



Gazprom Neft Group

**Interim Condensed Consolidated Financial Statements (unaudited)
As of and for the three months ended 31 March 2019**



Report on Review of Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Public Joint Stock Company Gazprom Neft and its subsidiaries (together – the “Group”) as at 31 March 2019 and the related interim condensed consolidated statements of profit and loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, “Interim Financial Reporting”. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, “Interim Financial Reporting”.

20 May 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, Pochtamtская ul., 3-5

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

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Gazprom Neft Group
Interim Condensed Consolidated Financial Statements (unaudited)
As of and for the three months ended 31 March 2019

Contents

| | |
|--|----|
| Interim Condensed Consolidated Statement of Financial Position..... | 2 |
| Interim Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income.... | 3 |
| Interim Condensed Consolidated Statement of Changes in Equity..... | 4 |
| Interim Condensed Consolidated Statement of Cash Flows | 5 |
| Notes to the Interim Condensed Consolidated Financial Statements | |
| 1. General..... | 6 |
| 2. Summary of significant accounting policies..... | 6 |
| 3. Cash and cash equivalents | 12 |
| 4. Short-term financial assets | 12 |
| 5. Trade and other receivables | 12 |
| 6. Inventories | 12 |
| 7. Other taxes receivable..... | 12 |
| 8. Other current assets | 13 |
| 9. Property, plant and equipment | 13 |
| 10. Right-of-use assets..... | 15 |
| 11. Investments in associates and joint ventures | 15 |
| 12. Other non-current assets | 17 |
| 13. Short-term debt and current portion of long-term debt | 17 |
| 14. Trade and other payables..... | 17 |
| 15. Other current liabilities | 17 |
| 16. Other taxes payable..... | 18 |
| 17. Long-term debt | 18 |
| 18. Lease liabilities | 19 |
| 19. Other non-current financial liabilities | 19 |
| 20. Net foreign exchange gain / (loss)..... | 19 |
| 21. Finance expense | 20 |
| 22. Fair value measurement..... | 20 |
| 23. Commitments and contingencies | 20 |
| 24. Related party transactions | 22 |
| 25. Segment information..... | 24 |
| 26. Subsequent events..... | 26 |

| | Notes | 31 March 2019 | 31 December 2018 |
|---|-------|------------------|------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 3 | 244,806 | 247,585 |
| Short-term financial assets | 4 | 78,602 | 847 |
| Trade and other receivables | 5 | 146,286 | 129,150 |
| Inventories | 6 | 157,259 | 149,956 |
| Current income tax prepayments | | 5,906 | 3,179 |
| Other taxes receivable | 7 | 100,514 | 91,929 |
| Other current assets | 8 | 39,988 | 40,483 |
| Total current assets | | 773,361 | 663,129 |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 2,210,314 | 2,366,069 |
| Right-of-use assets | 10 | 67,699 | - |
| Goodwill and other intangible assets | | 78,205 | 80,139 |
| Investments in associates and joint ventures | 11 | 347,681 | 328,937 |
| Long-term trade and other receivables | | 44,110 | 980 |
| Long-term financial assets | | 10,662 | 10,345 |
| Deferred income tax assets | | 26,972 | 19,127 |
| Other non-current assets | 12 | 47,666 | 52,200 |
| Total non-current assets | | 2,833,309 | 2,857,797 |
| Total assets | | 3,606,670 | 3,520,926 |
| Liabilities and equity | | | |
| Current liabilities | | | |
| Short-term debt and current portion of long-term debt | 13 | 57,649 | 90,923 |
| Current lease liabilities | 18 | 8,219 | - |
| Current finance lease liabilities | | - | 1,829 |
| Trade and other payables | 14 | 243,570 | 307,604 |
| Other current liabilities | 15 | 32,758 | 39,510 |
| Current income tax payable | | 5,664 | 3,328 |
| Other taxes payable | 16 | 147,647 | 99,085 |
| Provisions and other accrued liabilities | | 17,544 | 20,043 |
| Total current liabilities | | 513,051 | 562,322 |
| Non-current liabilities | | | |
| Long-term debt | 17 | 712,854 | 684,530 |
| Non-current lease liabilities | 18 | 72,060 | - |
| Non-current finance lease liabilities | | - | 23,654 |
| Other non-current financial liabilities | 19 | 38,686 | 44,857 |
| Deferred income tax liabilities | | 130,482 | 127,448 |
| Provisions and other accrued liabilities | | 67,558 | 67,192 |
| Other non-current liabilities | | 24,413 | 19,104 |
| Total non-current liabilities | | 1,046,053 | 966,785 |
| Equity | | | |
| Share capital | | 98 | 98 |
| Treasury shares | | (1,170) | (1,170) |
| Additional paid-in capital | | 38,143 | 60,397 |
| Retained earnings | | 1,774,307 | 1,680,978 |
| Other reserves | | 87,213 | 99,874 |
| Equity attributable to Gazprom Neft shareholders | | 1,898,591 | 1,840,177 |
| Non-controlling interest | | 148,975 | 151,642 |
| Total equity | | 2,047,566 | 1,991,819 |
| Total liabilities and equity | | 3,606,670 | 3,520,926 |


A. V. Dyukov
Chief Executive Officer
PJSC Gazprom Neft


A. V. Yankevich
Chief Financial Officer
PJSC Gazprom Neft

| | Notes | 3 months ended 31 March 2019 | 3 months ended 31 March 2018 |
|--|-----------|---------------------------------|---------------------------------|
| Revenue | | | |
| Crude oil, gas and petroleum products sales | | 570,840 | 504,355 |
| Other revenue | | 15,519 | 16,278 |
| Total revenue from sales | 25 | 586,359 | 520,633 |
| Costs and other deductions | | | |
| Purchases of oil, gas and petroleum products | | (145,099) | (122,618) |
| Production and manufacturing expenses | | (56,055) | (51,500) |
| Selling, general and administrative expenses | | (25,538) | (24,211) |
| Transportation expenses | | (38,906) | (36,680) |
| Depreciation, depletion and amortisation | | (41,696) | (37,509) |
| Taxes other than income tax | 16 | (146,291) | (141,075) |
| Export duties | | (18,026) | (21,599) |
| Exploration expenses | | (82) | (269) |
| Total operating expenses | | (471,693) | (435,461) |
| Operating profit | | 114,666 | 85,172 |
| Share of profit of associates and joint ventures | | 22,690 | 14,768 |
| Net foreign exchange gain / (loss) | 20 | 5,461 | (4,378) |
| Finance income | | 5,096 | 1,848 |
| Finance expense | 21 | (9,209) | (5,945) |
| Other loss, net | | (6,079) | (2,665) |
| Total other income | | 17,959 | 3,628 |
| Profit before income tax | | 132,625 | 88,800 |
| Current income tax expense | | (10,610) | (11,106) |
| Deferred income tax expense | | (9,343) | (3,549) |
| Total income tax expense | | (19,953) | (14,655) |
| Profit for the period | | 112,672 | 74,145 |
| Other comprehensive (loss) / income - may be reclassified to profit or loss | | | |
| Currency translation differences | | (19,963) | 4,025 |
| Cash flow hedge, net of tax | | (60) | 6,151 |
| Other comprehensive (loss) / income | | (8) | 3 |
| Other comprehensive (loss) / income | | (20,031) | 10,179 |
| Total comprehensive income for the period | | 92,641 | 84,324 |
| Profit attributable to: | | | |
| - Gazprom Neft shareholders | | 107,894 | 69,665 |
| - Non-controlling interest | | 4,778 | 4,480 |
| Profit for the period | | 112,672 | 74,145 |
| Total comprehensive income / (loss) attributable to: | | | |
| - Gazprom Neft shareholders | | 95,233 | 77,934 |
| - Non-controlling interest | | (2,592) | 6,390 |
| Total comprehensive income for the period | | 92,641 | 84,324 |
| Earnings per share attributable to Gazprom Neft shareholders | | | |
| Basic earnings (RUB per share) | | 22.87 | 14.77 |
| Diluted earnings (RUB per share) | | 22.87 | 14.77 |
| Weighted-average number of common shares outstanding (millions) | | 4,718 | 4,718 |

| | Attributable to Gazprom Neft shareholders | | | | | Total | Non-controlling interest | Total equity |
|---|---|-----------------|----------------------------|-------------------|-----------------|------------------|--------------------------|------------------|
| | Share capital | Treasury shares | Additional paid-in capital | Retained earnings | Other reserves | | | |
| Balance as of 31 December 2018 | 98 | (1,170) | 60,397 | 1,680,978 | 99,874 | 1,840,177 | 151,642 | 1,991,819 |
| Effect of changes in accounting policies (Note 2) | | | | (14,565) | | (14,565) | | (14,565) |
| Balance as of 1 January 2019 | 98 | (1,170) | 60,397 | 1,666,413 | 99,874 | 1,825,612 | 151,642 | 1,977,254 |
| Profit for the period | - | - | - | 107,894 | - | 107,894 | 4,778 | 112,672 |
| Other comprehensive loss | | | | | | | | |
| Currency translation differences | - | - | - | - | (12,593) | (12,593) | (7,370) | (19,963) |
| Cash flow hedge, net of tax | - | - | - | - | (60) | (60) | - | (60) |
| Other comprehensive loss | - | - | - | - | (8) | (8) | - | (8) |
| Total comprehensive income / (loss) for the period | - | - | - | 107,894 | (12,661) | 95,233 | (2,592) | 92,641 |
| Transactions with owners, recorded in equity | | | | | | | | |
| Dividends to equity holders | - | - | - | - | - | - | (75) | (75) |
| Transaction with shareholder (Note 9) | - | - | (22,254) | - | - | (22,254) | - | (22,254) |
| Total transactions with owners | - | - | (22,254) | - | - | (22,254) | (75) | (22,329) |
| Balance as of 31 March 2019 | 98 | (1,170) | 38,143 | 1,774,307 | 87,213 | 1,898,591 | 148,975 | 2,047,566 |

| | Attributable to Gazprom Neft shareholders | | | | | Total | Non-controlling interest | Total equity |
|--|---|-----------------|----------------------------|-------------------|----------------|------------------|--------------------------|------------------|
| | Share capital | Treasury shares | Additional paid-in capital | Retained earnings | Other reserves | | | |
| 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 | - | - | - | 69,665 | - | 69,665 | 4,480 | 74,145 |
| Other comprehensive income | | | | | | | | |
| Currency translation differences | - | - | - | - | 2,115 | 2,115 | 1,910 | 4,025 |
| Cash flow hedge, net of tax | - | - | - | - | 6,151 | 6,151 | - | 6,151 |
| Other comprehensive income | - | - | - | - | 3 | 3 | - | 3 |
| Total comprehensive income for the period | - | - | - | 69,665 | 8,269 | 77,934 | 6,390 | 84,324 |
| Balance as of 31 March 2018 | 98 | (1,170) | 62,256 | 1,501,596 | 68,411 | 1,631,191 | 112,266 | 1,743,457 |

Currency – RUB millions

| | Notes | 3 months ended 31 March 2019 | 3 months ended 31 March 2018 |
|--|-------|---------------------------------|---------------------------------|
| Cash flows from operating activities | | | |
| Profit before income tax | | 132,625 | 88,800 |
| Adjustments for: | | | |
| Share of profit of associates and joint ventures | | (22,690) | (14,768) |
| Net foreign exchange (gain) / loss | 20 | (5,461) | 4,378 |
| Finance income | | (5,096) | (1,848) |
| Finance expense | 21 | 9,209 | 5,945 |
| Depreciation, depletion and amortisation | | 41,696 | 37,509 |
| Other non-cash items | | 2,481 | 597 |
| Operating cash flow before changes in working capital | | 152,764 | 120,613 |
| Changes in working capital: | | | |
| Accounts receivable | | (3,780) | (17,695) |
| Inventories | | (6,626) | (4,288) |
| Taxes receivable | | (8,877) | (6,974) |
| Other assets | | (300) | 6,746 |
| Accounts payable | | 12,786 | 5,941 |
| Taxes payable | | 49,152 | 10,295 |
| Other liabilities | | (3,279) | (11,891) |
| Total effect of working capital changes | | 39,076 | (17,866) |
| Income taxes paid | | (10,519) | (10,095) |
| Interest paid | | (12,725) | (9,543) |
| Net cash provided by operating activities | | 168,596 | 83,109 |
| Cash flows from investing activities | | | |
| Acquisition of investments in joint ventures | | (64) | - |
| Bank deposits placement | | (82,001) | (120) |
| Repayment of bank deposits | | 5,000 | 7,025 |
| Acquisition of other investments | | (30) | - |
| Proceeds from sales of other investments | | 1,356 | - |
| Short-term loans issued | | (532) | (28) |
| Repayment of short-term loans issued | | 533 | 200 |
| Long-term loans issued | | (120) | (9) |
| Repayment of long-term loans issued | | 8 | 2,150 |
| Purchases of property, plant and equipment and intangible assets | | (81,945) | (71,524) |
| Purchases of oil and gas licences | | (7,651) | - |
| Proceeds from sale of property, plant and equipment, net of tax | | 86,949 | 171 |
| Interest received | | 3,150 | 9,917 |
| Net cash used in investing activities | | (75,347) | (52,218) |
| Cash flows from financing activities | | | |
| Proceeds from short-term borrowings | | 122 | 1,408 |
| Repayment of short-term borrowings | | (39) | (697) |
| Proceeds from long-term borrowings | | 51,362 | 79,493 |
| Repayment of long-term borrowings | | (31,368) | (57,533) |
| Transaction costs directly attributable to the borrowings received | | (150) | (64) |
| Dividends paid to Gazprom Neft shareholders | | (104,027) | (47,183) |
| Dividends paid to non-controlling interest | | (75) | - |
| Repayment of principal portion of lease liabilities | | (2,037) | - |
| Repayment of finance lease liabilities | | - | (351) |
| Net cash used in financing activities | | (86,212) | (24,927) |
| Increase in cash and cash equivalents | | 7,037 | 5,964 |
| Effect of foreign exchange on cash and cash equivalents | | (9,816) | 665 |
| Cash and cash equivalents as of the beginning of the period | | 247,585 | 90,608 |
| Cash and cash equivalents as of the end of the period | | 244,806 | 97,237 |

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

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 Interim Condensed 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”).

The Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard **IAS 34 Interim Financial Reporting**.

The Group does not disclose information which would substantially duplicate the disclosures contained in its audited Consolidated Financial Statements as of and for the year ended 31 December 2018, such as significant accounting policies, estimates and judgements, financial risk disclosures or disclosures of financial line items, which have not changed significantly in amount or composition. These Interim Condensed Consolidated Financial Statements should be read in conjunction with the Group’s Consolidated Financial Statements for 2018 prepared in accordance with IFRS.

Subsequent events occurring after 31 March 2019 were evaluated through 20 May 2019, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

The results for the three months ended 31 March 2019 are not necessarily indicative of the results expected for the full year.

The Group as a whole is not subject to significant seasonal fluctuations.

Changes in significant accounting policies

Significant accounting policies, judgements and estimates applied while preparing these Interim Condensed Consolidated Financial Statements are consistent with those applied during the preparation of the Consolidated Financial Statements as of and for the year ended 31 December 2018, except for those described below.

Changes in Tax Code

Starting 1 January 2019 changes in the Tax Code has resulted in the following updates to the accounting policy.

Government grants and excise duties on crude oil materials, dark bunker fuel, middle distillates with appropriate increased deductions

From 1 January 2019 due to tax changes the new excise duties on dark bunker fuel and crude oil materials with appropriate double deductions are introduced. The mechanism of “returnable (negative) excise” increasing the economic benefit of the company actually is perceived as the equivalent to the government grant in the form of budget reimbursement with multiplying co-efficient.

From 1 January 2019 the Group has applied the following accounting policy for the government grants and other assistance:

- the grant relating to income is deducted from the related expense;
- excise deductions that brings an economic benefit to the Group are accounted in the same way as the government grants.

Additional income tax for hydrocarbon producers

From 1 January 2019 the new tax treatment is implemented in the oil business – additional income tax for hydrocarbon producers (AIT). AIT is classified as operating expense in line with the mineral extraction tax and included in the Taxes other than income tax line in the Interim Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income.

Application of new IFRS

Impact of adoption

The Group has adopted **IFRS 16 – Leases** from 1 January 2019. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees are required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The Group elected to measure right-to-use assets at an amount equal to the lease liability adjusted for any lease payments made at or before the commencement date, except for time-charter contracts, for which the associated right-of-use asset is retrospectively adjusted. The difference between asset and liability is recognised as retained earnings.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was ranged from 4,2 % to 9,3%.

| | 2019 |
|--|---------------|
| Operating lease commitments as of 31 December 2018 | 123,600 |
| Less service component | (32,786) |
| Less effect of discounting | (26,462) |
| Less other adjustments | (2,513) |
| Add: finance lease liabilities recognised as of 31 December 2018 | 25,483 |
| Balance of lease liability as of 1 January 2019 | 87,322 |
| Current lease liability as of 1 January 2019 | 8,859 |
| Non-current lease liability as of 1 January 2019 | 78,463 |

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease and effect of retrospective adjustment recognized in the balance sheet as of 1 January 2019. Balance value of assets leased under finance lease contracts was reclassified from property, plant and equipment to right-of-use assets:

| | Balance as of 31 December 2018 | Effect of changes in accounting policies | Balance as of 1 January 2019 |
|--|---|---|---|
| Property, plant and equipment (under finance lease) | 25,483 | (25,483) | - |
| Right-of-use asset | - | 69,023 | 69,023 |
| Short-term / long-term lease liabilities | - | (87,322) | (87,322) |
| Finance lease liabilities | (25,483) | 25,483 | - |
| Deferred tax asset recognised | - | 3,734 | 3,734 |
| Effect on retained earnings | - | 14,565 | 14,565 |

Other new standards and pronouncements. The following other new standards and pronouncements which became effective did not have any material impact on the Group:

- IFRIC 23 – Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- 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);
- Annual improvements 2015-2017 Cycle (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- Plan amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

Accounting policies applied from 1 January 2019

IFRS 16 – Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assessed whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset.

The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purposes the asset is used is predetermined, the Group has the right to direct the use of the asset if either:

- The Group has the right to operate the asset; or
- The Group designed the asset in a way that predetermines how and for what purpose it will be used.

The policy is applied to contracts entered into, or changed, on or after 1 January 2019. The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

Variable payments are not included in the calculation of lease liability:

- payments under land lease agreements, the calculation of which depends on the cadastral value of the land plot and other coefficients established by government decrees;
- payments for utilities (including well drills) and other services, determined upon the fact of consumption;
- payments that depend on the use of the asset (per unit of volume or revenue received using the asset).

The Group applies a practical expedient and takes into account additional payments not related to the lease, but provided for by the lease agreement along with payments for right to use an asset, for all contracts except for time-charter contracts. Under time-charter contracts, the Group identifies service component not related to the right to use the asset as part of the expenses of the period if the share of such payments can be reliably determined.

The term used to measure a liability and an asset in the form of a right of use is defined as the number of days during which the Group has sufficient confidence that it will lease the asset. Any option for renewal or termination is taken into account when estimating the term. The Group considers monetary and non-monetary aspects to determine the lease term of the contract, such as business plans, past practices and economic incentives to extend or terminate the contract (the presence of inseparable improvements, etc.) and other factors that may affect management's judgment on the lease term.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- not revising the approach to the classification of the contract to which IFRIC 4 was previously applied and continuing to take into account such contracts as service contracts.

The Group presents right-of-use assets and lease liabilities in the separate lines in the Interim Condensed Consolidated Statement of Financial Position.

New accounting standards

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);
- 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);
- 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).

3. Cash and cash equivalents

Cash and cash equivalents as of 31 March 2019 and 31 December 2018 comprise the following:

| | 31 March 2019 | 31 December 2018 |
|---|----------------|------------------|
| Cash on hand | 875 | 753 |
| Cash in bank | 49,385 | 50,897 |
| Deposits with original maturity of less than three months | 191,228 | 191,827 |
| Other cash equivalents | 3,318 | 4,108 |
| Total cash and cash equivalents | 244,806 | 247,585 |

4. Short-term financial assets

Short-term financial assets are primarily comprised of deposits with original maturity more than 3 months less than 1 year.

5. Trade and other receivables

Trade and other receivables as of 31 March 2019 and 31 December 2018 comprise the following:

| | 31 March 2019 | 31 December 2018 |
|--|----------------|------------------|
| Trade receivables | 113,300 | 129,520 |
| Other receivables | 35,226 | 2,060 |
| Less credit loss allowance | (2,240) | (2,430) |
| Total trade and other receivables | 146,286 | 129,150 |

6. Inventories

Inventories as of 31 March 2019 and 31 December 2018 consist of the following:

| | 31 March 2019 | 31 December 2018 |
|---------------------------------------|----------------|------------------|
| Petroleum products and petrochemicals | 69,846 | 70,385 |
| Crude oil and gas | 31,623 | 34,601 |
| Materials and supplies | 27,681 | 27,416 |
| Other | 28,109 | 17,554 |
| Total inventory | 157,259 | 149,956 |

7. Other taxes receivable

Other taxes receivable as of 31 March 2019 and 31 December 2018 comprise the following:

| | 31 March 2019 | 31 December 2018 |
|-------------------------------------|----------------|------------------|
| Value added tax receivable | 85,529 | 79,921 |
| Prepaid custom duties | 3,506 | 7,232 |
| Other taxes prepaid | 11,479 | 4,776 |
| Total other taxes receivable | 100,514 | 91,929 |

8. Other current assets

Other current assets as of 31 March 2019 and 31 December 2018 comprise the following:

| | 31 March 2019 | 31 December 2018 |
|--|---------------|------------------|
| Advances paid | 24,788 | 25,191 |
| Prepaid expenses | 3,611 | 1,662 |
| Other assets | 11,589 | 13,630 |
| Total other current assets, net | 39,988 | 40,483 |

9. Property, plant and equipment

Movements in property, plant and equipment for the three months ended 31 March 2019 and 2018 are as follows:

| | O&G properties | Refining assets | Marketing and distribution | Other assets | Assets under constru- ction | Total |
|---|-------------------|--------------------|----------------------------------|-----------------|--------------------------------------|--------------------|
| Cost | | | | | | |
| <i>As of 31 December 2018</i> | 2,084,208 | 387,099 | 237,386 | 27,658 | 655,772 | 3,392,123 |
| Effect of changes in accounting policies (Note 2) | (124) | | (27,145) | | | (27,269) |
| <i>As of 1 January 2019</i> | 2,084,084 | 387,099 | 210,241 | 27,658 | 655,772 | 3,364,854 |
| Additions | 5,011 | 549 | - | - | 84,742 | 90,302 |
| Changes in decommissioning obligations | 215 | - | - | - | - | 215 |
| Capitalised borrowing costs | - | - | - | - | 6,553 | 6,553 |
| Transfers | 29,738 | 2,250 | 3,448 | 1,583 | (37,019) | - |
| Internal movement | 729 | 234 | (225) | 45 | (783) | - |
| Disposals | (3,223) | (1,402) | (263) | (265) | (157,027) | (162,180) |
| Translation differences | (33,087) | (6,144) | (6,095) | (217) | (6,088) | (51,631) |
| <i>As of 31 March 2019</i> | 2,083,467 | 382,586 | 207,106 | 28,804 | 546,150 | 3,248,113 |
| Depreciation and impairment | | | | | | |
| <i>As of 31 December 2018</i> | (815,875) | (125,189) | (75,809) | (9,181) | - | (1,026,054) |
| Effect of changes in accounting policies (Note 2) | 14 | | 1,772 | | | 1,786 |
| <i>As of 1 January 2019</i> | (815,861) | (125,189) | (74,037) | (9,181) | - | (1,024,268) |
| Depreciation charge | (29,903) | (4,347) | (3,352) | (711) | - | (38,313) |
| Internal movement | - | (2) | 19 | (17) | - | - |
| Disposals | 935 | 1,090 | 263 | 264 | - | 2,552 |
| Translation differences | 17,663 | 2,117 | 2,327 | 123 | - | 22,230 |
| <i>As of 31 March 2019</i> | (827,166) | (126,331) | (74,780) | (9,522) | - | (1,037,799) |
| Net book value | | | | | | |
| <i>As of 1 January 2019</i> | 1,268,223 | 261,910 | 136,204 | 18,477 | 655,772 | 2,340,586 |
| <i>As of 31 March 2019</i> | 1,256,301 | 256,255 | 132,326 | 19,282 | 546,150 | 2,210,314 |

Capitalized borrowing costs for the three months ended 31 March 2019 include interest expense in the amount of RUB 6.6 billion.

In the first quarter of 2019 the object of capital construction MFK “Lahta” was transferred to the shareholder, the transaction was recorded in the Interim Condensed Consolidated Financial Statements as the transaction with shareholders in accordance with IAS 1 (p.106 d (iii)).

Currency – RUB millions (unless otherwise stated)

| | O&G properties | Refining assets | Marketing and distribution | Other assets | Assets under constru- ction | Total |
|--|-------------------|--------------------|----------------------------------|-----------------|--------------------------------------|------------------|
| Cost | | | | | | |
| As of 1 January 2018 | 1,772,103 | 347,738 | 189,603 | 26,638 | 538,965 | 2,875,047 |
| Additions | 1,161 | 371 | - | - | 66,795 | 68,327 |
| Changes in decommissioning obligations | 900 | - | - | - | - | 900 |
| Capitalised borrowing costs | - | - | - | - | 7,963 | 7,963 |
| Transfers | 35,140 | 2,582 | 3,909 | 610 | (42,241) | - |
| Internal movement | (37) | 160 | 30 | 64 | (217) | - |
| Reclassification from other non-current assets | 1,120 | 3,481 | 185 | - | 205 | 4,991 |
| Disposals | (631) | (274) | (365) | (592) | (93) | (1,955) |
| Translation differences | 1,029 | 1,676 | 1,527 | 53 | 14 | 4,299 |
| As of 31 March 2018 | 1,810,785 | 355,734 | 194,889 | 26,773 | 571,391 | 2,959,572 |
| Depreciation and impairment | | | | | | |
| As of 1 January 2018 | (649,937) | (105,090) | (60,290) | (7,455) | - | (822,772) |
| Depreciation charge | (28,687) | (3,949) | (2,944) | (638) | - | (36,218) |
| Internal movement | (104) | 150 | 15 | (61) | - | - |
| Reclassification from other non-current assets | (133) | (2,200) | (14) | - | - | (2,347) |
| Disposals | 505 | 112 | 211 | 326 | - | 1,154 |
| Translation differences | 283 | (505) | (485) | (28) | - | (735) |
| As of 31 March 2018 | (678,073) | (111,482) | (63,507) | (7,856) | - | (860,918) |
| 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 March 2018 | 1,132,712 | 244,252 | 131,382 | 18,917 | 571,391 | 2,098,654 |

10. Right-of-use assets

As of 31 March 2019 right-of-use assets comprise the following:

| | Vessels | Land, buildings and premises | Total |
|-------------------------------------|---------------|---------------------------------|---------------|
| As of 1 January 2019 | 62,455 | 6,568 | 69,023 |
| Additions | - | 586 | 586 |
| Depreciation of right-of-use assets | (1,381) | (459) | (1,840) |
| Modification and remeasurement | - | (43) | (43) |
| Currency translation effect | - | (27) | (27) |
| 31 March 2019 | 61,074 | 6,625 | 67,699 |

11. Investments in associates and joint ventures

The carrying values of the investments in associates and joint ventures as of 31 March 2019 and 31 December 2018 are summarised below:

| | | 31 March 2019 | | 31 December 2018 | |
|--------------------------|---------------|-------------------------|----------------|-------------------------|----------------|
| | | Ownership percentage | Carring value | Ownership percentage | Carring value |
| Slavneft | Joint venture | 49.9 | 132,221 | 49.9 | 126,835 |
| Arcticgas | Joint venture | 50.0 | 151,822 | 50.0 | 146,246 |
| Messoyakha | Joint venture | 50.0 | 43,441 | 50.0 | 36,837 |
| Northgas | Joint venture | 50.0 | 8,566 | 50.0 | 7,767 |
| Others | | | 11,631 | | 11,252 |
| Total investments | | | 347,681 | | 328,937 |

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

Slavneft

PJSC NGK Slavneft and its 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

JSC Arctic Gas Company (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. The control over Arcticgas is divided equally between the Group and PJSC NOVATEK.

After the balance sheet date, in April 2019, Arcticgas declared dividends in the total amount RUB 77.0 billion, of which RUB 38.5 billion is attributable to the Group.

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 Messoyakhaneftegaz (Messoyakha) is developing the Vostochno-Messoyakhscoe and Zapadno-Messoyakhscoe 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 March 2019 and 31 December 2018 and for the three months ended 31 March 2019 and 2018 is presented in the tables below.

31 March 2019

| | Slavneft | Arcticgas | Messoyakha | Northgas |
|-----------------------------------|-----------------|------------------|-------------------|-----------------|
| Cash and cash equivalents | 13,289 | 44,058 | 2 | 1,977 |
| Other current assets | 108,236 | 27,361 | 29,219 | 3,473 |
| Non-current assets | 392,293 | 374,889 | 184,876 | 41,680 |
| Current financial liabilities | (45,264) | (41,063) | (14,762) | (9,369) |
| Other current liabilities | (39,326) | (14,124) | (8,607) | (119) |
| Non-current financial liabilities | (132,599) | (57,920) | (93,060) | (13,097) |
| Other non-current liabilities | (44,247) | (50,100) | (11,207) | (6,041) |
| Net assets | 252,382 | 283,101 | 86,461 | 18,504 |

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 |

3 months ended 31 March 2019

| | Slavneft | Arcticgas | Messoyakha | Northgas |
|---|-----------------|------------------|-------------------|-----------------|
| Revenue | 80,025 | 47,565 | 32,011 | 5,316 |
| Depreciation and amortisation | (8,325) | (5,611) | (5,598) | (564) |
| Finance income | 90 | 715 | - | 36 |
| Finance expense | (2,301) | (1,921) | (2,547) | (455) |
| Total income tax expense | (2,754) | (3,739) | (2,497) | (67) |
| Profit for the period | 11,174 | 18,819 | 13,208 | 1,596 |
| Total comprehensive income for the period | 11,174 | 18,819 | 13,208 | 1,596 |

3 months ended 31 March 2018

| | Slavneft | Arcticgas | Messoyakha | Northgas |
|---|-----------------|------------------|-------------------|-----------------|
| Revenue | 65,342 | 41,971 | 23,209 | 5,340 |
| Depreciation and amortisation | (9,347) | (5,176) | (4,809) | (648) |
| Finance income | 119 | 169 | - | 294 |
| Finance expense | (2,288) | (2,956) | (1,884) | (597) |
| Total income tax expense | (1,359) | (4,302) | (1,755) | (371) |
| Profit for the period | 5,500 | 13,937 | 8,562 | 1,474 |
| Total comprehensive income for the period | 5,500 | 13,937 | 8,562 | 1,474 |

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.

12. Other non-current assets

Other non-current assets are primarily comprised of advances provided on capital expenditures (RUB 35.5 billion and RUB 42.8 billion as of 31 March 2019 and 31 December 2018, respectively).

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

As of 31 March 2019 and 31 December 2018 the Group has short-term debt and current portion of long-term debt outstanding mainly presented by the current portion of long-term debt disclosed in the Note 16.

14. Trade and other payables

Accounts payable as of 31 March 2019 and 31 December 2018 comprise the following:

| | 31 March 2019 | 31 December 2018 |
|---------------------------------------|----------------|------------------|
| Trade accounts payable | 212,664 | 185,269 |
| Dividends payable | 2,469 | 106,713 |
| Other accounts payable | 28,437 | 15,622 |
| Total trade and other payables | 243,570 | 307,604 |

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

15. Other current liabilities

Other current liabilities as of 31 March 2019 and 31 December 2018 comprise the following:

| | 31 March 2019 | 31 December 2018 |
|--|---------------|------------------|
| Advances received | 18,810 | 25,599 |
| Payables to employees | 4,838 | 3,878 |
| Other non-financial payables | 9,110 | 10,033 |
| Total other current liabilities | 32,758 | 39,510 |

16. Other taxes payable

Other taxes payable as of 31 March 2019 and 31 December 2018 comprise the following:

| | 31 March 2019 | 31 December 2018 |
|---|----------------|------------------|
| VAT | 82,767 | 42,580 |
| Mineral extraction tax | 35,960 | 33,782 |
| Excise tax | 13,483 | 11,001 |
| Social security contributions | 6,525 | 6,051 |
| Property tax | 3,862 | 3,180 |
| Additional income tax for hydrocarbon producers | 2,675 | - |
| Other taxes | 2,375 | 2,491 |
| Total other taxes payable | 147,647 | 99,085 |

Tax expense other than income tax expense for the three months ended 31 March 2019 and 2018 comprise the following:

| | 3 months ended 31 March 2019 | 3 months ended 31 March 2018 |
|---|---------------------------------|---------------------------------|
| Mineral extraction tax | 112,052 | 97,177 |
| Excise tax | 21,379 | 34,390 |
| Social security contributions | 6,183 | 5,750 |
| Property Tax | 3,167 | 3,246 |
| Additional income tax for hydrocarbon producers | 2,675 | - |
| Other taxes | 835 | 512 |
| Total taxes other than income tax | 146,291 | 141,075 |

17. Long-term debt

As of 31 March 2019 and 31 December 2018 the Group has long-term outstanding debt as follows:

| | 31 March 2019 | 31 December 2018 |
|--|----------------|------------------|
| Bank loans | 433,211 | 424,447 |
| Loan participation notes | 195,589 | 209,426 |
| Bonds | 132,739 | 132,719 |
| Other borrowings | 8,222 | 8,201 |
| Less current portion of long-term debt | (56,907) | (90,263) |
| Total long-term debt | 712,854 | 684,530 |

Bank loans

In February 2019 the Group performed pre-scheduled final principal repayment in the total amount of USD 249.1 million (RUB 16.4 billion) under the Club term loan facility with the syndicate of international banks (facility agent – Mizuho) according to the payment schedule.

In February 2019 the Group performed pre-scheduled principal repayment in the total amount of USD 202.4 million (RUB 13.3 billion) under long-term facility agreements payable in August 2019.

In February 2019 the Group borrowed under loan-term facility agreement with one of the Russian banks.

In December 2018 the Group borrowed RUB 30.0 billion under long-term facility agreement with one of the Russian banks due payable in June 2021. In January 2019 the Group borrowed RUB 20.0 billion.

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 March 2019 and 31 December 2018 and during three months ended 31 March 2019.

18. Lease liabilities

The reconciliation between undiscounted lease liabilities and their present value as of 31 March 2019 is presented in the table below:

| | <u>Lease liabilities</u> |
|--|--------------------------|
| As of 31 March 2019 | |
| Less than one year | 13,259 |
| Between one and five years | 43,683 |
| More than five years | 54,764 |
| Total undiscounted lease liabilities | 111,706 |
| Lease liabilities as of 31 March 2019 | 80,279 |
| Current lease liabilities | 8,219 |
| Non-current lease liabilities | 72,060 |

From lease liabilities the Group has excluded expenses related to variable lease payments and payments under short-term lease contracts in amount RUB 3,844 million.

19. Other non-current financial liabilities

Other non-current financial liabilities are primarily comprised of the deferred consideration that represents liability to PJSC Gazprom for assets relating to Prirazlomnoe project (RUB 37.2 billion and RUB 43.4 billion as of 31 March 2019 and 31 December 2018, respectively).

20. Net foreign exchange gain / (loss)

Net foreign exchange gain / (loss) for the three months ended 31 March 2019 and 2018 comprise the following:

| | 3 months ended 31 March 2019 | 3 months ended 31 March 2018 |
|---|---|---|
| Net foreign exchange gain / (loss) on financing activities, including: | | |
| foreign exchange gain | 20,311 | (3,818) |
| foreign exchange loss | 27,445 | 1,580 |
| | (7,134) | (5,398) |
| Net foreign exchange loss on operating activities | (14,850) | (560) |
| Net foreign exchange gain / (loss) | 5,461 | (4,378) |

21. Finance expense

Finance expense for the three months ended 31 March 2019 and 2018 comprises the following:

| | 3 months ended 31 March 2019 | 3 months ended 31 March 2018 |
|--|---------------------------------|---------------------------------|
| Interest expense | 14,978 | 12,222 |
| Decommissioning provision: unwinding of discount | 784 | 735 |
| Less: capitalised interest | (6,553) | (7,012) |
| Finance expense | 9,209 | 5,945 |

Interest expense includes expenses on the lease liabilities in the amount RUB 1,432 million for the three months ended 31 March 2019.

22. Fair value measurement

The following assets and liabilities are measured at fair value in the Interim Condensed 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 three months ended 31 March 2019 and 2018. 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 March 2019 the fair value of bonds and loan participation notes is RUB 328,415 million (RUB 338,324 million as of 31 December 2018). The fair value is derived from quotations in active market 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.

23. 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 years 2018-2019 are 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 2017-2019, 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 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 March 2019 the Group has entered into contracts to purchase property, plant and equipment for RUB 399,845 million (RUB 363,690 million as of 31 December 2018).

24. Related party transactions

For the purpose of these Interim Condensed Consolidated Financial Statements parties are considered to be related if one party has the ability to control 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 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.

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 6 and 15.

The Group also leases vessels under time-charter agreements with a government related entity. For the three months ended 31 March 2018 this is lease expense amounted RUB 1.3 billion, for the three months ended 31 March 2019 this is depreciation of right-of-use assets and interest on the lease liability (no lease expense), and variable lease payments not included in the measurement of the lease liability. 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.

As of 31 March 2019 and 31 December 2018 the outstanding balances with related parties were as follows:

| 31 March 2019 | Parent company | Parent's subsidiaries and associates | Associates and joint ventures |
|--|----------------|--------------------------------------|-------------------------------|
| Cash and cash equivalents | - | 92,213 | - |
| Short-term financial assets | - | 30,454 | - |
| Trade and other receivables | 33,417 | 10,407 | 8,769 |
| Other current assets | 13 | 3,926 | 842 |
| Long-term trade and other receivables | 43,263 | - | - |
| Long-term financial assets | - | - | 8,069 |
| Other non-current assets | - | 331 | - |
| Total assets | 76,693 | 137,331 | 17,680 |
| Short-term debt and other current financial liability | - | 32,108 | 709 |
| Trade and other payables | 19,539 | 2,494 | 95,037 |
| Other current liabilities | 9 | 585 | 122 |
| Long-term debt and other non-current financial liability | 37,367 | 20,000 | - |
| Other non-current liabilities | 22,375 | - | - |
| Total liabilities | 79,290 | 55,187 | 95,868 |

Gazprom Neft Group
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
As of and for the three months ended 31 March 2019

Currency – RUB millions (unless otherwise stated)

| 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 | 88,278 |
| Other current liabilities | 10 | 398 | 250 |
| 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 |

For the three months ended 31 March 2019 and 2018 the following transactions occurred with related parties:

| 3 months ended 31 March 2019 | Parent company | Parent's subsidiaries and associates | Associates and joint ventures |
|--|-----------------------|---|--------------------------------------|
| Crude oil, gas and petroleum products sales | 24 | 22,517 | 12,943 |
| Other revenue | 2 | 294 | 1,918 |
| Purchases of crude oil, gas and petroleum products | - | 9,314 | 55,147 |
| Production related services | 13 | 7,070 | 6,423 |
| Transportation costs | 863 | 446 | 2,518 |
| Interest expense | 1,365 | 795 | 9 |
| Interest income | 796 | 1,545 | 130 |

| 3 months ended 31 March 2018 | Parent company | Parent's subsidiaries and associates | Associates and joint ventures |
|--|-----------------------|---|--------------------------------------|
| Crude oil, gas and petroleum products sales | 10,306 | 9,033 | 14,720 |
| Other revenue | 46 | 822 | 1,674 |
| Purchases of crude oil, gas and petroleum products | - | 9,764 | 42,067 |
| Production related services | 4 | 5,934 | 5,537 |
| Transportation costs | 2,216 | 517 | 2,082 |
| Interest expense | 1,347 | 530 | 8 |
| Interest income | - | 167 | 437 |

Transactions with Key Management Personnel

For the three months ended 31 March 2019 the Group recognised RUB 271 million as compensation for key management personnel (members of the Board of Directors and Management Committee). Comparative data for the three months ended 31 March 2018 are disclosed in Interim Condensed Consolidated Financial Statements as of and for the three months ended 31 March 2018. Key management remuneration includes salaries, bonuses, quarterly accruals of SAR and other contributions.

25. 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 three months ended 31 March 2019 and 2018 is presented below:

| 3 months ended 31 March 2019 | Upstream | Downstream | Eliminations | Total |
|--|-----------------|-------------------|---------------------|----------------|
| Revenue from sales: | | | | |
| External customers | 11,433 | 574,926 | - | 586,359 |
| Inter-segment | 270,269 | 5,670 | (275,939) | - |
| Total revenue from sales | 281,702 | 580,596 | (275,939) | 586,359 |
| Adjusted EBITDA | 165,252 | 32,436 | - | 197,688 |
| Depreciation, depletion and amortisation | 30,024 | 11,672 | - | 41,696 |
| Capital expenditure | 52,591 | 37,005 | - | 89,596 |
| 3 months ended 31 March 2018 | Upstream | Downstream | Eliminations | Total |
| Revenue from sales: | | | | |
| External customers | 10,801 | 509,832 | - | 520,633 |
| Inter-segment | 229,862 | 4,848 | (234,710) | - |
| Total revenue from sales | 240,663 | 514,680 | (234,710) | 520,633 |
| Adjusted EBITDA | 137,088 | 18,709 | - | 155,797 |
| Depreciation, depletion and amortisation | 28,836 | 8,673 | - | 37,509 |
| Capital expenditure | 44,563 | 26,961 | - | 71,524 |

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 three months ended 31 March 2019 and 2018 is presented below:

| 3 months ended 31 March 2019 | Russian Federation | CIS | Export and international operations | Total |
|--|---------------------------|---------------|--|----------------|
| Sales of crude oil | 22,463 | 9,744 | 152,252 | 184,459 |
| Sales of petroleum products | 227,626 | 20,308 | 130,326 | 378,260 |
| Sales of gas | 7,608 | - | 513 | 8,121 |
| Other sales | 12,563 | 619 | 2,337 | 15,519 |
| Revenues from external customers, net | 270,260 | 30,671 | 285,428 | 586,359 |
| 3 months ended 31 March 2018 | | | | |
| Sales of crude oil | 15,262 | 9,505 | 124,424 | 149,191 |
| Sales of petroleum products | 218,387 | 19,597 | 108,292 | 346,276 |
| Sales of gas | 8,636 | - | 252 | 8,888 |
| Other sales | 12,915 | 524 | 2,839 | 16,278 |
| Revenues from external customers, net | 255,200 | 29,626 | 235,807 | 520,633 |

For the three months ended 31 March 2019 and 2018 export sales of crude oil include sales from upstream segment in the amount of RUB 7,202 million and RUB 6,523 million, respectively. The remaining amount of RUB 145,050 million for three months ended 31 March 2019 (RUB 117,901 million for three months ended 31 March 2018) represents sales from downstream segment.

| | Russian Federation | CIS | Export and international operations | Total |
|---|---------------------------|------------|--|--------------|
| Non-current assets as of 31 March 2019 | 2,474,896 | 11,484 | 319,957 | 2,806,337 |
| Capital expenditures for the three months ended 31 March 2019 | 82,976 | 70 | 6,550 | 89,596 |
| Non-current assets as of 31 December 2018 | 2,478,517 | 12,520 | 347,633 | 2,838,670 |
| Capital expenditures for the three months ended 31 March 2018 | 64,316 | 81 | 7,127 | 71,524 |

Adjusted EBITDA for the three months ended 31 March 2019 and 2018 is reconciled below:

| | 3 months ended 31 March 2019 | 3 months ended 31 March 2018 |
|---|-------------------------------------|-------------------------------------|
| Profit for the period | 112,672 | 74,145 |
| Total income tax expense | 19,953 | 14,655 |
| Finance expense | 9,209 | 5,945 |
| Finance income | (5,096) | (1,848) |
| Depreciation, depletion and amortisation | 41,696 | 37,509 |
| Net foreign exchange gain / (loss) | (5,461) | 4,378 |
| Other loss, net | 6,079 | 2,665 |
| EBITDA | 179,052 | 137,449 |
| less share of profit of associates and joint ventures | (22,690) | (14,768) |
| add share of EBITDA of associates and joint ventures | 41,326 | 33,116 |
| Total adjusted EBITDA | 197,688 | 155,797 |

26. Subsequent events

In April 2019 the Board of Directors recommended the Annual General Meeting of Shareholders to approve a dividend on the ordinary shares for 2018 in the amount of RUB 30.00 per share (including an interim dividend on the ordinary shares in the amount of RUB 22.05 per share for 9 months ended 30 September 2018).

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