



## **Gazprom Neft Group**

**Interim Condensed Consolidated Financial Statements (unaudited)  
As of and for the three and nine months ended 30 September 2018**



## Report on Review of Interim Financial Statements

To the Shareholders and Board of Directors of PJSC Gazprom Neft:

### Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of PJSC Gazprom Neft and its subsidiaries (the "Group") as of 30 September 2018 and the related interim condensed consolidated statements of profit and loss and other comprehensive income for the three-month and nine-month periods then ended, and changes in equity and cash flows for the nine-month periods then ended. 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 financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

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

*I.V. Shanina*

15 November 2018

Moscow, Russian Federation

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

Audited entity: PJSC Gazprom Neft

State registration certificate № 38606450 issued by the Omsk Registration Bureau on 06 October 1995

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

Russian Federation, 190000, St. Petersburg, Galernaya str., 5, lit. A

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

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

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

ORNZ 11603050547 in the register of auditors and audit organizations

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**Interim Condensed Consolidated Financial Statements (unaudited)**  
**As of and for the three and nine months ended 30 September 2018**

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	Notes	30 September 2018	31 December 2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	131,211	90,608
Short-term financial assets		4,782	10,449
Trade and other receivables	4	160,917	102,262
Inventories	5	162,299	118,322
Current income tax prepayments		2,237	2,540
Other taxes receivable	6	86,976	58,359
Other current assets	7	37,751	40,047
<b>Total current assets</b>		<b>586,173</b>	<b>422,587</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	2,263,441	2,052,275
Goodwill and other intangible assets		75,092	74,187
Investments in associates and joint ventures	9	312,671	256,758
Long-term trade and other receivables		1,048	901
Long-term financial assets		5,592	31,293
Deferred income tax assets		19,068	17,867
Other non-current assets	10	67,909	74,140
<b>Total non-current assets</b>		<b>2,744,821</b>	<b>2,507,421</b>
<b>Total assets</b>		<b>3,330,994</b>	<b>2,930,008</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	11	110,789	131,760
Current finance lease liabilities	16	1,695	1,397
Trade and other payables	12	193,237	194,438
Other current liabilities	13	32,157	32,500
Current income tax payable		7,515	4,534
Other taxes payable	14	123,311	84,833
Provisions and other accrued liabilities		20,646	29,873
<b>Total current liabilities</b>		<b>489,350</b>	<b>479,335</b>
<b>Non-current liabilities</b>			
Long-term debt	15	566,419	548,654
Non-current finance lease liabilities	16	22,743	20,826
Other non-current financial liabilities	17	43,700	48,569
Deferred income tax liabilities		120,554	102,583
Provisions and other accrued liabilities		72,326	62,574
Other non-current liabilities		14,972	8,334
<b>Total non-current liabilities</b>		<b>840,714</b>	<b>791,540</b>
<b>Equity</b>			
Share capital		98	98
Treasury shares		(1,170)	(1,170)
Additional paid-in capital		60,397	62,256
Retained earnings		1,707,010	1,431,931
Other reserves		91,976	60,142
<b>Equity attributable to Gazprom Neft shareholders</b>		<b>1,858,311</b>	<b>1,553,257</b>
Non-controlling interest	18	142,619	105,876
<b>Total equity</b>		<b>2,000,930</b>	<b>1,659,133</b>
<b>Total liabilities and equity</b>		<b>3,330,994</b>	<b>2,930,008</b>

A. V. Dyukov  
Chief Executive Officer  
PJSC Gazprom Neft

A. V. Yankevich  
Chief Financial Officer  
PJSC Gazprom Neft

	Notes	3 months ended 30 September 2018	3 months ended 30 September 2017	9 months ended 30 September 2018	9 months ended 30 September 2017
<b>Revenue</b>					
Crude oil, gas and petroleum products sales		672,137	477,124	1,776,716	1,360,521
Other revenue		17,420	16,400	50,577	47,335
<b>Total revenue from sales</b>	<b>24</b>	<b>689,557</b>	<b>493,524</b>	<b>1,827,293</b>	<b>1,407,856</b>
<b>Costs and other deductions</b>					
Purchases of oil, gas and petroleum products		(166,581)	(107,576)	(432,678)	(334,536)
Production and manufacturing expenses		(56,819)	(57,225)	(164,991)	(157,597)
Selling, general and administrative expenses		(30,481)	(24,840)	(83,104)	(72,788)
Transportation expenses		(35,492)	(34,858)	(106,278)	(106,252)
Depreciation, depletion and amortisation		(46,693)	(35,781)	(126,542)	(102,075)
Taxes other than income tax	<b>14</b>	(182,721)	(130,491)	(489,829)	(356,522)
Export duties		(20,531)	(14,022)	(62,804)	(55,997)
Exploration expenses		(343)	(123)	(798)	(269)
<b>Total operating expenses</b>		<b>(539,661)</b>	<b>(404,916)</b>	<b>(1,467,024)</b>	<b>(1,186,036)</b>
<b>Operating profit</b>		<b>149,896</b>	<b>88,608</b>	<b>360,269</b>	<b>221,820</b>
Share of profit of associates and joint ventures		29,305	12,526	69,662	31,236
Net foreign exchange (loss) / gain	<b>19</b>	(6,798)	2,237	(31,115)	7,942
Finance income		1,665	3,041	4,595	8,266
Finance expense	<b>20</b>	(4,870)	(6,026)	(16,280)	(19,288)
Other (loss) / gain, net		(3,279)	413	(8,908)	(2,964)
<b>Total other income</b>		<b>16,023</b>	<b>12,191</b>	<b>17,954</b>	<b>25,192</b>
<b>Profit before income tax</b>		<b>165,919</b>	<b>100,799</b>	<b>378,223</b>	<b>247,012</b>
Current income tax expense		(19,339)	(13,119)	(47,280)	(33,733)
Deferred income tax expense		(6,318)	(5,232)	(13,542)	(12,780)
<b>Total income tax expense</b>		<b>(25,657)</b>	<b>(18,351)</b>	<b>(60,822)</b>	<b>(46,513)</b>
<b>Profit for the period</b>		<b>140,262</b>	<b>82,448</b>	<b>317,401</b>	<b>200,499</b>
<b>Other comprehensive income / (loss) - to be reclassified to profit or loss</b>					
Currency translation differences		9,942	2,832	25,561	13,446
Cash flow hedge, net of tax		(115)	3,431	14,542	9,336
Other comprehensive income / (loss)		4	(420)	11	76
<b>Other comprehensive income</b>		<b>9,831</b>	<b>5,843</b>	<b>40,114</b>	<b>22,858</b>
<b>Total comprehensive income for the period</b>		<b>150,093</b>	<b>88,291</b>	<b>357,515</b>	<b>223,357</b>
<b>Profit attributable to:</b>					
- Gazprom Neft shareholders		132,194	77,731	298,669	189,000
- Non-controlling interest		8,068	4,717	18,732	11,499
<b>Profit for the period</b>		<b>140,262</b>	<b>82,448</b>	<b>317,401</b>	<b>200,499</b>
<b>Total comprehensive income attributable to:</b>					
- Gazprom Neft shareholders		138,670	81,958	330,503	205,093
- Non-controlling interest		11,423	6,333	27,012	18,264
<b>Total comprehensive income for the period</b>		<b>150,093</b>	<b>88,291</b>	<b>357,515</b>	<b>223,357</b>
<b>Earnings per share attributable to Gazprom Neft</b>					
Basic earnings (RUB per share)		28.02	16.48	63.30	40.06
Diluted earnings (RUB per share)		28.02	16.48	63.30	40.06
<b>Weighted-average number of common shares outstanding (millions)</b>					
		4,718	4,718	4,718	4,718

	Attributable to Gazprom Neft shareholders						Non-controlling interest	Total equity
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total		
<b>Balance as of 1 January 2018</b>	<b>98</b>	<b>(1,170)</b>	<b>62,256</b>	<b>1,431,931</b>	<b>60,142</b>	<b>1,553,257</b>	<b>105,876</b>	<b>1,659,133</b>
Profit for the period	-	-	-	298,669	-	298,669	18,732	317,401
<b>Other comprehensive income</b>								
Currency translation differences	-	-	-	-	17,281	17,281	8,280	25,561
Cash flow hedge, net of tax	-	-	-	-	14,542	14,542	-	14,542
Other comprehensive income	-	-	-	-	11	11	-	11
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>298,669</b>	<b>31,834</b>	<b>330,503</b>	<b>27,012</b>	<b>357,515</b>
<b>Transactions with owners, recorded in equity</b>								
Dividends to equity holders	-	-	-	(23,590)	-	(23,590)	(11,548)	(35,138)
Transaction under common control	-	-	(2,819)	-	-	(2,819)	-	(2,819)
Change of non-controlling interest in subsidiaries (Note 18)	-	-	960	-	-	960	21,279	22,239
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>(1,859)</b>	<b>(23,590)</b>	<b>-</b>	<b>(25,449)</b>	<b>9,731</b>	<b>(15,718)</b>
<b>Balance as of 30 September 2018</b>	<b>98</b>	<b>(1,170)</b>	<b>60,397</b>	<b>1,707,010</b>	<b>91,976</b>	<b>1,858,311</b>	<b>142,619</b>	<b>2,000,930</b>

	Attributable to Gazprom Neft shareholders						Non-controlling interest	Total equity
	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Other reserves	Total		
<b>Balance as of 1 January 2017</b>	<b>98</b>	<b>(1,170)</b>	<b>51,047</b>	<b>1,276,210</b>	<b>33,955</b>	<b>1,360,140</b>	<b>84,027</b>	<b>1,444,167</b>
Profit for the period	-	-	-	189,000	-	189,000	11,499	200,499
<b>Other comprehensive income / (loss)</b>								
Currency translation differences	-	-	-	-	6,681	6,681	6,765	13,446
Cash flow hedge, net of tax	-	-	-	-	9,336	9,336	-	9,336
Other comprehensive income	-	-	-	-	76	76	-	76
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>189,000</b>	<b>16,093</b>	<b>205,093</b>	<b>18,264</b>	<b>223,357</b>
<b>Transactions with shareholders, recorded in equity</b>								
Dividends to equity holders	-	-	-	(50,388)	-	(50,388)	(2,255)	(52,643)
Transaction under common control	-	-	7,617	-	-	7,617	-	7,617
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>7,617</b>	<b>(50,388)</b>	<b>-</b>	<b>(42,771)</b>	<b>(2,255)</b>	<b>(45,026)</b>
<b>Balance as of 30 September 2017</b>	<b>98</b>	<b>(1,170)</b>	<b>58,664</b>	<b>1,414,822</b>	<b>50,048</b>	<b>1,522,462</b>	<b>100,036</b>	<b>1,622,498</b>

Currency – RUB millions

	Notes	9 months ended 30 September 2018	9 months ended 30 September 2017
<b>Cash flows from operating activities</b>			
Profit before income tax		378,223	247,012
<b>Adjustments for:</b>			
Share of profit of associates and joint ventures		(69,662)	(31,236)
Net foreign exchange loss / (gain)	19	31,115	(7,942)
Finance income		(4,595)	(8,266)
Finance expense	20	16,280	19,288
Depreciation, depletion and amortisation		126,542	102,075
Other non-cash items		3,959	2,446
<b>Operating cash flow before changes in working capital</b>		<b>481,862</b>	<b>323,377</b>
<b>Changes in working capital:</b>			
Accounts receivable		(42,723)	13,780
Inventories		(41,571)	(7,458)
Taxes receivable		(29,123)	2,350
Other assets		5,853	2,417
Accounts payable		50,554	25,772
Taxes payable		37,908	12,731
Other liabilities		(1,659)	4,760
<b>Total effect of working capital changes</b>		<b>(20,761)</b>	<b>54,352</b>
Income taxes paid		(43,808)	(25,494)
Interest paid		(35,244)	(29,760)
Dividends received		9,587	3,306
<b>Net cash provided by operating activities</b>		<b>391,636</b>	<b>325,781</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired		(920)	-
Acquisition of investments in joint ventures		(256)	(8,093)
Disposal of investments in joint ventures		-	476
Bank deposits placement		(70)	(5,019)
Repayment of bank deposits		7,255	1,076
Proceeds from sales of other investments		-	670
Short-term loans issued		(28)	-
Repayment of short-term loans issued		202	6,112
Long-term loans issued		(538)	(1,105)
Repayment of long-term loans issued		12,480	4,442
Purchases of property, plant and equipment and intangible assets		(256,790)	(242,768)
Proceeds from sale of property, plant and equipment, intangible assets		1,441	2,006
Interest received		16,278	6,542
<b>Net cash used in investing activities</b>		<b>(220,946)</b>	<b>(235,661)</b>
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings		1,953	1,479
Repayment of short-term borrowings		(1,670)	(8,423)
Proceeds from long-term borrowings		251,588	193,476
Repayment of long-term borrowings		(326,406)	(187,258)
Transaction costs directly attributable to the borrowings received		(83)	(173)
Dividends paid to Gazprom Neft shareholders		(70,773)	(50,383)
Dividends paid to non-controlling interest		(11,635)	(2,291)
Proceeds from sale of non-controlling interest in subsidiaries		20,728	-
Repayment of finance lease liabilities		(1,139)	(568)
<b>Net cash used in financing activities</b>		<b>(137,437)</b>	<b>(54,141)</b>
<b>Increase in cash and cash equivalents</b>		<b>33,253</b>	<b>35,979</b>
Effect of foreign exchange on cash and cash equivalents		7,350	(924)
<b>Cash and cash equivalents as of the beginning of the period</b>		<b>90,608</b>	<b>33,621</b>
<b>Cash and cash equivalents as of the end of the period</b>		<b>131,211</b>	<b>68,676</b>

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 2017, 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 2017 prepared in accordance with IFRS.

Subsequent events occurring after 30 September 2018 were evaluated through 15 November 2018, the date these Interim Condensed Consolidated Financial Statements were authorised for issue.

The results for the three and nine months ended 30 September 2018 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 2017, except for those described below.



Application of new IFRS

**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 financial statements.

- IFRS 9 was generally adopted without restating comparative information; no significant adjustments were recognized in financial statements. The changes in classification categories didn't result in changes of presentation in Interim Condensed Consolidated Statement of Financial Position.
- 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.

In summary, the following adjustments were made to amounts recognized in Interim Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income:

	<b>9 months ended 30 September 2017</b>	<b>Reclassification</b>	<b>9 months ended 30 September 2017 (restated)</b>
<b>Revenue</b>			
Crude oil, gas and petroleum products sales	1,305,971	54,550	1,360,521
Other revenue	45,888	1,447	47,335
<b>Total revenue from sales</b>	<b>1,351,859</b>	<b>55,997</b>	<b>1,407,856</b>
<b>Costs and other deductions</b>			
Export duties	-	(55,997)	(55,997)
<b>Total operating expenses</b>	<b>(1,130,039)</b>	<b>(55,997)</b>	<b>(1,186,036)</b>
<b>Operating profit</b>	<b>221,820</b>	<b>-</b>	<b>221,820</b>

- Reclassification of expenses with regard to export duties in the amount of RUB 56.0 billion,
- Reclassification of revenue from transportation services included in contract price from Sales of petroleum products to Other revenue in the amount of RUB 1.4 billion,
- Crude oil, gas and petroleum products sales are presented net of sales related excises in the amount of RUB 49.7 billion.

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

- Amendments to IFRS 2 – Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 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).

Accounting policies applied from 1 January 2018

***IFRS 9 – Financial Instruments (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018)***

From 1 January 2018 the Group classifies its financial assets in the following measurement categories: those to be measured subsequently at fair value through profit or loss (FVPL), those to be measured subsequently at fair value through other comprehensive income (FVOCI), and those to be measured subsequently at amortized cost.

The classification of debt instruments depends on the organization's business model for managing financial assets and whether contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest ("SPPI").

The Group presents in OCI changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short-to-medium term.

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 Interim Condensed Consolidated Financial Statements of the Group. 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.

New model for recognition of impairment losses - expected credit losses (ECL) model was introduced within the Group. For all trade receivables the Group applies simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. 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.

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.

**IFRS 15 – Revenue from Contracts with Customers (amended in April 2016 and effective for annual periods beginning on or after 1 January 2018)**

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.

New accounting standards

**IFRS 16 – Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 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 will be required to recognize: (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 statement of profit and loss and other comprehensive income.

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).

### 3. Cash and cash equivalents

Cash and cash equivalents as of 30 September 2018 and 31 December 2017 comprise the following:

	<b>30 September 2018</b>	<b>31 December 2017</b>
Cash on hand	1,268	946
Cash in bank	47,364	46,107
Deposits with original maturity of less than three months	78,192	28,816
Other cash equivalents	4,387	14,739
<b>Total cash and cash equivalents</b>	<b>131,211</b>	<b>90,608</b>

### 4. Trade and other receivables

Trade and other receivables as of 30 September 2018 and 31 December 2017 comprise the following:

	<b>30 September 2018</b>	<b>31 December 2017</b>
Trade receivables	161,438	107,758
Other financial receivables	7,238	2,071
Less impairment provision	(7,759)	(7,567)
<b>Total trade and other receivables</b>	<b>160,917</b>	<b>102,262</b>

### 5. Inventories

Inventories as of 30 September 2018 and 31 December 2017 consist of the following:

	<b>30 September 2018</b>	<b>31 December 2017</b>
Petroleum products and petrochemicals	69,645	55,828
Crude oil and gas	47,984	28,200
Materials and supplies	27,877	23,143
Other	16,793	11,151
<b>Total inventory</b>	<b>162,299</b>	<b>118,322</b>

### 6. Other taxes receivable

Other taxes receivable as of 30 September 2018 and 31 December 2017 comprise the following:

	<b>30 September 2018</b>	<b>31 December 2017</b>
Value added tax receivable	79,521	50,163
Prepaid custom duties	4,751	5,076
Other taxes prepaid	2,704	3,120
<b>Total other taxes receivable</b>	<b>86,976</b>	<b>58,359</b>

## 7. Other current assets

Other current assets as of 30 September 2018 and 31 December 2017 comprise the following:

	30 September 2018	31 December 2017
Advances paid	19,650	24,503
Prepaid expenses	3,216	1,955
Other assets	14,885	13,589
<b>Total other current assets, net</b>	<b>37,751</b>	<b>40,047</b>

## 8. Property, plant and equipment

Movements in property, plant and equipment for the nine months ended 30 September 2018 and 2017 are as follows:

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under constru- ction	Total
<b>Cost</b>						
<i>As of 1 January 2018</i>	<b>1,772,103</b>	<b>347,738</b>	<b>189,603</b>	<b>26,638</b>	<b>538,965</b>	<b>2,875,047</b>
Additions	2,933	1,532	-	-	258,079	262,544
Acquisitions through business combinations	-	-	1,108	-	-	1,108
Changes in decommissioning obligations	1,596	-	-	-	-	1,596
Capitalised borrowing costs	-	-	-	-	27,012	27,012
Transfers	120,542	17,466	17,305	1,590	(156,903)	-
Internal movement	1,211	(1,418)	1,591	86	(1,470)	-
Reclassification from other non-current assets	1,003	3,405	601	-	-	5,009
Disposals	(4,522)	(1,834)	(567)	(1,061)	(640)	(8,624)
Translation differences	48,894	7,077	7,441	234	8,758	72,404
<i>As of 30 September 2018</i>	<b>1,943,760</b>	<b>373,966</b>	<b>217,082</b>	<b>27,487</b>	<b>673,801</b>	<b>3,236,096</b>
<b>Depreciation and impairment</b>						
<i>As of 1 January 2018</i>	<b>(649,937)</b>	<b>(105,090)</b>	<b>(60,290)</b>	<b>(7,455)</b>	<b>-</b>	<b>(822,772)</b>
Depreciation charge	(98,071)	(12,517)	(9,281)	(2,016)	-	(121,885)
Acquisitions through business combinations	-	-	(110)	-	-	(110)
Internal movement	(474)	565	(107)	16	-	-
Reclassification from other non-current assets	(132)	(1,780)	(14)	-	-	(1,926)
Disposals	1,991	868	239	636	-	3,734
Translation differences	(24,947)	(2,210)	(2,410)	(129)	-	(29,696)
<i>As of 30 September 2018</i>	<b>(771,570)</b>	<b>(120,164)</b>	<b>(71,973)</b>	<b>(8,948)</b>	<b>-</b>	<b>(972,655)</b>
<b>Net book value</b>						
<i>As of 1 January 2018</i>	<b>1,122,166</b>	<b>242,648</b>	<b>129,313</b>	<b>19,183</b>	<b>538,965</b>	<b>2,052,275</b>
<i>As of 30 September 2018</i>	<b>1,172,190</b>	<b>253,802</b>	<b>145,109</b>	<b>18,539</b>	<b>673,801</b>	<b>2,263,441</b>

Capitalized borrowing costs for the nine months ended 30 September 2018 include interest expense in the amount of RUB 22.8 billion and exchange losses arising from foreign currency borrowings in the amount of RUB 4.2 billion.

Currency – RUB millions (unless otherwise stated)

	O&G properties	Refining assets	Marketing and distribution	Other assets	Assets under constru- ction	Total
<b>Cost</b>						
<i>As of 1 January 2017</i>	<b>1,569,525</b>	<b>308,192</b>	<b>152,871</b>	<b>23,531</b>	<b>369,304</b>	<b>2,423,423</b>
Additions	1,384	1,461	-	-	283,416	286,261
Changes in decommissioning obligations	660	-	-	-	-	660
Capitalised borrowing costs	-	-	-	-	21,557	21,557
Transfers	118,449	10,709	30,033	1,996	(161,187)	-
Internal movement	(419)	(326)	195	18	532	-
Disposals	(6,032)	(1,773)	(844)	(426)	(797)	(9,872)
Translation differences	(2,819)	5,897	3,937	173	(1,276)	5,912
<i>As of 30 September 2017</i>	<b>1,680,748</b>	<b>324,160</b>	<b>186,192</b>	<b>25,292</b>	<b>511,549</b>	<b>2,727,941</b>
<b>Depreciation and impairment</b>						
<i>As of 1 January 2017</i>	<b>(553,140)</b>	<b>(89,106)</b>	<b>(49,052)</b>	<b>(5,780)</b>	-	<b>(697,078)</b>
Depreciation charge	(77,261)	(10,045)	(8,191)	(1,671)	-	(97,168)
Internal movement	65	31	33	(129)	-	-
Disposals	3,406	733	647	426	-	5,212
Translation differences	4,163	(1,675)	(967)	(88)	-	1,433
<i>As of 30 September 2017</i>	<b>(622,767)</b>	<b>(100,062)</b>	<b>(57,530)</b>	<b>(7,242)</b>	-	<b>(787,601)</b>
<b>Net book value</b>						
<i>As of 1 January 2017</i>	<b>1,016,385</b>	<b>219,086</b>	<b>103,819</b>	<b>17,751</b>	<b>369,304</b>	<b>1,726,345</b>
<i>As of 30 September 2017</i>	<b>1,057,981</b>	<b>224,098</b>	<b>128,662</b>	<b>18,050</b>	<b>511,549</b>	<b>1,940,340</b>

## 9. Investments in associates and joint ventures

The carrying values of the investments in associates and joint ventures as of 30 September 2018 and 31 December 2017 are summarised below:

		30 September 2018		31 December 2017	
		Ownership percentage	Carrying value	Ownership percentage	Carrying value
Slavneft	Joint venture	49.9	125,579	49.9	111,679
Arcticgas	Joint venture	50.0	135,704	46.7	105,157
Messoyakha	Joint venture	50.0	33,349	50.0	17,965
Northgas	Joint venture	50.0	7,533	50.0	12,568
Others			10,506		9,389
<b>Total investments</b>			<b>312,671</b>		<b>256,758</b>

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

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 Messoyakhaneftegaz (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 30 September 2018 and 31 December 2017 and for the nine months ended 30 September 2018 and 2017 is presented in the tables below.

<b>30 September 2018</b>	<b>Slavneft</b>	<b>Arcticgas</b>	<b>Messoyakha</b>	<b>Northgas</b>
Cash and cash equivalents	2,369	13,899	2	1,277
Other current assets	105,867	37,116	30,304	3,795
Non-current assets	368,828	375,537	169,734	41,486
Current financial liabilities	(30,884)	(18,207)	(14,718)	(7,742)
Other current liabilities	(38,851)	(14,688)	(9,365)	(75)
Non-current financial liabilities	(124,929)	(94,113)	(100,000)	(16,977)
Other non-current liabilities	(43,838)	(49,978)	(9,677)	(5,327)
<b>Net assets</b>	<b>238,562</b>	<b>249,566</b>	<b>66,280</b>	<b>16,437</b>

<b>31 December 2017</b>	<b>Slavneft</b>	<b>SeverEnergy (Arcticgas)</b>	<b>Messoyakha</b>	<b>Northgas</b>
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)
<b>Net assets</b>	<b>209,919</b>	<b>188,828</b>	<b>35,512</b>	<b>26,509</b>

<b>9 months ended 30 September 2018</b>	<b>Slavneft</b>	<b>Arcticgas</b>	<b>Messoyakha</b>	<b>Northgas</b>
Revenue	237,620	147,368	90,792	17,497
Depreciation and amortisation	(29,163)	(16,279)	(14,251)	(1,941)
Finance income	290	682	-	632
Finance expense	(6,757)	(8,106)	(5,189)	(1,638)
Total income tax expense	(6,939)	(12,837)	(7,584)	(1,440)
Profit for the period	28,679	60,738	41,168	5,379
Total comprehensive income for the period	28,679	60,738	41,168	5,379

Currency – RUB millions (unless otherwise stated)

9 months ended 30 September 2017	Slavneft	SeverEnergy (Arcticgas)	Messoyakha	Northgas
Revenue	174,545	104,402	39,767	16,725
Depreciation and amortisation	(27,571)	(17,302)	(7,382)	(1,796)
Finance income	839	760	3	863
Finance expense	(4,399)	(14,762)	(4,875)	(2,136)
Total income tax expense	(3,598)	(4,625)	(3,068)	(1,265)
Profit for the period	15,809	27,057	14,080	5,031
Total comprehensive income for the period	15,946	27,057	14,080	5,031

## 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.

### 10. Other non-current assets

Other non-current assets are primarily comprised of advances provided on capital expenditures (RUB 60.5 billion and RUB 69.3 billion as of 30 September 2018 and 31 December 2017, respectively).

### 11. Short-term debt and current portion of long-term debt

As of 30 September 2018 and 31 December 2017 the Group has short-term debt and current portion of long-term debt outstanding as follows:

	30 September 2018	31 December 2017
Current portion of long-term debt	110,066	131,360
Other borrowings	723	400
<b>Total short-term debt and current portion of long-term debt</b>	<b>110,789</b>	<b>131,760</b>

### 12. Trade and other payables

Accounts payable as of 30 September 2018 and 31 December 2017 comprise the following:

	30 September 2018	31 December 2017
Trade accounts payable	175,336	118,151
Dividends payable	2,583	49,520
Forward contracts - cash flow hedge	-	16,758
Other accounts payable	15,318	10,009
<b>Total trade and other payables</b>	<b>193,237</b>	<b>194,438</b>

During the 30 September 2018 the Group paid an interim dividend on the ordinary shares for the nine months ended 30 September 2017 in the amount of RUB 10.00 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 RUB 15.00 per share including an interim dividend on the ordinary shares in the amount of RUB 10.00 per share which were paid in July 2018.



### 13. Other current liabilities

Other current liabilities as of 30 September 2018 and 31 December 2017 comprise the following:

	30 September 2018	31 December 2017
Advances received	18,206	21,972
Payables to employees	3,904	3,182
Other non-financial payables	10,047	7,346
<b>Total other current liabilities</b>	<b>32,157</b>	<b>32,500</b>

### 14. Other taxes payable

Other taxes payable as of 30 September 2018 and 31 December 2017 comprise the following:

	30 September 2018	31 December 2017
VAT	51,926	27,515
Mineral extraction tax	47,969	31,807
Excise tax	12,391	13,201
Social security contributions	5,227	6,974
Other taxes	5,798	5,336
<b>Total other taxes payable</b>	<b>123,311</b>	<b>84,833</b>

Tax expense other than income tax expense for the three and nine months ended 30 September 2018 and 2017 comprise the following:

	3 months ended 30 September 2018	3 months ended 30 September 2017	9 months ended 30 September 2018	9 months ended 30 September 2017
Mineral extraction tax	142,200	84,683	361,687	236,071
Excise tax	30,883	37,567	99,394	95,958
Social security contributions	5,319	4,723	16,518	14,583
Other taxes	4,319	3,518	12,230	9,910
<b>Total taxes other than income tax</b>	<b>182,721</b>	<b>130,491</b>	<b>489,829</b>	<b>356,522</b>

### 15. Long-term debt

As of 30 September 2018 and 31 December 2017 the Group has long-term outstanding debt as follows:

	30 September 2018	31 December 2017
Bank loans	337,533	303,173
Loan participation notes	198,096	226,110
Bonds	132,739	143,007
Other borrowings	8,117	7,724
Less current portion of long-term debt	(110,066)	(131,360)
<b>Total long-term debt</b>	<b>566,419</b>	<b>548,654</b>

#### **Bank loans**

In March and September 2018 the Group performed principal repayment in the total amount of USD 614.3 million (RUB 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 USD 200 million (RUB 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 RUB 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 RUB 48.0 billion due to borrowing RUB 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 RUB 102.0 billion due to borrowing RUB 102.0 billion under long-term facility agreement due payable in June 2023.

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

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 30 September 2018 and 31 December 2017 and during nine months ended 30 September 2018.

### **Bonds**

In March 2018 the Group placed six-year Rouble Bonds (001P-06R series) with the total par value of RUB 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 RUB 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 RUB 9.9 billion.

### **Loan participation notes**

In April 2013 the Group raised EUR 750 million (RUB 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 EUR 750 million (RUB 56.6 billion). The LPN are fully repaid.

## **16. Finance lease**

Since 2017 the Group has finance lease agreements regarding vessels. As of 30 September 2018 net book value of the leased assets which are pledge for finance lease is RUB 24.4 billion (RUB 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 30 September 2018 and 31 December 2017 is presented in the table below:

	Minimum lease payments	Present value of minimum lease payments
<b>30 September 2018</b>		
Less than one year	3,197	3,093
Between one and five years	13,013	10,811
More than five years	17,422	10,534
<b>Total minimum lease payments</b>	<b>33,632</b>	<b>24,438</b>
<b>31 December 2017</b>		
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
<b>Total minimum lease payments</b>	<b>31,343</b>	<b>22,223</b>

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

## 17. Other non-current financial liabilities

Other non-current financial liabilities as of 30 September 2018 and 31 December 2017 comprise the following:

	30 September 2018	31 December 2017
Deferred consideration	42,048	47,245
Forward contracts - cash flow hedge	1,638	1,295
Other liabilities	14	29
<b>Total other non-current financial liabilities</b>	<b>43,700</b>	<b>48,569</b>

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

## 18. Non-controlling interest

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 RUB 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.

## 19. Net foreign exchange loss / gain

Net foreign exchange loss / gain for the three and nine months ended 30 September 2018 and 2017 comprise the following:

	3 months ended 30 September 2018	3 months ended 30 September 2017	9 months ended 30 September 2018	9 months ended 30 September 2017
<b>Net foreign exchange (loss) / gain on financing activities, including:</b>				
foreign exchange gain	60	6,621	4,086	16,948
foreign exchange loss	(16,212)	(957)	(61,582)	(1,712)
<b>Net foreign exchange gain / (loss) on operating activities</b>	<b>9,354</b>	<b>(3,427)</b>	<b>26,381</b>	<b>(7,294)</b>
<b>Net foreign exchange (loss) / gain</b>	<b>(6,798)</b>	<b>2,237</b>	<b>(31,115)</b>	<b>7,942</b>

## 20. Finance expense

Finance expense for the three and nine months ended 30 September 2018 and 2017 comprise the following:

	3 months ended 30 September 2018	3 months ended 30 September 2017	9 months ended 30 September 2018	9 months ended 30 September 2017
Interest expense	12,388	12,115	36,917	35,640
Decommissioning provision: unwinding of discount	728	657	2,206	1,962
Less: capitalised interest	(8,246)	(6,746)	(22,843)	(18,314)
<b>Finance expense</b>	<b>4,870</b>	<b>6,026</b>	<b>16,280</b>	<b>19,288</b>

## 21. 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 or indirectly. 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. The fair value of the liability under the SAR plan is estimated using the Black-Scholes-Merton option-pricing model by reference primarily to the Company's share price, historic volatility in the share price, dividend yield and interest rates for periods comparable to the remaining life of the award. There were no transfers between the levels of the fair value hierarchy during the interim period. There are no significant assets or liabilities measured at fair value categorised within Level 1 or Level 3 of the fair value hierarchy.

As of 30 September 2018 the fair value of bonds and loan participation notes is RUB 326,154 million (RUB 378,085 million as of 31 December 2017). The fair value is derived from quotations in active market and related to Level 1 of the fair value hierarchy. Carrying value of other financial liabilities approximates their fair value.

## 22. 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 years 2015 - 2017 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 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 30 September 2018 the Group has entered into contracts to purchase property, plant and equipment for RUB 372,480 million (RUB 328,697 million as of 31 December 2017).

## **23. 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 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 14. The Group also leases vessels under time-charter agreements with a government related entity (lease expense amounted RUB 4.1 billion and RUB 4.0 billion for the nine months ended 30 September 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 30 September 2018 and 31 December 2017 the outstanding balances with related parties were as follows:

<b>30 September 2018</b>	<b>Parent company</b>	<b>Parent's subsidiaries and associates</b>	<b>Associates and joint ventures</b>
Cash and cash equivalents	-	33,724	-
Short-term financial assets	-	5	3,938
Trade and other receivables	261	11,917	14,286
Other current assets	100	3,865	589
Long-term financial assets	-	-	3,319
Other non-current assets	-	286	-
<b>Total assets</b>	<b>361</b>	<b>49,797</b>	<b>22,132</b>
Short-term debt and other current financial liability	-	65,591	690
Trade and other payables	12,840	4,259	85,633
Other current liabilities	142	171	70
Long-term debt and other non-current financial liability	42,258	-	-
Other non-current liabilities	13,017	-	-
<b>Total liabilities</b>	<b>68,257</b>	<b>70,021</b>	<b>86,393</b>

<b>31 December 2017</b>	<b>Parent company</b>	<b>Parent's subsidiaries and associates</b>	<b>Associates and joint ventures</b>
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	-
<b>Total assets</b>	<b>4,590</b>	<b>35,712</b>	<b>42,045</b>
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	-	-
<b>Total liabilities</b>	<b>106,974</b>	<b>60,175</b>	<b>38,677</b>

For the nine months ended 30 September 2018 and 2017 the following transactions occurred with related parties:

<b>9 months ended 30 September 2018</b>	<b>Parent company</b>	<b>Parent's subsidiaries and associates</b>	<b>Associates and joint ventures</b>
Crude oil, gas and petroleum products sales	24,313	53,216	48,885
Other revenue	119	3,327	5,134
Purchases of crude oil, gas and petroleum products	-	36,112	157,900
Production related services	19	19,999	17,336
Transportation costs	6,710	1,481	6,704
Interest expense	3,910	1,787	34
Interest income	-	340	887

Currency – RUB millions (unless otherwise stated)

9 months ended 30 September 2017	Parent company	Parent's subsidiaries and associates	Associates and joint ventures
Crude oil, gas and petroleum products sales	26,240	28,541	38,979
Other revenue	3	4,505	7,250
Purchases of crude oil, gas and petroleum products	-	33,765	97,282
Production related services	24	22,741	15,867
Transportation costs	7,408	1,252	7,293
Interest expense	4,130	2,313	32
Interest income	-	141	5,640

#### Transactions with Key Management Personnel

For the nine months ended 30 September 2018 the Group recognised RUB 2,021 million as compensation for key management personnel (members of the Board of Directors and Management Committee). Comparative data for the nine months ended 30 September 2017 are disclosed in Interim Condensed Consolidated Financial Statements as of and for the three and nine months ended 30 September 2017. Key management remuneration includes salaries, bonuses, quarterly accruals of SAR and other contributions.

#### **24. 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 nine months ended 30 September 2018 and 2017 is presented below:

9 months ended 30 September 2018	Upstream	Downstream	Eliminations	Total
Revenue from sales:				
External customers	41,457	1,785,836	-	1,827,293
Inter-segment	857,334	15,975	(873,309)	-
<b>Total revenue from sales</b>	<b>898,791</b>	<b>1,801,811</b>	<b>(873,309)</b>	<b>1,827,293</b>
Adjusted EBITDA	526,477	87,985	-	614,462
Depreciation, depletion and amortisation	98,468	28,074	-	126,542
Capital expenditure	136,415	120,375	-	256,790
<b>9 months ended 30 September 2017</b>	<b>Upstream</b>	<b>Downstream</b>	<b>Eliminations</b>	<b>Total</b>
Revenue from sales:				
External customers	156,171	1,251,685	-	1,407,856
Inter-segment	448,021	21,515	(469,536)	-
<b>Total revenue from sales</b>	<b>604,192</b>	<b>1,273,200</b>	<b>(469,536)</b>	<b>1,407,856</b>
Adjusted EBITDA	298,297	100,949	-	399,246
Depreciation, depletion and amortisation	78,214	23,861	-	102,075
Capital expenditure	151,487	91,281	-	242,768



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 nine months ended 30 September 2018 and 2017 is presented below:

<b>9 months ended 30 September 2018</b>	<b>Russian Federation</b>	<b>CIS</b>	<b>Export and international operations</b>	<b>Total</b>
Sales of crude oil	67,668	29,680	436,976	534,324
Sales of petroleum products	789,941	67,773	357,100	1,214,814
Sales of gas	26,697	-	881	27,578
Other sales	38,316	1,838	10,423	50,577
<b>Revenues from external customers, net</b>	<b>922,622</b>	<b>99,291</b>	<b>805,380</b>	<b>1,827,293</b>
<b>9 months ended 30 September 2017</b>				
Sales of crude oil	63,040	20,694	311,137	394,871
Sales of petroleum products	638,943	55,476	242,794	937,213
Sales of gas	27,432	-	1,005	28,437
Other sales	37,404	1,553	8,378	47,335
<b>Revenues from external customers, net</b>	<b>766,819</b>	<b>77,723</b>	<b>563,314</b>	<b>1,407,856</b>

For the nine months ended 30 September 2018 and 2017 export sales of crude oil include sales from upstream segment in the amount of RUB 27,259 million and RUB 144,051 million, respectively. The remaining amount of RUB 409,717 million for nine months ended 30 September 2018 (RUB 167,086 million for nine months ended 30 September 2017) represents sales from downstream segment.

	<b>Russian Federation</b>	<b>CIS</b>	<b>Export and international operations</b>	<b>Total</b>
Non-current assets as of 30 September 2018	2,365,104	12,066	348,583	2,725,753
Capital expenditures for the nine months ended 30 September 2018	232,351	1,023	23,416	256,790
Non-current assets as of 31 December 2017	2,159,510	11,097	318,947	2,489,554
Capital expenditures for the nine months ended 30 September 2017	226,210	661	15,897	242,768

Adjusted EBITDA for the three and nine months ended 30 September 2018 and 2017 is reconciled below:

	<b>3 months ended 30 September 2018</b>	<b>3 months ended 30 September 2017</b>	<b>9 months ended 30 September 2018</b>	<b>9 months ended 30 September 2017</b>
Profit for the period	140,262	82,448	317,401	200,499
Total income tax expense	25,657	18,351	60,822	46,513
Finance expense	4,870	6,026	16,280	19,288
Finance income	(1,665)	(3,041)	(4,595)	(8,266)
Depreciation, depletion and amortisation	46,693	35,781	126,542	102,075
Net foreign exchange (loss) / gain	6,798	(2,237)	31,115	(7,942)
Other (loss) / gain, net	3,279	(413)	8,908	2,964
<b>EBITDA</b>	<b>225,894</b>	<b>136,915</b>	<b>556,473</b>	<b>355,131</b>
less share of profit of associates and joint ventures	(29,305)	(12,526)	(69,662)	(31,236)
add share of EBITDA of associates and joint ventures	49,673	29,050	127,651	75,351
<b>Total adjusted EBITDA</b>	<b>246,262</b>	<b>153,439</b>	<b>614,462</b>	<b>399,246</b>

## 25. Subsequent events

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

In November 2018 the Board of Directors recommended to approve interim dividends on the ordinary shares for the nine months ended 30 September 2018 in the amount of RUB 22.05 per share.

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