**OJSC SEVERNEFTEGAZPROM**

**INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**INTERIM CONDENSED FINANCIAL INFORMATION**

**(UNAUDITED)**

**30 JUNE 2018**

# *Contents*

**OJSC SEVERNEFTEGAZPROM**
**IFRS INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**
**AS AT 30 JUNE 2018**
**(In thousands of Russian Roubles, unless otherwise stated)**

| | Note | 30 June 2018 | 31 December 2017 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 4,132,336 | 7,534,064 |
| Trade and other receivables | 7 | 8,489,101 | 5,277,560 |
| Inventories | 8 | 578,554 | 612,228 |
| Current income tax prepayment | | 185,487 | 171,349 |
| Other current assets | 9 | 1,207 | 4,905 |
| **Total current assets** | | **13,386,685** | **13,600,106** |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 59,371,984 | 61,418,865 |
| Long-term accounts receivables | 11 | 35,698 | 37,502 |
| **Total non-current assets** | | **59,407,682** | **61,456,367** |
| **Total assets** | | **72,794,367** | **75,056,473** |
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 12 | 682,786 | 1,017,091 |
| Taxes payable other than income tax | 13 | 4,344,911 | 6,014,994 |
| **Total current liabilities** | | **5,027,697** | **7,032,085** |
| **Non-current liabilities** | | | |
| Provisions for liabilities and charges | 14 | 6,612,555 | 6,354,397 |
| Deferred income tax liabilities | 15 | 6,694,402 | 6,803,018 |
| **Total non-current liabilities** | | **13,306,957** | **13,157,415** |
| **Total liabilities** | | **18,334,654** | **20,189,500** |
| **Equity** | | | |
| Share capital | 16 | 40,000 | 40,000 |
| Share premium | 16 | 25,099,045 | 25,099,045 |
| Other reserves | 16 | 758,068 | 660,146 |
| Retained earnings | | 28,562,600 | 29,067,782 |
| **Total equity** | | **54,459,713** | **54,866,973** |
| **Total liabilities and equity** | | **72,794,367** | **75,056,473** |

Approved for issue and signed on 31 July 2018 by the following members of management:

A.A. Kasyanenko
Acting General Director

A.A. Chernyshev
Deputy Director on economics and finance

**OJSC SEVERNEFTEGAZPROM**
**IFRS INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)**
**FOR THE SIX MONTHS ENDED 30 JUNE 2018**
**(In thousands of Russian Roubles, unless otherwise stated)**

| | Note | Six months ended 30 June 2018 | Six months ended 30 June 2017 |
|---|---|---|---|
| Revenue | 17 | 21,856,435 | 25,724,687 |
| Cost of sales | 18 | (17,907,422) | (18,702,817) |
| **Gross profit** | | **3,949,013** | **7,021,870** |
| General and administrative expenses | 19 | (607,000) | (450,918) |
| Exploration costs | | (1,707) | (19,378) |
| Other operating income | 20 | 19,802 | 35,444 |
| Other operating expenses | 21 | (104,873) | (82,424) |
| **Operating profit** | | **3,255,235** | **6,504,594** |
| Finance income | 22 | 225,546 | 516,595 |
| Finance costs | 23 | (271,899) | (287,679) |
| **Profit before income tax** | | **3,208,882** | **6,733,510** |
| Income tax | 15 | (749,302) | (1,315,096) |
| **Profit for the period** | | **2,459,580** | **5,418,414** |
| **Other comprehensive income / (loss):** | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Remeasurements of post-employment benefit obligations | 14 | 122,403 | (133,634) |
| Related (loss) / income tax | | (24,481) | 26,727 |
| **Total items that will not be reclassified to profit or loss** | | **97,922** | **(106,907)** |
| **Other comprehensive income for the period** | | **97,922** | **(106,907)** |
| **Total comprehensive income for the period** | | **2,557,502** | **5,311,507** |

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A.A. Kasyanenko
Acting General Director

A.A. Chernyshev
Deputy Director on economics and finance

**OJSC SEVERNEFTEGAZPROM**
**IFRS INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)**
**FOR THE SIX MONTHS ENDED 30 JUNE 2018**
**(In thousands of Russian Roubles, unless otherwise stated)**

| | Note | Six months ended 30 June 2018 | Six months ended 30 June 2017 |
|---|---|---|---|
| **Profit before income tax** | | **3,208,882** | **6,733,510** |
| **Adjustments for:** | | | |
| Interest income | 22 | (225,510) | (492,708) |
| Finance costs excluding foreign currency exchange losses | 23 | 271,689 | 265,499 |
| Depreciation | 18 | 2,611,787 | 2,547,993 |
| Gain on disposal of property, plant and equipment and assets classified as held for sale | 20 | (3,190) | (14,194) |
| Net foreign exchange gain | 22, 23 | 174 | (1,707) |
| Provision for doubtful accounts receivable | | - | (2,221) |
| Provision for impairment of materials for extraction | 21 | - | 4,808 |
| Reversal of impairment loss of materials for extraction | 20 | (8,231) | (5,856) |
| Provisions for post-employment benefit obligations | | 108,873 | 21,351 |
| Other non-cash transactions | | 14,520 | 37,646 |
| **Operating cash flows before changes in working capital** | | **5,978,994** | **9,094,121** |
| Change in inventories | 8 | 33,674 | (30,561) |
| Change in trade and other receivables, excluding interest receivables | | (3,209,105) | (709,669) |
| Change in provisions, accounts payable, taxes payable, excluding interest payable and payables for acquired property, plant and equipment and exploration and evaluation services | | (1,994,624) | (525,286) |
| Change in accounts payable for exploration and evaluation services | | (1,707) | (354) |
| Income tax paid | | (896,536) | (1,587,221) |
| **Net cash from operating activities** | | **(89,304)** | **(6,241,030)** |
| **Cash flows from investing activities** | | | |
| Capital expenditures | | (579,426) | (316,292) |
| Interest received | | 228,574 | 453,209 |
| Cash inflow on disposal of non-current assets | | 3,190 | 14,194 |
| **Net cash (used in) / from investing activities** | | **(347,662)** | **151,111** |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | - | - |
| Interest paid | | - | - |
| Dividends paid | 16 | (2,964,762) | (3,800,000) |
| **Net cash used in financing activities** | | **(2,964,762)** | **(3,800,000)** |
| **Net decrease in cash and cash equivalents** | | **(3,401,728)** | **2,592,141** |
| Effect of foreign exchange rate changes on cash and cash equivalents | | - | 3,163 |
| **Cash and cash equivalents at the beginning of the period** | 6 | **7,534,064** | **9,860,006** |
| **Cash and cash equivalents at the end of the period** | 6 | **4,132,336** | **12,455,310** |

Approved for issue and signed on 31 July 2018 by the following members of management:

A.A. Kasyanenko
Acting General Director

A.A. Chernyshev
Deputy Director on economics and finance

**(In thousands of Russian Roubles, unless otherwise stated)**

| | Note | Number of shares outstanding | Share capital | Share premium | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2017** | | **533,330** | **40,000** | **25,099,045** | **649,754** | **37,705,548** | **63,494,347** |
| Profit for the period | | - | - | - | - | 5,418,414 | **5,418,414** |
| Other comprehensive income for the period | | - | - | - | (106,907) | - | **(106,907)** |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **(106,907)** | **5,418,414** | **5,311,507** |
| Dividends | | - | - | - | - | (10,231,059) | **(10,231,059)** |
| **Balance as at 30 June 2017** | | **533,330** | **40,000** | **25,099,045** | **542,847** | **32,892,903** | **58,574,795** |
| **Balance as at 1 January 2018** | | **533,330** | **40,000** | **25,099,045** | **660,146** | **29,067,782** | **54,866,973** |
| Profit for the period | | - | - | - | - | 2,459,580 | **2,459,580** |
| Other comprehensive income for the period | | - | - | - | 97,922 | - | **97,922** |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **97,922** | **2,459,580** | **2,557,502** |
| Dividends | | - | - | - | - | (2,964,762) | **(2,964,762)** |
| **Balance as at 30 June 2018** | | **533,330** | **40,000** | **25,099,045** | **758,068** | **28,562,600** | **54,459,713** |

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A.A. Karyanenko
Acting General Director

A.A. Chernyshev
Deputy Director on economics and finance

## 1. ACTIVITIES

The core activities of Open Joint Stock Company Severneftegazprom (the “Company”) are exploration and development of the Yuzhno-Russkoye oil and gas field, prospecting, production and sales of gas.

The Company was established in 2001 as a result of reorganization of limited liability company Severneftegazprom. The Company is its successor, including the rights and obligations contained in the licenses received, certificates and other constitutive documents issued by governmental and controlling bodies.

As at 30 June 2018 shareholders of the Company were represented by PJSC Gazprom which holds 50 % of ordinary shares plus 6 ordinary shares, Wintershall Holding GmbH which holds 25 % of ordinary shares minus 3 ordinary shares plus 2 class “A” and 1 class “C” preference shares and OMV Exploration & Production GmbH which holds 25 % of ordinary shares minus 3 ordinary shares plus 3 class “B” preference shares. On November 30, 2017 UniPer Exploration and Production GmbH withdrew from the shareholders of Severneftegazprom by selling shares to the Austrian oil and gas company OMV Exploration and Production GmbH.

The Company holds the license for the development of Yuzhno-Russkoye oil and gas field located in the Yamalo-Nenets Autonomous District of the Russian Federation. The license expires in 2043, however it may be extended in case of increase of the period of production.

Production at the Yuzhno-Russkoye oil and gas field began in October 2007.

**Registered address and place of business:** 22, Lenin street, Krasnoselkup village, Krasnoselkupskiy district, the Yamalo-Nenets Autonomous District, Tyumen region, Russian Federation, 629380.

## 2. OPERATING ENVIRONMENT OF THE COMPANY

The economy of the Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation of the Russian Federation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The political and economic instability, situation in Ukraine, the current impact and ongoing situation with sanctions, uncertainty and volatility of the financial and trade markets and other risks have had and may continue to have effects on the Russian economy.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government of the Russian Federation to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Company’s business in the current business and economic environment. The future economic and regulatory situation and its impact on the Company’s operations may differ from management’s current expectations.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The interim condensed IFRS financial information is prepared in accordance with International Accounting Standard 34 “Interim financial reporting” (IAS 34). This interim condensed IFRS financial information should be read together with the financial statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (“IFRS”). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Certain amounts in comparative period were reclassified to provide their comparability with the information in the reported period.

The Company is incorporated in Russia and maintains its statutory accounting records and prepares statutory financial reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation; it’s functional and presentation currency is the Russian Rouble (“RUB”).

The official Russian Rouble to US Dollar (“USD”) foreign exchange rates as determined by the Central Bank of the Russian Federation were 62.7565 and 57.6002 as at 30 June 2018 and 31 December 2017, respectively. The official Russian Rouble to Euro (“EUR”) foreign exchange rates as determined by the Central Bank of the Russian Federation were 72.9921 and 68.8668 as at 30 June 2018 and 31 December 2017, respectively.

**(b) Property, plant and equipment**

Property, plant and equipment comprise costs incurred in developing areas of oil and gas as well as the costs related to the construction and acquisition of oil and gas assets.

Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation and impairment where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Costs of minor repairs and maintenance are expensed when incurred.

The cost of fixed assets includes an initial assessment of costs for the liquidation of fixed assets and the restoration of the site on which these objects were located. The assessment of the recognized obligation to liquidate items of property, plant and equipment is reviewed at the end of the financial year. The effect of a change in the valuation of a provision recognized as a change in accounting estimates increases or decreases the value of the corresponding asset, with the distribution of the effect on the initial value and the accumulated depreciation of the objects.

Interest for borrowing are capitalized as part of the cost of qualifying assets during the period of time that is required to construct and prepare the asset for its intended use.

Gains and losses arising from the disposal of property, plant and equipment are included in the profit or loss as incurred. They are measured as the difference between carrying amount and disposal proceeds.

***Impairment of property, plant and equipment***

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less expenses for sale and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or loss in current year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's recoverable amount (see Note 10).

***Oil and gas exploration assets***

Oil and gas exploration and development activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells, including development dry wells, and related production facilities are capitalized.

Other exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalized as exploration and evaluation assets on a "field by field" basis pending determination of whether proved reserves have been found. In an area requiring a major capital expenditure before production can begin, exploratory well remains capitalized if additional exploration drilling is underway or firmly planned. Exploration costs not meeting these criteria are charged to expense.

Exploration and evaluation costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, resulting impairment loss is measured.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as development assets. However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

***Depreciation***

Property, plant and equipment are depreciated from the moment when they are placed in use.

Depreciation of pipelines, wells, buildings, plant and equipment related to extraction of gas is calculated using the units-of-production method based upon proved developed reserves. Gas reserves for this purpose are determined mainly in accordance with the guidelines of the Society of Petroleum Engineers and the World Petroleum Congress, and were estimated by independent reservoir engineers.

Depreciation of assets not directly associated with production is calculated on a straight-line basis over their estimated useful life.

**(In thousands of Russian Roubles, unless otherwise stated)**

Assets under construction are not depreciated until they are placed in service.

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Summary of useful lives and alternative basis for depreciation:

| | **Assets related to extraction of oil and gas** | **Other assets** |
|---|---|---|
| Buildings and facilities | Units of production | 5- 30 years |
| Pipeline | Units of production | - |
| Machinery and equipment | Units of production | 1-15 years |
| Wells | Units of production | - |
| Roads | Units of production | - |
| Other | - | 1-20 years |

The depreciation rate for the property, plant and equipment depreciated on a units of production basis was 4.140% for the period ended 30 June 2018 (period ended 30 June 2017: 3.831%).

### (c) Provisions for liabilities and charges (including dismantlement provision)

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are calculated at each reporting period and reassessed at the end of financial year and are included in the financial statements at their expected net present values using pre-tax discount rates appropriate to the Company that reflect current market assessments of the time value of money and those risks specific to the liability.

After the end of exploitation of the deposit the Company is obliged to bear costs for decommissioning of the deposit. The initial provision for decommissioning and site restoration together with any changes in estimation of the ultimate restoration liability is recorded in the statement of financial position, with a corresponding amount recorded as part of property, plant and equipment in accordance with IAS 16 "Property, Plant and Equipment". This amount is depreciated over the term of the field development.

Changes in the provision for decommissioning and site restoration resulting from the passage of time are reflected in the profit or loss each period under finance costs. Other changes in the provision, relating to a change in the discount rate applied, in the expected pattern of settlement of the obligation or in the estimated amount of the obligation, are treated as a change in accounting estimate in the period of the change. The effects of such changes are added to, or deducted from, the cost of the related asset.

### (d) Uncertain tax positions

The Company's uncertain tax positions (potential tax expenses and tax assets) are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

### (e) Inventories

Inventories are valued at the lower of the cost and net realisable value.

Cost of inventories is determined by the weighted average cost method. Cost of finished goods and work in progress includes the costs of raw materials and supplies, direct labour costs and other direct costs and related normal production overhead. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

### (f) Assets held for sale

Assets held for sale include property, plant and equipment for sale. Assets held for sale are carried at the lower of the carrying amounts and their fair value net of expenses for sale. Impairment loss is accounted as other operating expenses. Assets held for sale are not depreciated. Assets held for sale are disclosed in Statement of financial position.

### (g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

### (h) Restricted cash

Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash and cash equivalents in the statement of cash flows.

Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

### (i) Value added tax (VAT)

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

### (j) Financial assets and liabilities

The Company does not enter into derivatives contracts. Financial assets essentially consist of trade receivables, other receivables, cash and cash equivalents, restricted cash and other non-current assets. These assets are carried at amortized costs and are classified as loans and receivables.

Financial liabilities consist of trade payables, other payables, loans and borrowings and are carried at amortised costs.

All financial assets and liabilities are initially recognised at fair value.

### (k) Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate.

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

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. For the Company, Level 1 inputs include held-for-trading financial assets that are actively traded on the Russian domestic markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the Company, Level 2 inputs include observable market value measures applied to available for sale securities.

Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Company‘s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Cash and cash equivalents are included into Level 1 of fair value hierarchy, all other financial instruments - Level 3 of fair value hierarchy.

The fair values in Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

### (l) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

### (m) Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

The Company has the following financial instruments that are incurred at amortised cost: trade and other accounts receivables, long-term accounts receivables, trade and other accounts payables, borrowings.

The carrying amounts of these items are a reasonable approximation of their fair value.

### (n) Impairment of financial assets carried at amortized cost

Impairment of the financial assets carried at amortized cost: impairment losses are recognized in profit and loss when incurred as a result of one or more events (loss events) that occurred after the initial recognition of the financial asset and which have an impact on amount or timing of the estimated future cash flows of the financial assets or group of the financial assets that can be reliably estimated.

The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

- the counterparty experiences a significant financial difficulty as evidenced by its financial statements that the Company obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

The allowance for expected credit losses is created on the base of the management assessment of collectability of customers' accounts according to contracts concluded. The indicators of accounts receivable impairment are financial difficulties of debtors, insolvency of customers, the presence of outstanding debts or delay in payment schedule (more than 12 months). Impairment losses are recognized in the profit or loss and recorded as "Other operating expenses".

### (o) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognized as interest expense over the period of the borrowings.

***Capitalisation of borrowing costs.***

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Company capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Company's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

### (p) Other reserves

Borrowings received from shareholders are recognized initially at fair value, net of transaction costs incurred. The difference between the fair value of the loan and the amount of funds as at the receipt date is treated as an addition to equity and recorded in "Other reserves".

Other reserves include other comprehensive income related to reameasurements of post-employment benefit obligations.

### (q) Pension liabilities and other long-term employee benefits

In the normal course of business the Company contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, are expensed when incurred and are included in wages, salaries and other staff costs in cost of sales and in general and administrative expenses.

The Company also operates non-State post-employment benefits, which are recorded in the financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority of employees of the Company. The cost of providing pensions is accrued and charged to staff costs in the statement of profit and loss and other comprehensive income reflecting the cost of benefits as they are earned over the service lives of employees (Note 14). Actuarial gains and losses on assets and liabilities arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Plan assets are measured at fair value and are subject to certain limitations. Fair value of plan assets is based on market prices.

Actuarial gains or losses on other long-term employee benefits are recognised in profit or loss in the period in which they arise.

### (r) Social liabilities

Social costs relating to the maintenance of housing are expensed when incurred.

Discretionary and voluntary payments made to support social programs and related operations are expensed as incurred and shown in Statement of profit and loss and other comprehensive income.

### (s) Non-cash transactions

Non-cash transactions are measured at the fair value of the consideration received or receivable.

Non-cash transactions have been excluded from the cash flow provided by operating, investing and financing activities in the accompanying statement of cash flows.

### (t) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortized cost using the effective interest method.

### (u) Trade and other receivables

Trade and other receivables are carried at amortized cost using the effective interest method.

### (v) Equity

***Share capital***

Share capital consists of ordinary and non-redeemable preference shares, which are classified as equity.

The excess of consideration received over the face-value of issued shares is recorded as a share premium in the statement of changes in equity.

***Dividends***

Dividends are payable only with the respective decision of shareholders. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved at the General Meeting of Shareholders on or before the end of the reporting period. Any dividends declared after the reporting period and before the financial statements are authorized for issue are disclosed in the subsequent events note.

### (w) Revenue recognition

Revenues from sale of gas are recognised for financial reporting purposes when gas is delivered to customers and title passes at transfer points in accordance with the agreements on the basis of technical acceptance-handover reports. Revenues are stated net of VAT. Revenues are measured at the fair value of the consideration received or receivable.

When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Interest income is recognised on accrual basis that takes into account the effective yield on the asset.

### (x) Mineral extraction tax

Mineral extraction tax (MET) on natural gas is defined monthly as the amount of volume produced per tax rate.

Average MET rate for the first six months 2018 was approximately RUB 1,028 per 1,000 cubic meters for the Cenomanian gas and RUB 216 per 1,000 cubic meters for the Turonian gas. MET is recorded within Cost of sales in the

"Statement of Profit and Loss and Other Comprehensive Income."

Average MET rate for the first six months of 2017 was approximately RUB 1,110 per 1,000 cubic meters for the Cenomanian gas and RUB 233 per 1,000 cubic meters for the Turonian gas. MET is recorded within Cost of sales in the "Profit and Loss Statement and Other Comprehensive Income."

### (y) Employee Benefits

Wages, salaries, contributions to the social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Company. In the normal course of business the Company contributes to the Russian Federation State Pension Fund on behalf of its employees. Mandatory contributions to the Fund are expensed when incurred and are included within staff costs in operating expenses.

### (z) Income taxes

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. The Company considers that the initial recognition exemption should be applied for decommissioning liabilities and therefore deferred taxes are not recorded for differences related to decommission liabilities.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

### (aa) Foreign currency translation

The functional and presentation currency of the Company is the national currency of the Russian Federation, Russian Roubles ("RUB").

Monetary assets and liabilities are translated into Russian Roubles at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into Russian Roubles at year-end official exchange rates of the CBRF are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

### (bb) New Accounting Developments

***Adoption of new standards***

**IFRS 9 Financial Instruments (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018)**

a) Classification and measurement of financial assets

The Company classifies financial assets into three measurement categories: those measured subsequently at amortised cost, those measured subsequently at fair value with changes recognised in other comprehensive income, and those measured subsequently at fair value with changes recognised in profit or loss.

*Financial assets measured subsequently at amortised cost*

Such category of financial assets includes assets held to obtain contractual cash flows and it is expected that they will result in cash flows being payments of principal and interest.

There are no changes in classification of financial assets that previously were also measured at amortised cost.

*Financial assets measured subsequently at fair value with changes recognised in other comprehensive income*

Such category of financial assets includes debt-type assets held within business models whose objective is achieved by both collecting contractual cash flows and selling financial assets and it is expected that they will result in cash flows being payments of principal and interest.

Gains and losses associated with this category of financial assets are recognised in other comprehensive income, except for impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When a financial asset is disposed of, cumulative previous gain or loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss in the consolidated statement of comprehensive income. Interest income from these financial assets is calculated using the effective interest method and included in financial income.

The Company's management can make an irrevocable decision to recognise changes in fair value of equity instruments in other comprehensive income if the instrument is not held for trading.

As of June 30, 2018 and December 31, 2017, the Company does not have these instruments; the application of the new standard did not have an impact on the financial statements of the Company.

*Financial assets measured subsequently at fair value with changes recognised through profit or loss*

Financial assets that do not meet the criteria of recognition as financial assets measured at amortised cost or measured at fair value through other comprehensive income are measured at fair value through profit or loss.

These instruments previously met the fair value with changes recognised through profit or loss criteria.

b) Impairment of financial assets

The Company applies the expected credit loss model to financial assets measured at amortised cost or at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets.

The allowance for expected credit losses for a financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition.

If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for that financial asset is measured at an amount equal to 12-month expected credit losses.

For trade receivables or contract assets, whether they contain a significant financing component or not, measurement based on lifetime expected credit losses is applied.
The applying of the new model does not resulted in any changes in the amount of the allowance for expected credit losses.

c) Classification and measurement of financial liabilities

The Company classifies all financial liabilities as measured subsequently at amortised cost.

The Company does not choose to classify any financial liabilities as measured at fair value through profit or loss.

The Company previously applied similar classification and measurement of financial liabilities.

Thus, application of IFRS 9 Financial Instruments has not had a significant effect on the interim condensed financial information of the Company. Accordingly, comparative data and the opening balance of retained earnings and other reserves as of January 1, 2018 were not restated.

**IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018)**

Revenue is recognised as the obligation to perform is fulfilled by transferring a promised good or service to a customer. As asset is transferred when the control over such asset is passed to the customer.

Application of IFRS 15 Revenue from Contracts with Customers has not had a significant effect on the interim condensed financial information of the Group. Therefore, comparative data and opening balance of retained earnings and other reserves as at 1 January 2018 have not been restated.

**Application of Interpretations and Amendments to existing Standards**

A number of interpretations and amendments to current IFRSs became effective for the periods beginning on or after 1 January 2018:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016) provides requirements for recognising a non-monetary asset or a non-monetary obligation arising from a result of committing or receiving prepayment until the recognition of the related asset, income or expense.

- The amendments to IFRS 2 Share-based Payment (issued in June 2016). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.

- The amendments to IAS 40 Investment Property (issued in December 2016). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.

The Group has reviewed these interpretations and amendments to standards while preparing interim condensed financial information. The interpretations and amendments to standards have no significant impact on the interim condensed financial information of Company.

**Standards, Interpretations and Amendments to existing Standards that are not yet effective and have not been early adopted by the Company**

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2019. In particular, the Company has not early adopted the standards and amendments:

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors.

- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.

- The amendments to IAS 28 Investments in Associates and Joint Ventures (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.

- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalization in particular circumstances.

The Company is currently assessing the impact of the amendments on its financial position and results of operations.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Tax legislation***

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 15).

***Useful lives of property, plant and equipment***

Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

***Classification of production licenses***

Management treats cost of production licenses as cost of acquisition of oil and gas properties, accordingly, production licenses are included in property, plant and equipment in these financial statement.

***Site restoration and environmental costs***

Site restoration costs that may be incurred by the Company at the end of the operating life of certain of the Company facilities and properties are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated in accordance with the unit-of-production method during the whole usage period of these assets and reported in the comprehensive income. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgment. This judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

For details of discounting rates used see Note 14.

***Reserves estimation***

Unit-of-production depreciation charges are principally measured based on Company's estimates of proved developed reserves. Proved developed reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Changes to Company's estimates of proved developed reserves affect prospectively the amounts of depreciation charged and, consequently, the carrying amounts of production assets.

***Accounting for assets and liabilities of the pension plan***

The assessment of the obligations of the pension plan is based on the use of actuarial techniques and assumptions (see Note 14). Actual results may differ from estimates, and the Company's estimates may be adjusted in the future based on changes in the economic and financial situation. Management uses judgments on selected models, cash flows and their distribution over time, as well as other indicators, including the discount rate. The recognition of the assets of the pension plan is limited to an assessment of the present value of future benefits available to the Company under this plan. The cost of future benefits is determined on the basis of actuarial techniques and prerequisites. The value of the assets of the pension plan and these restrictions can be adjusted in the future.

(In thousands of Russian Roubles, unless otherwise stated)

## 5. FINANCIAL INSTRUMENTS

| | Notes | 30 June 2018 | 31 December 2017 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 4,132,336 | 7,534,064 |
| Receivables from related parties | 7 | 8,308,201 | 5,132,701 |
| Other short-term receivables | 7 | 77,828 | 62,888 |
| **Non-current assets** | | | |
| Long-term other receivables | 11 | 35,698 | 37,502 |
| **Total financial assets at amortized cost** | | **12,554,063** | **12,767,155** |

| | Notes | 30 June 2018 | 31 December 2017 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade payables | 12 | 353,925 | 494,827 |
| Payables to related parties | 12 | 35,026 | 48,652 |
| Other payables | 12 | 13,503 | 8,415 |
| **Total financial liabilities at amortized cost** | | **402,454** | **551,894** |

## 6. CASH AND CASH EQUIVALENTS

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Deposit accounts | 4,131,000 | 7,532,400 |
| Current accounts | 1,336 | 1,664 |
| **Total cash and cash equivalents** | **4,132,336** | **7,534,064** |

As at 30 June 2018 cash in the amount of RUB 4,131,000 thousand was placed on deposit accounts in Gazprombank (Joint Stock Company) by less for 3 months.

As at 31 December 2017 cash in the amount of RUB 7,532,400 thousand was placed on deposit accounts in Gazprombank (Joint Stock Company) by less for 3 months.

As at 30 June 2018 the weighted average interest rate on the deposit accounts of the Company was 6.4 % for Russian Roubles.

As at 31 December 2017 the weighted average interest rate on the deposit accounts of the Company was 6.58 % for Russian Roubles.

The fair value of cash and cash equivalents as at 30 June 2018 and 31 December 2017 approximates their carrying value.

The table below analyses the credit quality of banks at which the Company holds cash and cash equivalents:

| | Rating | Rating agency | Credit limit for one bank | 30 June 2018 | 31 December 2017 |
|---|---|---|---|---|---|
| Gazprombank (Joint Stock Company) | Ba2 | Moody’s | Not set | 4,132,336 | 7,534,054 |
| PJSC VTB | Ba2 | Moody’s | Not set | - | 10 |
| **Total cash and cash equivalents** | | | | **4,132,336** | **7,534,064** |

**(In thousands of Russian Roubles, unless otherwise stated)**

## 7. TRADE AND OTHER RECEIVABLES

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| **Financial assets** | | |
| Receivables from related parties (Note 25) | 8,308,201 | 5,132,700 |
| Other receivables | 1,976,689 | 1,961,750 |
| The allowance for expected credit losses | (1,898,861) | (1,898,861) |
| **Total financial assets** | **8,386,029** | **5,195,589** |
| **Non-financial assets** | | |
| Advances to suppliers | 99,508 | 76,082 |
| Prepaid taxes, other than income tax | (4,405) | 5,678 |
| VAT recoverable | 7,969 | 211 |
| **Total non-financial assets** | **103,072** | **81,971** |
| **Total trade and other receivables** | **8,489,101** | **5,277,560** |

As at 30 June 2018 and 31 December 2017, receivables from related parties are related to gas sales in the Russian Federation.

As at 30 September 2015 cash in the amount of RUB 1,851,570 thousand was placed on deposit accounts in Vneshprombank LLC. Due to the revocation of the bank license on 21 January 2016 the return probability of the deposit is assessed as low. As a result, the Company reclassified the deposit in the amount of RUB 1,851,570 into expected credit losses.

All receivables that are past due are fully provided against as at 30 June 2018 and 31 December 2017.

The ageing analysis of trade and other receivables are as follows:

| | Total expected credit losses as at | | Total allowance for expected credit losses as at | | Total expected credit losses net of allowance for expected credit losses as at | |
|---|---|---|---|---|---|---|
| **Ageing from the due date** | **30 June 2018** | **31 December 2017** | **30 June 2018** | **31 December 2017** | **30 June 2018** | **31 December 2017** |
| Up to 1 year past due | - | - | - | | - | - |
| 1 to 3 years past due | 1,896,521 | 1,896,521 | (1,896,521) | (1,896,521) | - | - |
| Over 3 years past due | 2,340 | 2,340 | (2,340) | (2,340) | - | - |
| **Total** | **1,898,861** | **1,898,861** | **1,898,861** | **(1,898,861)** | **-** | **-** |

Movements of the allowance for expected credit losses of other accounts receivable and advances to supplies are as follows:

| | Six months ended 30 June 2018 | Six months ended 30 June 2017 |
|---|---|---|
| Allowance for expected credit losses as at 1 January | (1,898,861) | (1,901,560) |
| Allowance for expected credit losses reversed | - | 2 221 |
| **Provision for impairment as at 30 June** | **(1,898,861)** | **(1,899,339)** |

As the principal debtors of the Company are related parties, the Company believes that the default risk is low. No receivables from related parties were past due or impaired as at 30 June 2018 and of 31 December 2017.

The fair value of accounts receivable as at 30 June 2018 and 31 December 2017 approximates their carrying value.

## 8. INVENTORIES

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Materials for extraction and goods for resale | 785,744 | 822,533 |
| Other materials | 17,514 | 22,633 |
| Impairment of materials for extraction | (224,704) | (232,938) |
| **Total inventories** | **578,554** | **612,228** |

(In thousands of Russian Roubles, unless otherwise stated)

## 9. OTHER CURRENT ASSETS

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Assets held for sale | 1,207 | 4,905 |
| **Total other current assets** | **1,207** | **4,905** |

As at 30 June 2018 assets held for sale are presented by one flat situated in the Urengoy settlement.

As at 31 December 2017 fixed assets held for sale are presented by flats situated in the Urengoy settlement.

As at 30 June 2018 and 31 December 2017 assets held for sale were recognized at fair value.

**(In thousands of Russian Roubles, unless otherwise stated)**

## 10. PROPERTY, PLANT AND EQUIPMENT

| | Pipelines | Wells | Buildings and facilities | Machinery and equipment | Roads | Others | Prepayments and assets under construction | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost as at 1 January 2017** | **9,754,068** | **11,630,318** | **39,062,599** | **17,540,886** | **13,684,925** | **193,256** | **1,720,732** | **93,586,784** |
| Additions | - | - | 2,588 | - | - | 3,917 | 267,929 | **274,434** |
| Disposals | - | - | - | (620) | - | - | - | (620) |
| Transfer | - | 15,566 | 42,064 | 243,257 | - | - | (300,887) | - |
| **Cost as at 30 June 2017** | **9,754,068** | **11,645,884** | **39,107,251** | **17,783,524** | **13,684,925** | **197,173** | **1,687,773** | **93,860,596** |
| Additions | - | - | 45,095 | 83,785 | - | 16,912 | 502,834 | **648,626** |
| Change in component for decommissioning and site restoration obligation (Note 14) | (143,921) | (103,954) | (590,207) | (38,604) | - | - | - | **(876,686)** |
| Disposals | - | (8) | (620) | (40,890) | - | (1,601) | (62,757) | **(105,876)** |
| Transfer | - | 40,374 | 377,234 | 442,786 | - | - | (860,394) | - |
| Capitalized borrowing costs | - | 299,448 | 185,300 | 18,291 | 95 | | (503,134) | **-** |
| **Cost as at 31 December 2017** | **9,610,147** | **11,881,744** | **39,124, 053** | **18,248,891** | **13,685,020** | **212,484** | **764,323** | **93,526,662** |
| Additions | - | - | - | 65,638 | - | 923 | 512,865 | **579,426** |
| Disposals | - | - | - | (2,482) | - | - | (5,609) | **(8,091)** |
| Transfer | - | - | 88,491 | 26,653 | - | - | (111,144) | - |
| Reconstruction | - | - | 16,718 | (16,718) | - | - | - | - |
| **Cost as at 30 June 2018** | **9,610,147** | **11,881,744** | **39, 225, 262** | **18, 321, 982** | **13, 685, 020** | **213,407** | **1,160,435** | **94,097, 997** |
| **Accumulated depreciation as at 1 January 2017** | **(3,239,043)** | **(3,156,782)** | **(11,326,628)** | **(5,063,327)** | **(4,363,336)** | **(132,935)** | **-** | **(27,282,051)** |
| Depreciation | (249,604) | (325,235) | (1,044,349) | (558,525) | (357,130) | (8,846) | - | **(2,543,688)** |
| Disposals | - | - | - | 619 | - | - | | **619** |
| **Accumulated depreciation as at 30 June 2017** | **(3,488,647)** | **(3,482,017)** | **(12,370,978)** | **(5,621,233)** | **(4,720,465)** | **(141,781)** | **-** | **(29,825,121)** |
| Depreciation | (241,449) | (340,224) | (1,083,939) | (570,318) | (345,468) | (9,687) | - | **(2,591,084)** |
| Change in component for decommissioning and site restoration obligation (Note 14) | 46,224 | 21,548 | 205,087 | 6,195 | - | - | - | **279,054** |
| Disposals | - | 2 | 277 | 27, 475 | - | 1,600 | - | **29,354** |
| **Accumulated depreciation as at 31 December 2017** | **(3,683,872)** | **(3,800,691)** | **(13,249,552)** | **(6,157,880)** | **(5,065,934)** | **(149,868)** | **-** | **(32,107,797)** |
| Depreciation | (245,363) | (334,576) | (1,062,896) | (611,033) | (356, 852) | (9,978) | - | **(2,620,698)** |
| Reconstruction | - | - | (6,465) | 6,465 | - | - | - | - |
| Disposals | - | - | - | 2,482 | - | - | - | **2,482** |
| **Accumulated depreciation as at 30 June 2018** | **(3,929,235)** | **(4,135,267)** | **(14,318,913)** | **(6,759,966)** | **(5,422,786)** | **(159,846)** | **-** | **(34,726,013)** |
| **Net book value as at 1 January 2017** | **6,515,025** | **8,473,536** | **27,735,971** | **12,477,559** | **9,321,589** | **60,321** | **1,720,732** | **66,304,733** |
| **Net book value as at 30 June 2017** | **6,265,421** | **8,163,867** | **26,736,273** | **12,162,291** | **8,964,460** | **55,392** | **1,687,773** | **64,035,478** |
| **Net book value as at 31 December 2017** | **5,926,275** | **8,081,053** | **25,874,501** | **12,091,011** | **8,619,086** | **62,616** | **764,323** | **61,418,865** |
| **Net book value as at 30 June 2018** | **5,680,912** | **7,746,477** | **24,906,349** | **11,562,016** | **8,262,234** | **53,561** | **1,160,435** | **59,371,984** |

For the six months ended 30 June 2018 and for the year ended 31 December 2017 borrowing costs were not capitalized in assets under construction.

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment. Management believes that as at 30 June 2018 there were no such indicators, accordingly the Company did not conduct an impairment test of its property plant and equipment as at this date.

**(In thousands of Russian Roubles, unless otherwise stated)**

As at December 31, 2017, the Company performed a test for impairment of property, plant and equipment at the cash-generating unit level.

The recoverable amount of each cash-generating unit was determined on the basis of the value in use indicator. The value of use was determined by discounting future cash flows that would result from the continued use of the unit. In determining the recoverable amount of future cash flows the following key assumptions were used:

- cash flow forecasts used in the calculations were based on the Company's budgets for a three-year period. Cash flows beyond the three-year period have been forecasted based on the information about a volume of production and a forecast of gas prices;
- the forecast of gas prices was based on the approved tariffs by the Federal Tariff Service;
- The discount rate of 14.89 % for determining the value of use was calculated on the basis of the industry average rates of the weighted average cost of capital.

As at 31 December 2017 an impairment of property, plant and equipment was not identified.

As at 30 June 2018 property, plant and equipment included prepayments for assets under construction RUB 44 270 thousand (RUB 314 thousand as at 31 December 2017).

Unit-of-production depreciation, depletion and amortization charged are principally measured based on Company's estimates of proved developed gas reserves. Proved developed reserves are estimated by independent international reservoir engineers, by reference to available geological and engineering data, and only include volumes for which access to market is assured with reasonable certainty.

Estimates of gas reserves are inherently imprecise, require the application of judgments and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Changes to Company's estimates of proved developed reserves affect prospectively the amounts of depreciation charged and, consequently, the carrying amounts of property, plant and equipment.

## 11. LONG-TERM ACCOUNTS RECEIVABLES

| | **30 June 2018** | **31 December2017** |
|---|---|---|
| Other receivables | 35,698 | 37,502 |
| **Total long-term accounts receivables** | **35,698** | **37,502** |

The fair value of long-term accounts receivable as at 30 June 2018 and 31 December 2017 approximates their carrying value.

## 12. TRADE AND OTHER PAYABLES

| | **30 June 2018** | **31 December2017** |
|---|---|---|
| **Financial liabilities** | | |
| Trade payables | 353,925 | 494,827 |
| Payables to related parties (Note 25) | 35,026 | 48,652 |
| Other payables | 13,503 | 8,415 |
| **Total financial liabilities** | **402,454** | **551,894** |
| **Non-financial liabilities** | | |
| Prepayables recieved | 3,424 | - |
| Accrued employee benefit costs | - | 196,805 |
| Wages and salaries | 255,789 | 247,273 |
| Provision for revegetation | 21,119 | 21,119 |
| **Total non-financial liabilities** | **280,332** | **465,197** |
| **Total trade and other payables** | **682,786** | **1,017,091** |

The Company is obliged to perform revegetation works on the pit of mineral soil which was used for construction purposes. Provision for revegetation was recognized in the financial statement in respect of revegetation works to be performed in 2018.

(In thousands of Russian Roubles, unless otherwise stated)

## 13. TAXES PAYABLE OTHER THAN INCOME TAX

Taxes payable other than income tax comprise the following:

| | 30 June 2018 | 31 December2017 |
|---|---|---|
| Mineral extraction tax (MET) | 2,257,134 | 3,530,065 |
| Value added tax (VAT) | 1,809,069 | 2,202,064 |
| Property tax | 149,808 | 148,183 |
| Insurance contributions for employees | 113,078 | 116,423 |
| Personal income tax | 15,361 | 17,501 |
| Other taxes and accruals | 461 | 758 |
| **Total other taxes payable** | **4,344,911** | **6,014,994** |

## 14. PROVISIONS FOR LIABILITIES AND CHARGES

| | 30 June 2018 | 31 December2017 |
|---|---|---|
| Provision for decommissioning and site restoration | 4,957,257 | 4,744,241 |
| Provisions for post-employment benefit obligations | 1,655,298 | 1,610,156 |
| **Total provisions for liabilities and charges** | **6,612,555** | **6,354,397** |

***Provision for decommissioning and site restoration***

| | Notes | Six months ended 30 June 2018 | Six months ended 30 June 2017 |
|---|---|---|---|
| **At the beginning of the period** | | **4,744,241** | **4,920,664** |
| Increase of discount | 23 | 213,016 | 210,604 |
| **At the end of the period** | | **4,957,257** | **5,131,268** |

The Company is obliged to bear expenses for decommissioning and site restoration of the Yuzhno-Russkoye deposit after its development. Provision for decommissioning and site restoration was recognized in the financial statement for the period ended 30 June 2018 and for the year ended 31 December 2017 with a corresponding within property, plant and equipment (see Note 10). The discount rate used to calculate the net present value of the future cash outflows relating to decommissioning and site restoration as at 30 June 2018 was 8.98 per cent (31 December 2017 – 8.98 per cent), which represents the pre-tax rate which reflects market assessment of time value of money at the end of the reporting period.

***Provisions for post-employment benefit obligations***

The company operates post-employment benefits system, which is recorded as defined benefit plan in the financial statements under IAS 19 Employee benefits. Defined benefit plan covers the majority employees of the Company. These benefits include pension benefits provided by the non-governmental pension fund, NPF GAZFUND, and post-retirement benefits from the Company provided upon retirement. The amount of post-employment benefits depends on the time of work experience of employees, wages in recent years prior to retirement, a predetermined fixed amount or a combination of these factors.

Provision for post-employment benefit obligations recognized in the balance sheet is provided below:

| | 30 June 2018 Provision for post-employment benefit obligations | 31 December 2017 Provision for post-employment benefit obligations |
|---|---|---|
| Present value of benefit obligations | (2,250,191) | (2,085,118) |
| Fair value of plan assets | 594,893 | 474,962 |
| **Total** | **(1,655,298)** | **(1,610,156)** |

The principal assumptions used for post-employment benefit obligations for the six months ended 30 June 2018 were the same as those applied for the year ended 31 December 2017 with the exception of the discount rate based on the interest rates of government securities. The increase in the discount rate from 7.5 % to 7.81 % resulted in recognition of an actuarial gain of RUB 59,896 thousand in other comprehensive income for the six months ended 30 June 2018.

**(In thousands of Russian Roubles, unless otherwise stated)**

Changes in the present value of the defined benefit obligations and fair value of plan assets for the periods ended 30 June 2018 and 30 June 2017 are provided below.

| | Provision for post-employment benefits (post-employment benefit ) | Provision for post-employment benefits (others long-term benefits) | Fair value of plan asset | Net liability / (asset) |
|---|---|---|---|---|
| **As at 31 December 2017** | **2,003,894** | **81,224** | **(474,962)** | **1,610,156** |
| Current service cost | 275,889 | - | | 275,889 |
| Interest expense / (income) | 76,484 | - | (17,811) | 58,672 |
| **Total expenses included in staff cost** | **352,373** | **-** | **(17,811)** | **334,561** |
| Loss from remeasurements of post-employment benefit obligations | (59,896) | - | - | (59,896) |
| Return on plan assets excluding amounts included in net interest expense | - | - | (62,507) | (62,507) |
| **Total recognised in the comprehensive income** | **(59,896)** | **-** | **(62,507)** | **(122,403)** |
| Benefits paid | (127,403) | - | 110,448 | (16,955) |
| Contributions by employer | - | - | (150,061) | (150,061) |
| **Closing balance as at 30 June 2018** | **2,168,967** | **81,224** | **(594,893)** | **1,655,298** |

| | Provision for post-employment benefits | Fair value of plan asset | Net liability / (asset) |
|---|---|---|---|
| **As at 1 January 2017** | **1,801,461** | **(509,816)** | **1,291,645** |
| Current service cost | 109,504 | - | 109,504 |
| Interest expense / (income) | 76,562 | (21,667) | 54,895 |
| **Total expenses included in staff cost** | **186,067** | **(10,469)** | **164,399** |
| Loss from remeasurement of post-employment benefit obligations | 86,599 | - | 86,599 |
| Return on plan assets excluding amounts included in net interest expense | - | 47,035 | 47,035 |
| **Total recognised in the comprehensive (income) / loss** | **86,599** | **47,035** | **133,634** |
| Benefits paid | (82,144) | 64,237 | (17,907) |
| Contributions by employer | - | (70,247) | (70,247) |
| **Closing balance as at 30 June 2017** | **1,991,983** | **(490,457)** | **1,501,526** |

## 15. INCOME TAX

Income tax expense comprises the following:

| | For six months ended 30 June 2018 | For six months ended 30 June 2017 |
|---|---|---|
| Current tax expense | 882,399 | 1,274,823 |
| Deferred tax expense | (133,097) | 40,273 |
| **Total tax expense** | **749,302** | **1,315,096** |

Differences between IFRS and Russian statutory tax accounting give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement in these temporary differences is recorded at the rate of 20 %.

**(In thousands of Russian Roubles, unless otherwise stated)**

| | | Tax effect of movement in temporary differences | | |
|---|---|---|---|---|
| | 30 June 2018 | Recognised in profit or loss | Recognised in other comprehensive income | 1 January 2018 |
| **Tax effect of taxable temporary differences:** | | | | |
| Property, plant and equipment | (7,234,616) | 177,935 | - | (7,412,551) |
| **Total** | **(7,234,616)** | **177,935** | **-** | **(7,412,551)** |
| **Tax effect of deductible temporary differences:** | | | | |
| Inventories | 40,864 | (509) | - | 41,373 |
| Trade receivables | 366,668 | (2,800) | - | 369,468 |
| Other deductible temporary differences | 132,682 | (41,529) | (24,481) | 198,692 |
| **Total** | **540,214** | **(44,838)** | **(24,481)** | **609,533** |
| **Total net deferred tax assets (liabilities)** | **(6,694,402)** | **133,097** | **(24,481)** | **(6,803,018)** |

According to the Law of the Yamal-Nenets Autonomous District dated 24 December 2012 No. 146-ZAO “Concerning the Law of the Yamal-Nenets Autonomous District “Concerning the list of organizations implementing priority investment projects in the Yamal-Nenets Autonomous District”, the Company is entitled for the period of 2013-2017. In the territory of Yamalo-Nenets Autonomous District the reduced income tax rate is applied at the level of 13.5 % in accordance with certain criteria. The right for applying the rate of 13.5 % into the regional budget was valid till the end of 2017. The criteria of using reduced income tax rate in 2017 have not been met.

As at 30 June 2018 and as at 31 December 2017, all deferred tax assets and deferred tax liabilities formed during the period activity of the Company recalculated on the basis of the income tax rate of 20 % (including 2 % to the federal budget).

Based on the amount of proved gas reserves and contracted sales, management believes that the Company will generate sufficient taxable profits in the future periods against which the deductible temporary differences will be reversed.

## 16. EQUITY

***Share capital***

In July 2011, according to the decision of the general meeting of shareholders of 11 May 2011, the share capital of the Company was increased from its own funds (from the share premium). The Company converted its shares into shares of the same category with a higher nominal value. After this conversion share capital of the Company includes 533,324 ordinary shares with the nominal value of 60 rouble per share and 2 preference shares (type “A”) with the nominal value of RUB 2,462 thousand, 3 preference shares (type “B”) with the nominal value of RUB 667 thousand per share and 1 preference share (type “C”) with the nominal value of RUB 1,077 thousand. Total amount of share capital amounts to RUB 40,000 thousand.

As at 1 January 2016, according to the project financing agreement, all shares (533,324 ordinary shares, 2 preference shares (type “A”), 3 preferred shares (type “B”), 1 preferred share (type “C” ) were pledged to ING Bank N.V. (London branch) until all obligations under the agreement are fulfilled. Due to early repayment of obligations under the project financing contract in August 2016, the Company has taken all shares out of pledge in October 2016. As at 30 June, 2018 and as at 31 December, 2017 the Company has no shares which are pledged.

As at 1 January 2011 share capital of the Company included 533,324 ordinary shares with the nominal value of 1 rouble per share and 2 preference shares (type “A”) with the nominal value of RUB 41 thousand per share, 3 preference shares (type “B”) with the nominal value of RUB 11 thousand per share and 1 preference share (type “C”) with the nominal value of RUB 18 thousand. Total amount of share capital was RUB 667 thousand.

In the fourth quarter 2009, according to the decision of the general meeting of shareholders of 18 August 2009, the Company additionally issued 4 ordinary shares with the nominal value of 1 rouble per share, 3 preference shares (type “B”) with the nominal value of RUB 11 thousand per share and 1 preference share (type “C”) with the nominal value of RUB 18 thousand.

The excess of the proceeds from additional share issuance over the nominal value totalling RUB 1,639,449 thousand was recorded in equity as share premium.

As at 31 December 2008 share capital of the Company included 533,320 ordinary shares with the nominal value of

**(In thousands of Russian Roubles, unless otherwise stated)**

1 rouble per share and 2 preference shares (type "A") with the nominal value of RUB 41 thousand per share. Total amount of share capital was RUB 616 thousand.

As at 30 June 2018 all issued preference and ordinary shares are fully paid.

The preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Company's liquidation. The preference shares give the holders the right to participate at general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organization and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Upon a positive decision of the shareholders meeting to pay dividends, dividends on preference shares (type "A") are calculated as 12.308 % of the portion of the profit of the Company which has been allocated for dividends payment in accordance with the resolution of the shareholders meeting; preference shares (type "B") as 5 % of the allocated profit for dividends; preference shares (type "C") as 2.692 % of the profit allocated for dividends. These preference dividends rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

The basis for distribution is defined by legislation as the current year net profit calculated in accordance with the Russian accounting rules. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in the financial statement.

***Other reserves***

Before 1 January 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognized in the financial statements at the fair value calculated using average interest rates on similar loans. The difference between the fair value of the loans and the amount received net of respective deferred tax effect was recorded in equity as Other reserves. During 2007-2008 years the Company redeemed all the loans for which Other reserves were recognized. The fair value effect in the amount of RUB 873,253 thousand, net of respective deferred tax effect RUB 275,810 thousand, was recognized in Other reserves.

Other reserves include other comprehensive income related to the reassessment of post-employment benefit obligations net of related income tax.

***Dividends***

The Extraordinary General Meeting of Shareholders of OJSC Severneftegazprom, held on 15 December 2017, decided to pay dividends in the amount of RUB 4,200,000 thousand for the nine months of 2017.

The Extraordinary General Meeting of Shareholders of OJSC Severneftegazprom, held on 2 June 2017, decided to pay dividends in the amount of RUB 3,800,000 thousand for the first quarter of 2017.

The Annual General Meeting of the Shareholders of the Company held on 16 June 2017 decided to pay dividends in the amount of RUB 6,431,059 thousand for the year ended 31 December 2016.

In 2017, the Company accrued dividends in the amount of RUB 14,431,059 thousand. The amount of dividends paid, net of tax, was RUB 13,247,702 thousand.

The Annual General Meeting of the Shareholders of the Company held on 1 June 2018 decided to pay dividends in the amount of RUB 2,964,762 thousand for the year ended 31 December 2017. The amount of dividends paid, net of tax, was RUB 2,721,650 thousand.

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit.

## 17. REVENUE

| | For six months ended 30 June 2018 | For six months ended 30 June 2017 |
|---|---|---|
| Revenue from gas sales | 21,856,435 | 25,724,687 |
| **Total revenue** | **21,856,435** | **25,724,687** |

All customers of the Company represent related parties (see Note 25).

**(In thousands of Russian Roubles, unless otherwise stated)**

## 18. COST OF SALES

| | For six months ended 30 June 2018 | For six months ended 30 June 2017 |
|---|---|---|
| Mineral extraction tax | 12,979,664 | 14,026,175 |
| Depreciation | 2,611,787 | 2,547,993 |
| Staff costs | 1,368,471 | 1,067,124 |
| Property tax | 358,030 | 405,693 |
| Repairment and technical maintenance | 231,857 | 296,751 |
| Materials | 97,706 | 107,821 |
| Insurance | 71,646 | 78,745 |
| Other outsourced production services | 79,394 | 69,838 |
| Transportation costs | 29,075 | 33,888 |
| Fuel costs | 21,355 | 21,377 |
| Rent expenses | 15,902 | 12,437 |
| Other | 42,535 | 34,974 |
| **Total cost of sales** | **17,907,422** | **18,702,817** |

Depreciation in the amount of RUB 8,911 thousand for the period ended 30 June 2018 was capitalized (for the period ended 30 June 2017 – RUB 5,899 thousand).

## 19. GENERAL AND ADMINISTRATIVE EXPENSES

| | For six months ended 30 June 2018 | For six months ended 30 June 2017 |
|---|---|---|
| Administrative staff costs | 469,446 | 245,623 |
| Rent expenses | 19,934 | - |
| Services and other administrative expenses | 117,620 | 205,295 |
| **Total general and administrative expenses** | **607,000** | **450,918** |

## 20. OTHER OPERATING INCOME

| | For six months ended 30 June 2018 | For six months ended 30 June 2017 |
|---|---|---|
| Reversal of impairment loss of materials for extraction | 8,231 | 5,856 |
| Gain on disposal of assets classified as held for sale | 5,050 | - |
| Gain on disposal of property, plant and equipment | - | 14,194 |
| Fees and penalties due to violation of contract covenants | 1,496 | 8,319 |
| Reimbursement of the road maintenance costs | 168 | 1,080 |
| Other | 4,857 | 5,996 |
| **Total operating income** | **19,802** | **35,445** |

**(In thousands of Russian Roubles, unless otherwise stated)**

## 21. OTHER OPERATING EXPENSES

| | For six months ended 30 June 2018 | For six months ended 30 June 2017 |
|---|---|---|
| Social costs | 82,675 | 66,073 |
| Non-refundable VAT | 1,939 | 1,700 |
| Provision for impairment materials for extraction | - | 4,808 |
| Loss on disposal of materials | - | 980 |
| Loss on disposal of property, plant and equipment | 1,860 | - |
| Extra charge of property tax, fine and penalties | - | 24 |
| Other | 18,399 | 8,839 |
| **Total operating expenses** | **104,873** | **82,424** |

## 22. FINANCE INCOME

| | For six months ended 30 June 2018 | For six months ended 30 June 2017 |
|---|---|---|
| Interest income | 225,510 | 492,708 |
| Foreign currency exchange gains | 36 | 23,887 |
| **Total finance income** | **225,546** | **516,595** |

## 23. FINANCE COSTS

| | For six months ended 30 June 2018 | For six months ended 30 June 2017 |
|---|---|---|
| Unwinding of discount cost of provision for decommissioning and site restoration (Note 14) | 213,016 | 210,604 |
| Interest expense (pension obligations) (Note 14) | 58,673 | 54,895 |
| Foreign currency exchange losses | 210 | 22,180 |
| **Total finance costs** | **271,899** | **287,679** |

## 24. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

### (a) Tax legislation

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation was amended with effect from 1 January 2012 are more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy used in 2018 and preceding years is meets market condition. Company has implemented measures of internal controls to be in compliance with the transfer pricing legislation.

Given the specifics of transfer pricing rules, the impact of any challenge to the Company’s transfer prices cannot be reliably estimated, however, it may be significant to the financial conditions and/or the overall operations of the Company.

**(In thousands of Russian Roubles, unless otherwise stated)**

### (b) Legal proceedings

The Company is subject of, or party to a number of court proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in the financial statement.

### (c) Capital commitments

The total investment program for 2018 is RUB 5,165,700 thousand.

### (d) 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 Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage that have not already been provided for.

### (e) Operating lease commitments

As at 30 June 2018 and 31 December 2017 the Company does not have significant liabilities related to operating leases.

## 25. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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.

***Transactions with shareholders and its related parties***

The Company is under the control of PJSC Gazprom and is included in the Gazprom Group. PJSC Gazprom is the Immediate and Ultimate Parent entity. The Government of the Russian Federation is the ultimate controlling party of the Company. At the same time Wintershall Holding GmbH, which is part of the BASF SE Group and OMV Exploration & Production GmbH, which is part of the OMV Group have significant influence on the Company (see Note 1).

Transactions of the Company with related parties for the periods ended 30 June 2018 and 30 June 2017 are presented below:

| | **Note** | **For six months ended 30 June 2018** | **For six months ended 30 June 2017** |
|---|---|---|---|
| Sales of gas to PJSC Gazprom (Gazprom Group) | 17 | 8,742,574 | 10,289,875 |
| Sales of gas to CJSC Gazprom YRGM Trading (BASF SE Group) | 17 | 7,649,752 | 9,003,641 |
| Sales of gas to CJSC Gazprom YRGM Development (Until 30 November 2017 – E.ON Group, since 1 December 2017 – OMV Group) | 17 | 5,464,109 | 6,431,172 |
| Purchases of goods and services from Gazprom Group | | 116,500 | 217,938 |

Information on significant transactions concerning cash and cash equivalents with related parties:

| **Cash and cash equivalents** | **Note** | **30 June 2018** | **31 December 2017** |
|---|---|---|---|
| Gazprombank (Joint Stock Company) | 6 | 4,132,336 | 7,534,054 |
| **Total cash and cash equivalents** | | **4,132,336** | **7,534,054** |

Information on significant transactions concerning interest income with related parties:

(In thousands of Russian Roubles, unless otherwise stated)

| | For six months ended 30 June 2018 | For six months ended 30 June 2017 |
|---|---|---|
| Gazprombank (Joint Stock Company) | 225,510 | 492,708 |
| **Total interest income** | **225,510** | **492,708** |

Significant balances with related parties are summarised as follows:

| Trade and other receivables | Note | 30 June 2018 | 31 December 2017 |
|---|---|---|---|
| Trade and other receivables from PJSC Gazprom | | 3,321,655 | 2,050,941 |
| Trade and other receivables from CJSC Gazprom YRGM Trading | | 2,906,448 | 1,794,573 |
| Trade and other receivables from CJSC Gazprom Development | | 2,076,034 | 1,281,838 |
| Gazprombank (Joint Stock Company) | | 754 | 3,793 |
| Other receivables from Gazprom Group | | 3,310 | 1,555 |
| **Total trade and other receivables from related parties** | 7 | **8,308,201** | **5,132,700** |

As at 30 June 2018 and 31 December 2017 short-term receivables of related parties were non-interest bearing, had maturity within one year and were denominated mostly in Russian Roubles.

| Trade and other payables | Note | 30 June 2018 | 31 December 2017 |
|---|---|---|---|
| Payables to the Gazprom Group | 12 | 35,026 | 48,652 |
| **Total trade and other payables to related parties** | | **35,026** | **48,652** |

***Transactions with Key Management Personnel and Board Directors***

Key management personnel of the Company consists of the General Director and his ten deputies.

Key management compensation is presented below:

| | For six months ended 30 June 2018 | For six months ended 30 June 2017 |
|---|---|---|
| Short-term benefits | 284,479 | 154,605 |
| Other long-term benefits | 15,933 | - |
| **Total compensation** | **300,412** | **154,605** |

The Annual General meeting of the shareholders held in June 2018 has decided to pay compensation to the members of the Board of directors amounting to RUB 6,001 thousand.

***Transactions with parties under control of the Government***

The Company does not have transactions with parties under the control of the Government except the Gazprom Group companies and its related parties.

## 26. SUBSEQUENT EVENTS

There were no subsequent events to disclosure.