		366,102	354,160
Repayment of long-term borrowings		(360,840)	(343,607)
Transaction costs directly attributable to the borrowings received		(158)	(260)
Dividends paid to Gazprom Neft shareholders		(70,774)	(50,382)
Dividends paid to non-controlling interest		(11,864)	(2,542)
Proceeds from sale of non-controlling interest in subsidiaries		22,348	-
Repayment of finance lease liabilities		(1,579)	(893)
Net cash used in financing activities		**(56,543)**	**(50,521)**
Increase in cash and cash equivalents		**145,942**	**58,290**
Effect of foreign exchange on cash and cash equivalents		11,035	(1,303)
Cash and cash equivalents as of the beginning of the period		**90,608**	**33,621**
Cash and cash equivalents as of the end of the period		**247,585**	**90,608**

The accompanying notes are an integral part of these Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Currency – ₽ millions (unless otherwise stated)

1. General

Description of business

PJSC Gazprom Neft (the "Company") and its subsidiaries (together referred to as the "Group") is a vertically integrated oil company operating in the Russian Federation, CIS and internationally. The Group's principal activities include exploration, production and development of crude oil and gas, production of refined petroleum products and distribution and marketing operations through its retail outlets.

The Company was incorporated in 1995 and is domiciled in the Russian Federation. The Company is a public joint stock company and was set up in accordance with Russian regulations. PJSC Gazprom ("Gazprom", a state controlled entity), the Group's ultimate parent company, owns 95.7% of the shares in the Company.

2. Summary of significant accounting policies

Basis of preparation

The Group maintains its books and records in accordance with accounting and taxation principles and practices mandated by legislation in the countries in which it operates (primarily the Russian Federation). The accompanying Consolidated Financial Statements were primarily derived from the Group's statutory books and records with adjustments and reclassifications made to present them in accordance with International Financial Reporting Standards ("IFRS").

Subsequent events occurring after 31 December 2018 were evaluated through 20 February 2019, the date these Consolidated Financial Statements were authorised for issue.

The principal accounting policies are set out below. Apart from the accounting policies changes resulting from adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of measurement

The Consolidated Financial Statements are prepared on the historical cost basis except that derivative financial instruments, equity investments at fair value through other comprehensive income (OCI) and obligations under the Stock Appreciation Rights plan (SAR) are stated at fair value.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group. For the majority of the entities the functional currency is the local currency of the entity.

Monetary assets and liabilities have been translated into the functional currency at the exchange rate as of the reporting date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into functional currency at average rates for the period or exchange rates prevailing on the transaction dates where practicable. Gains and losses resulting from the re-measurement into functional currency are included in profit and loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

The presentation currency for the Group is the Russian Rouble. Gains and losses resulting from the re-measurement into presentation currency are included in a separate line of equity in the Consolidated Statement of Financial Position.

The translation of local currency denominated assets and liabilities into functional currency for the purpose of these Consolidated Financial Statements does not indicate that the Group could realise or settle, in functional currency, the reported values of these assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the reported functional currency value of capital to its shareholders.

Principles of consolidation

The Consolidated Financial Statements include the accounts of subsidiaries in which the Group has control. Control implies rights or exposure to variable returns from the involvement with the investee and the ability to affect those returns through the power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. An investor is exposed, or has the rights to variable returns from its involvement with investee when the investor's return from its involvement has the potential to vary as a result of the investee's performance. The financial statements of subsidiaries are included in the Consolidated Financial Statements of the Group from the date when control commences until the date when control ceases.

In assessing control, the Group takes into consideration potential voting rights that are substantive. Investments in entities that the Group does not control, but where it has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method except for investments that meet criteria of joint operations, which are accounted for on the basis of the Group's interest in the assets, liabilities, expenses and revenues of the joint operation. All other investments are classified either as held-to-maturity or as available for sale.

Business combinations

The Group accounts for its business combinations according to IFRS 3 Business Combinations. The Group applies the acquisition method of accounting and recognises identifiable assets acquired and liabilities and contingent liabilities assumed in the acquiree at the acquisition date, measured at their fair values as of that date. Determining the fair value of assets acquired and liabilities assumed requires Management's judgment and often involves the use of significant estimates and assumptions. Non-controlling interest is measured at fair value (if shares of acquired company have public market price) or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets (if shares of acquired company do not have public market price).

GOODWILL

Goodwill is measured by deducting the fair value net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("bargain purchase") is recognised in profit or loss, after Management identified all assets acquired and all liabilities and contingent liabilities assumed and reviewed the appropriateness of their measurement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

NON-CONTROLLING INTEREST

Ownership interests in the Group's subsidiaries held by parties other than the Group entities are presented separately in equity in the Consolidated Statement of Financial Position. The amount of consolidated net income attributable to the parent and the non-controlling interest are both presented on the face of the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

DISPOSALS OF SUBSIDIARIES

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount of the investment to the entity recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

ACQUISITIONS FROM ENTITIES UNDER COMMON CONTROL

Business combinations involving entities under common control are accounted for by the Group using the predecessor accounting approach from the acquisition date. The Group uses predecessor carrying values for assets and liabilities, which are generally the carrying amounts of the assets and liabilities of the acquired entity from the Consolidated Financial Statements of the highest entity that has common control for which Consolidated Financial Statements are prepared. These amounts include any goodwill recorded at the consolidated level in respect of the acquired entity. When these transactions represent transactions with owners in their capacity as owners, the effect on such transactions is included in Additional paid-in capital in Equity.

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the investor has significant influence. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Consolidated Financial Statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

JOINT OPERATIONS AND JOINT VENTURES

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

With regards to joint arrangements, where the Group acts as a joint venturer, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Cash and cash equivalents

Cash represents cash on hand and in bank accounts, that can be effectively withdrawn at any time without prior notice. Cash equivalents include all highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are initially recognised based on the cost of acquisition which approximates fair value and carried at amortised cost as are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Non-derivative financial assets

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:
> those to be measured subsequently at fair value (either through OCI or through profit or loss), and
> those to be measured at amortised cost.

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset (in the case of the financial asset not at fair value through profit or loss (FVPL)). Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The Group initially recognises financial assets on trade-date (the date on which the Group commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

For assets measured at fair value gains and losses will either be recorded in profit or loss or OCI. The classification of financial assets depends on:
> the entity's business model for managing the financial assets and
> the contractual cash flow characteristics of the financial asset.

In particular, debt financial assets in the Group are usually held to obtain contractual cash flows that are solely payments of principal and interest. In rare cases, debt financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed.

Equity securities at initial recognition are usually accounted at FVOCI. These are strategic investments and the Group considers this classification to be more relevant.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest ("SPPI").

The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

DEBT INSTRUMENTS
Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss if material or presented within "Other loss, net" in the Consolidated Statement of Profit and Loss and Other Comprehensive Income. Financial assets at amortised cost comprise trade receivables, other financial assets, cash and cash equivalents.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains / (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains / (losses) and impairment expenses are presented as separate line item in the statement of profit or loss. The changes in fair value will no longer be reclassified to profit or loss when they are impaired or disposed. These assets are non-material for the Group.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains / (losses) in the period in which it arises. These assets are non-material for the Group.

EQUITY INSTRUMENTS
The group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Other equity instruments are recognised at FVPL. Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. The assets are not significant for the Group.

Accounting policies for non-derivative financial assets applied until 31 December 2017
The group has applied IFRS 9 prospectively and not restated comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

Until 31 December 2017 the Group had the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Group initially recognised loans and receivables on the date that they originated. All other financial assets (including assets designated as at fair value through profit or loss) were recognised initially on the trade date, which was the date that the Group became a party to the contractual provisions of the instrument.

The Group derecognised a financial asset when the contractual rights to the cash flows from the asset expired, or it transferred the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset were transferred. Any interest in such transferred financial assets that was created or retained by the Group was recognised as a separate asset or liability.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset was classified at fair value through profit or loss category if it was classified as held for trading or is designated as such upon initial recognition. Financial assets were designated at fair value through profit or loss if the Group manages such investments and made purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Financial assets at fair value through profit or loss were measured at fair value, and changes therein were recognised in profit and loss.

HELD-TO-MATURITY FINANCIAL ASSETS

If the Group had the positive intent and ability to hold to maturity debt securities that were quoted in an active market, then such financial assets were classified to held-to-maturity category. Held-to-maturity financial assets were recognised initially at fair value. Subsequent to initial recognition held-to-maturity financial assets were measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity were result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

LOANS AND RECEIVABLES

Loans and receivables was a category of financial assets with fixed or determinable payments that were not quoted in an active market. Such assets were recognised initially at fair value. Subsequent to initial recognition loans and receivables were measured at amortised cost using the effective interest method, less any impairment losses. Allowances were provided for doubtful debts based on estimates of uncollectible amounts. These estimates were based on the aging of the receivable, the past history of settlements with the debtor and current economic conditions. Estimates of allowances required the exercise of judgment and the use of assumptions.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets were non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets were recognised initially at fair value. Subsequent to initial recognition, they were measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, were recognised in other comprehensive income and presented within equity in the other reserves line. When an investment is derecognised or impaired, the cumulative gain or loss in equity was reclassified to profit and loss.

Non-derivative financial liabilities

The Group initially recognises debt securities issued, loans and borrowings on the date that they are originated (in particular, date of bond issue or receiving of cash). Financial liabilities also include bank overdrafts, trade and other payables and finance lease liabilities. These financial liabilities recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument. The financial liabilities are recognised initially at fair value minus (in the case of a financial liability that is not at FVTPL) transaction costs that are directly attributable to issuing the financial liability. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial liabilities previously classified in accordance with IAS 39 as financial liabilities measured at amortised cost using the effective interest method, in accordance with IFRS 9 "Financial instruments" are classified as financial liabilities carried at amortised cost.

Derivative financial instruments

Derivative instruments are recorded at fair value in the Consolidated Statement of Financial Position in either financial assets or liabilities. Realised and unrealised gains and losses are presented in profit and loss on a net basis, except for those derivatives, where hedge accounting is applied.

The estimated fair values of derivative financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however significant judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation.

HEDGE ACCOUNTING

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument (currency exchange forwards and interest-rate swaps).

The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on a highly probable forecast transaction.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. Any ineffective portion is directly recognised in profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit and loss.

The fair value of the hedge instrument is determined at the end of each reporting period with reference to the market value, which is typically determined by the credit institutions.

Inventories

Inventories, consisting primarily of crude oil, refined oil products and materials and supplies are stated at the lower of cost and net realisable value. The cost of inventories is assigned on a weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Intangible assets

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. Subsequently goodwill is measured at cost less accumulated impairment losses.

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment loss.

Intangible assets that have limited useful lives are amortised on a straight-line basis over their useful lives. Useful lives with respect to intangible assets are determined as follows:

Intangible asset group	Average useful life
Licenses and software	1-5 years
Land rights	25 years

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and any impairment. The cost of maintenance, repairs and replacement of minor items of property, plant and equipment are expensed when incurred; renewals and improvements of assets are capitalised. Costs of turnarounds and preventive maintenance performed with respect to oil refining assets are expensed when incurred if turnaround does not involve replacement of assets or installation of new assets. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation and impairment losses are eliminated from the accounts. Any resulting gains or losses are recorded in profit and loss.

Oil and gas properties

EXPLORATION AND EVALUATION ASSETS

Acquisition costs include amounts paid for the acquisition of exploration and development licenses.

Exploration and evaluation assets include:

> Costs of topographical, geological, and geophysical studies and rights of access to properties to conduct those studies that are directly attributable to exploration activity;
> Costs of carrying and retaining undeveloped properties;
> Bottom hole contribution;
> Dry hole contribution;
> Costs of drilling and equipping exploratory wells.

The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis.

Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies are considered as part of oil and gas assets until it is determined that the reserves are proved and are commercially viable. On discovery of a commercially-viable mineral reserve, the capitalised costs are allocated to the discovery.

If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found then it should be subject to further appraisal activity, which may include drilling of further wells. If they are likely to be developed commercially (including dry holes), the costs continue to be carried as oil and gas asset as long as some sufficient/continued progress is being made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and Management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

Other exploration costs are charged to expense when incurred.

An exploration and evaluation asset is reclassified to property, plant and equipment and intangible assets when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification. Exploration and development licenses are classified as property, plant and equipment after transfer from exploration and evaluation assets.

DEVELOPMENT COSTS

Development costs are incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. They include the costs of development wells to produce proved reserves as well as costs of production facilities such as lease flow lines, separators, treaters, heaters, storage tanks, improved recovery systems, and nearby gas processing facilities.

Expenditures for the construction, installation, or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells are capitalised within oil and gas assets.

Depreciation, depletion and amortisation

Depletion of acquisition and development costs of proved oil and gas properties is calculated using the unit-of-production method based on proved reserves and proved developed reserves. Acquisition costs of unproved properties are not amortised.

Depreciation and amortisation with respect to operations other than oil and gas producing activities is calculated using the straight-line method based on estimated economic lives. Depreciation rates are applied to similar types of buildings and equipment having similar economic characteristics, as shown below:

Asset group	Average useful life
Buildings and constructions	8-35 years
Machinery and equipment	8-20 years
Vehicles and other equipment	3-10 years

Catalysts and reagents mainly used in the refining operations are treated as other assets.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets (including oil and gas properties) that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs eligible for capitalisation.

Impairment of non-current assets

The carrying amounts of the Group's non-current assets, other than assets arising from goodwill, inventories, long-term financial assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

Goodwill is tested for impairment annually or more frequently if impairment indicators arise. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If any indication of impairment exists, the group makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash-generating units - CGUs). The carrying amount of the CGUs (including goodwill) is compared with their recoverable amount. The recoverable amount of CGUs to which goodwill is allocated is the higher of value in use and fair value less costs of disposal. Where the recoverable amount of the CGUs to which goodwill has been allocated is less than the carrying amount, an impairment loss is recognised.

An impairment loss is recognised in profit and loss. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Impairment of non-derivative financial assets

From 1 January 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk till the initial recognition.

For all trade receivables the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, in respect of credit risk see note 34 for further details.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics, type of products or services and the days past due. The Group calculates expected loss rates for trade receivables based on historical data which are a reasonable approximation of current loss rates.

The group has the following types of financial assets that are subject to the expected credit loss model: trade receivables, debt investments carried at amortised cost and cash and cash equivalents.

ACCOUNTING POLICIES FOR NON-DERIVATIVE FINANCIAL ASSETS APPLIED UNTIL 31 DECEMBER 2017

Financial assets were assessed at each reporting date to determine whether there was any objective evidence of impairment. A financial asset was impaired if objective evidence indicates that a loss event had occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considered evidence of impairment for loans and receivables and held-to-maturity investments at both a specific asset and collective level. All individually significant loans and receivables and held-to maturity investments were assessed for specific impairment. Loans and receivables and held-to-maturity investments that were not individually significant were collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investments with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost was calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit and loss and reflected in an allowance account against loans and receivables or held-to-maturity investments.

Decommissioning obligations

The Group has decommissioning obligations associated with its core activities. The nature of the assets and potential obligations is as follows:

Exploration and production: the Group's activities in exploration, development and production of oil and gas in the deposits are related to the use of such assets as wells, well equipment, oil gathering and processing equipment, oil storage tanks and infield pipelines. Generally, licenses and other permissions for mineral resources extraction require certain actions to be taken by the Group in respect of liquidation of these assets after oil field closure. Such actions include well plugging and abandonment, dismantling equipment, soil recultivation, and other remediation measures. When an oil field is fully depleted, the Group will incur costs related to well retirement and associated environmental protection measures.

Refining, marketing and distribution: the Group's oil refining operations are carried out at large manufacturing facilities that have been operated for several decades. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future asset retirement obligations is complex and requires Management to make estimates and judgments with respect to removal obligations that will occur many years in the future. The Group applies risk-free rate adjusted for specific risks of the liability for the purpose of estimating asset retirement obligations.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

The estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of the item either when an item is acquired or as the item is used during a particular period. Changes in the measurement of an existing decommissioning obligation that result from changes in the estimated timing or amount of any cash outflows, or from changes in the discount rate are reflected in the cost of the related asset in the current period.

Income taxes

Currently some Group companies including PJSC Gazprom Neft exercise the option to pay taxes as a consolidated tax-payer and are subject to taxation on a consolidated basis. The majority of the Group companies do not exercise such an option and current income taxes are provided on the taxable profit of each subsidiary. Most subsidiaries are subject to the Russian Federation Tax Code, under which income taxes are payable at a rate of 20% after adjustments for certain items, that are either not deductible or not taxable for tax purposes. In some cases income tax rate could be set at lower level as a tax concession stipulated by regional legislation. Subsidiaries operating in countries other than the Russian Federation are subject to income tax at the applicable statutory rate in the country in which these entities operate.

Deferred income tax assets and liabilities are recognised in the accompanying Consolidated Financial Statements in the amounts determined by the Group using the balance sheet liability method in accordance with IAS 12 Income Taxes. This method takes into account future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of the Consolidated Financial Statements and their respective tax bases and in respect of operating loss and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets recovered and liabilities settled. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that sufficient future taxable profit will be available against which the deductions can be utilised.

Mineral extraction tax and excise duties

Mineral extraction tax and excise duties, which are charged by the government on the volumes of oil and gas extracted or refined by the Group, are included in operating expenses. Taxes charged on volumes of goods sold are recognised as a deduction from sales.

Export duties

Export duties, which are charged by the government on the volumes of crude oil and petroleum products transferred abroad by the Group, are included in operating expenses.

Share capital

Share capital represents the authorised capital of the Company, as stated in its charter document. The common shareholders are allowed one vote per share. Dividends paid to shareholders are determined by the Board of Directors and approved at the annual shareholders' meeting.

Treasury stock

Common shares of the Company owned by the Group as of the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the Consolidated Financial Statements are authorised for issue are disclosed in the subsequent events note.

Earnings per share

Basic and diluted earnings per common share are determined by dividing the available income to common shareholders by the weighted average number of shares outstanding during the period. There are no potentially dilutive securities.

Stock-based compensation

The Group accounts for its best estimate of the obligation under cash-settled stock-appreciation rights ("SAR") granted to employees at fair value on the date of grant. The estimate of the final liability is re-measured to fair value at each reporting date and the compensation charge recognised in respect of SAR in profit and loss is adjusted accordingly. Expenses are recognised over the vesting period.

Retirement and other benefit obligations

The Group and its subsidiaries do not have any substantial pension arrangements separate from the State pension scheme of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such contributions are charged to expense as incurred. The Group has no significant employee-benefit programs requiring accrual.

Leases

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's Consolidated Statement of Financial Position. The total lease payments are charged to profit and loss for the year on a straight-line basis over the lease term.

Recognition of revenues

Revenue is an income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

The Group recognizes Revenue from sales of crude oil, petroleum products, gas and other products and services when it satisfies a performance obligation and control over goods and services is passed. For the most contracts control over goods or services passes to a customer at point of time and consideration is unconditional because only the passage of time is required before the payment is due. Specifically:

> For export contracts control generally passes to buyer on the border of the Russian Federation, the Group is not responsible for transportation,

> For domestic contracts control generally passes when products are dispatched or delivered to customer. When control passes on delivery to customer transportation is not considered as a distinct performance obligation. In most contracts when control passes on dispatch the Group is not responsible for transportation or transportation is a distinct service provided to customer within a separate contract. In case of sales of petroleum products and transportation by railway performance obligation for transportation is considered to be distinct and excluded from contract price. The Group recognizes this type of revenue within Other revenue line.

The transaction price excludes amounts collected on behalf of third parties such as value added tax and sales related tax. The Group doesn't consider export duties as a part of transaction price and includes expenses with regard to export duties within operating expenses.

Revenue is recognised net of value added tax (VAT), excise taxes calculated on revenues based on the volumes of goods sold, customs duties and other similar compulsory payments.

The contract liability balance presented as advances received at the beginning of the reporting period was short-term by nature and was recognized as revenue during the period.

The Group applies a practical expedient which allows entity not to disclose the information of its remaining performance obligations at the end of the reporting period as the performance obligation is part of a contract that has an original expected duration of less than one year.

ACCOUNTING POLICIES FOR RECOGNITION OF REVENUES APPLIED UNTIL 31 DECEMBER 2017

Revenues from the sales of crude oil, petroleum products, gas and all other products were recognised when deliveries were made to final customers, title passed to the customer, collection was reasonably assured, and the sales price to final customers was fixed or determinable. Specifically, domestic crude oil sales and petroleum product and materials sales were recognised when they are shipped to customers, which was generally when title passes. For export sales, title generally passed at the border of the Russian Federation and the Group was responsible for transportation, duties and taxes on those sales.

Revenue was recognised net of value added tax (VAT), excise taxes calculated on revenues based on the volumes of goods sold, customs duties and other similar compulsory payments.

Sales included revenue, export duties and sales related excise tax.

Buy / sell transactions

Purchases and sales under the same contract with a specific counterparty (buy / sell transaction) are eliminated under IFRS. The purpose of the buy-sell operation, i.e. purchase and sale of same type of products in different locations during the same reporting period from / to the same counterparty, is to optimise production capacities of the Group rather than generate profit. After elimination, any positive difference is treated as a decrease in transportation costs and any negative difference is treated as an increase in transportation costs.

Transportation costs

Transportation expenses recognised in profit and loss represent expenses incurred to transport crude oil and oil products through the PJSC "AK "Transneft" pipeline network, costs incurred to transport crude oil and oil products by maritime vessel and railway and all other shipping and handling costs.

Other comprehensive income / loss

All other comprehensive income / loss is presented by the items that are or may be reclassified subsequently to profit or loss, net of related income tax.

3. Critical accounting estimates, assumptions and judgments

Preparing these Consolidated Financial Statements in accordance with IFRS requires Management to make judgements on the basis of estimates and assumptions. These judgements affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period.

Management reviews the estimates and assumptions on a continuous basis, by reference to past experiences and other factors that can reasonably be used to assess the book values of assets and liabilities. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

Actual results may differ from the judgements, estimates made by the Management if different assumptions or circumstances apply.

Judgments and estimates that have the most significant effect on the amounts reported in these Consolidated Financial Statements and have a risk of causing a material adjustment to the carrying amount of assets and liabilities are described below.

Impairment of non-current assets

The following are examples of impairment indicators, which are reviewed by the Management: changes in the Group's business plans, changes in oil and commodity prices leading to sustained unprofitable performance, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. In case any of such indicators exist the Group makes an assessment of recoverable amount.

The long-term business plans (models), which are approved by the Management, are the primary source of information for the determination of value in use. They contain forecasts for oil and gas production, refinery throughputs, sales volumes for various types of refined products, revenues, costs and capital expenditure.

As an initial step in the preparation of these plans, various market assumptions, such as oil prices, refining margins, refined product margins and inflation rates, are set by the Management. These market assumptions take into account long-term oil price forecasts by the research institutions, macroeconomic factors such as inflation rate and historical trends.

In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group or CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Estimation of oil and gas reserves

Engineering estimates of oil and gas reserves are inherently uncertain and are subject to future revisions on annual basis. The Group estimates its oil and gas reserves in accordance with rules promulgated by the US Securities and Exchange Commission (SEC) for proved reserves. Oil and gas reserves are determined with use of certain assumptions made by the Group, for future capital and operational expenditure, estimates of oil in place, recovery factors, number of wells and cost of drilling. Accounting measures such as depreciation, depletion and amortisation charges that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate recoverability in future years from known reservoirs under existing economic conditions with reasonable certainty. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Oil and gas reserves have a direct impact on certain amounts reported in the Consolidated Financial Statements, most notably depreciation, depletion and amortisation as well as impairment expenses. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Useful lives of property, plant and equipment

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Contingencies

Certain conditions may exist as of the date of these Consolidated Financial Statements are issued that may result in a loss to the Group, but one that will only be realised when one or more future events occur or fail to occur. Management makes an assessment of such contingent liabilities that is based on assumptions and is a matter of judgement. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal and tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. If loss contingencies cannot be reasonably estimated, Management recognises the loss when information becomes available that allows a reasonable estimation to be made. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities of an unusual nature which, in the judgment of Management and its legal counsel, may be of interest to shareholders or others.

Joint arrangements

Upon adopting of IFRS 11 the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

Leases

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Risks include the possibilities of losses from idle capacities or technological obsolence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realization of a residual value.

Other leases are classified as operating leases. In most cases leasing of vessels under time-charter agreements are accounted for as operating leases under IAS 17 Leases.

4. Application of new IFRS

The following standards or amended standards became effective for the Group from 1 Januar 2018:
> IFRS 9 – Financial Instruments (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018),
> IFRS 15 – Revenue from Contracts with Customers (amended in April 2016 and effective for annual periods beginning on or after 1 January 2018),
> IFRIC 22 – Foreign currency transactions and advance consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018),
> Amendments to IFRS 2 – Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018),
> Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Impact of adoption

The Group has adopted IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the Consolidated Financial Statements.

> IFRS 9 was adopted without restating comparative information; no significant adjustments were recognized in Consolidated Financial Statements. The changes in classification categories didn't result in changes of presentation in Consolidated Statement of Financial Position. Consequently, the revised requirements of IFRS 7 have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.
> In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for 2017 financial year.

IFRS 15 – Revenue from contracts with Customers (amended in April 2016 and effective for annual periods beginning on or after 1 January 2018). In summary, the following adjustments were made to amounts recognized in Consolidated Statement of Profit and Loss and Other Comprehensive Income:

	Year ended 31 December 2017	Reclassification	Year ended 31 December 2017 (restated)
Revenue			
Crude oil, gas and petroleum products sales	1,796,124	74,666	1,870,790
Other revenue	61,807	1,992	63,799
Total revenue from sales	**1,857,931**	**76,658**	**1,934,589**
Costs and other deductions			
Export duties	-	(76,658)	(76,658)
Total operating expenses	**(1,555,408)**	**(76,658)**	**(1,632,066)**
Operating profit	**302,523**	**-**	**302,523**

> Reclassification of expenses with regard to export duties in the amount of ₽ 76.7 billion,
> Reclassification of revenue from transportation services included in contract price from Crude oil, gas and petroleum products sales to Other revenue in the amount of ₽ 2.0 billion,
> Crude oil, gas and petroleum products sales are presented net of sales related excises in the amount of ₽ 69.0 billion.

IFRS 9 – Financial Instruments (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Financial assets and liabilities previously classified in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" within categories loans and receivables, investments held to maturity and other financial liabilities measured at amortised cost using the effective interest method, in accordance with IFRS 9 "Financial instruments" are classified as financial assets and financial liabilities carried at amortised cost. Measurement of cash and cash equivalents, trade and other receivables and payables, long-term and short-term loans and investments, held-to-maturity investments has not changed and these financial instruments are measured at amortised cost.

The adoption of IFRS 9 did not significantly impact balance sheet classification of financial assets and liabilities in the Consolidated Financial Statements of the Group. At 31 December 2017, all of the Group's financial liabilities except for derivatives were carried at amortised cost. The derivatives belonged to the FVTPL measurement category under IAS 39. There were no changes to the classification and measurement of financial liabilities.

New model for recognition of impairment losses - expected credit losses (ECL) model was introduced within the Group which is disclosed at Note 2 "Summary of significant accounting policies" and 34 "Financial risk management" in respect of credit risk. The amount of expected credit losses as at 1 January 2018 does not materially differ from the amount of recognized provisions and allowances in the Consolidated Financial Statements as at 31 December 2017 and therefore there is no quantitative effect of transition as of 1 January 2018.

In the reporting period the Group continued to apply IAS 39 for hedge accounting. In case of new hedging instruments arise the Group may revise its plans to switch to IFRS 9 in respect of hedging instruments in the following reporting periods.

IFRIC 22 – Foreign currency transactions and advance consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. This interpretation does not have any material impact on the Group.

5. New accounting standards

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and that the Group has not early adopted. The group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 – Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). IFRS 16 will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact of adoption

The group has set up a project team which has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the group's operating leases.

As at the reporting date, the group has non-cancellable operating lease commitments of ₽ 124 billion, see note 35. Part of these commitments relate to short-term leases and low value leases which will both be recognised on a straight-line basis as expense in profit or loss. For the remaining lease commitments the Group intends to recognise lease liabilities in the expected amount of ₽ 61 billion on 1 January 2019. The amount may be corrected due to the management decision about lease terms and the finalization of discount rate calculation.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application. Right-of-use assets under time-charter agreements will be measured on transition since the commencement date. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The following other new standards and pronouncements are not expected to have any material impact on the Group when adopted:

- IFRS 17 – Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021),
- IFRIC 23 – Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019),
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB),
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019),
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019),
- Amendments to the Conceptual Framework for Financial Reporting (issued in March 2018 and effective for annual periods beginning on or after 1 January 2020),
- Definition of a Business – Amendments to IFRS 3 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020),
- Definition of Material – Amendments to IAS 1 and IAS 8 (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020),
- Annual Improvements to IFRSs 2015-2017 cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

6. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2018 and 2017 comprise the following:

	31 December 2018	31 December 2017
Cash on hand	753	946
Cash in bank	50,897	46,107
Deposits with original maturity of less than three months	191,827	28,816
Other cash equivalents	4,108	14,739
Total cash and cash equivalents	**247,585**	**90,608**

7. Trade and other receivables

Trade and other receivables as of 31 December 2018 and 2017 comprise the following:

	31 December 2018	31 December 2017
Trade receivables	129,520	107,758
Other financial receivables	2,060	2,071
Less credit loss allowance	(2,430)	(7,567)
Total trade and other receivables	**129,150**	**102,262**

8. Inventories

Inventories as of 31 December 2018 and 2017 consist of the following:

	31 December 2018	31 December 2017
Petroleum products and petrochemicals	70,385	55,828
Crude oil and gas	34,601	28,200
Materials and supplies	27,416	23,143
Other	17,554	11,151
Total inventory	**149,956**	**118,322**

9. Other taxes receivable

Other taxes receivable as of 31 December 2018 and 2017 comprise the following:

	31 December 2018	31 December 2017
Value added tax receivable	79,921	50,163
Prepaid custom duties	7,232	5,076
Other taxes prepaid	4,776	3,120
Total other taxes receivable	**91,929**	**58,359**

10. Other current assets

Other current assets as of 31 December 2018 and 2017 comprise the following:

	31 December 2018	31 December 2017
Advances paid	25,191	24,503
Prepaid expenses	1,662	1,955
Other assets	13,630	13,589
Total other current assets, net	**40,483**	**40,047**

11. Property, plant and equipment

Movements in property, plant and equipment for the years ended 31 December 2018 and 2017 are presented below:

Cost	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under construction	Total
As of 1 January 2018	**1,772,103**	**347,738**	**189,603**	**26,638**	**538,965**	**2,875,047**
Additions	9,029	1,699	-	-	395,112	405,840
Acquisitions through business combinations	-	-	1,108	-	-	1,108
Changes in decommissioning obligations	(8,885)	-	-	-	-	(8,885)
Capitalised borrowing costs	-	-	-	-	37,670	37,670
Transfers	251,966	25,450	35,969	3,447	(316,832)	-
Internal movement	137	(1,028)	1,167	98	(374)	-
Reclassification from other non-current assets	1,003	5,160	602	13	(2,040)	4,738
Disposals	(13,841)	(1,987)	(1,865)	(2,879)	(9,623)	(30,195)
Translation differences	72,696	10,067	10,802	341	12,894	106,800
As of 31 December 2018	**2,084,208**	**387,099**	**237,386**	**27,658**	**655,772**	**3,392,123**
Depreciation and impairment						
As of 1 January 2018	**(649,937)**	**(105,090)**	**(60,290)**	**(7,455)**	**-**	**(822,772)**
Depreciation charge	(131,293)	(16,930)	(12,801)	(2,600)	-	(163,624)
Impairment	(4,340)	-	-	-	-	(4,340)
Acquisitions through business combinations	-	-	(110)	-	-	(110)
Internal movement	229	102	(546)	215	-	-
Reclassification from other non-current assets	(175)	(1,600)	-	-	-	(1,775)
Disposals	7,891	1,569	1,511	849	-	11,820
Translation differences	(38,250)	(3,240)	(3,573)	(190)	-	(45,253)
As of 31 December 2018	**(815,875)**	**(125,189)**	**(75,809)**	**(9,181)**	**-**	**(1,026,054)**
Net book value						
As of 1 January 2018	**1,122,166**	**242,648**	**129,313**	**19,183**	**538,965**	**2,052,275**
As of 31 December 2018	**1,268,333**	**261,910**	**161,577**	**18,477**	**655,772**	**2,366,069**

Capitalized borrowing costs for the year ended 31 December 2018 include interest expense in the amount of ₽ 31.6 billion and exchange losses arising from foreign currency borrowings in the amount of ₽ 6.1 billion.

Cost	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under constru-ction	Total
As of 1 January 2017	**1,569,525**	**308,192**	**152,871**	**23,531**	**369,304**	**2,423,423**
Additions	2,921	1,572	-	-	403,860	408,353
Changes in decommissioning obligations	20,152	-	-	-	-	20,152
Capitalised borrowing costs	-	-	-	-	29,562	29,562
Transfers	191,205	32,548	34,120	3,562	(261,435)	-
Internal movement	(1,230)	(724)	(72)	591	1,435	-
Disposals	(7,101)	(699)	(1,913)	(1,329)	(2,212)	(13,254)
Translation differences	(3,369)	6,849	4,597	283	(1,549)	6,811
As of 31 December 2017	**1,772,103**	**347,738**	**189,603**	**26,638**	**538,965**	**2,875,047**
Depreciation and impairment						
As of 1 January 2017	**(553,140)**	**(89,106)**	**(49,052)**	**(5,780)**	**-**	**(697,078)**
Depreciation charge	(107,119)	(14,787)	(11,140)	(2,336)	-	(135,382)
Impairment	256	-	-	-	-	256
Internal movement	444	157	(44)	(557)	-	-
Disposals	4,611	601	1,110	1,313	-	7,635
Translation differences	5,011	(1,955)	(1,164)	(95)	-	1,797
As of 31 December 2017	**(649,937)**	**(105,090)**	**(60,290)**	**(7,455)**	**-**	**(822,772)**
Net book value						
As of 1 January 2017	**1,016,385**	**219,086**	**103,819**	**17,751**	**369,304**	**1,726,345**
As of 31 December 2017	**1,122,166**	**242,648**	**129,313**	**19,183**	**538,965**	**2,052,275**

Capitalisation rate for the borrowing costs related to the acquisition of property, plant and equipment equals to 6% for the year ended 31 December 2018 (7% for the year ended 31 December 2017).

The information regarding Group's exploration and evaluation assets (part of O&G properties) is presented below:

	2018	2017
Net book value as of 1 January	**94,027**	**75,343**
Additions	26,363	22,283
Unsuccessful exploration expenditures derecognised	(9,532)	(337)
Transfer to proved property	(2,886)	(2,522)
Disposals	(407)	(143)
Translation differences	6,721	(597)
Net book value as of 31 December	**114,286**	**94,027**

During 2018 the Group performed impairment testing and recognised impairment in relation to upstream oil and gas assets in the amount of ₽ 4.3 billion (net reversal of impairment in relation to upstream oil and gas assets in the amount of ₽ 0.3 billion was recognised for the year ended 31 December 2017). The impairment loss is included in Depreciation, depletion and amortisation line item in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

The book value of these assets is equal to ₽ 56.6 billion and exceeded its recoverable amount. The impairment loss for these assets was recognized by the Group. Revision of the expected economic and technical performance of the assets in result of changes in exploration information, development programs, investment plans and international oil prices affected estimated value in use of these assets.

The recoverable amount was determined as the present value of estimated future cash flows using available forecasts of oil prices from globally recognised research institutions and production quantities based on reserve reports and long-term strategic plans. The pre-tax discount rate reflects current market assessments of the time value of money and the risks specific to the asset and amounts to 11.4% per annum in real terms.

12. Goodwill and other intangible assets

The information regarding movements in Group's intangible assets is presented below:

Cost	Goodwill	Software	Land rights	Other IA	Total
As of 1 January 2018	**34,100**	**33,376**	**17,611**	**17,012**	**102,099**
Additions	-	5,781	824	5,307	11,912
Acquisitions through business combinations	-	-	-	99	99
Internal movement	-	788	11	(799)	-
Disposals	-	(373)	(1,727)	(261)	(2,361)
Translation differences	2,927	1,107	75	225	4,334
As of 31 December 2018	**37,027**	**40,679**	**16,794**	**21,583**	**116,083**
Amortisation and impairment					
As of 1 January 2018	**(201)**	**(16,708)**	**(5,916)**	**(5,087)**	**(27,912)**
Amortisation charge	-	(5,228)	(696)	(1,563)	(7,487)
Internal movement	-	328	-	(328)	-
Disposals	-	369	359	(246)	482
Translation differences	(33)	(859)	(3)	(132)	(1,027)
As of 31 December 2018	**(234)**	**(22,098)**	**(6,256)**	**(7,356)**	**(35,944)**
Net book value					
As of 1 January 2018	**33,899**	**16,668**	**11,695**	**11,925**	**74,187**
As of 31 December 2018	**36,793**	**18,581**	**10,538**	**14,227**	**80,139**

Cost	Goodwill	Software	Land rights	Other IA	Total
As of 1 January 2017	**32,106**	**26,979**	**17,521**	**16,006**	**92,612**
Additions	-	4,659	9	3,038	7,706
Internal movement	-	1,202	27	(1,229)	-
Disposals	-	(68)	(2)	(900)	(970)
Translation differences	1,994	604	56	97	2,751
As of 31 December 2017	**34,100**	**33,376**	**17,611**	**17,012**	**102,099**
Amortisation and impairment					
As of 1 January 2017	**(180)**	**(13,060)**	**(5,214)**	**(4,007)**	**(22,461)**
Amortisation charge	-	(3,770)	(702)	(1,400)	(5,872)
Internal movement	-	519	-	(519)	-
Disposals	-	-	-	767	767
Translation differences	(21)	(397)	-	72	(346)
As of 31 December 2017	**(201)**	**(16,708)**	**(5,916)**	**(5,087)**	**(27,912)**
Net book value					
As of 1 January 2017	**31,926**	**13,919**	**12,307**	**11,999**	**70,151**
As of 31 December 2017	**33,899**	**16,668**	**11,695**	**11,925**	**74,187**

Goodwill acquired through business combination has been allocated to Upstream and Downstream in the amounts of ₽ 29.7 billion and ₽ 7.1 billion as of 31 December 2018 (₽ 27.0 billion and ₽ 6.9 billion as of 31 December 2017). Goodwill was tested for impairment and no impairment was identified.

13. Investments in associates and joint ventures

The carrying values of the investments in associates and joint ventures as 31 December 2018 and 2017 are summarised below:

		31 December 2018		31 December 2017	
		Ownership percentage	Carrying value	Ownership percentage	Carrying value
Slavneft	Joint venture	49.9	126,835	49.9	111,679
Arcticgas	Joint venture	50.0	146,246	46.7	105,157
Messoyakha	Joint venture	50.0	36,837	50.0	17,965
Northgas	Joint venture	50.0	7,767	50.0	12,568
Others			11,252		9,389
Total investments			**328,937**		**256,758**

The principal place of business of the most significant joint ventures and associates disclosed above is the Russian Federation.

The total amount of dividends received from joint ventures in 2018 amounts to ₽ 20,028 million (₽ 5,531 million in 2017).

Slavneft

PJSC NGK Slavneft and it’s subsidiaries (Slavneft) are engaged in exploration, production and development of crude oil and gas and production of refined petroleum products. The control over Slavneft is divided equally between the Group and PJSC NK Rosneft.

Arcticgas

In January 2018 SeverEnergy LLC and Yamal Razvitie LLC were merged to JSC Arctic Gas Company (Arcticgas, an entity jointly controlled by the Group and PJSC NOVATEK). In March 2018 the loans issued by Gazprom Neft were converted to ordinary shares from additional share emission of Arcticgas. As result the Group's share in Arcticgas (previously was held through SeverEnergy LLC and Yamal Razvitie LLC) increased to 50.0% as of 31 March 2018.

Arcticgas is developing the Samburgskoye, Urengoiskoe and Yaro-Yakhinskoye oil and gas condensate fields and some other small oil and gas condensate fields located in the Yamalo-Nenetskiy autonomous region of the Russian Federation.

Northgas

CJSC Northgas (Northgas) is engaged in development of Severo-Urengoiskoe natural gas and oil field. The Group's investment in Northgas is held through Gazprom Resource Northgas LLC which is controlled by the Group and owns a 50% share in Northgas. The control over Northgas is divided equally between the Group and PJSC NOVATEK.

Messoyakha

JSC Messoyakhaneftegas (Messoyakha) is developing the Vostochno-Messoyakhskoe and Zapadno-Messoyakhskoe oil and gas condensate fields. The control over Messoyakha is divided equally between the Group and PJSC NK Rosneft.

The summarised financial information for the significant associates and joint ventures as of 31 December 2018 and 2017 and for the years ended 31 December 2018 and 2017 is presented in the tables below.

31 December 2018	Slavneft	Arcticgas	Messoyakha	Northgas
Cash and cash equivalents	3,448	38,132	1	1,151
Other current assets	89,057	18,430	23,977	3,560
Non-current assets	379,881	382,586	178,452	41,785
Current financial liabilities	(31,609)	(40,645)	(10,063)	(8,002)
Other current liabilities	(30,902)	(11,055)	(8,810)	(83)
Non-current financial liabilities	(126,151)	(65,160)	(99,000)	(15,522)
Other non-current liabilities	(42,469)	(51,637)	(11,302)	(5,982)
Net assets	**241,255**	**270,651**	**73,255**	**16,907**

31 December 2017	Slavneft	SeverEnergy (Arcticgas)	Messoyakha	Northgas
Cash and cash equivalents	4,153	8,658	1	1,409
Other current assets	54,479	133,617	18,654	3,256
Non-current assets	344,997	259,175	152,469	54,065
Current financial liabilities	(34,666)	(49,851)	(4,913)	(6,379)
Other current liabilities	(29,617)	(18,495)	(4,812)	(77)
Non-current financial liabilities	(88,198)	(91,811)	(116,815)	(21,109)
Other non-current liabilities	(41,229)	(52,465)	(9,072)	(4,656)
Net assets	**209,919**	**188,828**	**35,512**	**26,509**

Year ended 31 December 2018	Slavneft	Arcticgas	Messoyakha	Northgas
Revenue	314,332	195,581	125,521	23,337
Depreciation and amortisation	(38,713)	(21,100)	(19,692)	(2,554)
Finance income	371	1,243	-	679
Finance expense	(9,246)	(10,215)	(7,531)	(2,113)
Total income tax expense	(7,682)	(16,926)	(11,656)	(1,951)
Profit for the period	31,235	81,823	56,344	7,399
Total comprehensive income for the period	31,372	81,823	56,344	7,399

Year ended 31 December 2017	Slavneft	SeverEnergy (Arcticgas)	Messoyakha	Northgas
Revenue	241,253	147,204	61,030	23,079
Depreciation and amortisation	(37,984)	(23,357)	(12,489)	(2,561)
Finance income	989	966	3	1,153
Finance expense	(6,781)	(17,759)	(6,559)	(2,784)
Total income tax expense	(4,429)	(7,210)	(4,615)	(1,726)
Profit for the period	21,648	42,365	19,952	6,868
Total comprehensive income for the period	21,707	42,365	19,952	6,868

Others

The aggregate carrying amount of all individually immaterial associates and joint ventures as well as the Group's share of those associates' and joint ventures' profit or loss and other comprehensive income are not significant for both reporting dates and periods.

14. Joint operations

Under IFRS 11 Joint Arrangements the Group assessed the nature of its 50% share in joint arrangements and determined investments in Tomskneft and Salym Petroleum Development as Joint operations. Tomskneft and Salym Petroleum Development are engaged in production of oil and gas in the Russian Federation and all of the production is required to be sold to the parties of the joint arrangement (that is, the Group and its partners).

15. Long-term financial assets

Long-term financial assets as of 31 December 2018 and 2017 comprise the following:

	31 December 2018	31 December 2017
Long-term loans issued	7,846	27,895
Equity investments at fair value through OCI	3,083	2,911
Deposits with original maturity more than 1 year	-	1,181
Less credit loss allowance	(584)	(694)
Total long-term financial assets	10,345	31,293

As of 31 December 2017 equity investments at fair value through OCI was recorded as available for sale financial assets.

16. Deferred income tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

As of 31 December 2018	Assets	Liabilities	Net
Property, plant and equipment	3,869	(149,449)	(145,580)
Intangible assets	-	(3,875)	(3,875)
Investments	515	(9)	506
Inventories	1,047	(1,902)	(855)
Trade and other receivables	2,595	(15)	2,580
Loans and borrowings	-	(286)	(286)
Provisions	6,063	(251)	5,812
Tax loss carry-forwards	24,387	-	24,387
Finance lease	5,264	-	5,264
Other	5,002	(1,276)	3,726
Net-off	(29,615)	29,615	-
Tax assets / (liabilities)	**19,127**	**(127,448)**	**(108,321)**
As of 31 December 2017			
Property, plant and equipment	4,965	(126,842)	(121,877)
Intangible assets	1	(3,536)	(3,535)
Investments	358	(340)	18
Inventories	828	(1,369)	(541)
Trade and other receivables	2,838	(28)	2,810
Loans and borrowings	-	(276)	(276)
Provisions	6,598	(24)	6,574
Tax loss carry-forwards	23,255	-	23,255
Finance lease	4,866	-	4,866
Other	4,938	(948)	3,990
Net-off	(30,780)	30,780	-
Tax assets / (liabilities)	**17,867**	**(102,583)**	**(84,716)**

Movement in temporary differences during the period:

	As of 1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	As of 31 December 2018
Property, plant and equipment	(121,877)	(21,073)	(2,479)	(151)	(145,580)
Intangible assets	(3,535)	(340)	-	-	(3,875)
Investments	18	2,293	(1,805)	-	506
Inventories	(541)	(314)	-	-	(855)
Trade and other receivables	2,810	(316)	86	-	2,580
Loans and borrowings	(276)	(10)	-	-	(286)
Provisions	6,574	(853)	91	-	5,812
Tax loss carry-forwards	23,255	1,098	34	-	24,387
Finance lease	4,866	398	-	-	5,264
Other	3,990	(427)	162	1	3,726
	(84,716)	**(19,544)**	**(3,911)**	**(150)**	**(108,321)**

	As of 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	Acquired/ disposed of	As of 31 December 2017
Property, plant and equipment	(91,162)	(31,087)	372	-	(121,877)
Intangible assets	(3,661)	126	-	-	(3,535)
Investments	(269)	267	20	-	18
Inventories	(68)	(473)	-	-	(541)
Trade and other receivables	2,291	460	59	-	2,810
Loans and borrowings	(2,152)	1,876	-	-	(276)
Provisions	7,250	(736)	60	-	6,574
Tax loss carry-forwards	14,152	9,146	(43)	-	23,255
Finance lease	-	4,866	-	-	4,866
Other	311	3,728	(49)	-	3,990
	(73,308)	**(11,827)**	**419**	**-**	**(84,716)**

17. Other non-current assets

Other non-current assets are primarily comprised of advances provided on capital expenditures (₽ 42.8 billion and ₽ 69.3 billion as of 31 December 2018 and 2017, respectively).

18. Short-term debt and current portion of long-term debt

As of 31 December 2018 and 2017 the Group has short-term debt and current portion of long-term debt outstanding as follows:

	31 December 2018	31 December 2017
Current portion of long-term debt	90,263	131,360
Other borrowings	660	400
Total short-term debt and current portion of long-term debt	**90,923**	**131,760**

19. Trade and other payables

Accounts payable as of 31 December 2018 and 2017 comprise the following:

	31 December 2018	31 December 2017
Trade accounts payable	185,269	118,151
Dividends payable	106,713	49,520
Forward contracts - cash flow hedge	-	16,758
Other accounts payable	15,622	10,009
Total trade and other payables	**307,604**	**194,438**

Other accounts payable are mainly represented by short-term part of liability to PJSC Gazprom for assets relating to Prirazlomnoye project.

20. Other current liabilities

Other current liabilities as of 31 December 2018 and 2017 comprise the following:

	31 December 2018	31 December 2017
Advances received	25,599	21,972
Payables to employees	3,878	3,182
Other non-financial payables	10,033	7,346
Total other current liabilities	**39,510**	**32,500**

21. Other taxes payable

Other taxes payable as of 31 December 2018 and 2017 comprise the following:

	31 December 2018	31 December 2017
VAT	42,580	27,515
Mineral extraction tax	33,782	31,807
Excise tax	11,001	13,201
Social security contributions	6,051	6,974
Other taxes	5,671	5,336
Total other taxes payable	**99,085**	**84,833**

Tax expense other than income tax expense for the years ended 31 December 2018 and 2017 comprise the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Mineral extraction tax	487,492	329,579
Excise tax	126,779	128,229
Social security contributions	22,113	20,433
Other taxes	16,400	14,028
Total taxes other than income tax	**652,784**	**492,269**

22. Provisions and other accrued liabilities

Movement in provisions and other accrued liabilities for the years ended 31 December 2018 and 2017 is below:

	Decommissioning and environmental provision	Other accrued liabilities	Total
Carrying amount as of 1 January 2017	**36,361**	**24,987**	**61,348**
Short-term part	151	15,255	15,406
Long-term part	36,210	9,732	45,942
New obligation incurred	5,790	11,711	17,501
Utilisation of provision / accrual	(684)	(3,301)	(3,985)
Change in estimates	14,326	-	14,326
Unwind of discount	2,785	-	2,785
Translation differences	23	449	472
Carrying amount as of 31 December 2017	**58,601**	**33,846**	**92,447**
Short-term part	151	29,722	29,873
Long-term part	58,450	4,124	62,574
New obligation incurred	9,323	9,917	19,240
Utilisation of provision / accrual	(2,422)	(16,972)	(19,394)
Change in estimates	(11,857)	-	(11,857)
Unwind of discount	3,809	-	3,809
Translation differences	2,176	814	2,990
Carrying amount as of 31 December 2018	**59,630**	**27,605**	**87,235**
Short-term part	1,771	18,272	20,043
Long-term part	57,859	9,333	67,192

Change in estimates was mainly caused by revision of discount and inflation rates.

23. Long-term debt

As of 31 December 2018 and 2017 the Group has long-term outstanding debt as follows:

	31 December 2018	31 December 2017
Bank loans	424,447	303,173
Loan participation notes	209,426	226,110
Bonds	132,719	143,007
Other borrowings	8,201	7,724
Less current portion of long-term debt	(90,263)	(131,360)
Total long-term debt	**684,530**	**548,654**

Bank loans

In March and September 2018 the Group performed principal repayment in the total amount of $ 614.3 million (₽ 38.9 billion) under the Club term loan facility with the syndicate of international banks (facility agent – Mizuho) according to the payment schedule.

In March and September 2018 the Group performed principal repayment in the total amount of $ 200 million (₽ 12.4 billion) under the Club term loan facility with the syndicate of international banks (facility agent – Commerzbank) according to the payment schedule.

In January 2018 the Group borrowed ₽ 51.3 billion under long-term facility agreements due payable in January 2023. In July 2018 the Group performed pre-scheduled principal repayment in the total amount of ₽ 48.0 billion due to borrowing ₽ 48.0 billion under long-term facility agreement due payable in July 2023.

In December 2017 the Group signed several long-term facility agreements with final maturity date in December 2022 – June 2023. In June 2018 the Group performed pre-scheduled principal repayment in the total amount of ₽ 102.0 billion due to borrowing ₽ 102.0 billion under long-term facility agreement due payable in June 2023.

In September 2018 the Group borrowed ₽ 10.0 billion under long-term facility agreement with Alfa-Bank due payable in September 2023.

In first half 2015 the Group signed several long-term facility agreements with one of the Russian banks with final maturity date in August 2019. In October and November the Group performed pre-scheduled principal repayment in the total amount of ₽ 15.0 billion and ₽ 5.0 billion respectively.

In October 2018 the Group borrowed ₽ 15.0 billion under long-term facility agreement with Gazprombank due payable in October 2021.

In November 2018 the Group borrowed ₽ 5.0 billion under long-term facility agreement with Gazprombank due payable in November 2021.

In December 2018 the Group borrowed ₽ 50.0 billion under long-term facility agreements due payable in December 2023.

In December 2018 the Group borrowed ₽ 30.0 billion under long-term facility agreement with one of the Russian banks due payable in June 2021.

The loan agreements contain financial covenant that limits the Group's ratio of "Consolidated financial indebtedness to Consolidated EBITDA". The Group is in compliance with all covenants as of 31 December 2018 and 2017 and during the year ended 31 December 2018.

Bonds

In March 2018 the Group placed six-year Rouble Bonds (001P-06R series) with the total par value of ₽ 25.0 billion. The bonds bear interest of 7.2% per annum.

In March 2018 the Group exercised the call option on Rouble bonds (series BO-02 and BO-07) in the total amount of ₽ 25.0 billion. The bonds are fully repaid.

In April 2018 the Group exercised the put option on Rouble bonds (series 4-04) in the total amount of ₽ 9.9 billion.

Loan participation notes

In April 2013 the Group raised € 750 million (₽ 30.6 billion) financed by 2.9% Loan Participation Notes (LPN) due payable in April 2018 (Series 2). In April 2018 the Group performed principal repayment of LPN (series 2) in the total amount of € 750 million (₽ 56.6 billion). The LPN are fully repaid.

24. Finance lease

Since 2017 the Group has finance lease agreements regarding vessels. As of 31 December 2018 net book value of the leased assets which are pledged for finance lease is ₽ 24.2 billion (₽ 24.8 billion as of 31 December 2017). At the end of lease term ownership title to the vessels transfers to the Group. The lease contract also contains an option for early purchase of the assets by the Group.

Net book value of other items of property, plant and equipment under finance lease contracts is non significant.

The reconciliation between future minimum lease payments and their present value as of 31 December 2018 and 2017 is presented in the table below:

	Minimum lease payments	Present value of minimum lease payments
31 December 2018		
Less than one year	3,392	3,282
Between one and five years	13,792	11,462
More than five years	17,627	10,739
Total minimum lease payments	**34,811**	**25,483**
31 December 2017		
Less than one year	2,784	2,693
Between one and five years	11,204	9,273
More than five years	17,355	10,257
Total minimum lease payments	**31,343**	**22,223**

The difference between the minimum lease payments and their present value represents future finance charges on finance lease liabilities.

25. Other non-current financial liabilities

Other non-current financial liabilities as of 31 December 2018 and 2017 comprise the following:

	31 December 2018	31 December 2017
Deferred consideration	43,407	47,245
Forward contracts - cash flow hedge	1,623	1,295
Other liabilities	(173)	29
Total other non-current financial liabilities	**44,857**	**48,569**

Deferred consideration represents liability to PJSC Gazprom for assets relating to Prirazlomnoye project. Payments of the principal amount of the liability are presented as financing activities at line "Repayment of long-term borrowings" in Consolidated Statement of Cash Flows.

26. Share capital and treasury shares

Share capital as of 31 December 2018 and 2017 comprise the following:

	Ordinary shares		Treasury shares	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Number of shares (million)	4,741	4,741	23	23
Authorised shares (million)	4,741	4,741	23	23
Par value (₽ per share)	0.0016	0.0016	0.0016	0.0016
On issue as of 31 December, fully paid (₽ million)	8	8	(1,170)	(1,170)

The nominal value of share capital differs from its carrying value due to the effect of inflation.

On 14 December 2018 the general shareholders' meeting of PJSC Gazprom Neft approved an interim dividend on the ordinary shares for the nine months ended 30 September 2018 in the amount of ₽ 22.05 per share.

On 9 June 2018 the annual general shareholders' meeting of PJSC Gazprom Neft approved a dividend on the ordinary shares for 2017 in the amount of ₽ 15.00 per share including an interim dividend on the ordinary shares in the amount of ₽ 10.00 per share.

On 9 June 2017 the annual general shareholders' meeting of PJSC Gazprom Neft approved a dividend on the ordinary shares for 2016 in the amount of ₽ 10.68 per share.

27. Employee costs

Employee costs for the years ended 31 December 2018 and 2017 comprise the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Wages and salaries	84,902	75,153
Other costs and compensations	12,269	11,357
Total employee costs	**97,171**	**86,510**
Social security contributions (social taxes)	22,113	20,433
Total employee costs (with social taxes)	**119,284**	**106,943**

28. Other loss, net

Other loss, net for the years ended 31 December 2018 and 2017 comprise the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Write-off of assets	(13,330)	(3,727)
Impairment of advances and other receivables	(699)	(345)
Penalties	(116)	595
Write-off payables	651	234
Other losses, net	(6,302)	(4,314)
Total other loss, net	**(19,796)**	**(7,557)**

29. Net foreign exchange loss

Net foreign exchange loss for the years ended 31 December 2018 and 2017 comprise the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Net foreign exchange (loss) / gain on financing activities, including:	**(72,735)**	**8,686**
foreign exchange gain	5,506	20,419
foreign exchange loss	(78,241)	(11,733)
Net foreign exchange gain / (loss) on operating activities	**39,177**	**(8,927)**
Net foreign exchange loss	**(33,558)**	**(241)**

30. Finance income

Finance income for the years ended 31 December 2018 and 2017 comprise the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income on loans issued	1,512	7,185
Interest on cash and cash equivalents	5,923	2,886
Other financial income	71	27
Total finance income	**7,506**	**10,098**

31. Finance expense

Finance expense for years ended 31 December 2018 and 2017 comprise the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense	49,250	47,373
Decommissioning provision: unwinding of discount	3,809	2,785
Less: capitalised interest	(31,583)	(25,031)
Finance expense	**21,476**	**25,127**

32. Income tax expense

The Group's applicable income tax rate for the companies located in the Russian Federation is 20%.

	Year ended 31 December 2018		Year ended 31 December 2017	
	₽ million	%	₽ million	%
Total income tax expense	**98,701**	**20**	**64,558**	**20**
Profit before income tax excluding share of profit before tax of associates and joint ventures	389,418		279,696	
Profit before income tax of associates and joint ventures	109,676		51,988	
Profit before income tax	**499,094**		**331,684**	**-**
Tax at applicable domestic tax rate (20%)	99,819	20	66,337	20
Effect of tax rates in foreign jurisdictions	1,133	-	(388)	-
Difference in statutory tax rate in domestic entities	(9,423)	(2)	(2,918)	(1)
Non-deductible and deductible items (including Intragroup)	7,882	2	(2,813)	(1)
Adjustment for prior years	360	1	3,934	2
Change in tax rate	(1,167)	-	428	-
Foreign exchange (gain) / loss of foreign non-operating units	97	-	(22)	-
Total income tax expense	**98,701**	**20**	**64,558**	**20**

Reconciliation of effective tax rate:

	Year ended 31 December 2018	Year ended 31 December 2017
Current income tax expense		
Current year	60,177	40,053
Adjustment for prior years	(592)	3,642
	59,585	43,695
Deferred income tax expense		
Origination and reversal of temporary differences	20,711	11,399
Change in tax rate	(1,167)	428
	19,544	11,827
Total income tax expense	**79,129**	**55,522**
Share of tax of associates and joint ventures	19,572	9,036
Total income tax expense including share of tax of associates and joint ventures	**98,701**	**64,558**

33. Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instrument:

	Fair value	Less than 6 month	From 6 to 12 months	From 1 to 3 years	Over 3 years
As of 31 December 2018					
Forward exchange contracts and interest rate swaps					
Liabilities	(1,493)	-	-	-	(1,493)
Total	**(1,493)**	**-**	**-**	**-**	**(1,493)**
As of 31 December 2017					
Forward exchange contracts and interest rate swaps					
Liabilities	(17,928)	(16,758)	-	-	(1,170)
Total	**(17,928)**	**(16,758)**	**-**	**-**	**(1,170)**

As of 31 December 2018 and 2017 the Group has outstanding forward currency exchange contracts and interest rate swaps for a total notional value of $ 140 million and $ 1,742 million respectively. During the year ended 31 December 2018 loss in the amount of ₽ 16,758 million was reclassified from equity to net foreign exchange (loss) / gain in the Consolidated Statement of Profit and Loss and Other Comprehensive Income (₽ 9,984 million for the year ended 31 December 2017).

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

	2018			2017		
	Before income tax	Income tax	Net of tax	Before income tax	Income tax	Net of tax
Total recognised in other comprehensive (loss) / income as of the beginning of the year	**(17,928)**	**2,103**	**(15,825)**	**(39,282)**	**5,023**	**(34,259)**
Foreign exchange effects recognised during the year	(323)	65	(258)	11,370	(1,914)	9,456
Recycled to Net foreign exchange gain / (loss) on operating activities	16,758	(1,870)	14,888	9,984	(1,006)	8,978
Total recognised in other comprehensive income / (loss) for the year	**16,435**	**(1,805)**	**14,630**	**21,354**	**(2,920)**	**18,434**
Total recognised in other comprehensive (loss) / income as of the closing of the year	**(1,493)**	**298**	**(1,195)**	**(17,928)**	**2,103**	**(15,825)**

The accumulated foreign exchange loss will be reclassified from other comprehensive income / (loss) to profit and loss in 2022.

The Group uses an estimation of the fair value of forward currency exchange contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Management. No significant ineffectiveness occurred during the reporting period.

34. Financial risk management

Risk Management Framework

Gazprom Neft Group has a risk management policy that defines the goals and principles of risk management in order to make the Group's business more secure in both the short and the long term.

The Group's goal in risk management is to increase effectiveness of Management decisions through detailed analysis of related risks.

The Group's Integrated Risk Management System (IRMS) is a systematic continuous process that identifies, assesses and manages risks. Its key principle is that responsibility to manage different risks is assigned to different management levels depending on the expected financial impact of those risks. The Group is working continuously to improve its approach to basic IRMS processes, with special focus on efforts to assess risks and integrate the risk management process into such key corporate processes as business planning, project management and mergers and acquisitions.

Financial Risk Management

Management of the Group's financial risks is the responsibility of employees acting within their respective professional spheres. The Group's Financial Risk Management Panel defines a uniform approach to financial risk management at the Company and its subsidiaries. Activities performed by the Group's employees and the Financial Risk Management Panel minimise potential financial losses and help to achieve corporate targets.

In the normal course of its operations the Group has exposure to the following financial risks:
> market risk (including currency risk, interest rate risk and commodity price risk);
> credit risk; and
> liquidity risk.

MARKET RISK

Currency Risk

The Group is exposed to currency risk primarily on borrowings that are denominated in currencies other than the respective functional currencies of Group entities, which are primarily the local currencies of the Group companies, for instance the Russian Rouble for companies operating in Russia. The currencies in which these borrowings are denominated in are mainly USD and EUR.

The Group's currency exchange risk is considerably mitigated by its foreign currency assets and liabilities: the current structure of revenues and liabilities acts as a hedging mechanism with opposite cash flows offsetting each other. The Group applies hedge accounting to manage volatility in profit and loss with its cash flows in foreign currency.

The carrying amounts of the Group's financial instruments by currencies they are denominated in are as follows:

As of 31 December 2018	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
FINANCIAL ASSETS					
Current					
Cash and cash equivalents	144,352	88,487	6,304	4,896	3,546
Bank deposits	-	-	-	-	-
Loans issued	838	-	17	-	-
Trade and other financial receivables	33,389	76,676	1,503	15,624	1,958
Non-current					
Trade and other financial receivables	980	-	-	-	-
Bank deposits	-	-	-	-	-
Loans issued	7,846	-	-	-	-
Equity investments at fair value through other comprehensive income (OCI)	2,433	-	-	66	-
FINANCIAL LIABILITIES					
Current					
Short-term debt	(21,077)	(67,171)	(2,683)	-	8
Trade and other financial payables	(269,489)	(20,452)	(4,944)	(10,387)	(2,332)
Forward exchange contracts	-	-	-	-	-
Finance lease liability	(38)	(1,742)	(48)	-	(1)
Non-current					
Long-term debt	(401,315)	(208,617)	(74,433)	-	(165)
Forward exchange contracts	(130)	(1,493)	-	-	-
Finance lease liability	(65)	(23,082)	(385)	-	(122)
Other non-current financial liabilities	(41,818)	(1,413)	-	-	(3)
NET EXPOSURE	(544,094)	(158,807)	(74,669)	10,199	2,889

As of 31 December 2017	Russian Rouble	USD	EURO	Serbian dinar	Other currencies
FINANCIAL ASSETS					
Current					
Cash and cash equivalents	38,700	34,902	6,540	6,679	3,787
Bank deposits	1,323	-	13	4,443	-
Loans issued	4,669	-	-	1	-
Trade and other financial receivables	41,240	43,484	3,117	12,433	1,988
Non-current					
Trade and other financial receivables	901	-	-	-	-
Bank deposits	-	-	-	1,181	-
Loans issued	27,695	-	200	-	-
Available for sale financial assets	2,157	-	-	60	-
FINANCIAL LIABILITIES					
Current					
Short-term debt	(28,630)	(48,360)	(54,751)	-	(19)
Trade and other financial payables	(145,576)	(16,008)	(5,478)	(9,191)	(1,427)
Forward exchange contracts	-	(16,758)	-	-	-
Finance lease liability	-	(1,367)	(30)	-	-
Non-current					
Long-term debt	(240,920)	(257,377)	(50,196)	-	(161)
Forward exchange contracts	(126)	(1,169)	-	-	-
Finance lease liability	(23)	(20,582)	(114)	-	(107)
Other non-current financial liabilities	(47,271)	-	-	-	(3)
NET EXPOSURE	(345,861)	(283,235)	(100,699)	15,606	4,058

The following exchange rates applied during the period:

	Reporting date spot rate	
	31 December 2018	31 December 2017
USD 1	69.47	57.60
EUR 1	79.46	68.87
RSD 1	0.67	0.58

Sensitivity analysis
The Group has chosen to provide information about market and potential exposure to hypothetical gain / (loss) from its use of financial instruments through sensitivity analysis disclosures.

The sensitivity analysis shown in the table below reflects the hypothetical effect on the Group's financial instruments and the resulting hypothetical gains/losses that would occur assuming change in closing exchange rates and no changes in the portfolio of investments and other variables at the reporting dates.

	Weakening of ₽	
	Equity	Profit or (loss)
31 December 2018		
USD/RUB (20% increase)	4,323	(37,950)
EUR/RUB (20% increase)	23	(15,008)
RSD/RUB (20% increase)	(18,932)	-
31 December 2017		
USD/RUB (20% increase)	1,883	(55,520)
EUR/RUB (20% increase)	9	(20,158)
RSD/RUB (20% increase)	(16,650)	-

Decrease in the exchange rates will have the same effect in the amount, but the opposite effect on Equity and Profit and loss of the Group.

Interest Rate Risk

Part of the Group's borrowings is at variable interest rates (linked to the Libor, Euribor or key rate of the Bank of Russia). To mitigate the risk of unfavourable changes in the Libor or Euribor rates, the Group's treasury function monitors interest rates in debt markets and based on it decides whether it is necessary to hedge interest rates or to obtain financing on a fixed-rate or variable-rate basis.

Changes in interest rates primarily affect debt by changing either its fair value (fixed rate debt) or its future cash flows (variable rate debt). However, at the time of any new debts Management uses its judgment and information about current/expected interest rates on the debt markets to decide whether it believes fixed or variable rate (in aggregate with other conditions) would be more favourable.

The interest rate profiles of the Group are presented below:

	Carrying amount	
	31 December 2018	31 December 2017
Fixed rate instruments		
Financial assets	256,286	130,133
Financial liabilities	(681,008)	(564,730)
	(424,722)	(434,597)
Variable rate instruments		
Financial liabilities	(119,928)	(137,907)
	(119,928)	(137,907)

Cash flow sensitivity analysis for variable rate instruments

The Group's financial results and equity are sensitive to changes in interest rates. If the interest rates applicable to floating debt increase by 100 basis points (bp) at the reporting dates, assuming all other variables remain constant, it is estimated that the Group's profit before taxation will change by the amounts shown below:

	Profit or (loss)
31 December 2018	
Increase by 100 bp	(1,199)
31 December 2017	
Increase by 100 bp	(1,379)

A decrease by 100 bp in the interest rates will have the same effect in the amount, but the opposite effect on Profit and loss of the Group.

Commodity Price Risk

The Group's financial performance relates directly to prices for crude oil and petroleum products. The Group is unable to fully control the prices of its products, which depend on the balance of supply and demand on global and domestic markets for crude oil and petroleum products, and on the actions of supervisory agencies.

The Group's business planning system calculates different scenarios for key performance factors depending on global oil prices. This approach enables Management to adjust cost by reducing or rescheduling investment programs and other mechanisms.

Such activities help to decrease risks to an acceptable level.

CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and in connection with investment securities.

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at fair value through other comprehensive income (FVOCI), favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

The Group is exposed to credit risk due to sales with deferred payment terms which are usual and customary in the market. There is risk of non-timely receipt of payments for crude oil and petroleum products (risk of tiding up of working capital) and risk of default of counterparty.

Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. The Group's trade and other receivables relate to a large number of customers, spread across diverse industries and geographical areas. The Group has taken a number of steps to manage credit risk, including: counterparty solvency evaluation; individual credit limits and payment conditions depending on each counterparty's financial situation; controlling advance payments; controlling accounts receivable by lines of business, etc.

The carrying amount of financial assets represents the maximum credit exposure.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty.

Credit limit is established for each customer individually as maximum amount of credit risk taking into account a number of characteristics, such as:
> financial statements of the counterparty;
> history of relationships with the Group;
> credit profile of the customer;
> duration of relationships with the Group, including ageing profile.

The compliance with credit limits by wholesale customers is automatically controlled.

As a rule, an excess of receivables over approved credit limit is secured by either bank guarantee, letter of credit from a bank, pledge or third party guarantee.

The Group regularly assesses the credit quality of trade and other receivables taking into account analysis of ageing profile of receivables and duration of relationships with the Group. To assess whether there is a significant increase in credit risk the Group compares the solvency data occurring as at the reporting date with the same data as at the date of initial recognition. The Group considers available reasonable and supportable forwarding-looking information.

The Management believes that not impaired trade and other receivables are fully recoverable.

The Group recognises an allowance for impairment that represents its best estimate of incurred losses in respect of trade and other receivables.

Trade receivables representing due from customers in the ordinary course of business are short-term by nature and do not contain the significant financial component. Lifetime expected credit loss estimation is equal 12-months measure. The Group makes forward looking information adjustment, if changes between prior year macroparameters' level and its forecast for next 12 months are significant.

Estimated provision matrixes have been prepared for separate portfolios of receivables, homogeneous in terms of credit risk. Types of products sold, geographical specificity of distributional channels, ageing period of receivables and other factors were taken into account to separate individual portfolios.

As of 31 December 2018 and 2017, the ageing analysis of financial receivables is as follows:

	Gross	Credit loss allowance	Gross	Credit loss allowance
	31 December 2018	31 December 2018	31 December 2017	31 December 2017
Not past due	122,674	(65)	99,834	(109)
Past due 0 - 30 days	2,282	(3)	1,933	(59)
Past due 31 - 90 days	3,775	(31)	307	(3)
Past due 91 - 180 days	944	(70)	98	(38)
Past due 181 - 365 days	533	(124)	619	(167)
Past due more than 1 year	2,352	(2,137)	7,939	(7,191)
	132,560	(2,430)	110,730	(7,567)

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade and other receivables.

The movement in the credit loss allowance for impairment in respect of trade and other receivables during the period was as follows:

	31 December 2018	31 December 2017
Balance at the beginning of the year	**7,567**	**12,274**
Increase during the year	461	796
Amounts written off against receivables	(5,766)	(46)
Decrease due to reversal	(236)	(366)
Reclassification to other lines	191	(5,677)
Other movements	9	(2)
Translation differences	204	588
Balance at the end of the year	**2,430**	**7,567**

Other current assets

The movement in the credit loss allowance for impairment in respect of other current assets during the period was as follows:

	31 December 2018	31 December 2017
Balance at the beginning of the year	**12,288**	**11,970**
Increase during the year	172	345
Amounts written off against receivables	(532)	(192)
Decrease due to reversal	(92)	(142)
Reclassification to other lines	(199)	296
Other movements	(7)	(2)
Translation differences	97	13
Balance at the end of the year	**11,727**	**12,288**

Investments

The Group limits its exposure to credit risk mainly by investing in liquid securities. Management actively monitors credit ratings and does not expect any counterparty to fail to meet its obligations.

The Group does not have any loans issued measured at amortized cost that were past due but not impaired as of 31 December 2018.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	BBB	Less than BBB	Without rating	Total
As of 31 December 2018				
Cash and cash equivalents	11,671	190,856	45,058	247,585
Short-term loans issued	-	-	855	855
Long-terms loans issued	-	-	7,846	7,846
As of 31 December 2017				
Cash and cash equivalents	7,571	74,402	8,635	90,608
Short-term loans issued	-	-	4,67	4,67
Deposits with original maturity more than 3 months less than 1 year	3,293	2,485	1	5,779
Deposits with original maturity more than 1 year	1,179	-	2	1,181
Long-terms loans issued	-	-	27,895	27,895

The Group uses lifetime expected credit loss approach to measure expected credit losses for most of its financial assets.

As of 31 December 2018 and 2017 no significant credit loss allowance for impairment in respect of these assets was recognized.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity and monitoring liquidity risks is to ensure that sufficient financial resources (including cash position and available unused credit facilities) are maintained and available to meet upcoming liabilities under normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	Less than 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years
As of 31 December 2018							
Bank loans	424,447	526,423	32,310	63,181	27,733	398,655	4,544
Bonds	132,719	173,579	15,548	4,915	9,627	85,206	58,283
Loan Participation Notes	209,426	257,913	5,406	5,406	10,812	236,289	-
Other borrowings	8,861	13,249	9,487	981	333	710	1,738
Other non-current financial liabilities	43,234	62,643	5	-	11,057	34,779	16,802
Finance lease liabilities	25,483	34,809	1,694	1,697	3,414	10,080	17,924
Trade and other payables	307,604	307,604	296,839	10,552	28	163	22
	1,151,774	1,376,220	361,289	86,732	63,004	765,882	99,313
As of 31 December 2017							
Bank loans	303,173	363,557	31,966	32,262	104,621	191,009	3,699
Bonds	143,007	192,023	26,665	5,681	20,856	104,049	34,772
Loan Participation Notes	226,110	277,970	57,052	4,482	8,965	113,295	94,176
Other borrowings	8,124	9,929	369	590	285	6,403	2,282
Other non-current financial liabilities	47,274	74,384	-	-	11,580	14,173	48,631
Finance lease liabilities	22,223	31,307	1,385	1,386	5,511	5,564	17,461
Trade and other payables	177,680	177,680	173,660	4,020	-	-	-
	927,591	1,126,850	291,097	48,421	151,818	434,493	201,021

Reconciliation of liabilities arising from financing activities

The table below sets out an analysis of net debt and the movements in the Group's liabilities from financing activities for each of the years presented. The items of these liabilities are those that are reported as financing in the Consolidated Statement of Cash Flows:

	Short-term and long-term debt	Financial lease	Other liabilities from financing activities	Total
As of 1 January 2018	**680,414**	22,223	122,332	824,969
Cash flows, including:	(16,432)	(3,129)	(105,822)	(125,383)
Proceeds from borrowings	366,544	-	-	366,544
Repayment of borrowings	(340,459)	-	(20,601)	(361,060)
Repayment of finance lease liabilities	-	(1,579)	-	(1,579)
Interest paid	(42,359)	(1,550)	(2,583)	(46,492)
Transaction costs directly attributable to the borrowings received	(158)	-	-	(158)
Dividends paid	-	-	(82,638)	(82,638)
Finance expense	41,302	1,550	5,269	48,121
Dividends declared	-	-	139,389	139,389
Changes in fair values, cash flow hedge	-	-	(323)	(323)
(Gain) / Loss on foreign exchange differences	63,651	4,361	-	68,012
Currency translation differences	6,073	61	442	6,576
Change in contract terms	-	-	2,819	2,819
Other non-cash movements	445	417	(535)	327
As of 31 December 2018	775,453	25,483	163,571	964,507

	Short-term and long-term debt	Financial lease	Other liabilities from financing activities	Total
As of 1 January 2017	**676,408**	**-**	**101,781**	**778,189**
Cash flows, including:	(24,957)	(1,955)	(63,058)	(89,970)
Proceeds from borrowings	356,370	-	-	356,370
Repayment of borrowings	(342,680)	-	(10,134)	(352,814)
Repayment of finance lease liabilities	-	(893)	-	(893)
Interest paid	(38,387)	(1,062)	-	(39,449)
Transaction costs directly attributable to the borrowings received	(260)	-	-	(260)
Dividends paid	-	-	(52,924)	(52,924)
Finance expense	40,713	1,062	5,585	47,360
Dividends declared	-	-	99,986	99,986
Changes in fair values, cash flow hedge	-	-	(11,370)	(11,370)
(Gain) / Loss on foreign exchange differences	(16,062)	419	-	(15,643)
Currency translation differences	4,312	-	342	4,654
Assets received under finance lease	-	22,410	-	22,410
Change in contract terms	-	-	(11,209)	(11,209)
Other non-cash movements	-	287	275	562
As of 31 December 2017	680,414	22,223	122,332	824,969

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide sufficient return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Group may revise its investment program, attract new or repay existing loans or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to EBITDA ratio and return on the capital on the basis of return on average capital employed ratio (ROACE). Net debt to EBITDA ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total debt, which includes long and short term loans, less cash and cash equivalents and short term deposits. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of equity accounted investments. ROACE is calculated in general as Operating profit adjusted for income tax expense divided by the average for the period figure of Capital Employed. Capital Employed is defined as total equity plus net debt.

The Group's net debt to EBITDA ratios at the end of the reporting periods were as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Long-term debt	684,530	548,654
Short-term debt and current portion of long-term debt	90,923	131,760
Less: cash, cash equivalents and deposits	(247,585)	(96,387)
Net debt	**527,868**	**584,027**
Total EBITDA	722,897	489,025
Net debt to EBITDA ratio at the end of the reporting period	**0.7**	**1.2**
Operating profit	456,742	302,523
Operating profit adjusted for income tax expenses	363,933	242,470
less share of profit of associates and joint ventures	90,704	45,504
Average capital employed	2,381,424	2,164,614
ROACE	**19.1%**	**13.3%**

There were no changes in the Group's approach to capital management during the period.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

The different levels of fair value hierarchy have been defined as follows:

> Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
> Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
> Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following assets and liabilities are measured at fair value in the Group's Consolidated Financial Statements: derivative financial instruments, equity investments and Stock Appreciation Rights plan (SARs).

Derivative financial instruments and SARs refer to Level 2 of the fair value measurement hierarchy, i.e. their fair value is determined on the basis of inputs that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). Equity investments represented by unlisted equity securities and refer to Level 3 of the fair value measurement hierarchy. The Group determines fair value for unlisted equity securities considering different scenarios of future capital distributions for such investments. There were no significant changes in fair values for the reporting period. There were no transfers between the levels of the fair value hierarchy during the years ended 31 December 2018 and 2017. There are no significant assets or liabilities measured at fair value categorised within Level 1 or Level 3 of the fair value hierarchy. The fair value of the foreign exchange contracts is determined by using forward exchange rates at the reporting date with the resulting value discounted back to present value.

As of 31 December 2018 the fair value of bonds and loan participation notes is ₽ 338,324 million (₽ 378,085 million as of 31 December 2017). The fair value is derived from quotations in active market from external source of financial information and related to Level 1 of the fair value hierarchy. The carrying value of other financial assets and liabilities measured at amortised cost approximates their fair value. The fair values were calculated based on cash flows discounted using a current lending rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

The table below analyses financial instruments carried at fair value, which refer to Level 2 of the fair value hierarchy.

	Level 2
As of 31 December 2018	
Forward exchange contracts	(1,493)
Other financial liabilities	(4,652)
Total liabilities	**(6,145)**
As of 31 December 2017	
Forward exchange contracts	(17,928)
Other financial liabilities	(5,726)
Total liabilities	**(23,654)**

The Company implements a cash-settled stock appreciation rights (SAR) compensation plan. The plan forms part of the long term growth strategy of the Group and is designed to reward Management for increasing shareholder value over a specified period. Shareholder value is measured by reference to the Group's market capitalisation. The plan is open to selected Management provided certain service conditions are met. The awards are fair valued at each reporting date. The awards are subject to certain market and service conditions that determine the amount that may ultimately be accrued to eligible employees. The expense recognised is based on the vesting period.

The fair value of the liability under the plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Group's share price, historic volatility in the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. Any changes in the estimated fair value of the liability award will be recognised in the period the change occurs subject to the vesting period. During the reporting period there were no changes in conditions for SAR compensation plan.

The following assumptions are used in the Black-Scholes-Merton model as of 31 December 2018 and 2017:

	31 December 2018	31 December 2017
Volatility	3.2%	3.7%
Risk-free interest rate	8.1%	8.0%
Dividend yield	7.3%	5.4%

In the Consolidated Statement of Profit and Loss and Other Comprehensive Income for the years ended 31 December 2018 and 2017 the Group accrued expenses related to SAR provision due to the growth in the value of Company's shares in the amount of ₽ 4,652 million and ₽ 5,727 million, respectively. This expense is presented within selling, general and administrative expenses. In the Consolidated Statement of Financial Position as of 31 December 2018 and 31 December 2017 the Group recognised accrued liability in amount of ₽ 4,652 million and ₽ 10,114 million, respectively.

35. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2018	31 December 2017
Less than one year	15,744	12,939
Between one and five years	44,417	37,474
More than five years	63,439	91,278
	123,600	141,691

The Group rents mainly land plots under pipelines, office premises and vessels under time-charter agreements.

In the Consolidated Statement of Profit and Loss and Other Comprehensive Income for the years ended 31 December 2018 and 2017 the Group accrued rent expenses in the amount of ₽ 18,269 million and ₽ 15,917 million, respectively.

36. Commitments and contingencies

Taxes

Russian tax and customs legislation is subject to frequent changes and varying interpretations. Management's treatment of such legislation as applied to the transactions and activity of the Group, including calculation of taxes payable to federal, regional and municipal budgets, may be challenged by the relevant authorities. The Russian tax authorities may take a more assertive position in their treatment of legislation and assessments, and there is a risk that transactions and activities that have not been challenged in the past may be challenged later. As a result, additional taxes, penalties and interest may be accrued. Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit has been taken. Under certain circumstances tax audits may cover longer periods. The field tax audit with regard to the years 2015-2017 is performing now, the 2018 year is currently open for tax audit. Management believes it has adequately provided for any probable additional tax accruals that might arise from these tax audits.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessments for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis.

The compliance of the prices of the Group's controllable transactions with related parties with the transfer pricing rules is subject to regular internal control. Management believes that the transfer pricing documentation that the Group has prepared to confirm its compliance with the transfer pricing rules provides sufficient evidence to support the Group's tax positions and related tax returns. In addition in order to mitigate potential risks, the Group regularly negotiates approaches to defining prices used for tax purposes for major controllable transactions with tax authorities in advance. Nineteen pricing agreements between the Group and tax authorities regarding major intercompany transactions have been concluded in 2012-2018.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While Management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Economic environment in the Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017 and 2018, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by volatility of oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

In 2014 the U.S., the EU and certain other countries imposed sanctions on the Russian energy sector that partially apply to the Group. The information on the main restrictions related to sanctions was disclosed in the Consolidated Financial Statements as of and for the year ended 31 December 2014. In August 2018 the U.S. signed an act to impose further sanctions against the Russian Federation. The Group assessed that the new sanctions don't have significant impact on its activity.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its potential obligations under environmental regulation. Management is of the opinion that the Group has met the government's requirements concerning environmental matters, and therefore the Group does not have any material environmental liabilities.

Capital commitments

As of 31 December 2018 the Group has entered into contracts to purchase property, plant and equipment for ₽ 363,690 million (₽ 328,697 million as of 31 December 2017).

37. Group entities

The most significant subsidiaries of the Group and the ownership interest are presented below:

		Ownership interest	
Subsidiary	**Country of incorporation**	**31 December 2018**	**31 December 2017**
Exploration and Production			
JSC Gazpromneft-NNG	Russian Federation	100%	100%
Gazpromneft-Orenburg LLC	Russian Federation	100%	100%
Gazprom Neft Shelf LLC	Russian Federation	100%	100%
Gazpromneft-Khantos LLC	Russian Federation	100%	100%
Gazpromneft-Yamal LLC	Russian Federation	90%	90%
JSC Uzhuralneftegaz	Russian Federation	87.5%	87.5%
Gazpromneft-Vostok LLC	Russian Federation	51%	100%
Refining			
JSC Gazpromneft Omsk Refinery	Russian Federation	100%	100%
JSC Gazpromneft Moscow Refinery	Russian Federation	100%	100%
Marketing			
Gazpromneft-Centre LLC	Russian Federation	100%	100%
Gazpromneft Regional Sales LLC	Russian Federation	100%	100%
JSC Gazpromneft-Aero	Russian Federation	100%	100%
Gazpromneft Marin Bunker LLC	Russian Federation	100%	100%
Gazpromneft Corporate Sales LLC	Russian Federation	100%	100%
Other Operations			
Gazpromneft-Lubricants LLC	Russian Federation	100%	100%
Gazpromneft-Bitumen Materials LLC	Russian Federation	100%	100%
Gazpromneft-NTC LLC	Russian Federation	100%	100%
GPN-Finance LLC	Russian Federation	100%	100%
GPN-Invest LLC	Russian Federation	100%	100%
Gazpromneft Shipping LLC	Russian Federation	100%	100%
Multibusiness companies			
Naftna industrija Srbije A.D.	Serbia	56.2%	56.2%

In September 2018 the Group completed deal on disposal of non-controlling interest equal to 49% of share capital of Gazpromneft-Vostok LLC to third parties. The Group maintained control over the Company. In result non-controlling interest in the amount of ₽ 21.3 billion was recognized. Excess of the payment over non-controlling interest was recognized at additional paid-in capital attributable to Gazprom Neft shareholders.

The following table summarises the information relating to the non-controlling interest of Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC and Gazprom Resource Northgas LLC. The carrying amount of non-controlling interests of all other subsidiaries is not significant individually.

	Carrying amount of non-controlling interest		Profit for the period attributable to non-controlling interest	
	31 December 2018	31 December 2017	Year ended 31 December 2018	Year ended 31 December 2017
Naftna industrija Srbije A.D. and its subsidiaries	87,815	71,599	6,641	6,132
Gazpromneft-Vostok	24,176	-	909	-
Gazprom Resource Northgas	18,374	22,672	3,806	3,665

The table below summarises financial information for Naftna industrija Srbije A.D. and its subsidiaries, Gazpromneft-Vostok LLC and Gazprom Resource Northgas LLC as of 31 December 2018 and 2017 and for the years ended 31 December 2018 and 2017:

31 December 2018	Naftna industrija Srbije A.D. and its subsidiaries	Gazpromneft-Vostok	Gazprom Resource Northgas
Current assets	66,310	9,631	14,715
Non-current assets	262,190	56,454	7,767
Current liabilities	(37,010)	(4,657)	(21)
Non-current liabilities	(69,569)	(12,091)	-

31 December 2017	Naftna industrija Srbije A.D. and its subsidiaries	Gazpromneft-Vostok	Gazprom Resource Northgas
Current assets	61,658	5,558	15,171
Non-current assets	218,321	53,926	12,568
Current liabilities	(36,160)	(6,599)	(23)
Non-current liabilities	(61,812)	(14,883)	-

Year ended 31 December 2018	Naftna industrija Srbije A.D. and its subsidiaries	Gazpromneft-Vostok	Gazprom Resource Northgas
Revenue	270,427	34,268	-
Profit	15,166	5,922	4,652
Year ended 31 December 2017			
Revenue	195,130	24,474	-
Profit	13,997	3,024	4,481

Dividends paid in 2018 by Naftna industrija Srbije A.D. to the non-controlling share comprised ₽ 1.9 billion (₽ 0.9 billion in 2017).

Dividends paid in 2018 by Gazprom Resource Northgas LLC to the non-controlling share comprised ₽ 8.1 billion (₽ 0.5 billion in 2017).

38. Related party transactions

For the purpose of these Consolidated Financial Statements parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 – Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group has applied the exemption as allowed by IAS 24 not to disclose all government related transactions, as the parent of the Company is effectively being controlled by the Russian Government. In the course of its ordinary business the Group enters into transactions with natural monopolies, transportation companies and other government-related entities. Such purchases and sales are individually insignificant and are generally entered into on market or regulated prices. Transactions with the state also include taxes which are detailed in Notes 9, 21 and 32. The Group also leases vessels under time-charter agreements with a government related entity (lease expense amounted ₽ 5.7 billion and ₽ 5.3 billion for the years ended 31 December 2018 and 2017 respectively). The tables below summarise transactions in the ordinary course of business with either the parent company or parent's subsidiaries and associates or associates and joint ventures of the Group.

The Group enters into transactions with related parties based on market or regulated prices. Short-term and long-term loans provided as well as debt are based on market conditions available for not related entities.

As of 31 December 2018 and 2017 the outstanding balances with related parties were as follows:

31 December 2018	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	-	82,184	-
Short-term financial assets	-	3	-
Trade and other receivables	12	10,254	9,188
Other current assets	63	2,669	1,319
Long-term financial assets	-	-	7,827
Other non-current assets	-	498	-
Total assets	**75**	**95,608**	**18,334**
Short-term debt and other current financial liability	-	48,519	627
Trade and other payables	111,862	2,605	88,028
Other current liabilities	10	398	500
Long-term debt and other non-current financial liability	43,618	20,000	-
Other non-current liabilities	17,055	-	-
Total liabilities	**172,545**	**71,522**	**89,155**

31 December 2017	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Cash and cash equivalents	-	27,201	-
Short-term financial assets	-	1,322	3,776
Trade and other receivables	4,567	4,172	9,813
Other current assets	23	2,708	783
Long-term financial assets	-	-	27,673
Other non-current assets	-	309	-
Total assets	**4,590**	**35,712**	**42,045**
Short-term debt and other current financial liability	-	-	367
Trade and other payables	52,970	2,257	38,173
Other current liabilities	130	318	137
Long-term debt and other non-current financial liability	47,480	57,600	-
Other non-current liabilities	6,394	-	-
Total liabilities	**106,974**	**60,175**	**38,677**

For the years ended 31 December 2018 and 2017 the following transactions occurred with related parties:

Year ended 31 December 2018	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and petroleum products sales	24,338	77,292	65,527
Other revenue	142	5,182	7,039
Purchases of crude oil, gas and petroleum products	-	48,579	211,626
Production related services	49	26,795	23,341
Transportation costs	9,009	1,922	9,243
Interest expense	5,269	2,550	168
Interest income	-	619	1,063

Year ended 31 December 2017	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and petroleum products sales	36,721	39,507	53,398
Other revenue	103	6,613	9,226
Purchases of crude oil, gas and petroleum products	-	40,895	137,919
Production related services	33	29,219	21,185
Transportation costs	9,776	1,692	10,115
Interest expense	5,585	2,871	39
Interest income	-	302	6,484

Transactions with Key Management Personnel

For the years ended 31 December 2018 and 2017 remuneration of key management personnel (members of the Board of Directors and the Management Committee) such as salary and other contributions amounted ₽ 2,681 million and ₽ 2,934 million, respectively. Key management remuneration includes salaries, bonuses, quarterly accruals of SAR and other contributions.

39. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available.

The Group manages its operations in 2 operating segments: Upstream and Downstream.

Upstream segment (exploration and production) includes the following Group operations: exploration, development, production and sale of crude oil and natural gas (including joint ventures results), oil field services. Downstream segment (refining and marketing) processes crude into refined products and purchases, sells and transports crude oil and refined petroleum products.

The information about the Group's operating segments for the years ended 31 December 2018 and 2017 is presented below:

Year ended 31 December 2018	Upstream	Downstream	Eliminations	Total
Revenue from sales:				
External customers	57,575	2,431,717	-	2,489,292
Inter-segment	1,135,245	20,630	(1,155,875)	-
Total revenue from sales	**1,192,820**	**2,452,347**	**(1,155,875)**	**2,489,292**
Adjusted EBITDA	679,751	119,755	-	799,506
Depreciation, depletion and amortisation	137,076	38,375	-	175,451
Impairment of assets	4,340	-	-	4,340
Capital expenditure	194,621	180,576	-	375,197

Year ended 31 December 2017	Upstream	Downstream	Eliminations	Total
Revenue from sales:				
External customers	214,811	1,719,778	-	1,934,589
Inter-segment	617,838	27,531	(645,369)	-
Total revenue from sales	**832,649**	**1,747,309**	**(645,369)**	**1,934,589**
Adjusted EBITDA	433,036	117,931	-	550,967
Depreciation, depletion and amortisation	108,087	32,911	-	140,998
Impairment of assets	(256)	-	-	(256)
Capital expenditure	208,133	148,957	-	357,090

Intersegment revenues are based upon prices effective for local markets and linked to market prices.

Eliminations and other adjustments section encompasses elimination of inter-segment sales and related unrealised profits, mainly from the sale of crude oil and petroleum products, and other adjustments.

Adjusted EBITDA represents the Group's EBITDA and its share in associates' and joint ventures' EBITDA. Management believes that adjusted EBITDA represents useful means of assessing the performance of the Group's ongoing operating activities, as it reflects the Group's earnings trends without showing the impact of certain charges. EBITDA is defined as earnings before interest, income tax expense, depreciation, depletion and amortisation, net foreign exchange gain (loss), other non-operating expenses and includes the Group's share of profit of associates and joint ventures. EBITDA is a supplemental non-IFRS financial measure used by Management to evaluate operations.

The geographical segmentation of the Group's revenue and capital expenditures for the years ended 31 December 2018 and 2017 is presented below:

Year ended 31 December 2018	Russian Federation	CIS	Export and international operations	Total
Sales of crude oil	88,848	38,993	590,630	718,471
Sales of petroleum products	1,075,927	91,334	496,170	1,663,431
Sales of gas	35,805	-	1,010	36,815
Other sales	54,801	2,498	13,276	70,575
Revenues from external customers, net	**1,255,381**	**132,825**	**1,101,086**	**2,489,292**
Year ended 31 December 2017				
Sales of crude oil	83,393	30,117	436,142	549,652
Sales of petroleum products	866,234	76,058	341,258	1,283,550
Sales of gas	36,351	-	1,237	37,588
Other sales	49,690	2,130	11,979	63,799
Revenues from external customers, net	**1,035,668**	**108,305**	**790,616**	**1,934,589**

For the years ended 31 December 2018 and 2017 export sales of crude oil include sales from upstream segment in the amount of ₽ 36,981 million and ₽ 196,518 million, respectively. The remaining amount of ₽ 553,649 million for the year ended 31 December 2018 (₽ 239,624 million for the year ended 31 December 2017) represents sales from downstream segment.

	Russian Federation	CIS	Export and international operations	Total
Non-current assets as of 31 December 2018	2,478,517	12,520	347,633	2,838,670
Capital expenditures for the year ended 31 December 2018	340,919	1,448	32,830	375,197
Impairment of assets for the year ended 31 December 2018	-	-	4,340	4,340
Non-current assets as of 31 December 2017	2,159,510	11,097	318,947	2,489,554
Capital expenditures for the year ended 31 December 2017	330,916	1,464	24,710	357,090
Impairment of assets for the year ended 31 December 2017	-	-	(256)	(256)

Adjusted EBITDA for the years ended 31 December 2018 and 2017 is reconciled below:

	Year ended 31 December 2018	Year ended 31 December 2017
Profit for the period	400,993	269,678
Total income tax expense	79,129	55,522
Finance expense	21,476	25,127
Finance income	(7,506)	(10,098)
Depreciation, depletion and amortisation	175,451	140,998
Net foreign exchange loss	33,558	241
Other loss, net	19,796	7,557
EBITDA	**722,897**	**489,025**
less share of profit of associates and joint ventures	(90,704)	(45,504)
add share of EBITDA of associates and joint ventures	167,313	107,446
Total adjusted EBITDA	**799,506**	**550,967**

40. Subsequent events

In January 2019 the Group borrowed ₽ 19.9 billion under long-term facility agreement with one of the Russian banks due payable in June 2021.

In the beginning of 2019 the object of capital construction MFC "Lahta Center" was transferred to new owner based on agreement requirements. In accordance with completion stage of works at the object and clarification of the settlements amounts with contractors the final determination of total cost of the object is expected in the second half of 2019. Respectively, the Group cannot reliably estimate financial result and impact of this event as at the date of issue of these Consolidated Financial Statements.

41. Supplementary information on oil and gas activities (unaudited)

The accompanying Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In the absence of specific IFRS guidance, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with practices established for the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities.

The Group makes certain supplemental disclosures about its oil and gas exploration and production that are consistent with practices. While this information was developed with reasonable care and disclosed in good faith, it is emphasised that some of the data is necessarily imprecise and represents only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the current financial condition of the Group or its expected future results.

The Group voluntarily uses the SEC definition of proved reserves to report proved oil and gas reserves and disclose certain unaudited supplementary information associated with the Group's consolidated subsidiaries, share in joint operations, associates and joint ventures.

The proved oil and gas reserve quantities and related information regarding standardised measure of discounted future net cash flows do not include reserve quantities or standardised measure information related to the Group's Serbian subsidiary, NIS, as disclosure of such information is prohibited by the Government of the Republic of Serbia. The disclosures regarding capitalised costs relating to and results of operations from oil and gas activities do not include the relevant information related to NIS.

Presented below are capitalised costs relating to oil and gas producing activities:

	31 December 2018	31 December 2017
Consolidated subsidiaries and share in joint operations		
Unproved oil and gas properties	103,983	89,558
Proved oil and gas properties	1,852,270	1,584,543
Less: Accumulated depreciation, depletion and amortisation	(783,343)	(628,226)
Net capitalised costs of oil and gas properties	**1,172,910**	**1,045,875**
Group's share of associates and joint ventures		
Proved oil and gas properties	623,845	553,553
Less: Accumulated depreciation, depletion and amortisation	(203,268)	(168,373)
Net capitalised costs of oil and gas properties	420,577	385,180
Total capitalised costs consolidated and equity interests	**1,593,487**	**1,431,055**

Presented below are costs incurred in acquisition, exploration and development of oil and gas reserves for the years ended 31 December:

	Year ended 31 December 2018	Year ended 31 December 2017
Consolidated subsidiaries and share in joint operations		
Exploration costs	22,301	20,281
Development costs	191,420	193,540
Costs incurred	**213,721**	**213,821**
Group's share of associates and joint ventures		
Exploration costs	459	608
Development costs	69,833	59,877
Total costs incurred consolidated and equity interests	**284,013**	**274,306**

Results of operations from oil and gas producing activities for the years ended:

	Year ended 31 December 2018	Year ended 31 December 2017
Consolidated subsidiaries and share in joint operations		
Revenues:		
Sales	339,424	235,645
Transfers	629,183	438,921
Total revenues	**968,607**	**674,566**
Production costs	(104,072)	(103,739)
Exploration expenses	(1,411)	(963)
Depreciation, depletion and amortisation	(131,293)	(107,119)
Taxes other than income tax	(507,190)	(345,160)
Pretax income from producing activities	**224,641**	**117,585**
Income tax expenses	(65,969)	(39,708)
Results of oil and gas producing activities	**158,672**	**77,877**
Group's share of associates and joint ventures		
Total revenues	296,568	214,960
Production costs	(25,567)	(23,133)
Exploration expenses	(533)	(495)
Depreciation, depletion and amortisation	(36,237)	(34,446)
Taxes other than income tax	(122,260)	(87,038)
Pretax income from producing activities	**111,971**	**69,848**
Income tax expenses	(16,758)	(6,188)
Results of oil and gas producing activities	**95,213**	**63,660**
Total consolidated and equity interests in results of oil and gas producing activities	**253,885**	**141,537**

Proved oil and gas reserve quantities

Proved reserves are defined as the estimated quantities of oil and gas, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves, which are expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to recomplete existing wells and/or install facilities to collect and deliver the production from existing and future wells.

As determined by the Group's independent reservoir engineers, DeGolyer and MacNaughton, the following information presents the balances of proved oil and gas reserve quantities (in millions of barrels and billions of cubic feet respectively):

Proved Oil Reserves Quantities - in MMBbl	31 December 2018	31 December 2017
Consolidated subsidiaries and share in joint operations		
Beginning of year	4,849	4,853
Production	(356)	(357)
Purchases of minerals in place	-	-
Revision of previous estimates	347	353
End of year	4,840	4,849
Minority's share included in the above proved reserves	(42)	(35)
Proved reserves, adjusted for minority interest	4,798	4,814
Proved developed reserves	2,630	2,660
Proved undeveloped reserves	2,210	2,189
Group's share of associates and joint ventures		
Beginning of year	1,445	1,451
Production	(103)	(99)
Purchases of minerals in place	31	-
Revision of previous estimates	189	93
End of year[1]	1,562	1,445
Proved developed reserves	735	680
Proved undeveloped reserves	826	765
Total consolidated and equity interests in reserves - end of year	**6,402**	**6,294**

1. Including 82% NCI share in Gazprom Resource Northgas

Proved Gas Reserves Quantities - in Bcf	31 December 2018	31 December 2017
Consolidated subsidiaries and share in joint operations		
Beginning of year	8,785	6,387
Production	(665)	(579)
Purchases of minerals in place	-	-
Revision of previous estimates	2,098	2,977
End of year	10,218	8,785
Minority's share included in the above proved reserves	(489)	(314)
Proved reserves, adjusted for minority interest	9,729	8,471
Proved developed reserves	4,006	4,150
Proved undeveloped reserves	6,212	4,635
Group's share of associates and joint ventures	-	
Beginning of year	12,972	13,201
Production	(624)	(602)
Purchases of minerals in place	705	-
Revision of previous estimates	877	373
End of year[1]	13,930	12,972
Proved developed reserves	8,435	7,612
Proved undeveloped reserves	5,495	5,360
Total consolidated and equity interests in reserves - end of year	**24,148**	**21,757**

Standardised measure of discounted future net cash flows relating to proved oil and gas reserves

Estimated future cash inflows from production are computed by applying average first-day-of-the-month price for oil and gas for each month within the 12 month period before the balance sheet date to year-end quantities of estimated proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a 10% discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in tables set out below does not represent Management's estimate of the Group's expected future cash flows or of the value Group's proved oil and gas reserves. Estimates of proved reserves quantities are imprecise and change over time, as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

1. Including 82% NCI share in Gazprom Resource Northgas

	31 December 2018	31 December 2017
Consolidated subsidiaries and share in joint operations		
Future cash inflows	18,695,537	10,303,365
Future production costs	(11,427,272)	(5,945,717)
Future development costs	(892,476)	(832,377)
Future income tax expenses	(2,057,005)	(479,352)
Future net cash flow	4,318,784	3,045,919
10% annual discount for estimated timing of cash flow	(2,188,299)	(1,584,751)
Standardised measure of discounted future net cash flow	2,130,485	1,461,168
Group's share of associates and joint ventures		
Future cash inflows	4,660,776	2,662,993
Future production costs	(2,867,502)	(1,468,966)
Future development costs	(251,088)	(217,726)
Future income tax expenses	(265,892)	(157,227)
Future net cash flow	**1,276,294**	**819,074**
10% annual discount for estimated timing of cash flow	(501,792)	(308,142)
Standardised measure of discounted future net cash flow	774,502	510,932
Total consolidated and equity interests in the standardised measure of discounted future net cash flow	**2,904,987**	**1,972,100**

APPENDIX 3. COMPANY HISTORY

1995

Sibneft is formed

Siberian Oil Company ("Sibneft") is formed by the decree of the President of Russia. The government acts as the founding shareholder, contributing its stakes in the country's oil majors, including Noyabrskneftegaz, Noyabrskneftegazgeophysika, Omsk Refinery and Omsknefteprodukt, to the new company's capital.

1996–1997

Sibneft is privatised

In a move towards a market economy, the government of Russia decides to pursue Sibneft's privatisation. In 1996, private investors acquire 49% of the Company's stock through privatisation auctions. In 1997, Financial Oil Company wins the auction to purchase the government's stake in Sibneft as part of the government's Shares for Loans programme.

1998–2004

Asset build-up

By pursuing an aggressive growth strategy, Sibneft significantly expands the geography of its production operations (in the Tomsk and Omsk regions) and sales network (in the Sverdlovsk and Tyumen regions, the Krasnoyarsk Territory, St Petersburg and Moscow). Among the Company's major acquisitions over the period is the purchase of a 49.9% stake in Slavneft involved in oil and gas production in Western Siberia and the Krasnoyarsk Territory.

Rapid growth

A strong resource base, efficient refining assets and highly professional leadership are the core drivers behind the Company's rapid growth. The Sibneft's management team takes the Company well forward in upgrading production, introducing cutting-edge technologies and streamlining business processes.

2005

Gazprom acquires controlling stake in Sibneft

In 2005, a controlling stake (75.68%) in Sibneft is acquired by the Gazprom Group, and on 13 May 2006, the Company is renamed Gazprom Neft. Following the acquisition, the Company sets an ambition to become a global player with a regionally diversified portfolio of assets across the entire value chain.

2006

Expanding into the Central Asian market

Gazprom Neft steps into the Central Asian retail market with a dedicated subsidiary, Gazprom Neft Asia, selling the Company's petroleum products in Kyrgyzstan, Tajikistan and Kazakhstan.

2007

Acquisition of Tomskneft

In December 2007, the Company acquires 50% of Tomskneft involved in oil and gas production in the Tomsk Region and the Khanty-Mansi Autonomous Area, with a view to expanding its resource base.

Splitting business lines

Separate business units are set up by line of business, including Gazpromneft Marine Bunker, Gazpromneft-Lubricants and Gazpromneft-Aero.

2008

Venezuelan projects

In 2008, Gazprom Neft, Rosneft, Lukoil, TNK-BP and Surgutneftegas sign a memorandum of understanding on cooperation and joint participation in projects in Venezuela as part of the National Oil Consortium.

2009

Resource base expansion

Gazprom Neft expands its resource base and refining capacities by acquiring Naftna Industrija Srbije A.D., Novi Sad (NIS) and a controlling stake in Sibir Energy, while also increasing its share in the Moscow Refinery and getting access to the Salym oil fields. In April 2009, the Company closes a deal with Chevron Global Energy to purchase Chevron Italia s.p.a., an oils and lubricants production plant located in Bari (Italy). Another milestone for the Company in 2009 is the launch of a major rebranding programme for the Gazprom Neft filling station network.

2010

Global oil and gas market

Gazprom Neft continues rapid expansion in the global oil and gas market, signing a contract to develop the Badra field in Iraq and being appointed to lead the Junin-6 project in Venezuela. The Company continues entering new fuel markets outside of Russia with the acquisition of a retail network of 20 filling stations and 9 land plots in Kazakhstan, among other things. It also expands its presence in the Russian market by joining the project to develop promising fields in the north of the Yamal-Nenets Autonomous Area covered by the development licences held by SeverEnergia. In February, Gazprom Neft strikes a deal to buy STS-Service, a production unit of Sweden's Malka Oil, which develops fields in the Tomsk Region.

2011

Production growth

Gazprom Neft gives a major boost to its operating performance by acquiring new assets and enhancing efficiency of the existing fields development. The Company buys a further 5.15% stake in Serbia's NIS, raising its total interest to 56.15%, while also becoming the sole shareholder in Sibir Energy and acquiring its first assets in the Orenburg Region – the Tsarichanskoye and Kapitonovskoye fields as well as the Eastern block of the Orenburgskoye field. Drilling begins at the Badra field in Iraq.

Premium-class fuels

The Company begins producing Euro 4 gasoline at its refineries and launches sales of a new G-Drive premium-class motor fuel via its Gazpromneft filling station network, which is further expanded when the Company steps into Russia's Southern Federal District.

High-quality bitumen materials

The Company launches treatment of raw materials for bitumen production at the Omsk Refinery, ensuring stable quality of feedstock for bitumen production and the high quality of finished products manufactured by the refinery. Another addition is a manufacturing unit for polymer-bitumen binders and bitumen emulsions supplied by Italy's Massenza.

2012

Leader in efficiency

Gazprom Neft leads the Russian market in terms of hydrocarbon production and refining growth rates along with a range of efficiency metrics. The Company launches pilot oil production at two new major fields in the north of the Yamal-Nenets Autonomous Area (Vostochno-Messoyakhskoye and Novoportovskoye). The first stage of commercial production begins at the Samburgskoye oil and gas condensate field owned by the Russian-Italian company SeverEnergia, in which Gazprom Neft holds a 25% stake. The formation and development of a new production cluster continues in the Orenburg Region. The Company enters into new upstream projects in Iraq. The Moscow Refinery transitions to producing Euro 4 gasolines, while the Omsk Refinery begins producing Euro 4 and Euro 5 gasolines and Euro 5 diesel fuel. Gazprom Neft starts developing a retail network in Europe (in Serbia and Romania) under the Gazprom brand.

GeoNavigator Drilling Control Centre is set up

To enhance the efficiency of advanced well construction, Gazprom Neft sets up GeoNavigator Drilling Control Centre. It relies on a geonavigation technology enabling prompt transfer of information about the geological model of the field and adjustment of the well trajectory based on this model. The use of modern technologies enables real-time data transfer to the Drilling Control Centre while drilling. The data updated throughout the process is shown as part of the existing geological model of the field.

2013

Strategy

The Gazprom Neft Board of Directors approves the Company's development strategy extended through 2025. It builds on the strategy through 2020 and outlines the plans for achieving the earlier set targets by key business segments – hydrocarbon production, refining and sales of petroleum products – in line with the changing industry landscape and global economic environment and with a view to continued rapid growth in shareholder value through 2025. The strategy for the development of the Company's bunkering, aviation fuel and lubricants businesses is also updated through 2025.

Launch of Arctic Shelf production

In December 2013, Gazprom Neft produces the first ever oil from the Arctic Shelf at the Prirazlomnoye field in the Pechora Sea.

Euro 5 fuels

The commissioning of catalytic cat cracking gasoline hydrotreatment and light naphtha isomerisation facilities at Gazprom Neft's Moscow Refinery enables the plant to fully switch to the production of Euro 5 gasolines. This completes the transition of all the Company's refineries to Euro 5 fuels, well ahead of the regulatory deadlines in Russia.

Bitumen business development

The Company acquires assets in Russia (Ryazan) and Kazakhstan to develop its bitumen business. In 2013, Gazprom Neft and France's Total establish a joint venture to produce and sell polymer-modified bitumen used for road construction under the G-Way Styrelf brand, as well as bitumen emulsions as part the Moscow Refinery operations.

2014

Development of production projects

Gazprom Neft gets the first oil at the Badra oil field in Iraq and begins commercial supply of oil into the Iraqi pipeline system. The Company also makes the first summer shipment from the Novoportovskoye field, marking the field's first-ever sea delivery of oil intended for European consumers.

Arctic Shelf production

Production of the first million barrels of the new Arctic Crude Oil (ARCO) blend is reached at the Prirazlomnoye field. The drilling of a new exploration well begins at the Dolginskoye oil field on the Pechora Sea shelf.

New licences acquired

Gazprom Neft obtains licences to develop the Kuvaysky and Yagodny licence blocks in the Orenburg Region. The resources of these blocks will help maintain and increase the Company's oil production levels.

2015

New capacities on stream

Together with SIBUR, Gazprom Neft lunches Yuzhno-Priobsky Gas Processing Plant (GPP).

Russia's best employer

Gazprom Neft is named Russia's Best Employer in the 2015 Russia's Best Employers ranking released by HeadHunter Group, up two places from last year.

New licences acquired

Gazprom Neft acquires the licence to develop the Zapadno-Yubileynoye field in the Yamal-Nenets Autonomous Area and a number of new licences – for the Yuilsky-3, Lyaminsky-6, Severo-Ityakhsky-1, Maloyugansky and Zapadno-Zimny license blocks – in the Khanty-Mansi Autonomous Area.

Production milestones

The Prirazlomnoye field in Russia hits the production milestone of one million tonnes of the Arctic Crude Oil, with the one-million tonne/barrel milestones also reached at the Badra field in Iraq and the Sarqala field in the Kurdistan Region of Iraq.

2016

Arctic assets

Gazprom Neft puts all its Arctic assets fully on stream, including the Prirazlomnoye and Novoportovskoye fields, the Messoyakha group of fields, and the Arctic Gate oil terminal in the Gulf of Ob.

Catalyst production

Gazpromneft Catalytic Systems subsidiary is set up as part of the Gazprom Neft Group to develop a cracking and hydrogenation catalysts facility awarded the status of a national project by the Ministry of Energy of Russia.

Acquisition of Rospolychem

In June 2016, Gazpromneft-Lubricants acquired a 100% stake in Rospolychem Group, gaining an asset with a full production cycle of complex esters.

Acquisition of NOVA-BRIT

Gazpromneft Bitumen Materials acquires a 75% stake in NOVA-BRIT, a company specialising in the production of bituminous sealants under the BRIT® brand for the construction, repair and maintenance of motor roads, airfields and other areas.

2017

New oil field discoveries

The Neptune field with 415 mt of oil in place is discovered in the Sea of Okhotsk near the Sakhalin Island. Another discovery is made in the Khanty-Mansi Autonomous Area, with the new field boasting 2.74 mtoe of 2P reserves and named after the Company's former head of production Alexander Zhagrin.

Bazhen Technology Centre national project

Gazprom Neft's project to set up a centre for developing the Bazhenov formation based on domestically produced advanced equipment and technology is qualified by the Russian Ministry of Energy as nationally important, with the Bazhen Technology Centre launched in the Khanty-Mansi Autonomous Area.

Digital Production Control Centre

Gazpromneft-Khantos launches the Digital Production Control Centre set up as part of the Digital Field programme. The centre brings together solutions for improving efficiency of production into a single integrated environment.

Deep conversion at Pančevo Refinery

Naftna Industrija Srbije (NIS, 56.15% owned by Gazprom Neft) commences the construction of a new deep conversion facility based on delayed coking technology at its Pančevo Refinery, Serbia.

Biological treatment facilities at Moscow Refinery

Gazprom Neft completes the construction of cutting-edge Biosphere biological treatment facilities at its Moscow Refinery as part of a ₽ 9 bn investment project.

2018

New strategy to set a global industry benchmark

Gazprom Neft's Board of Directors approves a new Strategy through 2030 for the Company to become a global leader in efficiency, safety and technology-driven production.

To embrace new opportunities and meet new challenges in line with the updated strategy, the Company launches a major operational, organisational, cultural and digital transformation covering all aspects of its operations.

Advanced icebreakers

Gazprom Neft completes its Arctic fleet of support vessels, including the Alexander Sannikov and Andrey Vilkitsky icebreakers,

both being the most powerful and advanced vessels in their class and featuring zero emissions just like all other Gazprom Neft's facilities. The icebreakers support the Company's tankers en route along the Gulf of Ob from the Arctic Gate terminal to the floating storage tanker in the Kola Bay.

New oil field discoveries

The Triton field with 137 mtoe of hydrocarbons in place is discovered in the Sea of Okhotsk near the Sakhalin Island to become the second newly found field in the area, paving the way to the formation of the Company's new strategic production cluster in the Russian Far East.

A total of 4 new fields and 27 hydrocarbon deposits are discovered and booked on the Russian State Register of Mineral Reserves in 2018.

New approach to exploration

Gazprom Neft establishes Gazpromneft-GEO, a competence centre for the management of large-scale exploration projects. Its goal is to bring together the Company's financial and exploration management resources, offer turn-key project management and ensure a stable discovery of new cost-effective reserves to replenish the Company's resource base.

Downstream Efficiency Control Centre

Gazprom Neft's Downstream Efficiency Control Centre goes fully operational. Designed to provide a single digital platform for managing efficiency throughout the value chain, from oil delivery to refineries to end-user sales of petroleum products, it relies on the use of predictive analytics, neural networks, artificial intelligence and digital twin technology. The automated integrated planning system, unique to the Russian oil and gas industry, streamlines the refinery's processing volumes, feedstock deliveries and the product mix sixty days ahead.

Digital transformation

Gazprom Neft's Digital Transformation Directorate is set up with a view to developing and implementing the Company's digitalisation strategy. The digitalisation strategy and roadmaps are already in place, with two innovation centres set up. Gazprom Neft's Digital Innovation Centre connects startups, developers and R&D teams seeking to design disruptive digital solutions for Gazprom Neft's integrated downstream platform.

The Company's St Petersburg-based House of Innovations draws together experts in neural networks, digital platforms, the industrial Internet of things, blockchain technologies, augmented and virtual realities, machine learning and other Industry 4.0 innovations. It is used by the Company's units as a platform for joint work relevant to Gazprom Neft's goals.

New system of workplace safety

The Company is seeking to join the ranks of global workplace safety champions by 2030 in line with its updated Development Strategy. The safety system transformation will rely on a risk-based approach and comprise a number of initiatives, including the Goals, Safety Measures, and Certification, Examination, and Investigation projects focused on priority risks identification, risk mitigants development and implementation, and control over the mitigants' roll-out across the Company, respectively.

Setting up JVs

Gazprom Neft, Mubadala Petroleum and the Russian Direct Investment Fund (RDIF) set up a joint venture to develop oil fields in the Tomsk and Omsk regions in Russia's Western Siberia using the capacities of Gazpromneft-Vostok. The JV's key opportunities lie in the area of exploring an developing hard-to-recover pre-Jurassic (Paleozoic) hydrocarbon deposits.

In addition, Gazprom Neft and Spain's Repsol establish a joint venture to explore Karabashsky block 10 located in the Khanty-Mansi Autonomous Area. The block adjoins the Karabashsky zone licence blocks that are already controlled by Evrotek-Yugra, another joint venture of Gazprom Neft and Repsol.

Acquisition of new assets

Gazprom Neft acquires 100% in Enerkom controlling the Solnechny licence block in the Orenburg Region. The asset will be part of the Company's Orenburg production cluster.

2018 also saw the completion of Arcticgas reorganisation, which established equal participation (50/50) of Gazprom Neft and NOVATEK. The 50/50 shareholding split creates the perfect synergy, making it possible to reap the benefits of shared access to vast expertise in hydrocarbon production, regional experience and infrastructure.

In addition, Gazprom Neft acquires a bitumen logistics terminal in Salsk, the Rostov Region, to reinforce its logistics system that will ensure the supply of innovative bitumen products throughout Russia's southern regions.

APPENDIX 4. STRUCTURE OF THE GAZPROM NEFT GROUP[1]

Production

Gazpromneft-NNG JSC
Gazpromneft-Khantos LLC
Gazpromneft-Vostok LLC
Meretoyakhaneftegaz JSC
Gazpromneft-Angara LLC
Gazpromneft-Sakhalin LLC
Gazpromneft-Orenburg LLC
GPN-GEO JSC
Yuzhuralneftegaz PLC
Gazpromneft - Yamal LLC
Gazprom neft shelf LLC
Gazpromneft - Zapolyarye LLC
Gazpromneft-Development LTD
Khanty-Mansiysk Petroleum Alliance CJSC (JV)
SLAVNEFT PJSC (JV)
TOMSKNEFT VNK JSC (JV)
Messoyakhaneftegaz JSC (JV)
ARCTICGAS JSC (JV)
Salym Petroleum Development N.V. (JV)
Gazprom Neft Badra B.V.
Gazprom Neft Middle East B.V.
The Bazhen Technology Centre LLC
Enercom LLC
Karabashsky-6 LLC
Gazpromneft-Prirazlomnoye LLC
Evrotek-Yugra JSC (JV)
Northgas CJSC (JV)
ASB GEO LLC (JV)

Service companies

Gazpromneft-NNGGF LLC
GPN-Oil service LLC
NNGA LLC
NTN LLC
NEN LLC
NNGS LLC
Gazpromneft - Energoservice LLC
Neftekhimremont LLC
Machinery and Repair Plant “Gazpromneft – Omsk Refinery” LLC
Automation-service LLC
Garant Service LLC (JV)

Refining

Gazpromneft Moscow Refinery JSC
Gazpromneft Omsk Refinery JSC
Slavneft-YANOS PJSC (JV)
Yuzhno-Priobskiy GPP LLC (JV)

Marketing of oil and petroleum products

Gazprom Neft Trading GmbH
Gazpromneft – Centre LLC
Munai-Myrza JSC
Gazprom neft Asia LLC
Gazpromneft – Tyumen LLC
Gazpromneft – Krasnoyarsk LLC
Gazpromneft–Ural JSC
Gazpromneft – North-West JSC
Gazpromneft–Yaroslavl JSC
Gazpromneft-Transport JSC
Gazpromneft–Novosibirsk JSC
Gazprom Neft–Belnefteprodukt FLLC
Gazprom neft - Tajikistan LLC
Gazprom neft – Kazakhstan LLP
Alliance-Oil-Asia LLC
Gazprom Neft-Corporate Sales LLC
Gazpromneft – Mobilnaya card JSC
Mosnefteproduct LLC
Gazpromneft Regional sales LLC
Gazpromneft-Alternativnoe Toplivo JSC
Gazpromneft-Terminal JSC
Universal-neft JSC
Gazpromneft-Laboratory LLC
Gazpromneft–Trade Orenburg LLC

[1] The Group’s structure covers JVs and key operating companies.

Lubricants and petrochemicals

Gazpromneft – Lubricants LTD
Gazpromneft MLP JSC
Gazprom Neft Lubricants Italia S.p.A.
GAZPROMNEFT LUBRICANTS UKRAINE LLC
Gazpromneft–Bitumen Materials LLC
Gazpromneft – CS LLC
Gazpromneft – Ryazan Bitumen Binders Plant LLC
NOVA-BRIT LLC
Polyefir LLC
BSV-KHIM LLC
Sovkhimtech JSC
Sibgazpolymer JSC (JV)
Gazpromneft – Bitum Kazakhstan LLP
Bitumen Terminals LLC
TRANS-REAL LLC
Poliom LTD (JV)
NPP Neftekhimia LLC (JV)
Gazpromneft–Total PMB LLC (JV)

Aircraft fuelling

Gazpromneft-Aero JSC
Gazpromneft-Aero Murmansk LLC
Gazpromneft-Aero Kemerovo LLC
Gazpromneft-Aero Sheremetyevo LLC
Fuel-filling company Severo-Zapad LLC (JV)
Sovex JSC (JV)
Gazpromneft-Aero Tomsk LLC (JV)
Gazpromneft-Aero Kyrgyzstan LLC (JV)
Fuel-filling company Yenisei LLC (JV)
Aero TO LLC
Gazpromneft-Aero Novosibirsk JSC (JV)
Fuel-filling company Slavneft-Tunoshna JSC (JV)
Fuel-filling company Omsk (Tsentralny) LLC (JV)
CHUKOTAEROSBYT LLC

Bunkering

Gazpromneft Marine Bunker LLC
Gazpromneft Shipping LLC
Gazpromneft Terminal SPb LLC
GAZPROMNEFT MARINE BUNKER BALKAN S.A.
AS Baltic Marine Bunker
Novorossiysk Petrotransshipment Complex LLC
Novorosnefteservis LLC

Multibusiness companies

Naftna Industrija Srbije A.D., Novi Sad

Other operations

Altaiskoye Podvorye LLC
Lakhta Centre JSC
GPN-Finance LLC
GPN-Energo LLC
GPN-ZS LLC
GAZPROMNEFT SCIENCE & TECHNOLOGY CENTRE LLC
GPN-Invest LLC
Gazpromneft Business Service LLC
Galernaya 5 Complex LLC
Gazpromneft-Logistics LLC
ITSC LLC
Gazpromneft Procurement LLC
Arctica Media JSC
Gazprom Neft International S.A.
Gazprom Neft Finance B.V.
Gazprom Neft Downstream B.V.
Gazprom Neft Business Service B.V.
PC-BA LTD (JV)
NPC LLC (JV)
GPN-project LLC
Gazpromneft-Aero Bryansk LLC
Zarech’e Club LTD
Unifel LLC
Gazpromneft-Orenburg Soyuz LLC

APPENDIX 5. INFORMATION ON ENERGY CONSUMPTION BY GAZPROM NEFT

In 2018, Gazprom Neft's electricity expenses were accounted for as part of the lease expenses under the lease agreements and amounted to ₽ 14,375,988.40, including VAT of ₽ 2,192,947.37.

Gazprom Neft does not keep record of the amount of energy consumed.

APPENDIX 6. TAXATION IN THE OIL INDUSTRY

Average tax rates effective in reporting periods for the taxation of oil and gas companies in Russia

Indicators	2018	2017	Δ, %
Export duty, $/t			
Crude oil	93.10	86.74	7.3
Light petroleum products	27.91	25.99	7.4
Diesel	27.91	25.99	7.4
Gasoline	27.91	25.99	7.4
Naphtha	51.17	47.67	7.3
Heavy petroleum products	93.10	86.74	7.3
Mineral extraction tax, ₽/t			
Crude oil	9,319	8,134	14.6

Crude oil and petroleum products export duty rates

Decree of the Russian Government No. 276 dated 29 March 2013 establishes a methodology for the Ministry of Economic Development of the Russian Federation to calculate export duty rates for crude oil and certain petroleum products.

Crude oil export duty rate

According to Clause 4, Article 3.1 of the Russian Federation Law No. 5003-1 dated 21 May 1993 On the Customs Tariff , export duty rates for oil shall not exceed the marginal export duty rates calculated according to the following formulas:

Urals price quote (P), $/t	Maximum rate of export customs duty
$\leq$109.50	0%
109.50 < P $\leq$ 146.00	35% × (P – 109.50)
146.00 < P $\leq$ 182.50	12.78 + 45% × (P – 146.00)
>182.50	29.20 + 30% × (P – 182.50) in 2017–2018 C_{oil} * × (29.20 + 30% × (P – 182.50)) from 2019

*** C_{oil} = 0.833 in 2019, 0.667 in 2020, 0.5 in 2021, 0.333 in 2022, 0.167 in 2023, 0 in 2024.**

Crude oil exports to the Republic of Kazakhstan are not subject to oil export duties. Crude oil exports to Kyrgyzstan and Belarus under indicative limits are not subject to oil export duties.

According to Federal Law No. 305-FZ dated 3 August 2018, the Russian Government shall have the right to introduce a protective export duty rate for crude oil, which is calculated according to the following formulas:

Urals price quote (P), $/t	Maximum rate of export customs duty
⩽182.50	0%
P > 182.50	29.20 + 45% × (P – 182.50)

This procedure shall remain in effect for six months, starting with the month following a change in crude oil prices that exceeds 15% for three consecutive months.

According to Subclause 4, Clause 5, Article 3.1 of the Law of the Russian Federation No. 5003-1 dated 21 May 2003 ***On the Customs Tariff***, the Russian Government shall be entitled to establish special formulas for calculating reduced export duty rates imposed on crude oil with certain physical and chemical properties. These customs duties shall be defined in accordance with Resolution No. 276 of the Russian Government dated 29 March 2013, depending on the average Urals price over the monitoring period, as follows:

R = (P – 182.5) × C – 56.57 – 0.14 × P, where P is the Urals price ($/t) and C is the increment coefficient, which from 2017 stood at 30%.

The Russian Government Resolution No. 846 dated 26 September 2013 established a procedure for preparing proposals on using special formulas to calculate crude export duties and for monitoring the validity of these formulas' application, including with respect to new projects in the Republic of Sakha (Yakutia), Irkutsk Region, Krasnoyarsk Territory, and Yamal-Nenets Autonomous Area north of the 65th parallel north.

Decree No. 868 dated 3 December 2013 of the Russian Ministry of Energy approved the application form and methodological guidelines for analysing the validity of using the special formulas for calculating crude oil export duty rates.

Federal Law No. 305-FZ dated 3 August 2018 updated the procedure for applying special formulas to calculate export duties on oil with special physical and chemical properties produced within the geographic areas specified in Subclause 4, Clause 5, Article 3.1 of the Russian Federation Law No. 5003-1 dated 21 May 2003 ***On the Customs Tariff***. Starting 1 January 2019, the tax concession applies until a set quantity of oil is exported with the use of these formulas for each of the areas.

According to Clause 1.1, Article 35 of the Russian Federation Law No. 5003-1 dated 21 May 1993 ***On the Customs Tariff***, oil produced from a new offshore field shall be exempt from the export duties for the following periods:

> until 31 March 2032 – for fields located entirely in the Sea of Azov or with at least 50% of their territory in the Baltic Sea, the Black Sea (up to 100 m deep), the Pechora Sea or the White Sea, the Sea of Okhotsk (south of the 55th parallel north), or the Russian stretch of the Caspian seabed;
> until 31 March 2042 – for fields with at least 50% of their territory in the Black Sea (over 100 m deep), the Sea of Okhotsk (north of the 55th parallel north), or the Barents Sea (south of the 72nd parallel north);
> indefinitely – for fields with at least 50% of their territory in the Kara Sea, the Barents Sea (north of the 72nd parallel north), Eastern Arctic (the Laptev Sea, the East Siberian Sea, the Chukchi Sea, the Bering Sea).

Clause 5, Article 11.1 of the Tax Code of the Russian Federation classifies a new offshore field as an offshore field that started commercial hydrocarbon production after 1 January 2016.

Petroleum products export duty rate

According to Article 3.1 of the Russian Federation Law No. 5003-1 dated 21 May 1993 ***On the Customs Tariff***, the rate of the export duty on certain categories of goods produced from oil shall be set by the Russian Government. Petroleum products exported to Tajikistan, the Republic of Belarus, Armenia and Kyrgyzstan within the indicative limits are not subject to export duties.

The Russian Government Resolution No. 276 dated 29 March 2013 set the following procedure for determining the rates of the export duties on petroleum products:

$R_{op} = C \times R_{co}$, where R_{co} is the export duty rate per tonne of crude oil and C is the estimated coefficient associated with the type of petroleum products.

The following coefficients are used to calculate export duty rates on petroleum products:

Coefficients for calculating export duty rates on petroleum products

Petroleum products	From 2017
Light and middle distillates	0.3
Diesel	0.3
Lubricants	0.3
Naphtha	0.55
Gasoline	0.3

According to Federal Law No. 305-FZ dated 3 August 2018, the Russian Government shall have the right to introduce a protective export duty rate for certain categories of petroleum products amounting to 60% of the export customs duty on crude oil. This procedure shall apply for six months starting with the month following a change in crude oil prices that exceeds 15% over three consecutive months.

Excise duty on petroleum products

In Russia, excise duties are paid by producers of refined products. Excise duties are also applied to petroleum products imported into Russia.

Article 193 of the Tax Code of the Russian Federation (as amended by Federal Law No. 301-FZ dated 3 August 2018) establishes the following excise rates for petroleum products.

Excise duty on petroleum products (₽/t)

	2017		2018	2019	2020	2021
Petroleum products		01/01–31/05	01/06–31/12			
Gasoline						
Below Euro 5	13,100	13,100	13,100	13,100	13,100	13,100
Euro 5	10,130	11,213	8,213	12,314	12,752	13,262
Straight-run	13,100	13,100	13,100	13,912	14,720	15,533
Diesel fuel	6,800	7,665	5,665	8,541	8,835	9,188
Motor oils	5,400	5,400	5,400	5,400	5,616	5,841
Middle distillates	7,800	8,662	6,665	9,241	9,535	9,916

Federal Law No. 301-FZ dated 3 August 2018 introduced a new excisable product – petroleum feedstocks. The excise duty is imposed on the taxpayers that are formally registered as entities processing petroleum feedstocks either at their own production facilities or under a toll arrangement. The excise duty rate for petroleum feedstocks is defined based on global oil prices, the petroleum product mix, and region-specific features of petroleum product markets.

A tax deduction may be applicable when calculating excise duty on petroleum feedstocks. Specifically, deductions may by claimed for amounts of excise duty multiplied by 2 and increased by the value of the damping coefficient, which reflects the difference between domestic motor fuel prices and export netbacks.

Mineral extraction tax (MET)

Article 342 of the Tax Code of the Russian Federation (as amended by Federal Law No. 301-FZ dated 3 August 2018) sets out the following formulas for calculating the mineral extraction tax rate for oil:

MET evolution since 2017

Tax	From 2017
MET on oil	$919 \times C_p - D_m$

$\mathbf{D_m} = C_{MET} \times C_p \times (1 - C_d \times C_r \times C_e \times C_{dp} \times C_{can}) - C_c$ in 2017–2018

$\mathbf{D_m} = C_{MET} \times C_p \times (1 - C_d \times C_r \times C_e \times C_{dp} \times C_{can}) - C_c - C_{man} \times C_{vo} - C_{mpdf}$ from 2019.

$\mathbf{C_{MET}} = 559$.

$\mathbf{C_p}$ is a coefficient that reflects global oil price dynamics and is calculated using the following formula: $C_p = (P - 15) \times R / 261$, where P is the average monthly Urals price on the Mediterranean and Rotterdam markets ($/barrel) and R is the average monthly ₽/$ exchange rate.

$\mathbf{C_d}$ is a coefficient that reflects the depletion level of a particular subsurface site. This coefficient provides for a MET rate reduction on oil for highly depleted subsurface sites. The level of reserve depletion is determined as N/V, where N is the amount of accumulated oil extraction on a particular subsurface site and V is the initial extractable oil reserves of all categories on a particular subsurface site as at 1 January 2006. If the depletion level of a specific subsurface site is greater than or equal to 0.8 and less than or equal to 1, C_d shall be calculated using the following formula: $C_d = 3.8 - 3.5 \times N/V$. If the depletion level of a particular subsurface site exceeds 1, C_d shall be taken to be equal to 0.3. In other cases, C_d shall be taken to be equal to 1. If a subsurface site contains an oil deposit(s) with C_e lower than 1, the C_d coefficient shall be set at 1.

$\mathbf{C_r}$ is a coefficient that reflects the size of reserves of a particular subsurface site. This coefficient reduces the MET rate for smaller subsurface sites. If the initial extractable oil reserves (V_r – initial extractable oil reserves of all categories of a particular subsurface site as at 1 January of the year preceding the tax year) are less than 5 million tonnes, and the site's depletion level is less than or equal to 0.05 as at 1 January 2012 (or as at 1 January of the year of the licence issue, if the licence was issued after 1 January 2012), C_r shall be calculated using the following formula: $C_r = 0.125 \times V_r + 0.375$.

$\mathbf{C_e}$ is a coefficient reflecting the complexity of oil extraction. It ranges from 0.2 to 1 depending on the complexity of oil extraction at a particular deposit:

- 0.2 – when oil is extracted from a particular deposit with an approved permeability index of no more than 2×10^3 μm^2 and the net pay thickness of no more than 10 m;
- 0.4 – when oil is extracted from a particular deposit with an approved permeability index of no more than 2×10^3 μm^2 and the net pay thickness of more than 10 m;
- 0.8 – when oil is extracted from a particular deposit recognised as part of the Tyumenskaya suite pay zone;
- 1 – when oil is extracted from other deposits.

C_{dp} is a coefficient that reflects the depletion level of a particular hydrocarbon deposit. C_{dp} applies to subsurface sites that contain deposits where $C_e < 1$. This coefficient reduces the MET rate on oil from highly depleted deposits. The depletion level of a deposit with $C_e < 1$ is defined as N_{dp} / V_{dp}, where N_{dp} is the amount of accumulated oil extraction at a particular deposit, and V_{dp} is the initial extractable oil reserves of all the categories at a particular deposit as at 1 January of a year preceding the tax year. If the depletion level of a particular deposit is greater than or equal to 0.8 and lower than or equal to 1, the C_{dp} coefficient is calculated using the following formula: $C_{dp} = 3.8 - 3.5 \times N_{dp} / V_{dp}$. If the depletion level of a specific deposit is greater than 1, C_{dp} shall be taken to be equal to 0.3. In other cases, C_{dp} is set at 1. For other deposits of this site (with C_e equal to 1), the C_{dp} shall be taken to be equal to the C_d value defined for the entire site.

C_{can} is a coefficient reflecting the region of production and properties of oil. This coefficient reduces the rate of the MET on oil for the subsurface sites located entirely or partially in regions with complex weather, climatic and geological conditions (for example, on the Yamal Peninsula in the Yamal-Nenets Autonomous Area, in the Irkutsk Region, the Republic of Sakha (Yakutia)). C_{can} is taken to be equal to 0 until the first day of the month following the month when at least one of the following occurs: the maximum amount of accumulated oil extraction from the subsurface site is reached (1) or the deadline expires (2). When the deadline for reducing the tax expires, C_{can} is set at 1.

C_c is set at ₽ 357 for 2018 and ₽ 428 for 2019–2021.

C_{man} is a coefficient reflecting the completion of the tax manoeuvre, which is set to equal the value of phased reduction of the export customs duty on oil.

C_{vo} is 0.1 in the case of extraction of oil with a viscosity of not less than 10,000 mPa·s (under formation conditions). In other cases, C_{vo} equals 1.

C_{mpdf} is a coefficient reflecting an increment for gasoline and diesel fuel that applies if the damping coefficient is positive and serves to determine the excise duty deduction for petroleum feedstocks.

Clause 2.1, Article 342 and Clause 6, Article 338 of the Tax Code of the Russian Federation set the following ad valorem MET rates (% of the cost) for oil extracted from new offshore fields:

- 30% for the period of 5 years from the start of commercial hydrocarbon production – for fields located entirely in the Sea of Azov or with at least 50% of their territory in the Baltic Sea;
- 15% for the period of 7 years from the start of commercial hydrocarbon production – for fields with at least 50% of their territory in the Black Sea (up to 100 m deep), the Sea of Japan, the Pechora Sea or the White Sea, the Sea of Okhotsk (south of the 55 th parallel north), or the Russian stretch of the Caspian seabed;
- 10% for the period of 10 years from the start of commercial hydrocarbon production – for fields with at least 50% of their territory in the Sea of Okhotsk (north of the 55 th parallel north), the Black Sea (over 100 m deep), or the Barents Sea (south of the 72 nd parallel north);
- 5% for the period of 15 years from the start of commercial hydrocarbon production – for fields with at least 50% of their territory in the Kara Sea, the Barents Sea (north of the 72 nd parallel north), Eastern Arctic (the Laptev Sea, the East Siberian Sea, the Chukchi Sea, the Bering Sea).

In addition, the tax legislation established a reduced tax rate for oil extracted from the deposits recognised as part of the Bazhenovskaya suite pay zone, subject to the requirements of the Russian Tax Code being met. According to Federal Law No. 305-FZ dated 3 August 2019, from 1 January 2019 a tax deduction can be applied to the subsurface sites listed in Subclause 4, Clause 5, Article 3.1 of the Russian Federation Law No. 5003-1 dated 21 May 1993 ***On the Customs Tariff*** in the amount determined as $C_{man} \times V_{eo}$, where V_{eo} is the quantity of crude oil extracted at a subsurface site and exported from Russia under the preferential rate of export duty for oil.

Effective MET rate for oil across the Gazprom Neft Group

Rates	2018	2017	Δ, %
Standard MET rate for oil, ₽/t	12,455	8,134	53.1
Effective MET rate for oil (with C_d, C_r, C_e, C_{dp} and C_{can} applied), ₽/t	10,354	6,825	51.7
Deviation of the effective MET rate for oil from the standard rate, ₽/t	2,101	1,309	
Deviation of the effective MET rate for oil from the standard rate, %	16.9%	16.1%	

In 2018, the effective MET rate for oil was ₽ 10,301 / tonne, which is ₽ 2,154 / tonne below the average standard rate set in accordance with the tax legislation. This deviation is due to the concessions on the MET rate for oil prescribed by the tax legislation, including the C_d, C_r, C_e, C_{dp} and C_{can} reduction coefficients.

MET on natural gas and gas condensate

Article 342 of the Tax Code of the Russian Federation (as amended by Federal Law No. 301-FZ dated 3 August 2018) establishes the following MET rates for flammable natural gas and gas condensate.

MET on natural gas and gas condensate

Natural gas, ₽ / 1,000 m^3	$35 \times U_{fe} \times C_{com} + T_g$
Gas condensate, ₽/t	$42 \times U_{fe} \times C_{com} \times C_{adj} + 0.75 \times C_{man}$

U_{fe} is the base value of a fuel equivalent unit calculated by the taxpayer based on the natural gas and gas condensate prices, as well as the ratio of these hydrocarbons' production volumes.

C_{com} is a coefficient reflecting the complexity of mineral resource extraction from the deposit. This coefficient reduces the MET rate and is taken to equal the lowest of the five reduction coefficients – C_{reg} (concession based on location), C_{dep} (concession for depleted sites), C_d (concession for deposits at depths below 1.7 km), C_s (concession for the subsurface areas that are part of a regional gas supply system) and C_{tur} (concession for the deposits recognised as part of the Turonian pay zones).

T_g is an indicator reflecting costs of natural gas transportation taken to be equal to 0 in 2017–2018 based on the data of the Federal Antimonopoly Service of the Russian Federation).

C_{adj} is an adjustment coefficient equal to $6.5/C_g$, where C_g is a coefficient reflecting the export margin of a fuel equivalent unit.

In 2018, the effective MET rate for natural gas was ₽ 596 / 1,000 m^3, which is ₽ 43 lower than the average standard rate set in accordance with the tax legislation. This deviation is due to the concessions on the MET rate for natural gas prescribed by the tax legislation, in particular the C_c reduction coefficient.

Additional income tax (AIT)

Federal Law No. 199-FZ dated 19 July 2018 introduced a tax on additional income from the extraction of hydrocarbons, effective from 1 January 2019. The AIT will be levied on the income from hydrocarbon extraction at a rate of 50% minus an estimated export duty and transportation costs, as well as actual capital and operating expenses associated with the development of the subsurface site. The new tax regime envisages a reduction in the total amount of fiscal payments that depend on gross metrics (MET and oil export customs duty), achieved through changing the MET calculation formula and implementing a framework of fiscal concessions on MET and the export customs duty for certain categories of pilot projects. A set list of pilot sites eligible for the AIT was drawn up for the new fiscal regime's trial period, with the sites of all categories represented in Gazprom Neft's portfolio.

Tax benefits

The existing tax legislation provides for the following types of tax concessions, which are applied by the Group's subsidiaries (including reduced tax rates and reduction coefficients for the MET on oil and natural gas).

Types of tax benefits

Tax benefits applied in 2018	Eligible entities of the Group
MET on natural gas	
The C_{com} reduction coefficient on the MET rate	JSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft LLC Gazpromneft-Yamal LLC Gazpromneft-Orenburg
MET on oil	
The C_{r} reduction coefficient on the MET rate	JSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft-Orenburg
The C_{d} reduction coefficient on the MET rate	JSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft-Vostok JSC Yuzhuralneftegaz LLC Gazpromneft-Khantos
The C_{e} reduction coefficient on the MET rate	JSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft-Vostok LLC Zapolyarneft LLC Gazpromneft-Khantos LLC Gazpromneft-Orenburg
The C_{dp} reduction coefficient on the MET rate	JSC Gazpromneft-Noyabrskneftegaz LLC Gazpromneft-Vostok
The C_{can} reduction coefficient on the MET rate	PJSC Gazprom Neft LLC Gazprom Neft-Angara LLC Gazpromneft-Yamal
₽ 0 rate for oil produced at the Bazhenovskaya deposits	LLC Gazpromneft-Khantos JSC Gazpromneft-Noyabrskneftegaz
Reduced MET rate for production on a new offshore field in the Pechora Sea	LLC Gazprom Neft Shelf

Tax benefits applied in 2018	Eligible entities of the Group
Corporate income tax	
A reduced rate of 16% (a 4% concession under the local legislation of KMAA – Yugra[1])	LLC Gazpromneft-Khantos JSC Gazpromneft-Noyabrskneftegaz
A reduced rate of 16.5% (a 3.5% concession under the local legislation of the Yamal-Nenets Autonomous Area)	JSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft LLC Gazpromneft-Yamal
A reduced rate of 19.475% (a 0.525 % concession under the local legislation of the Tyumen Region)	LLC Gazpromneft-Khantos
A reduced rate of 16.5% (a 3.5% concession under the local legislation of St Petersburg)	PJSC Gazprom Neft JSC Gazpromneft-Aero LLC Gazprom Neft Scientific and Research Centre LLC Gazprom Neft Development LLC Gazprom Neft Business Service LLC Gazprom Neft Regional Sales LLC Gazpromneft Marine Bunker JSC Lakhta Centre MFC LLC Gazpromneft Shipping LLC Gazprom Neft Shelf[1]
Property tax	
Exemption from property tax for fields that commenced development after 1 January 2011 (in accordance with the local legislation of KMAA – Yugra)	LLC Gazpromneft-Khantos JSC Gazpromneft-Noyabrskneftegaz
A reduced rate of 1.1% for property that was created/purchased during the implementation of investment projects in the Yamal-Nenets Autonomous Area (in accordance with the local legislation of the Yamal-Nenets Autonomous Area)	JSC Gazpromneft-Noyabrskneftegaz LLC Zapolyarneft
Exemption from property tax for property that was created/purchased during the implementation of investment projects in the Orenburg Region (in accordance with the local legislation of the Orenburg Region)	LLC Gazpromneft-Orenburg
Exemption from property tax for property that was created/purchased and put into operation during the implementation of investment projects in the amount of 50% of the tax payable to the Tomsk Region's budget (in accordance with the local legislation of the Tomsk Region)	LLC Gazpromneft-Vostok
Exemption from property tax for property that was created/purchased and put into operation during the development of the technology for prospecting and exploration of the pre-Jurassic deposits in the Tomsk Region (in accordance with the local legislation of the Tomsk Region)	LLC Gazpromneft-Vostok

1. For other activities related to PJSC Gazprom consolidated group of taxpayers.

APPENDIX 7. LIST OF MAJOR TRANSACTIONS AND INTERESTED-PARTY TRANSACTIONS

Major transactions

In 2018, Gazprom Neft did not execute any transactions deemed major under the Russian Federal Law No. 208-FZ dated 26 December 1995 On Joint-Stock Companies.

The Company's Charter does not specify other transactions required to be executed in accordance with the major transactions approval procedure.

Interested-party transactions

In the 2018 reporting year, Gazprom Neft executed the transactions which were deemed to be interested-party transactions pursuant to the Federal Law On Joint-Stock Companies and required approval under Chapter XI of the Federal Law On Joint-Stock Companies.

The information on the transactions executed in 2018 is specified in the Report on Gazprom Neft's PJSC Interested-Party Transactions Made in 2018 (the "Report") approved by the Company's Board of Directors on 19 April 2019 (Minutes No. PT-0102/19 dated 19 April 2019).

GLOSSARY

ADR
American depositary receipt

Alkaline-surfactant-polymer (ASP) flooding
Chemical technique for oil recovery enhancement at mature fields where a mixture of alkali, surfactant and polymers is injected into the reservoir

APG
Associated petroleum gas

Augmented reality
A technology that superimposes computer-generated data (images, video, text, graphics) on the content displayed by an electronic device, be it a smart phone or AR glasses. In production, it is leveraged to promptly receive information about equipment and its condition, simulate work processes, report failures, conduct employee training, and more. It also significantly reduces the number of errors and increases work efficiency

B2B
The exchange of products and services between businesses, rather than between businesses and consumers

B2C
The process of selling products and services directly to consumers who are the end-users of these products and services

Bps
Basis point

Cased borehole
Borehole section with casing pipes installed. Casing pipes are screwed on to each other or welded together to form a casing column

CGU
Cash-generating units

CIS
Commonwealth of Independent States (post-Soviet republics, with the exception of Latvia, Lithuania, Georgia and Estonia)

CNG
Compressed natural gas

Corporate culture
A system of shared values, attitudes, goals and principles of teamwork and workplace dispute settlement, common to all Company employees and based on corporate values

Corporate culture workshops
Employee workshops with participation of the Group's executives set up to discuss "as is" and "to be" state of the Company's corporate culture model and the initiatives required to build a more engaging working environment

CPI
Consumer price index

D&O
Liability insurance of directors and officers

DCU
Delayed coker unit

EAD
Electronic asset development

EBIT
Earnings before interest and taxes. This measure of a company's financial performance stands in-between gross and net profit

EBITDA
Earnings before interest, taxes, depreciation and amortisation

ECA
Export credit agency

Engaging environment
A set of principles and processes that help employees reach their full potential, work relentlessly to develop and improve their performance, actively collaborate to address issues, and feel a sense of personal responsibility for their share of work and outcomes

Etalon
An operations management system based on an exemplary business model. The endeavours to deliver exemplary performance are typical of a mature company that has successfully navigated through developmental challenges

EURIBOR
Euro Interbank Offered Rate

FAR
Fatality accident rate

GDP
Gross domestic product

GRI
An internationally recognised sustainability reporting framework developed by the Global Reporting Initiative

Hierarchical management
A classical organisational model integrating top-down management guidance with down-top flow of information from personnel on the ground. It is based on stringent supervision, clear delineation of responsibilities, cumbersome processes and vertical hierarchy and is viewed as hardly effective in today's world

IEA
International Energy Agency

IFRS
International Financial Reporting Standards

Industrial Internet of things
IIoT refers to interconnected sensors attached to physical assets and networked together with computers to enable efficient data collection and exchange. It is used for remote control of equipment and industrial automation, cutting down human intervention

IRMF
Integrated risk management framework

KPI
Key performance indicator

Lean production
An approach to management that focuses on continuous improvement and aims to eliminate all sorts of losses. It engages all employees in driving a flow of improvements

LIBOR
London Interbank Offered Rate

LPG
Liquefied petroleum gases

LTIFR
Lost time injury frequency rate

Management by objectives
Collective approach to formulating goals, setting the direction, and decision making inside the company. It ensures that the executives and employees share the same goals, understand their importance, and are able to assess their performance and facilitate improvements

MET
Mineral extraction tax

Mud pit
A facility designed for centralised collection, treatment and disposal of drilling waste

Network-based management
A modern management model based on flexible cross-functional teams capable of setting their own goals and making independent decisions. It relies on horizontal hierarchy, lifelong learning and personal responsibility for the outcomes. It is best for addressing complex challenges in a rapidly changing environment

NGL
Natural gas liquids

NIS
Naftna Industrija Srbije A.D., Novi Sad

NPP
Non-profit partnership

NPS
Net Promoter Score

Oe
Oil equivalent

OECD
Organisation for Economic Cooperation and Development

OMS
Operations management system

OPEC
Organization of the Petroleum Exporting Countries

PBB
Polymer-bitumen binders

PMB
Polymer modified bitumen used for road construction

Pp
Percentage point

Predictive analytics
Data analysis methods that aim to predict future behaviour of subjects and objects in order to drive better decisions

Predictive incident management
A fundamentally new approach to equipment maintenance and repair based on the analysis of digital data gathered from sensors to accurately predict wear and tear. It helps maximise maintenance efficiency and prevent accidents

PRMS
The Petroleum Resources Management System. It is the most widely used one of its kind in the world, defining not only the degree of uncertainty in relation to discovering oil and gas, but also the economic feasibility of extracting hydrocarbons. The petroleum quantities are estimated based on the 3P scenario (proved, probable, possible)

Proppant / propping agent
Granular material designed to keep an induced hydraulic fracture open under ground pressure and thus enhance oil recovery

R&D
Research and development

RAS
Russian Accounting Standards

Refinery
Oil refinery

Regular management practices
Executive tools designed to improve efficiency and safety of production facilities. They rely on clearly defined algorithms and implementation principles and apply at all levels of company management. Regular management practices help embed the Company's values and develop a cultural environment conducive to achieving its strategic goals

ROACE
Return on average capital employed, calculated as net profit (less dividends on shares) divided by the average number of ordinary shares

SEC
U.S. Securities and Exchange Commission

Seismic
Seismic survey

Underbalanced drilling
Drilling technique where the reservoir pressure is higher than the pressure in the wellbore. The pressure difference minimises formation damage and increases the rate of penetration and oil recovery rate

US GAAP
Generally Accepted Accounting Principles approved in the US

USA
United States of America

VAT
Value-added tax

DISCLAIMER

This Annual Report is based on the information available to the Public Joint-Stock Company Gazprom Neft and its subsidiaries («Gazprom Neft») as at the report date.

This Annual Report contains forward-looking statements that represent the expectations of the Company's management. The forward-looking statements are not based on actual circumstances and include all statements pertaining to the Company's intentions, opinions or current expectations with regard to its performance, financial position, liquidity, growth prospects, strategy and the industry in which Gazprom Neft operates. By their nature, such forward-looking statements are subject to inherent risks and uncertainties, as they relate to events and depend on circumstances that may or may not occur in the future.

Such words as "assume", "believe", "expect", "forecast", "intend", "plan", "a project", "consider", "might" and other similar or equivalent words and phrases as well as their use with negations generally indicate a forward-looking statement. These assumptions are subject to risks and uncertainties both expected and unforeseeable by the Company. Therefore, future performance may differ from current expectations, and the recipients of the information contained herein should not use it as a sole basis for their assumptions.

Apart from the official information on the Gazprom Neft activities, this Annual Report contains information obtained from third parties and the sources which Gazprom Neft deems reliable. Nevertheless, the Company does not guarantee the accuracy of this information as it may be condensed or incomplete. Gazprom Neft does not provide any guarantees that the actual results, scale and performance indicators of the Company's operations or those of the industry in which the Company operates will be consistent with the results, scale and performance indicators expressly stated or implied in any forward-looking statements contained herein or otherwise. Gazprom Neft shall bear no responsibility for any losses that may be incurred by anyone due to the fact that such a person relied on the forward-looking statements. Except as expressly required by applicable law, the Company assumes no obligation to distribute or publish any updates or revisions to the forward-looking statements to reflect any changes in expectations or new information, as well as subsequent events, conditions or circumstances.

ADDRESSES AND CONTACTS

FULL COMPANY NAME	Public Joint-Stock Company Gazprom Neft
SHORT COMPANY NAME	Gazprom Neft
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REGISTRATION DATE	The Company was registered on 6 October 1995 by the Omsk Registration Chamber. Statutory Registration Certificate No. 38606450. Primary State Registration Number (OGRN) 1025501701686.
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